THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in PME Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of PME Group Limited.

Pme **PME GROUP LIMITED**
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 379)

MAJOR TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an extraordinary general meeting of the Company to be held at Unit 812, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong on Wednesday, 23 September 2009 at 2:30 p.m. is set out on pages EGM-1 and EGM-2 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. Whether or not you propose to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the head office and principal place of business of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

* *For identification purpose only*

7 September 2009

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition by the Purchaser of the Sale Shares subject to and upon the terms and conditions of the Formal Agreement
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors from time to time
"Bondholder(s)"	the holder(s) of the Convertible Bonds
"Business Day"	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"CCTV"	China Central Television
"CDP"	央視風雲傳播有限公司 (China DTV Production Co., Ltd.), a company incorporated in the PRC
"Channel"	a digital sports television channel of "小球競技"
"Company"	PME Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the Formal Agreement
"Consideration"	the aggregate consideration of HK$200,000,000 for the Acquisition
"Conversion Shares"	the Shares falling to be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds
"Convertible Bonds"	the non-listed convertible bonds on the aggregate principal amount of HK$60,000,000 to be issued by the Company to the Vendor to satisfy part of the Consideration under the Acquisition

"Directors"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held and convened on Wednesday, 23 September 2009 for the Shareholders to consider and, if thought fit, approve the Formal Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds
"Formal Agreement"	the Formal Agreement dated 19 May 2009 and entered into among the Vendor, the Purchaser, the Target Company and the Guarantor for the sale and purchase of the Sale Shares
"Group"	the Company and its subsidiaries
"Guarantor" or "Mr. Wu"	Mr. Wu Jia Neng, the sole director and the sole shareholder of the Vendor
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	the counterparty and its ultimate beneficial owners being third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company
"Independent Valuer"	BMI Appraisals Limited, an independent valuer
"Last Trading Day"	18 May 2009, being the last trading day of the Shares before the date of the Formal Agreement
"Latest Practicable Date"	4 September 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Ms. Mai"	Ms. Mai Lian Ai, one of the shareholders of Zhibode
"Ms. Wu"	Ms. Wu Shao Di, one of the shareholders of Zhibode

“NAV”	the audited consolidated net asset value of the Company as at 31 December 2008
“PRC”	the People’s Republic of China
“PRC Company”	a wholly foreign owned enterprise to be established by the Target Company under the laws of the PRC and according to the conditions precedent of the Formal Agreement
“Promissory Notes”	the promissory notes issued by the Purchaser in the principal amount of HK$60,000,000 with an interest rate of 5% per annum
“Purchaser”	Smart Genius Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Sale Shares”	1,470 issued shares of Giant Billion, representing approximately 49% of the entire issued share capital of Giant Billion as at the date of the Formal Agreement, which are fully paid up or credited as fully paid and are beneficially owned by the Vendor
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the Supplemental Agreement dated 2 June 2009 and entered into among the Vendor, the Purchaser, the Target Company and the Guarantor
“Target Company” or “Giant Billion”	Giant Billion Limited, a company incorporated in Hong Kong with limited liability
“Target Group”	The Target Company and its subsidiaries

"Tiankong Haikuo"	北京天空海闊廣告有限公司 (Beijing Tiankong Haikuo Advertising Co., Ltd.), a company incorporated in the PRC and owned by Zhibode and Ms. Ling Li Hua as to 70% and 30% respectively
"Vendor"	Crown Sunny Limited, a company incorporated in the British Virgin Islands with limited liability
"Zhibode"	北京知博德諮詢有限公司 (Beijing Zhibode Consulting Co., Ltd.), a company incorporated in the PRC and owned by Ms. Wu and Ms. Mai as to 50% and 50% respectively, is principally engaged in business, management and investment consulting in the PRC
"Zhongtijian"	北京中體健文化傳播有限公司 (Beijing Zhongtijian Cultural Broadcast Co., Ltd.), a company incorporated in the PRC and wholly-owned by Tiankong Haikuo
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

PME GROUP LIMITED
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 379)

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

Independent Non-executive Directors:
Mr. Leung Yuen Wing
Mr. Soong Kok Meng
Mr. Chow Fu Kit Edward

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

7 September 2009

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

INTRODUCTION

On 3 June 2009, the Board announces that on 19 May 2009 and 2 June 2009, the Purchaser, being a wholly-owned subsidiary of the Company, entered into the Formal Agreement and the Supplemental Agreement, respectively, with the Vendor, the Target Company and the Guarantor pursuant to which the Vendor will sell and the Purchaser will acquire the Sale Shares, representing 49% of the entire issued share capital of the Target Company, at the Consideration of HK$200,000,000.

The Formal Agreement is subject to the fulfillment of the conditions set out below in this circular.

The purpose of this circular is to provide you further information regarding the Formal Agreement and the Acquisition and to give you a notice to convene the EGM.

* *For identification purpose only*

FORMAL AGREEMENT

Date: 19 May 2009

Parties:

(1) Crown Sunny Limited as the Vendor;

(2) Smart Genius Limited as the Purchaser;

(3) Giant Billion Limited as the Target Company; and

(4) Mr. Wu Jia Neng as the Guarantor.

The Vendor is incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holdings.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and the Guarantor is an Independent Third Party.

The Purchaser, a wholly-owned subsidiary of the Company, is incorporated in the British Virgin Islands and is principally engaged in investment holdings.

Asset to be acquired:

Pursuant to the Formal Agreement, the Purchaser has agreed to acquire the Sale Shares comprising an aggregate of 1,470 shares of HK$1.00 each in the issued share capital of the Target Company, representing 49% of the entire issued share capital of the Target Company as at the date of the Formal Agreement.

The Target Company is incorporated in Hong Kong with limited liability and is principally engaged in investment holdings. The entire issued share capital of the Target Company is beneficially owned by the Vendor.

Under the Formal Agreement, the Purchaser is not subject to any restriction on further sale of the Sale Shares.

Consideration:

The total Consideration for the Sale Shares is HK$200,000,000, which has been and shall be satisfied by the Purchaser in the following manner:

(a) HK$80,000,000 has been paid by the Purchaser to the Vendor as deposits pursuant to the memorandum of understanding and the Heads of Agreement dated 15 January 2008 and 30 January 2008 respectively;

(b) HK$60,000,000 shall be paid by the Purchaser procuring the issuance of the Convertible Bonds by the Company to the Vendor; and

(c) HK$60,000,000 shall be paid by the Purchaser through the issuance of the Promissory Notes to the Vendor.

The Consideration for each Sale Share is equivalent to approximately HK$136,054 per Sale Share.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor. The Consideration was agreed with reference to the preliminary valuation of the PRC Company of approximately HK$420 million. The valuation report, as in Appendix IV of this circular, was prepared by the Independent Valuer based on the market approach which provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market. Having considered the above and the factors described under the section headed "Reasons for the Acquisition" below, the Directors are of the view that the terms of the Formal Agreement are fair and reasonable and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Conditions:

Completion of the Acquisition is conditional upon the satisfaction of the following:

(a) all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of the Formal Agreement and the transactions contemplated therein having been obtained;

(b) each of the warranties and information given by the Vendor as contained in the Formal Agreement remaining true and accurate in all material respects up to Completion;

(c) the approval of the Shareholders, the Directors and the relevant regulatory organizations (including, but not limited to, the Stock Exchange and the SFC, etc.) in respect of the Formal Agreement and the transactions contemplated therein, including, but not limited to, the Acquisition and the issue of the Convertible Bonds;

(d) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares;

(e) the Purchaser being satisfied with the results of the due diligence investigations including, but not limited to, the assets, liabilities, operation and trading position of the Target Group;

(f) the approval for the establishment and operation of the PRC Company granted by the relevant governmental departments in the PRC and the registered capital of the PRC Company being fully paid upon its establishment by the Target Company;

(g) (i) an agreement entered into between the PRC Company and Zhongtijian in relation to the exclusive technology and consulting service (the "Exclusive Agreement");

(ii) the approval by the shareholders of Zhongtijian in respect of the Exclusive Agreement and the transactions contemplated therein;

(iii) the approval by the shareholders of Tiankong Haikuo in relation to the shareholders approval of Zhongtijian in respect of the Exclusive Agreement and the transactions contemplated therein;

(iv) a call option agreement entered into between the PRC Company and Ms. Wu and Ms. Mai, the shareholders of Zhibode (the "Call Option Agreement");

(v) a power of attorney entered into between the PRC Company and Ms. Wu and Ms. Mai, the shareholders of Zhibode (the "Power of Attorney");

(vi) a share pledge agreement entered into between the PRC Company and Ms. Wu and Ms. Mai, the shareholders of Zhibode (the "Share Pledge Agreement");

(h) the obtaining of a PRC legal opinion (in form and substance reasonably satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to, among other things, the PRC legal aspects of the condition (g) above;

(i) all approvals, consents, authorizations and licenses in relation to the Channel granted by the State Administration of Radio Film and Television and/or relevant governing bodies to CDP;

(j) the obtaining of the exclusive rights for external operation and promotion of the Channel and the exclusive rights for the operation and promotion of new media business by Zhongtijian; and

(k) the obtaining of a valuation report (in form and substance reasonably satisfactory to the Purchaser) from a professional valuation company appointed by the Purchaser on the basis that the market value of the Target Group shall not be less than HK$400,000,000 after the PRC Company is in operation.

The Purchaser may at any time waive in writing the conditions (e) and (k) set out above. All other conditions are incapable of being waived. If the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 4:00 p.m. on 31 December 2009 (or such later date as the parties to the Formal Agreement may agree), the Formal Agreement shall cease and determine and thereafter neither party to the Formal Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in the Conversion Shares. No application will, however, be made for the listing of the Convertible Bonds on any stock exchanges.

Completion:

Completion is expected to take place on the 7th Business Day after the fulfillment (or waiver) of the conditions (or such other date as the parties to the Formal Agreement may agree) mentioned above.

Upon Completion of the Acquisition, the Target Company will become an associated corporation of the Company.

Guarantee:

The performance and obligation of the Vendor under the Agreement is unconditionally and irrevocably guaranteed by Mr. Wu. Mr. Wu undertakes to compensate the Purchaser for any liabilities, losses, damages, costs and expenses incurred as a result of any default or delay in performance under the Agreement by the Vendor.

Principal terms of the Convertible Bonds:

Issuer:	The Company
Principal amount:	HK$60,000,000
Interest rate:	3% per annum on the outstanding principal amount. Payable annually in arrears on the anniversary of the date of issue of the Convertible Bonds and on the basis of 365 days per year
Conversion Price:	HK$0.20 per Conversion Share
Maturity date:	The date falling on the 3rd anniversary of the date of issue of the Convertible Bonds, such date being a Business Day and if such date not being a Business Day, the immediately next Business Day
Ranking:	The Convertible Bonds constitute direct unconditional, unsubordinated, unsecured and general obligations of the Company and rank at least pari passu and rateably without preference equally with all other present and future unsubordinated and unsecured obligations of the Company

Transferability:	The Convertible Bonds or any part(s) thereof may be assigned or transferred to any third party during the period commencing from the date of issue of the Convertible Bonds and until the 10th Business Day prior to the maturity date of the Convertible Bonds. Any assignment or transfer of the Convertible Bonds shall be in respect of the whole or any part(s) of the outstanding principal amount of the Convertible Bonds, provided that the principal amount of the Convertible Bonds to be assigned or transferred shall not be less than HK$500,000 on each transfer or assignment
Redemption:	The Company shall repay the outstanding principal amount and interest of the Convertible Bonds on the maturity date of the Convertible Bonds
Conversion:	the Bondholder has the right to convert on any Business Day from the date of issue of the Convertible Bonds but prior to 5 Business Days prior to the maturity date, the whole or any part(s) of the principal amount of the Convertible Bonds
Voting:	the Bondholder shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the bondholders
Limitation on conversion:	The Company shall not issue any Conversion Shares thereof if, upon such issue: (i) Crown Sunny Limited and the parties acting in concert with it or any such other party 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 SFC 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; and/or (ii) the Company will be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules.

Adjustment:	The Conversion Price will be subject to adjustments (customarily for share consolidation, share subdivision and other adjustment events relating to the issue of securities)
Events of default:	The Convertible Bonds contains customary events of default provisions. Upon the happening of an event of default, the Bondholder may give notice to the Company declaring the outstanding Convertible Bonds to be immediately due and payable

Based on the conversion price of HK$0.20 per Conversion Share, a maximum number of 300,000,000 Conversion Shares will be issued and allotted upon exercise of the conversion rights attached to the Convertible Bonds in full, which represents: (i) approximately 17.03% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 14.55% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares. There are no restrictions on the transfer or subsequent sale of the Conversion Shares upon their issue.

The Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Bonds will rank *pari passu* in all respects with all other Shares in issue.

The Conversion Price of the Convertible Bonds represents:

(i) a discount of approximately 50% to the closing price of HK$0.40 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 31.55% to the average of the closing price of approximately HK$0.2922 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and

(iii) a discount of approximately 44.29% to the NAV of approximately HK$0.359 per Share.

No application will be made for the listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The Directors are of the view that the Acquisition and the issue of Convertible Bonds will not result in any change of control of the Company.

Principal terms of the Promissory Notes:

Issuer:	The Purchaser
Principal amount:	HK$60,000,000
Interest rate:	5% per annum on the outstanding principal amount. Payable annually in arrears on the anniversary of the date of issue of the Promissory Notes and on the basis of 365 days per year
Maturity date:	The date falling on the 3rd anniversary of the date of issue of the Promissory Notes
Transferability:	The Promissory Notes or any part(s) thereof may be assigned or transferred to any third party commencing from the date of issue of the Promissory Notes. Any assignment or transfer of the Promissory Notes shall be in respect of the whole or any part(s) of the outstanding principal amount of the Promissory Notes, provided that the principal amount of the Promissory Notes to be assigned or transferred shall not be less than HK$500,000 on each transfer or assignment
Redemption:	The Promissory Notes or any part(s) thereof may be redeemed during the period commencing from three months after the date of issue of the Promissory Notes and until the date prior to the maturity date of the Promissory Notes. Any redemption of the Promissory Notes shall be in respect of the whole or any part(s) of the outstanding principal amount of the Promissory Notes, provided that the principal amount of the Promissory Notes to be redeemed shall not be less than HK$500,000 on each redemption

Call Option Agreement:

Under the Call Option Agreement, Ms. Wu and Ms. Mai will grant to the PRC Company an option to require Ms. Wu and Ms. Mai to transfer 100% equity interest in Zhibode to the PRC Company at the transfer price of RMB100,000 at any time within ten years upon signing of the Call Option Agreement.

Power of Attorney:

Under the Power of Attorney, Ms. Wu and Ms. Mai will authorize the PRC Company to act as the sole agent (i) to sign and execute the Call Option Agreement; and (ii) to sign and execute the Share Pledge Agreement.

Share Pledge Agreement:

Under the Share Pledge Agreement, Ms. Wu and Ms. Mai will pledge their 100% interest in shares of Zhibode to the PRC Company.

No consideration will be paid by the Target Company nor the PRC Company when entering into the Call Option Agreement, the Power of Attorney and the Share Pledge Agreement.

INFORMATION OF GIANT BILLION

Giant Billion has entered into a framework agreement with Zhongtijian for a possible investment of more than 51% equity interest in Zhongtijian while Zhongtijian has entered into a co-operation agreement with CDP for the operation and marketing of the Channel. The Channel may include programs of handball, bowling, petanque, billiards, sepak takraw, cricket and squash. CDP was established by CCTV and is specialized in launching, programming and operation of the CCTV digital pay television channels.

Under the Formal Agreement, the PRC Company will be established by Giant Billion to carry out the principal business of marketing, promotion, business consulting, and technical services including, but not limited to, connecting the business relationship among sports player, sports association, coach, supplier, advertiser and related government departments, and enhancing the development of sports competition in schools, provinces, and in the public, etc. Pursuant to the Exclusive Agreement, the PRC Company will provide exclusive technology and consulting services to Zhongtijian for a service income based on the annual profit of Zhongtijian. Upon the fulfillment of the conditions (i) and (j) above, Zhongtijian will have the exclusive rights for the operation and promotion of the Channel under CDP.

As stated in the financial statements of Giant Billion as at 31 March 2009, Giant Billion had audited net liabilities of HK$102,255. The net loss before and after taxation of Giant Billion for the year ended 31 March 2009 are both HK$60,855. The net loss before and after taxation of Giant Billion for the year ended 31 March 2008 are both HK$8,400.

MANAGEMENT DISCUSSION AND ANALYSIS ON GIANT BILLION

Business review

Giant Billion is a company incorporated in Hong Kong on 3 August 2001 and is principally engaged in investment holdings. Giant Billion has not yet commenced any business since its incorporation.

Operating results

For the three years ended 31 March 2007, 2008 and 2009, Giant Billion recorded nil revenue and loss before and after taxation of HK$5,800, HK$8,400 and HK$60,855, respectively, which represent administrative expenses incurred to maintain it as a duly registered company.

Financial status and capital structure

As at 31 March 2007, 2008 and 2009, Giant Billion had total net liabilities of HK$33,000, HK$41,400 and HK$102,255, respectively. Giant Billion did not have any assets as at 31 March 2007 and 2008. As at 31 March 2009, Giant Billion had total assets of HK$453,800 which represent amount due from ultimate holding company. The amount due from ultimate holding company is unsecured, non-interest bearing and repayable on demand. During each of these years, there was no change to the capital structure and no financial instruments were used for hedging purpose. There were no material acquisitions and disposals of subsidiaries and associated companies during these years.

Employee and remuneration policies

Giant Billion had no employee during the three years ended 31 March 2007, 2008 and 2009.

Pledge of assets

As at 31 March 2007, 2008 and 2009, Giant Billion did not have any charge on its assets.

Borrowings and gearing ratio

As at 31 March 2007 and 2008, Giant Billion did not have any material borrowings.

As at 31 March 2009, Giant Billion had other borrowing of HK$500,000 which was unsecured, bearing interest at 12% per annum and payable within one year.

Capital commitments

As at 31 March 2007, 2008 and 2009, Giant Billion did not have any material capital commitments.

Contingent liabilities

As at 31 March 2007, 2008 and 2009, Giant Billion did not have any material contingent liabilities.

Foreign exchange exposure

As Giant Billion is principally engaged in investment holdings and has not yet commenced business since its incorporation, there is minimal exposure to foreign currency risk.

Future plan and prospects

The PRC has one of the largest television viewing markets in the world and cable networks provide an important means of television transmission in the PRC. The cable television industry in the PRC has great potential for further development as the majority of urban households subscribe to basic cable television services. The Directors consider that the investment in Giant Billion will provide a good opportunity for the Company to participate in the media industry in the PRC. Taking into account the steady and growing demand for cable television networks due to the growing economy in the PRC, which is a primary means of making information and entertainment available to the public, it is expected that the operation of the PRC Company under the Exclusive Agreement will bring reasonable return to Giant Billion in the future.

Details of the financial information relating to Giant Billion for each of the three years ended 31 March 2007 and 2008 and 2009 are set out in the Accountants' Report on the Target Company, the text of which is set out in Appendix II to this circular.

PRC LEGAL OPINION ON THE ACQUISITION

In respect of the Acquisition, the Company has engaged a PRC lawyer to advise on the legality of the transaction, the structure and the documents involved based on the existing PRC laws.

Pursuant to the Formal Agreement, the Purchaser has agreed to acquire 49% equity interest in Giant Billion and the PRC Company will be established by Giant Billion to provide exclusive technology and consulting services to Zhongtijian for a service income. Zhongtijian has entered into a co-operation agreement with CDP for the operation and marketing of the Channel.

As a condition precedent to the Formal Agreement, the final PRC legal opinion is not available at this moment. The issuance of the final PRC legal opinion will be subject to the fulfillment of the conditions in the Formal Agreement and the execution of all agreements ancillary to the Formal Agreement, which is expected to be available before completion of the Acquisition. Based on a preliminary PRC legal opinion, subject to the execution of all agreements ancillary to the Formal Agreement, the Formal Agreement will not be in breach of any PRC laws in force at this moment in time.

RISKS AND RESTRICTIONS OF OPERATIONS OF GIANT BILLION

Restrictions of media business in the PRC

Pursuant to "Provisions on Guiding Direction of Foreign Investment" (指導外商投資方向規定), "Foreign Investment Industrial Guidance Catalogue" (外商投資產業指導目錄) and "Interim Measures on the Business Management of Digital Pay Channel of Radio Film and Television" (廣播電視有綫數字付費頻道業務管理暫行辦法) (together the "Guidelines"), media business in the PRC is restricted to domestic-funded companies established in the PRC. As at the date of the Formal Agreement, Zhongtijian is a domestic-funded company incorporated in the PRC. As such, Zhongtijian carrying out media-related business would not contravene the Guidelines. However, there is no guarantee that the new policies and guidelines in relation to the media-related business will not be introduced that render the existing arrangement under the Formal Agreement to become unenforceable.

Political and economic consideration

In the past 30 years, the PRC government have introduced various policies, some of which are unprecedented or experimental. Amendment and update to such are expected. In case such arise and the change in policies relate to the operation of Giant Billion and the PRC Company, their business may be adversely affected especially if there are changes in the area of laws and regulations (or the interpretation thereof), introduction of measures to further control the economy, imposition of taxes, levies and fees, and imposition of restrictions on currency conversion and remittances abroad.

In addition, there can be no assurance that the PRC government will either continue to pursue its current policies of open door or that such policies will not be significantly altered. Any changes in the policy of the PRC government may also further affect the operation and business of Giant Billion and the PRC Company.

Legal and regulatory considerations

Under the current PRC legal system, written statutes instead of court decisions are binding precedents on subsequent uses whit similar facts. As discussed as above, interpretation of PRC laws may be subject to policy changes reflecting domestic political changes. There have been laws and regulations governing economic matters introduced in the PRC in the past and further may also be introduced in the future. New laws and regulations may also affect the operation and business of Giant Billion and PRC Company.

Taxation

The operation and business of Giant Billion and the PRC Company are assumed to be conducted under the current taxation system. As current tax laws and may be revised or amended in the future, the after-taxation profit of Giant Billion and the PRC Company may be affected.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the manufacturing and trading of polishing materials and equipment and investment.

The Directors are of the view that there is a great potential in the media and advertising business in the PRC. In addition, given that the consideration of the Acquisition shall be satisfied by the Company with the Convertible Bonds, the Directors are of the view that the Acquisition provides the Company the opportunity to diversify its investment with good potential.

In view of the growing potential of Giant Billion, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition, including but not limited to the issue of the Convertible Bonds, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the existing and enlarged shareholding structure of the Company and immediately before and after the exercise of the conversion rights attached to the Convertible Bonds in full (assuming there are no other changes in the issued share capital of the Company) are set out below:

Shareholders	**As at the Latest Practicable Date**		**Immediately after the exercise of the conversion rights attached to the Convertible Bonds in full**	
	Number of Shares	*%*	*Number of Shares*	*%*
PME Investments (BVI) Co., Ltd., and its associates	461,638,000	26.21	461,638,000	22.40
The Vendor	–	–	300,000,000	14.55
Public Shareholders	1,299,462,000	73.79	1,299,462,000	63.05
Total	**1,761,100,000**	**100.00**	**2,061,100,000**	**100.00**

As at the Latest Practicable Date, the existing authorized share capital of the Company consists of 10,000,000,000 Shares out of which 1,761,100,000 Shares are issued and fully paid up.

As at the Latest Practicable Date, the Company has 46,000,000 outstanding share options.

FINANCIAL EFFECTS ON THE GROUP

After completion of the Acquisition, the Target Company will be treated as an associated company and the earnings, assets and liabilities of the Target Company will be recorded in the accounts of the Company using equity method in the consolidated financial statements of the Group.

Based on the unaudited pro forma financial information of the enlarged Group as set out in Appendix III to this circular, the total assets and total liabilities of the Group is expected to increase as a result of the Acquisition. The Directors consider that the Acquisition will have positive effects on the results of the Group but the effects on the profitability of the Group will depend on future performance of the Target Company.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

During the first half of 2008, the material prices and the production costs continued to increase. The appreciation of Renminbi further pushed up the Group's production costs on top of the rising prices. The outbreak of the global financial crisis during the second half of 2008 adversely affected the export of consumer products from China to the United States and European markets. The demand for the Group's polishing products decreased simultaneously. The Group has taken various steps to promote its products including restructuring its distribution network and reducing the product prices in order to increase the competitiveness of the Group's products in the market.

Looking ahead to year 2009, it will still be a difficult year. Although the governments worldwide have been taking massive fiscal and monetary policies to counter the financial turmoil and stabilise the financial markets, and the PRC government has implemented various steps to push up the export industries, it takes time to restore the market confidence and consumer demand. The competition in the polishing materials market in Hong Kong and Mainland China will still be very keen in 2009. The Group is making every effort to control its costs, taking advantage of its well-established sales network and expanding its distribution network. The Group will also concentrate on manufacturing and trading products with higher margin and market competitiveness in order to enhance its profit ratio.

The Directors expect that the Hong Kong stock market will recover moderately in 2009. The Group will take more prudent investment policies but believes that attractive investment opportunities are available as companies and businesses will be undervalued in a volatile financial market. The Company will grasp the investment and business opportunities as they arise to enhance value for its shareholders.

LISTING RULES IMPLICATION

The Acquisition constitutes a major transaction on the part of the Company under Rule 14.06 of the Listing Rules and the Acquisition is subject to the approval of the Shareholders at the EGM. To the best belief, information and knowledge of the Directors, after making reasonable enquiries, no Shareholders have a material interest in the Acquisition and are required to abstain from voting at the EGM.

EGM

A notice convening the EGM to be held at Unit 812, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong on Wednesday, 23 September 2009 at 2:30 p.m. is set out on pages EGM-1 and EGM-2 of this circular. An ordinary resolution will be proposed at the EGM to consider and, if thought fit, approve the Formal Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published at the website of the Stock Exchange at www.hkexnews.hk. Whether or not you propose to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the head office and principal place of business of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

VOTING AT EGM

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at the EGM must be taken by poll.

RECOMMENDATION

The Directors consider that the terms of the Formal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution at the EGM to approve this transaction.

FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
PME Group Limited
Cheng Kwok Woo
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 December 2008. A summary of the audited results, assets and liabilities of the Group as extracted from the annual reports of the Company is set out below.

RESULTS

	For the year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	235,226	258,884	211,256
Cost of sales	(191,859)	(222,819)	(200,003)
Gross profit	43,367	36,065	11,253
Other income, gain and loss	2,597	5,522	8,120
Selling and distribution expenses	(12,367)	(11,603)	(10,676)
Administrative expenses	(25,902)	(56,913)	(71,088)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement	320	–	–
Decrease in fair value of investment property	–	–	(694)
Gain (loss) on disposal of subsidiaries	–	(186)	5,815
Gain on disposal of held-for-trading investments	–	–	24,907
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	–	154,465
Impairment loss recognised in respect of available-for-sale investments	–	–	(199,500)
Impairment loss recognised in respect of goodwill on acquisition of an associate	–	–	(43,674)
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	(161,008)
Decrease in fair value of held-for-trading investments	–	–	(15,792)
Share of results of associates	–	–	29,943
Share of result of a jointly controlled entity	–	(154)	172
Finance costs	(1,348)	(2,027)	(1,163)
Profit (loss) before taxation	6,667	(29,296)	(268,920)
Taxation	(1,165)	556	528
Profit (loss) for the year	5,502	(28,740)	(268,392)

ASSETS AND LIABILITIES

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	275,319	916,931	721,663
Total liabilities	(34,485)	(41,069)	(90,432)
Equity	240,834	875,862	631,231

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the audited consolidated financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2008.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
Turnover	*7*	298,089	258,884
Revenue		211,256	258,884
Cost of sales		(200,003)	(222,819)
Gross profit		11,253	36,065
Other income, gain and loss	*9*	8,120	5,522
Selling and distribution expenses		(10,676)	(11,603)
Administrative expenses		(71,088)	(56,913)
Decrease in fair value of investment property		(694)	–
Gain (loss) on disposal of subsidiaries	*40*	5,815	(186)
Gain on disposal of held-for-trading investments		24,907	–
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	*27*	154,465	–
Impairment loss recognised in respect of available-for-sale investments	*20*	(199,500)	–
Impairment loss recognised in respect of goodwill on acquisition of an associate	*23*	(43,674)	–
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	*22*	(161,008)	–
Decrease in fair value of held-for-trading investments		(15,792)	–
Share of results of associates		29,943	–
Share of result of a jointly controlled entity		172	(154)
Finance costs	*10*	(1,163)	(2,027)
Loss before taxation		(268,920)	(29,296)
Taxation	*13*	528	556
Loss for the year	*14*	(268,392)	(28,740)

	Notes	2008 HK$'000	2007 HK$'000
Attributable to:			
Equity holders of the Company		(268,371)	(28,796)
Minority interests		(21)	56
		(268,392)	(28,740)
Dividend	15	–	–
Loss per share			
Basic	16	HK(16.62) cents	HK(2.20) cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
Non-current assets			
Property, plant and equipment	*17*	105,999	125,105
Investment property	*18*	3,200	–
Prepaid lease payments	*19*	11,020	10,450
Available-for-sale investments	*20*	66	285,471
Deposits placed with an insurer	*21*	–	3,737
Goodwill	*22*	–	–
Interests in associates	*23*	225,410	–
Interest in a jointly controlled entity	*24*	6,001	5,829
Club debentures		350	350
		352,046	430,942
Current assets			
Inventories	*25*	27,017	31,570
Debtors, deposits and prepayments	*26*	158,018	83,619
Convertible bond designated as financial assets at fair value through profit or loss	*27*	7,047	–
Amount due from a jointly controlled entity	*28*	111	332
Loan receivables	*29*	58,650	4,730
Prepaid lease payments	*19*	290	268
Taxation recoverable		643	52
Held-for-trading investments	*30*	80,112	–
Deposits placed with a financial institution	*31*	19,579	200,451
Bank balances and cash	*32*	18,150	164,967
		369,617	485,989

	Notes	2008 HK$'000	2007 HK$'000
Current liabilities			
Creditors and accruals	*33*	72,761	15,523
Taxation payable		802	1,186
Obligation under a finance lease	*34*	74	67
Bank loans	*35*	14,211	20,884
		87,848	37,660
Net current assets		281,769	448,329
Total assets less current liabilities		633,815	879,271
Non-current liabilities			
Obligation under a finance lease	*34*	132	206
Deferred taxation	*36*	2,452	3,203
		2,584	3,409
		631,231	875,862
Capital and reserves			
Share capital	*37*	17,586	15,986
Reserves		613,369	859,565
Equity attributable to equity holders of the Company		630,955	875,551
Minority interests		276	311
		631,231	875,862

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note)	Translation reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Retained profits/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	9,580	202,296	(38,581)	2,960	–	4,473	–	–	59,851	240,579	255	240,834
Exchange differences arising from translation of foreign operations	–	–	–	2,030	–	–	–	–	–	2,030	–	2,030
Revaluation increase on available-for-sale investment	–	–	–	–	–	–	1,405	–	–	1,405	–	1,405
Revaluation increase on buildings	–	–	–	–	–	3,426	–	–	–	3,426	–	3,426
Deferred tax arising on revaluation on buildings	–	–	–	–	–	(723)	–	–	–	(723)	–	(723)
Net income recognised directly in equity	–	–	–	2,030	–	2,703	1,405	–	–	6,138	–	6,138
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(28,796)	(28,796)	56	(28,740)
Total recognised income and expense for the year	–	–	–	2,030	–	2,703	1,405	–	(28,796)	(22,658)	56	(22,602)
Recognition of equity-settled share based payment	–	–	–	–	7,010	–	–	–	–	7,010	–	7,010
Issue of shares upon placing	4,206	598,959	–	–	–	–	–	–	–	603,165	–	603,165
Share issue expenses	–	(17,363)	–	–	–	–	–	–	–	(17,363)	–	(17,363)
Issue of warrants	–	–	–	–	–	–	–	10,120	–	10,120	–	10,120
Expenses incurred in connection with issue of warrants	–	–	–	–	–	–	–	(302)	–	(302)	–	(302)
Issue of shares upon exercises of warrants	2,200	62,618	–	–	–	–	–	(9,818)	–	55,000	–	55,000
At 31 December 2007	15,986	846,510	(38,581)	4,990	7,010	7,176	1,405	–	31,055	875,551	311	875,862

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note)	Translation reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Retained profits/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	15,986	846,510	(38,581)	4,990	7,010	7,176	1,405	–	31,055	875,551	311	875,862
Exchange differences arising from translation of foreign operations	–	–	–	3,482	–	–	–	–	–	3,482	–	3,482
Exchange differences arising from translation of an associate	–	–	–	1,586	–	–	–	–	–	1,586	–	1,586
Impairment losses on available-for-sale investment	–	–	–	–	–	–	(1,405)	–	–	(1,405)	–	(1,405)
Revaluation decrease on buildings	–	–	–	–	–	(1,386)	–	–	–	(1,386)	–	(1,386)
Deferred tax arising on revaluation on buildings	–	–	–	–	–	374	–	–	–	374	–	374
Net income and expense recognised directly in equity	–	–	–	5,068	–	(1,012)	(1,405)	–	–	2,651	–	2,651
Loss for the year	–	–	–	–	–	–	–	–	(268,371)	(268,371)	(21)	(268,392)
Total recognised income and expense for the year	–	–	–	5,068	–	(1,012)	(1,405)	–	(268,371)	(265,720)	(21)	(265,741)
Recognition of equity-settled share based payment	–	–	–	–	2,511	–	–	–	–	2,511	–	2,511
Issue of shares upon placing	1,600	14,400	–	–	–	–	–	–	–	16,000	–	16,000
Share issue expenses	–	(479)	–	–	–	–	–	–	–	(479)	–	(479)
Share option cancelled	–	–	–	–	(2,079)	–	–	–	2,079	–	–	–
Share of reserves of associates	–	–	–	(1,238)	4,486	–	–	–	–	3,248	–	3,248
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	358	358
Disposal of subsidiaries	–	–	(7,200)	(156)	–	(4,936)	–	–	12,136	(156)	(372)	(528)
At 31 December 2008	17,586	860,431	(45,781)	8,664	11,928	1,228	–	–	(223,101)	630,955	276	631,231

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	(268,920)	(29,296)
Adjustments for:		
Allowance for obsolete inventories	118	1,885
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	(154,465)	–
Decrease in fair value of held-for-trading investments	15,792	–
Decrease in fair value of investment property	694	–
Depreciation of property, plant and equipment	8,481	7,810
Finance costs	1,163	2,027
(Gain) loss on disposal of subsidiaries	(5,815)	186
Interest income	(6,219)	(2,299)
Impairment loss on trade debtors	8,457	4,618
Impairment loss recognised in respect of available-for-sale investments	199,500	–
Impairment loss recognised in respect of goodwill on acquisition of an associate	43,674	–
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	161,008	–
Imputed interest income on deposits placed with an insurer	(18)	(178)
Loss on assignment of other loans and interest receivable	–	531
Loss (gain) on disposals of property, plant and equipment	40	(249)
Release of prepaid lease payments	286	268
Share-based payments	2,511	7,010
Share of result of a jointly controlled entity	(172)	154
Share of results of associates	(29,943)	–

	2008	2007
	HK$'000	*HK$'000*
Operating cash flows before movements in working capital	(23,828)	(7,533)
Decrease in deposits placed with an insurer	3,755	–
Decrease (increase) in inventories	5,143	(5,340)
Increase in debtors, deposits and prepayments	(82,650)	(11,397)
Increase in convertible bond designated as financial assets at fair value through profit or loss	(70,332)	–
Decrease (increase) in amount due from a jointly controlled entity	242	(332)
Increase in loans receivables	(46,920)	–
Increase in held-for-trading investments	(68,860)	–
Decrease (increase) in deposits placed with a financial institution	204,871	(200,451)
Increase in creditors and accruals	53,459	4,723
Cash used in operations	(25,120)	(220,330)
Income tax refunded	–	951
Income tax paid	(101)	(131)
NET CASH USED IN OPERATING ACTIVITIES	(25,221)	(219,510)
INVESTING ACTIVITIES		
Advances of loan receivables	(7,000)	(4,730)
Acquisition of associates	(117,388)	–
Advance to an associate	(7,000)	–
Purchases of property, plant and equipment	(3,807)	(3,771)
Purchase of an investment property	(3,428)	–
Repayments of loan receivables	–	7,400
Repayments from an associate	7,000	–
Disposal of subsidiaries	3,614	(17)
Interest received	3,634	780
Proceeds from disposal of property, plant and equipment	27	1,186
Purchases of available-for-sale investments	–	(284,066)
Investment in a jointly controlled entity	–	(5,983)
NET CASH USED IN INVESTING ACTIVITIES	(124,348)	(289,201)

	2008 *HK$'000*	2007 *HK$'000*
FINANCING ACTIVITIES		
New bank loans raised	43,478	25,370
Proceeds from placing of new shares	16,000	603,165
Repayments of bank loans	(51,999)	(24,193)
Interest paid	(1,141)	(1,028)
Share issue expenses for placing	(479)	(17,363)
Repayments of obligation under a finance lease	(67)	(88)
Finance lease charges paid	(22)	(11)
Proceeds from issue of shares upon exercises of warrants	–	55,000
Proceeds from issues of warrants	–	10,120
Expenses incurred in connection with issue of warrants	–	(302)
NET CASH FROM FINANCING ACTIVITIES	5,770	650,670
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(143,799)	141,959
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	164,967	25,704
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(3,022)	(2,696)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18,146	164,967
Cash and cash equivalents at the end of the year, represented by:		
Bank balances and cash	18,150	164,967
Bank overdrafts	(4)	–
	18,146	164,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 corporate information on the annual report.

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

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in investment and manufacture and trading of polishing materials. The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in Note 46.

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

In the current year, the Group has applied the following amendments and interpretations ("New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2008.

Hong Kong Accounting Standards ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Interpretation ("INT") 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 9 and HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-INT 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 July 2009.
[4] Effective for annual periods ending on or after 30 June 2009.
[5] Effective for annual periods beginning on or after 1 July 2008.
[6] Effective for annual periods beginning on or after 1 October 2008.
[7] Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may effectively affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

All significant intercompany transactions, balances, income and expenses are eliminated on consolidation.

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

Business combinations

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

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

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

Goodwill

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of business is presented separately in the consolidated balance sheet.

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

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a jointly controlled entity.

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

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

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

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

Jointly controlled entities

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

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

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

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

Revenue recognition

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

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

Service income is recognised when services are rendered.

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 carrying amount.

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

Property, plant and equipment

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

Leasehold land and buildings are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

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

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

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

Investment property

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

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

Intangible asset

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

Gain 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 the consolidated income statement when the asset is derecognised.

Prepaid lease payments

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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 balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Financial instruments

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective basis for debt instruments other than those designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

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

A financial asset is classified as held-for-trading if:

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

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

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

Convertible bond

Convertible bond acquired by the Group (including related embedded derivatives) are designated as financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value 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. At each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from a jointly controlled entity, debtors, deposits placed with financial institutions, loan receivables and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

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

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

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

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

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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.

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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

Impairment losses on tangible assets and intangible asset

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary difference, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference 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 arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the Company difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted to employees

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS 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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying the entity's accounting policies

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

Estimated impairment of goodwill arising from subsidiaries

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

Equity accounting for associates

As at 31 December 2008, the Group's equity interest in China Railway Logistics Limited ("China Railway"), an associate of the Group of which shares are listed on The Stock Exchange, was 14.93%.

The directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decisions of China Railway through the Group's ability to appoint a board representative.

Accordingly, China Railway is classified as an associate and the results of China Railway were equity accounted for 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

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

Estimated impairment of goodwill arising from an associate

Determining whether goodwill is impaired requires an estimation of the expected dividend yield from the associate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2008, impairment loss on goodwill of an associate of HK$43,674,000 is considered as neccessary.

Estimated impairment of trade and other debtors

The Group makes impairment loss based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. In determining whether impairment loss on debtors is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Estimated allowance of 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 judgment and estimates on the conditions and usefulness of the inventories.

Estimated impairment loss on available-for-sale investments

In determining whether there is objective evidence of impairment in relation to the Group's available-for-sale investments in equity securities, the Group takes into consideration of significant or prolonged decline in the market prices below the respective costs. As at 31 December 2008, the carrying amount of available-for-sales investments is approximately HK$66,000 (2007: HK$285,471,000). The directors performed impairment assessment of the Group's available-for-sale investments and an impairment loss of approximately HK$200,905,000 (2007: Nil) were recognised, of which HK$1,405,000 had been charged to the investment revaluation reserve and HK$199,500,000 had been charged to the consolidated income statement. The directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decisions of the investment, the available-for-sale investments had been reclassified as an associate of the Group.

Fair value of convertible bond

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

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while summarised 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 loans, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008	**2007**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	244,189	442,027
Available-for-sale financial assets	66	285,471
Convertible bond designated as financial assets at fair value through profit or loss	7,047	–
Held-for-trading investments	80,112	–
Financial liabilities		
Other financial liabilities at amortised cost	87,178	36,680

(b) Financial risk management objectives and policies

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

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

(i) Market risk

Currency risk

Several subsidiaries have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 31% (2007: 54%) of the Group's purchase are denominated in currencies other than the functional currency of the group entity. The management considers the Group is not exposed to significant foreign currency risk in relation to Renminbi ("RMB") as the operations and transaction of the Company's subsidiary operating in the People's Republic of China (the "PRC") is denominated in its functional currency of RMB. The Group also has bank balances, creditors and bank loans denominated in foreign currencies. Since the fluctuation of HK$ and United States dollar ("USD") are minimal under the Linked Exchange Rate System, the management consider the Group mainly expose to the currency of Euro and Japanese Yen.

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

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

	2008	**2007**
	HK$'000	*HK$'000*
Assets		
USD	213	99,439
Japanese Yen	7	18
Euro	3	904
	223	100,361
Liabilities		
USD	14,449	6,453
Japanese Yen	28,634	11,153
Euro	7,511	2,263
	50,594	19,869

Sensitivity analysis

The Group is mainly exposed to Japanese Yen and Euro only, as USD is pegged to Hong Kong dollar.

The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in Hong Kong dollars against relevant foreign currencies. 5% (2007: 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% (2007: 5%) change in foreign currency rates. A positive number indicates a decrease in loss/an increase in profit for the year when Hong Kong dollar strengthens against the relevant foreign currencies. For a 5% (2007: 5%) weakening of Hong Kong dollar against the relevant currency, there would be an equal but opposite impact on the loss for the year.

	2008	**2007**
	HK$'000	*HK$'000*
Japanese Yen		
Loss for the year	1,431	557
Euro		
Loss for the year	375	68

Fair value and cash flow interest rate risk

The Group has significant loan receivables, deposits placed with a financial institution, bank balances, bank loans and obligation under a finance lease which bear interest rate risk. Loan receivables, deposits placed with a financial institution, bank balances and bank loans at variable rates expose the Group to cash flow interest-rate risk. Bank loans at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Sensitivity analysis

At the balance sheet dates, assuming the variable rate deposits placed with a financial institution, loan receivables, bank balances, and bank loans outstanding at the balance sheet dates had been outstanding for the whole year, if interest rates had increased by 200 basis points and all other variables were held constant, there was a decrease in loss by approximately HK$1,452,000 (2007: decrease in loss by approximately HK$3,773,000). If interest rates had decreased by 200 basis points, there would be an equal but opposite impact on the profit (loss) for the year. A 200 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

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

Other price risk

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

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to other price risks at the reporting date. As a result of the volatile financial market, the management adjusted the sensitivity rate from 5% to 30% in the current year for the purpose of analysing other price risk. If the prices of the respective equity instruments had been 30% (2007: 5%) higher/lower:

– post-tax profit for the year ended 31 December 2008 would increase/decrease by HK$26,148,000 (2007: Nil) as a result of the changes in fair value of held-for-trading investments and convertible bond designated as financial assets at fair value through profit or loss; and

– investment valuation reserve would increase/decrease by HK$20,000 (2007: HK$14,274,000) for the Group as a result of the changes in fair value of available-for-sale investments.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. 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 each balance sheet date 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.

The Group has no significant concentration of credit risk for both years, as the trade debtors spread over a number of counterparties and customers. No single debtor outstanding at the balance sheet dates exceeds 10% of the total balance of trade debtors for both years.

The Group has significant concentration of credit risk arising from deposits placed with financial institutions as at 31 December 2008 and 2007.

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

(iii) Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. The Group relies on bank borrowings as a significant source of liquidity. Details of the Groups' bank loans are set out in Note 35. The following table details the Group's contractual maturity for its non-derivative financial liabilities. 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.

	Weighted average effective interest rate	0-90 days	91-180 days	181-365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2008								
Creditors and accruals		35,178	37,567	16	–	–	72,761	72,761
Obligation under a finance lease	9.24	22	22	46	90	53	233	206
Bank loans	4.71	2,587	5,628	6,501	–	–	14,716	14,211
		37,787	43,217	6,563	90	53	87,710	87,178
As at 31 December 2007								
Creditors and accruals		15,473	50	–	–	–	15,523	15,523
Obligation under a finance lease	9.24	22	22	46	90	142	322	273
Bank loans	7.13	5,060	7,597	8,890	–	–	21,547	20,884
		20,555	7,669	8,936	90	142	37,392	36,680

(c) Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

7. TURNOVER

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and wheels; trading of polishing materials and polishing equipment; provision of technical consultancy service, net of allowances and returns and sales tax; trading of equity securities and interest income, during the year.

	2008	2007
	HK$'000	*HK$'000*
Manufacturing, trading and provision of technical service	211,017	246,677
Proceeds from held-for-trading investments	86,833	–
Interest income	239	12,207
	298,089	258,884

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service
Investment	–	investments in trading equity securities and long-term strategic investment

Segment information about these businesses is presented below.

Consolidated income statement for the year ended 31 December 2008

	Manufacturing	Trading	Technical service	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	123,022	86,845	1,150	239	211,256
Result					
Segment result	(23,967)	(12,229)	939	(64,527)	(99,784)
Unallocated corporate expenses					(3,880)
Unallocated other income and gain					4,659
Gain on disposal of subsidiaries	5,815	–	–	–	5,815
Impairment loss recognised in respect of goodwill on acquisition of an associate	–	–	–	(43,674)	(43,674)
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	–	(161,008)	(161,008)
Share of results of associates	–	–	–	29,943	29,943
Share of result of a jointly controlled entity	172	–	–	–	172
Finance costs					(1,163)
Loss before taxation					(268,920)
Taxation					528
Loss for the year					(268,392)

Consolidated balance sheet at 31 December 2008

	Manufacturing	**Trading**	**Technical service**	**Investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	182,314	33,848	185	258,066	474,413
Interest in associates	–	–	–	225,410	225,410
Interest in a jointly controlled entity	6,001	–	–	–	6,001
Unallocated corporate assets					15,839
Consolidated total assets					721,663
LIABILITIES					
Segment liabilities	7,577	4,578	62	60,750	72,967
Unallocated corporate liabilities					17,465
Consolidated total liabilities					90,432

Other information

	Manufacturing	**Trading**	**Technical service**	**Investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	3,362	82	1	362	3,807
Capital additions of investment property	–	–	–	3,894	3,894
Depreciation of property, plant and equipment	6,559	1,461	20	441	8,481
Release of prepaid lease payments	286	–	–	–	286
Loss on disposals of property, plant and equipment	20	20	–	–	40
Decrease in fair value of investment property	–	–	–	694	694
Gain on disposals of subsidiaries	(5,815)	–	–	–	(5,815)
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	–	–	154,465	154,465
Impairment loss recognised in respect of available-for-sale investments	–	–	–	199,500	199,500
Impairment loss recognised in respect of goodwill on acquisition of an associate	–	–	–	43,674	43,674
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	–	161,008	161,008
Impairment loss on trade debtors	4,841	3,569	47	–	8,457
Allowance for inventories	32	86	–	–	118

Consolidated income statement for the year ended 31 December 2007

	Manufacturing	**Trading**	**Technical service**	**Investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	130,081	116,183	413	12,207	258,884
Result					
Segment result	(9,307)	(5,951)	(452)	(11,208)	(26,918)
Unallocated corporate expenses					(4,857)
Unallocated other income and gain					4,846
Loss on disposal of a subsidiary					(186)
Share of result of a jointly controlled entity	(154)	–	–	–	(154)
Finance costs					(2,027)
Loss before taxation					(29,296)
Taxation					556
Loss for the year					(28,740)

Consolidated balance sheet at 31 December 2007

	Manufacturing	**Trading**	**Technical service**	**Investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	191,189	52,866	107	627,919	872,081
Interest in a jointly controlled entity	5,829	–	–	–	5,829
Unallocated corporate assets					39,021
Consolidated total assets					916,931
LIABILITIES					
Segment liabilities	7,175	4,699	18	3,504	15,396
Unallocated corporate liabilities					25,673
Consolidated total liabilities					41,069

Other information

	Manufacturing	Trading	Technical service	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	108	1,879	2	2,082	4,071
Depreciation of property, plant and equipment	5,973	1,689	7	141	7,810
Loss on assignment of other loans and interest receivable	–	–	–	531	531
Gain on disposal of property, plant and equipment	(134)	(108)	(7)	–	(249)
Loss on disposal of a subsidiary	–	–	–	186	186
Release of prepaid lease payments	268	–	–	–	268
Impairment loss on trade debtors	3,312	501	805	–	4,618
Allowance for inventories	377	1,508	–	–	1,885

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading divisions are mainly located in Hong Kong and the PRC. Manufacturing and technical service are carried out in Hong Kong and the PRC. Investment division is located in Hong Kong.

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

	Revenue	
	2008	**2007**
	HK$'000	*HK$'000*
Hong Kong	60,264	111,579
The PRC	137,428	127,723
Other Asian regions	10,151	14,953
North America and Europe	911	2,065
Other countries	2,502	2,564
	211,256	258,884

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

	Carrying amount of segment assets		Additions to property, plant and equipment and investment property	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	314,475	730,161	3,980	3,963
The PRC	159,938	141,920	3,255	108
	474,413	872,081	7,235	4,071

9. OTHER INCOME, GAIN AND LOSS

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Interest income from bank	2,123	92
Interest income from loan receivables	4,096	688
Imputed interest income on deposits placed with an insurer	18	178
Net foreign exchange gains	327	3,300
Rental income	527	575
Sundry income	1,029	689
	8,120	5,522

10. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Finance costs comprise:		
Interests on bank borrowings and overdraft wholly repayable within five years	1,141	1,028
Finance lease charges	22	11
Interest on other loans	–	988
	1,163	2,027

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2007: thirteen) directors were as follows:

2008

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

2007

Name of director	*Notes*	**Fees** *HK$'000*	**Salaries and other benefits** *HK$'000*	**Share-based payments** *HK$'000*	**Retirement benefits scheme contributions** *HK$'000*	**Total** *HK$'000*
Executive Directors						
Mr. Cheng Kwok Woo		–	1,024	–	46	1,070
Mr. Cheng Kwong Cheong		–	1,019	–	46	1,065
Ms. Cheng Wai Ying	*b*	–	417	–	19	436
Mr. Chow Yin Kwang	*b*	–	626	–	29	655
Ms. Chan Yim Fan	*b*	–	309	–	14	323
Ms. Yeung Sau Han Agnes	*c*	–	160	3,505	8	3,673
Ms. Chan Shui Sheung Ivy	*c*	–	200	3,505	10	3,715
Non-executive Director						
Mr. Zheng Jin Hong	*d*	50	–	–	–	50
Independent Non-executive Directors						
Mr. Anthony Francis Martin Conway	*e*	90	–	–	–	90
Mr. Leung Yuen Wing		120	–	–	–	120
Mr. Lam Hon Ming Edward	*d*	35	–	–	–	35
Mr. Soong Kok Meng	*f*	57	–	–	–	57
Mr. Chow Fu Kit Edward	*g*	45	–	–	–	45
Total for the year 2007		397	3,755	7,010	172	11,334

No directors waived any emoluments in the two years ended 31 December 2008 and 2007.

Notes:

(a) Mr. Tin Ka Pak was appointed as an executive director on 8 May 2008.

(b) Ms. Cheng Wai Ying, Mr. Chow Yin Kwang and Ms. Chan Yim Fan resigned as executive directors on 31 October 2007.

(c) Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy were appointed as executive directors on 2 May 2007.

(d) Mr. Zheng Jin Hong and Mr. Lam Hon Ming Edward resigned as a non-executive director and an independent non-executive director respectively on 11 July 2007.

(e) Mr. Anthony Francis Martin Conway retired as an independent non-executive director on 1 October 2007.

(f) Mr. Soong Kok Meng was appointed as an independent non-executive director on 11 July 2007.

(g) Mr. Chow Fu Kit Edward was appointed as an independent non-executive director on 17 August 2007.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2007: five) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2007: Nil) highest paid individuals in 2008 were as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Salaries and other benefits	2,834	–
Retirement benefit scheme contributions	29	–
	2,863	–

The emoluments fell within the following band:

	Number of individuals	
	2008	**2007**
Emolument band		
Nil to HK$1,000,000	2	–
HK$1,000,000 to HK$2,000,000	1	–

During the two years ended 31 December 2008 and 2007, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	2008	**2007**
	HK$'000	*HK$'000*
The credit comprises:		
Current tax		
Hong Kong	48	240
The PRC	–	–
Other jurisdictions	–	78
	48	318
(Over) underprovision in prior years		
Hong Kong	(574)	250
	(526)	568
Deferred taxation *(Note 36)*		
Current year	181	(1,124)
Effect of changes in tax rate	(183)	–
	(528)	(556)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

The subsidiary in PRC is subject to a statutory enterprise income ("EIT") tax rate of 24%. In accordance with the relevant tax laws and regulations of the PRC, the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. 2003 is the first profit making year. The income tax rate for 2008 was 25% (2007: 12%).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiary in the PRC was increased from 12% to 25% in the current year.

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

The tax credit for the year can be reconciled to the loss before taxation as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Loss before taxation	(268,920)	(29,296)
Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	(44,371)	(5,126)
Tax effect of share of results of associates	(4,941)	–
Tax effect of share of result of a jointly controlled entity	(28)	27
Tax effect of expenses not deductible for tax purpose	77,019	6,214
Tax effect of income not taxable for tax purpose	(30,335)	(1,953)
Tax effect of tax loss not recognised	2,885	–
Tax effect of changes of tax rate of deferred tax	(183)	–
Effect of different tax rate of subsidiaries operating in other jurisdictions	–	32
(Over) underprovision in respect of prior years	(574)	250
Tax credit for the year	(528)	(556)

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

14. LOSS FOR THE YEAR

	2008	2007
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	8,481	7,810
Release of prepaid lease payment	286	268
Staff costs, including directors' emoluments and share-based payments	28,026	27,304
Auditor's remuneration	750	1,330
Impairment loss on trade debtors (included in administrative expenses)	8,457	4,618
Allowance for inventories (included in cost of sales)	118	1,885
Loss on assignment of other loans and interest receivable *(Note 44)*	–	531
Decrease in fair value of investment property	694	–
Loss (gain) on disposal of property, plant and equipment	40	(249)
Cost of inventories recognise as expenses	199,885	220,934
Minimum lease payment in respect of rental premises	2,560	1,067
Rental income	(527)	(575)
Less: direct expenses that generated rental income	24	24
	(503)	(551)
Share of tax of associates (included in share of results of associates)	(296)	–

Contributions to retirement benefits schemes of HK$703,000 (2007: HK$568,000) are included in staff costs.

Share-based payments of HK$2,511,000 (2007: HK$7,010,000) are included in staff costs.

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

16. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company for the purposes of basic loss per share	(268,371)	(28,796)

	Number of shares	
	2008	2007
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,614,775	1,307,710

No diluted loss per share has been presented for both years because the exercise of the potential dilutive ordinary shares would result in a reduction in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Yachts HK$'000	Total HK$'000
AT COST OR REVALUATION						
At 1 January 2007	86,490	55,622	12,087	3,890	1,317	159,406
Effect on exchange adjustments	3,331	1,150	134	58	–	4,673
Additions	31	392	2,831	817	–	4,071
Disposals	–	(1,221)	–	(437)	(1,317)	(2,975)
Disposal of a subsidiary	–	–	(90)	–	–	(90)
Increase in revaluation	1,208	–	–	–	–	1,208
At 31 December 2007	91,060	55,943	14,962	4,328	–	166,293
Effect on exchange adjustments	5,583	1,975	235	88	–	7,881
Additions	–	3,459	348	–	–	3,807
Disposals	–	(15)	(70)	(229)	–	(314)
Disposal of subsidiaries	(19,680)	(90)	(141)	–	–	(19,911)
Decrease in revaluation	(3,413)	–	–	–	–	(3,413)
At 31 December 2008	73,550	61,272	15,334	4,187	–	154,343
Comprising:						
At cost	–	61,272	15,334	4,187	–	80,793
At valuation 2008	73,550	–	–	–	–	73,550
	73,550	61,272	15,334	4,187	–	154,343
ACCUMULATED DEPRECIATION						
At 1 January 2007	–	21,433	10,565	3,592	1,317	36,907
Effect on exchange adjustments	–	564	122	44	–	730
Provided for the year	2,218	4,866	577	149	–	7,810
Eliminated on disposals	–	(284)	–	(437)	(1,317)	(2,038)
Eliminated on disposal of a subsidiary	–	–	(3)	–	–	(3)
Eliminated on revaluation	(2,218)	–	–	–	–	(2,218)
At 31 December 2007	–	26,579	11,261	3,348	–	41,188
Effect on exchange adjustments	–	1,122	215	72	–	1,409
Provided for the year	2,256	5,071	904	250	–	8,481
Eliminated on disposals	–	(1)	(17)	(229)	–	(247)
Eliminated on disposal of subsidiaries	(229)	(90)	(141)	–	–	(460)
Eliminated on revaluation	(2,027)	–	–	–	–	(2,027)
At 31 December 2008	–	32,681	12,222	3,441	–	48,344
CARRYING VALUES						
At 31 December 2008	73,550	28,591	3,112	746	–	105,999
At 31 December 2007	91,060	29,364	3,701	980	–	125,105

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

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

The carrying value of properties shown above comprises:

	2008	**2007**
	HK$'000	*HK$'000*
Leasehold properties in Hong Kong under medium-term lease	–	19,680
Leasehold property outside Hong Kong under medium-term lease	73,550	71,380
	73,550	91,060

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31 December 2008 by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The revaluation gave rise to a net revaluation deficit of approximately HK$1,386,000 (2007: surplus of HK$3,426,000) which has been charged (2007: credited) to the property revaluation reserve.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	2008	**2007**
	HK$'000	*HK$'000*
Cost	90,062	103,672
Accumulated depreciation	(18,403)	(20,172)
Carrying values	71,659	83,500

Motor vehicles include an amount of approximately HK$251,000 (2007: HK$321,000) in respect of assets held under a finance lease.

At 31 December 2008, buildings with an aggregate carrying value of HK$73,550,000 (2007: HK$71,380,000) was pledged to banks to secure banking facilities granted to the Group.

18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
Addition *(Note)*	3,894
Decrease in fair value recognised in the consolidated income statement	(694)
At 31 December 2008	3,200

The investment property of the Group was revaluated by Jointgoal Surveyors Limited, an independent firm of registered professional surveyors, at 31 December 2008 by reference to comparable transactions as available on the market.

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

Note: Included in addition for the year are transfer from deposits paid for acquisition of an investment property acquired from the acquisition of a subsidiary during the year (Note 39).

19. PREPAID LEASE PAYMENTS

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

	2008	**2007**
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	11,020	10,450
Current asset	290	268
	11,310	10,718

At 31 December 2008 and 2007, the leasehold land was pledged to a bank to secure a banking facility granted to the Group.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2008	**2007**
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value based on quoted market bid price		
Carrying amount at 1 January	285,471	285,471
Impairment losses recognised during the year *(Note)*	(200,905)	–
Reclassified to interest in an associate	(84,500)	–
Carrying amount at 31 December	66	285,471

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

For the year ended 31 December 2007, the investment represented mainly of the 14.51% holding of the ordinary shares of China Railway and is more than 10% of the assets in the Group's balance sheet.

As set out in Note 23, following the appointment of director of the Company as director of China Railway during the year ended 31 December 2008, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway. Accordingly, China Railway is classified as an associate.

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

21. DEPOSITS PLACED WITH AN INSURER

Deposits are attached to the life insurance policy. Upon initial recognition, the premium relating to the insurance policies are recognised separately. The deposits are carried at amortised cost at the effective interest rate of 5%. The initial premium for the insurance policies are included in debtors, deposits and prepayments and amortised over the insurance period.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

As at 31 December 2007, the deposits were pledged to a bank to secure a banking facility granted to the Group. The deposits had been surrendered during the year ended 31 December 2008.

22. GOODWILL

	2008	2007
	HK$'000	*HK$'000*
Goodwill arising from acquisition of subsidiaries during the year *(Note 39)*	161,008	–
Less: impairment loss recognised	(161,008)	–
	–	–

During the year ended 31 December 2008, the Group acquired several subsidiaries and goodwill of approximately HK$161,008,000 in aggregate arising therefrom was recognised upon acquisition of which details are set out in Note 39.

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

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

23. INTERESTS IN ASSOCIATES

	2008	2007
	HK$'000	*HK$'000*
Cost of investment in associates listed in Hong Kong	192,219	–
Share of post-acquisition results and reserves	33,191	–
	225,410	–
Fair value of listed investments	193,944	–

As disclosed in Note 20, 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. Accordingly, the investment in China Railway is classified as an associate. As at 31 December 2008, the Group held approximately 14.93% equity interests in China Railway. The fair value of the shares of China Railway held by the Group at 31 December 2008 was approximately HK$55,376,000.

During the year ended 31 December 2008, the Group acquired ZZNode Technologies Company Limited ("ZZNode"), a company listed on the Main Board of the Stock Exchange, through the acquisition of a subsidiary, Betterment Enterprises Limited ("Betterment"), in which the Company holds 99.49% equity interests. Details are disclosed in Note 39. As at year end, the Group held an effective interest of approximately 29.29% equity interests in ZZNode. The fair value of the shares of ZZNode held by the Group at 31 December 2008 was approximately HK$66,442,000.

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

During the year ended 31 December 2008, the Group had disposed of 750 shares in Express Advantage Limited ("Express Advantage"), a wholly-owned subsidiary of the Company, representing 75% of the equity interests in Express Advantage, upon which Express Advantage became an associate of the Group. The Group had subsequently repurchased the 75% equity interests in Express Advantage and Express Advantage became a wholly-owned subsidiary of the Group again. Details of which are set out in Notes 39 and 40 respectively.

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

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of Shares held	Proposition of nominal value of issued capital/ registered capital held by the Group 2008	2007	Principal activities
China Railway	Incorporated	Bermuda	Hong Kong	Ordinary shares	14.93% *(note a)*	14.51% *(note b)*	Provision of telecommunication and computer technology solutions
ZZNode	Incorporated	Cayman Islands	Hong Kong	Ordinary shares	29.29%	–	Provision of telecommunications and OSS products and solutions and investment property holding
China Bio-Med	Incorporated	Cayman Islands	Hong Kong	Ordinary shares	22.59%	–	Business, accounting and corporate development advisory services

Note a: As at 31 December 2008, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway. Accordingly, China Railway is classified as an associate.

Note b: The interest in China Railway held by the Group as at 31 December 2007 was classified as available-for-sale investments.

The financial year end date for China Bio-Med is 30 April. For the purpose of applying the equity method of accounting, a separate set of consolidated financial statements of China Bio-Med had been prepared.

During the year, a discount on acquisition of approximately HK$72,695,000 arising on the acquisition of China Railway has been included as income in the determination of the Group's share of loss of associates as presented in the consolidated income statement.

Included in cost of investment in associates is goodwill of approximately HK$57,493,000 arising on acquisitions of associates in current year. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2008	–
Arising on acquisitions of associates	57,493
Impairment recognised in respect of goodwill on acquisition of associates	(43,674)
At 31 December 2008	13,819

Note:

The above goodwill arose in respect of the acquisition of interest in China Bio-Med. As at the year end date, the directors of the Company conducted a review on the impairment of such goodwill in respect of its interest in China Bio-Med. As set out in Note 45, the Group has entered into an agreement with an independent third party subsequent to the balance sheet date to dispose of its holding of 500,000,000 shares in China Bio-Med out of its total holding of 515,200,000 shares. In conducting their assessment on the recoverable amount of the Group's investment in the shares of China Bio-Med, the directors have taken into account the impact of such agreement and accordingly, an impairment of HK$43,674,000 in the goodwill was recognised and charged to the consolidated income statement for the year ended 31 December 2008.

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

	2008	**2007**
	HK$'000	*HK$'000*
Total assets	1,426,776	–
Total liabilities	(201,658)	–
Minority interests	(10,240)	–
Net assets	1,214,878	–
Group's share of net assets of associates	211,591	–
Turnover	37,502	–
Loss for the year	(274,308)	–
Group's share of loss of associates for the year	(42,752)	–

24. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

Name of entity	Nominal value of registered capital	Country of registration and operation	Class of share held	Proportion of nominal value of registered capital held by the Group 2008	2007	Group's percentage of voting power and profit sharing 2008	2007	Principal activity
Shanghai PME-XINHUA	RMB10,000,000	PRC	Registered capital	60%	60%	60%	60%	Manufacturing and trading of polishing materials

	2008 HK$'000	2007 HK$'000
Cost of unlisted investment in a jointly controlled entity	5,983	5,983
Share of post-acquisition profit (loss)	18	(154)
	6,001	5,829

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

	2008 HK$'000	2007 HK$'000
Total assets	13,695	14,454
Total liabilities	(2,318)	(4,029)
Net assets	11,377	10,425
Turnover	20,208	13,781
Profit (loss) for the year	286	(257)
Group's share of result of a jointly controlled entity for the year	172	(154)

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

25. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	5,414	7,617
Work in progress	87	61
Finished goods	21,516	23,892
	27,017	31,570

26. DEBTORS, DEPOSITS AND PREPAYMENTS

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

The aged analysis of the trade debtors of approximately HK$62,997,000 (2007: HK$67,810,000) net of impairment loss, which are included in the debtors, deposits and prepayments in the consolidated balance sheet is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	15,118	20,948
31 to 60 days	13,778	24,958
61 to 90 days	6,489	15,259
Over 90 days	27,612	6,645
	62,997	67,810
Other debtors, deposits and prepayments *(Note)*	95,021	15,809
	158,018	83,619

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

Included in the Group's receivable balance are debtors of approximately HK$22,118,000 (2007: HK$16,538,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these balances. The average age of these receivable is 95 days (2007: 100 days).

Aging of trade debtors which are past due but not impaired

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	747	6,440
31 to 60 days	2,359	5,897
61 to 90 days	1,641	3,119
Over 90 days	17,371	1,082
	22,118	16,538

Movements in the accumulated impairment losses

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	6,488	1,870
Impairment loss recognised in consolidated income statement	8,457	4,618
Balance at end of the year	14,945	6,488

The above impairment losses are individually impaired receivables due from certain trade debtors which have either been in disputes with the Group or are in financial difficulties. The Group does not hold any collateral over these receivables.

Note:

Included in other debtors, deposits and prepayments as at 31 December 2008 are deposits paid for acquisition of investment of HK$80,000,000. On 15 January 2008, Smart Genius Limited ("Smart Genius"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Crown Sunny Limited (the "Proposed Vendor"), in relation to the intention of the proposed acquisition of 51% equity interests in Giant Billion Limited ("Giant Billion"), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Proposed Vendor.

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

The exclusive period has subsequently been extended to 30 April 2009. Details have been set out in the Company's announcements dated 29 April 2008, 30 September 2008 and 5 January 2009 respectively. Up to the date of approval of this consolidated financial statements, the due diligence review and negotiation with the Proposed Vendor are still in progress.

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

	2008	2007
	HK$'000	*HK$'000*
Convertible bond designated as financial assets at fair value through profit or loss		
CSCP Bond *(Note (a))*	7,047	–
Betterment Bond *(Note (b))*	–	–
	7,047	–

Notes:

(a) During the year ended 31 December 2008, the Group acquired a two-year 2% coupon rate convertible bond with a principal amount of HK$5,000,000 issued by China Sciences Conservational Power Limited ("CSCP") from a subsidiary of Heng Xin China Holdings Limited ("Heng Xin"), of which Ms. Yeung Sau Han Agnes, a director of the Company, is also one of the directors, at a consideration of approximately HK$6,332,000. The Group has classified the convertible bond as held-for-trading purpose.

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

A fair value gain of approximately HK$715,000 was recognised for the year ended 31 December 2008 (2007: Nil).

(b) During the year ended 31 December 2008, the Group subscribed from Betterment a convertible bond (the "Betterment Bond") with a principal amount of HK$64,000,000. The Group has designated the Betterment Bond as financial assets at fair value through profit or loss. The Group subsequently exercised the conversion right under the Betterment Bond and converted the whole of the Betterment Bond into equity shares in Betterment. Betterment has since then become a subsidiary of the Group. More details are set out in Note 39.

At the time immediately before the conversion, the Betterment Bond has been restated to its fair value of HK$217,795,000, determined in accordance with a valuation report issued by Grant Shermen Appraisal Limited, an independent valuer, using the Binomial Option Pricing Model. A fair value gain of approximately HK$153,750,000 was recognised and credited to the consolidated income statement for the year ended 31 December 2008.

28. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The balance is unsecured, interest-free, aged within 30 to 60 days and are not past due as at 31 December 2008 and 2007.

29. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at 7.5% to 12% or prime rate plus 3 or 5% (2007: prime rate plus 3%) on the outstanding balances of the loans.

At 31 December 2008, loan receivables with an aggregate carrying amount of HK$45,070,000 (2007: HK$4,730,000) were secured by personal guarantees.

30. HELD-FOR-TRADING INVESTMENTS

	2008	**2007**
	HK$'000	*HK$'000*
Listed securities:		
Equity securities listed in Hong Kong, at fair value	80,112	–

31. DEPOSITS PLACED WITH A FINANCIAL INSTITUTION

The deposits are placed with a financial institution are for trading in securities. The deposits carry interest at market rates which range from 0.01% to 0.75% (2007: 2.2%) per annum.

32. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.05% to 4.8% (2007: 2.2% to 5.9%) per annum.

33. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of approximately HK$7,260,000 (2007: HK$6,535,000) which are included in the creditors and accruals in the consolidated balance sheet is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Within 30 days	1,271	3,685
31 to 60 days	972	907
61 to 90 days	1,483	1,893
Over 90 days	3,534	50
	7,260	6,535
Other creditors and accruals	65,501	8,988
	72,761	15,523

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

As at 31 December 2008, included in other creditors and accruals are approximately HK$34,000,000 consideration payable in relation to acquisition of China Bio-Med during the year (Note 23).

34. OBLIGATIONS UNDER A FINANCE LEASE

The lease term of the finance lease was three (2007: four) years. Interest rate is fixed at 9.24% (2007: 9.24%) at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under a finance lease:				
Within one year	90	90	74	67
In more than one year, but not more than two years	90	90	81	74
In more than two years, but not more than five years	53	142	51	132
	233	322	206	273
Less: future finance charges	(27)	(49)	N/A	N/A
Present value of lease obligations	206	273		
Less: Amount due for settlement within twelve months (shown under current liabilities)			(74)	(67)
Amount due for settlements after twelve months			132	206

35. BANK LOANS

	2008	2007
	HK$'000	*HK$'000*
Bank loans comprise:		
Bank overdraft	4	–
Trust receipt loans	2,378	6,869
Other bank loans	11,829	14,015
	14,211	20,884
Analysed as:		
Secured	5,454	8,250
Unsecured	8,757	12,634
	14,211	20,884

The exposure of the Group's borrowings are as follows:

	2008	2007
	HK$'000	*HK$'000*
Fixed-rate borrowings	5,454	5,040
Variable rate borrowings	8,757	15,844
	14,211	20,884

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

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

	2008	2007
Effective interest rate		
Fixed-rate borrowings	6.57% to 8.22%	6.57%
Variable-rate borrowings	2.08% to 7.34%	6.04% to 7.13%

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

For the year ended 31 December 2007, the secured bank loans are also secured by deposits placed with an insurer (Note 21).

36. DEFERRED TAXATION

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

	Accelerated tax depreciation	Revaluation of properties	Tax losses recognised	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	2,944	1,455	(585)	(210)	3,604
(Credit) charge to consolidated income statement for the year	(342)	–	(919)	137	(1,124)
Credit to equity for the year	–	723	–	–	723
At 31 December 2007	2,602	2,178	(1,504)	(73)	3,203
Change in tax rate	(149)	(124)	86	4	(183)
Attributable to disposal of subsidiaries	–	(375)	–	–	(375)
(Credit) charge to consolidated income statement for the year	(223)	–	394	10	181
Charge to equity for the year	–	(374)	–	–	(374)
At 31 December 2008	2,230	1,305	(1,024)	(59)	2,452

At the balance sheet date, the Group had unused tax losses of HK$25,272,000 (2007: HK$10,168,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$6,206,000 (2007: HK$8,586,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$19,066,000 (2007: HK$1,582,000) due to the unpredictability of future profit streams.

37. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2008	2007	2008	2007
	'000	*'000*	*HK$'000*	*HK$'000*
Authorised:				
At end of year	10,000,000	10,000,000	100,000	100,000
Issued and fully paid:				
At beginning of year	1,598,600	958,000	15,986	9,580
Issue of shares from placements	160,000	420,600	1,600	4,206
Exercise of warrants	–	220,000	–	2,200
At end of year	1,758,600	1,598,600	17,586	15,986

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

On 2 April 2007, the Company entered into a placing agreement with a financial institution to place 191,600,000 news shares of the Company at HK$0.172 per share. The placing was completed on 16 April 2007. The new shares rank pari passu with the existing shares in all respects.

On 5 July 2007, the Company entered into a placing agreement with financial institution to place 229,000,000 new shares of the Company at HK$2.49 per share. The placing was completed on 23 July 2007. The new shares rank pari passu with the existing shares in all respects.

On 12 April 2007, the Company entered into a placing agreement with a financial institution to place 220,000,000 unlisted warrants of the Company at an issue price of HK$0.046 per warrant. The warrants entitled the placees to subscribe for the new shares of the Company at a subscription price of HK$0.25 per share (subject to anti-dilutive adjustments) for a period of 12 months commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one subscription share. Upon the issuance of warrants, HK$10,120,000 was credited to other reserve. All warrants were exercised to subscribe for 220,000,000 ordinary shares during the year ended 31 December 2007.

38. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

On 22 October 2007, the Company granted 30,000,000 shares options to the directors of the Company. The share options were granted at an exercise price of HK$1.198 with exercise period of 3 years immediately starting from the date of grant.

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

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

The following table discloses movements of the Company's share options granted during the year ended 31 December 2007:

Name of participant	Date of grant	Exercisable period	Exercisable price *HK$*	Number of share options: Outstanding at 1/1/2007	Granted during the year	Cancelled during the year	Outstanding at 31/12/2007
Directors							
Chan Shui Sheung Ivy	22.10.2007	22.10.2007 to 22.10.2010	1.198	–	15,000,000	–	15,000,000
Yeung Sau Han Agnes	22.10.2007	22.10.2007 to 22.10.2010	1.198	–	15,000,000	–	15,000,000
				–	30,000,000	–	30,000,000

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

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

The fair value of the options granted on 22 October 2007 determined at the date of grant using the Black-Scholes-Merton option pricing model was HK$0.2337. The total fair value of the grant was approximately HK$7,010,000 and was recognised during the year ended 31 December 2007.

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

	31 October 2008	**8 May 2008**	**22 October 2007**
Closing price at the date of grant	HK$0.075	HK$0.58	HK$1.13
Exercise price	HK$0.075	HK$0.6	HK$1.198
Expected volatility	64.56%	43.40%	42.84%
Expected life	1.50 years	1.50years	1.54 years
Risk-free rate	0.747%	1.465%	3.28%
Expected dividend yield	–	–	–

In 2008, expected volatility was determined based on 1.5 year annualised daily historical price volatilities of comparable companies sourced from the Bloomberg.

In 2007, expected volatility was determined by using the historical volatilities of comparable companies' share price over the previous 2 to 3 years.

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

39. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2008

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

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

On 31 December 2008, the Group acquired 750 shares in Express Advantage, and then associate of the Group in which the Group held a 25% equity interest. Express Advantage used to be a wholly-owned subsidiary of the Group but on 31 May 2008, the Group disposed of 75% equity interests in Express Advantage to an independent third party (Note 40). On 31 December 2008, the Group repurchased the 75% equity interests in Express Advantage for a consideration of USD750 (equivalent to approximately HK$6,000), upon which Express Advantage became a wholly-owned subsidiary of the Group again. The acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$12,804,000.

The fair values of the identifiable assets and liabilities of the respective subsidiaries acquired during the year ended 2008 and 2007 have no significant differences from their respective carrying amounts.

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

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

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

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

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

For the year ended 31 December 2007

On 5 July 2007, the Group acquired the loan receivables and its related assets and liabilities, at a consideration of HK$1,000 from a third party. The purchase was by way of acquisition of the entire issued share capital of Best Time Far East Limited ("Best Time"). This transaction has been deemed as a purchase of assets and related liabilities.

The net assets acquired in the transactions are as follows:

	HK$'000
Net assets acquired:	
Loan receivables	25,000
Deposits and prepayments	93
Bank balances and cash	1
Creditor and accruals	(93)
Other loan	(25,000)
	1
Consideration satisfied by:	
Cash	1
Net cash flow arising on acquisition:	
Cash consideration paid	1
Cash and cash equivalents acquired	(1)
	–

On 31 December 2007, the above loan receivables acquired of HK$25,000,000 and the corresponding accrued interest receivable of HK$1,519,000 was assigned to the lender of the above other loan acquired of HK$25,000,000 to settle the other loan of HK$25,000,000 and accrued interest payable of HK$988,000. On the same day, Best time was disposed of to a third party (Note 40).

The subsidiary acquired during the year had no significant impact to the Group's cash flows.

40. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2008

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

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

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

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

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

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

For the year ended 31 December 2007

On 31 December 2007, the Group disposed of a subsidiary, Peaknice Investment Limited ("Peaknice") in which it holds 100% equity interests in Best Time and 61% equity interests in Railway Media (China) Company Limited to a third party. The principal activity of Peaknice and its subsidiaries is investment holding. The consolidated net assets of this subsidiary at the date of disposal were as follows:

	HK$'000
Net assets disposed:	
Debtors, deposits and prepayments	87
Deposits and prepayments	132
Cash and bank balances	17
Creditors and accruals	(42)
	194
Loss on disposal	(186)
Total consideration	8
Satisfied by:	
Other receivable	8
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(17)

The subsidiaries disposed of during the year paid approximately HK$439,000 to the Group's net operating cash flows, paid approximately HK$90,000 in respect of investing activities and contributed approximately HK$546,000 in respect of financing activities.

41. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was HK$527,000 (2007: HK$575,000). The property has committed tenants for the next 2 years.

At the balance sheet date, the rental yield for the year ended 31 December 2008 is 16% (2007: 20%) The Group had contracted with tenants for the following future minimum lease payments:

	2008	**2007**
	HK$'000	*HK$'000*
Within one year	–	412
In the second to fifth year inclusive	–	103
	–	515

The Group as lessee

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

	2008	2007
	HK$'000	*HK$'000*
Within one year	4,140	2,681
In the second to fifth year inclusive	2,099	2,967
	6,239	5,648

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

42. EMPLOYEE RETIREMENT BENEFITS

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

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

During the year, the Group made retirement benefits scheme contributions of approximately HK$703,000 (2007: HK$568,000).

43. RELATED PARTY TRANSACTIONS

During the year, the Group sold polishing materials to Shanghai PME-XINHUA, a jointly controlled entity of the Group, amounting to HK$2,529,000 (2007: HK$326,000).

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

Compensation of key management personnel (being the directors' emoluments) of the Group are set out in Note 11.

44. MAJOR NON-CASH TRANSACTIONS

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

During the year ended 31 December 2007, the Group entered into a finance lease arrangement in respect of a motor vehicle with a capital value at the inception of the lease of HK$300,000.

During the year ended 31 December 2007, the Group assigned the loan receivable and the corresponding accrued interest receivable totaling HK$26,519,000 to an outsider ("Lender") in order to settle a loan and accrued interest payable to the Lender of HK$25,988,000. The Group has transferred substantially all risks and rewards of receivable and discharged the obligation to the liabilities without recourse. The financial assets and liabilities are therefore derecognised and loss on assignment of approximately HK$531,000 has been recorded in the consolidated income statements of the Group.

45. POST BALANCE SHEET EVENTS

On 18 February 2009, Top Good Holdings Limited ("Top Good"), a wholly-owned subsidiary of the Company, entered into the placement agreement with a placing agent to subscribe the convertible bonds of China Fortune Group Limited ("China Fortune"), a listed company in the Main Board of the Stock Exchange, at a principal amount of HK$11,500,000 and with an initial conversion price of HK$0.10 per share of China Fortune Group Limited. Details of which are set out in the Company's announcement dated 24 February 2009.

After the balance sheet date and up to the date of this report, Top Good acquired 53,738,000 China Fortune's shares through the open market at a total consideration of approximately HK$12,652,000. The acquisition represents approximately 7.10% of the entire issued share capital of China Fortune.

On 12 March 2009, the Group and Vital-Gain Global Limited, an independent third party, entered into an agreement for the disposal of the Group's holding of 500,000,000 shares in China Bio-Med, representing approximately 21.92% of the entire issued share capital of China Bio-Med as at 12 March 2009, for a consideration of HK$60,000,000. The remaining shares held will be accounted for as available-for-sale investments. Details of which are set out in the Company's announcement dated 18 March 2009.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(note a)*	Proportion of nominal value of issued capital/registered capital held by the Company 2008	2007	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 (BVI) Company Limited	British Virgin Islands ("BVI")	Ordinary shares US$30,000	–	100%	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note d)* Ordinary shares HK$100,000	100%	100%	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	100%	100%	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd. *(note c)*	PRC	Registered capital HK$40,000,000	100%	100%	Manufacturing and trading of polishing materials
Wels International Company Limited	Japan	Registered capital JPY10,000,000	–	71%	Trading of polishing materials

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 2008	2007	Principal activities
Sunbright Asia Limited	BVI	Ordinary shares US$1,000	100%	100%	Investment holding
One Express Group Limited	BVI	Ordinary shares US$1,000	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%	–	Investment holding

Notes:

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

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

(c) Established as a wholly foreign owned enterprises.

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

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

None of the subsidiaries had any debt securities subsisting at 31 December 2008 or at any time during the year.

3. INDEBTEDNESS STATEMENT

As at 31 July 2009, the Group had secured bank borrowings of approximately HK$10,654,000, secured other borrowings of approximately HK$673,000.

As at 31 July 2009, the Group had pledged its leasehold land and buildings, interest in an associate and held-for-trading investments with carrying values of approximately HK$72,692,000, HK$15,575,000 and HK$102,425,000 respectively to secure the general credit facilities granted to the Group.

As at 31 July 2009, the Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, as at 31 July 2009, the Group had no other outstanding mortgages, charges, debentures, loan capital or bank overdrafts, borrowings or other similar indebtedness, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or any material contingent liabilities.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that upon completion of the Acquisition and after taking into account the internal resources and present banking facilities available to the Group, the Group has sufficient working capital for its requirements for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed herein, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the Group's latest published audited accounts were made up.

信永中和
ShineWing

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

7 September 2009

The Directors
PME Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Giant Billion Limited ("Giant Billion") for the three years ended 31 March 2009 (the "Relevant Periods") for inclusion in the circular of PME Group Limited (the "Company") dated 7 September 2009 (the "Circular") in connection with the acquisition of 49% of the issued share capital of Giant Billion (the "Acquisition").

Giant Billion was incorporated in Hong Kong on 3 August 2001 with limited liability with authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1 each. The registered office and the principal place of business is situated at 45th Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

Giant Billion has not carried on any business since the date of incorporation. Giant Billion has adopted 31 March as its financial year end date. The statutory financial statements of Giant Billion have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and we have audited the financial statements of Giant Billion for the three years ended 31 March 2009.

For the purpose of this report, we have examined the audited financial statements of Giant Billion for the Relevant Periods (the "Underlying Financial Statements"). Our examination was made in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information of Giant Billion for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements without adjustments.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The director of Giant Billion is responsible for preparing the Underlying Financial Statements and Financial Information of Giant Billion which give a true and fair view. It is the responsibility of the directors of the Company for the contents of the Circular in which this report is included. In preparing the Underlying Financial Statements and the Financial Information which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. We have examined the Financial Information for the Relevant Periods, and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, for the purposes of this report, the Financial Information gives a true and fair view of the state of affairs of Giant Billion as at 31 March 2007, 2008 and 2009 and of its results for the Relevant Periods.

EMPHASIS OF MATTER – MATERIAL UNCERTAINTY REGARDING THE GOING CONCERN ASSUMPTION

Without qualifying our opinion, we draw attention to note 2 to the Financial Information which discloses that as at 31 March 2009, Giant Billion had net liabilities of HK$102,255. This condition as disclosed in note 2 to the Financial Information, indicates the existence of a material uncertainty which may cast significant doubt about Giant Billion's ability to continue as a going concern.

I. FINANCIAL INFORMATION

INCOME STATEMENT

		Year ended 31 March		
		2007	**2008**	**2009**
	Notes	*HK$*	*HK$*	*HK$*
Turnover	*7*	–	–	–
General and administrative expenses		(5,800)	(8,400)	(4,800)
Finance cost		–	–	(56,055)
Loss before taxation		(5,800)	(8,400)	(60,855)
Taxation	*8*	–	–	–
Loss for the year	*9*	(5,800)	(8,400)	(60,855)

BALANCE SHEET

		As at 31 March		
		2007	**2008**	**2009**
	Notes	*HK$*	*HK$*	*HK$*
Current asset				
Amount due from ultimate holding company	*10*	–	–	453,800
Current liabilities				
Accrued expenses		–	–	56,055
Other loan	*11*	–	–	500,000
Amount due to ultimate holding company	*10*	–	41,400	–
Amount due to a former shareholder	*10*	33,000	–	–
		33,000	41,400	556,055
		(33,000)	(41,400)	(102,255)
Capital and reserves				
Share capital	*12*	3,000	3,000	3,000
Accumulated losses		(36,000)	(44,400)	(105,255)
		(33,000)	(41,400)	(102,255)

STATEMENT OF CHANGES IN EQUITY

	Share Capital *HK$*	Accumulated losses *HK$*	Total *HK$*
At 31 March 2006	3,000	(30,200)	(27,200)
Loss for the year and total recognised income and expense for the year	–	(5,800)	(5,800)
At 31 March 2007 and 1 April 2007	3,000	(36,000)	(33,000)
Loss for the year and total recognised income and expense for the year	–	(8,400)	(8,400)
At 31 March 2008 and 1 April 2008	3,000	(44,400)	(41,400)
Loss for the year and total recognised income and expense for the year	–	(60,855)	(60,855)
At 31 March 2009	3,000	(105,255)	(102,255)

NOTES TO THE FINANCIAL INFORMATION

1. GENENRAL INFORMATION

Giant Billion was incorporated in the Hong Kong on 3 August 2001 with limited liability with authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1 each. The registered office and the principal place business is situated at 45th Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The director considers Crown Sunny Limited, a company incorporated in the British Virgin Islands to be the immediate parent and ultimate holding company of Giant Billion.

Giant Billion has not carried on any business since the date of incorporation.

The Financial Information are presented in Hong Kong Dollar ("HK$"), which is the same as the functional currency of Giant Billion.

Giant Billion has no cash transaction during the Relevant Periods. Accordingly, no cash flow statements has been prepared.

2. BASIS OF PREPARATION OF THE FINANICAL INFORMATION

The Financial Information have been prepared on a going concern basis notwithstanding that Giant Billion had net current liabilities and deficiency in assets at 31 March 2009 as Giant Billion had obtained the letter of support from the existing ultimate holding company, Crown Sunny Limited and in the opinion of the directors of PME Group Limited, Crown Sunny Limited has sufficient funding to repay in full its financial obligations of Giant Billion as they fall due in the foreseeable future.

In addition, PME Group Limited will ensure Crown Sunny Limited to have sufficient funding to repay in full its financial obligations as they fall due for the foreseeable future upon the completion of the acquisition of 49% of the issued share capital of Giant Billion.

Should Giant Billion be unable to continue in business as a going concern, adjustments might have to be made to provide for any further liabilities which might arise. These adjustments have not yet been reflected in the Financial Information.

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

At the date of this report, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued the following new and revised HKFRSs, Hong Kong Accounting Standards ("HKAS") and interpretations (hereinafter collectively referred to as "new HKFRSs") that have not been effective. However, Giant Billion has not early applied these new and revised standards or interpretations ("HK(IFRIC)-INTs") that have been issued but are not yet effective as at the date of this report. The director of Giant Billion anticipates that the application of these new HKFRSs will have no material impact on the results and the financial position of Giant Billion.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible hedged items[4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC)-INT 9 and HKAS 39 (Amendments)	Embedded Derivatives[5]

HK(IFRIC)-INT 13	Customer Loyalty Programmes[6]
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation[7]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[8]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2009.

4 Effective for annual periods beginning on or after 1 July 2009.

5 Effective for annual periods ending on or after 30 June 2009.

6 Effective for annual periods beginning on or after 1 July 2008.

7 Effective for annual periods beginning on or after 1 October 2008.

8 Effective for transfers of assets from customers received on or after 1 July 2009.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information have been prepared in accordance with HKFRSs issued by the HKICPA and include applicable disclosures required by the Hong Kong Companies Ordinance. These policies have been consistently applied to the Relevant Periods and are materially consistent with accounting policies adopted by the Company.

The Financial Information have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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 Relevant Periods. Taxable profit differs from profit as reported in the 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. Giant Billion's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Giant Billion 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 or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities 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

Giant Billion's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from ultimate holding company) 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).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

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

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

For financial assets measured at amortised cost, if, in a subsequent year, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of Giant Billion after deducting all of its liabilities. Giant Billion's financial liabilities are generally classified into other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including accrued expenses, amounts due to ultimate holding company and a former shareholder and other loan are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

5. CAPITAL RISK MANAGEMENT

Giant Billion manages its capital to ensure that Giant Billion will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Giant Billion's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Giant Billion consists of equity attributable to equity holders of Giant Billion, comprising issued share capital, accumulated losses and other loan.

The director of Giant Billion reviews the capital structure on a regular basis. As part of this review, the director considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the director, Giant Billion will balance its overall capital structure through new share issues, raise of new loans or repayment of existing loans.

6. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Giant Billion's major financial instruments include accrued expenses, amounts due from (to) ultimate holding company and a former shareholder and other loan. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate 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.

Market risk

Interest rate risk

The interest rate risk arises from other loan is fixed as disclosed in Note 11 and is repayable within one year. The change in the interest rate in the market would have no material effect on Giant Billion's result for the year ended 31 March 2009.

Giant Billion's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Liquidity risk

Giant Billion had net current liabilities of approximately HK$102,255 as at 31 March 2009. The liquidity of Giant Billion is primarily dependent on the continuing financial supports from its beneficial shareholders as the significant sources of liquidity.

For the year ended 31 March 2007 and 2008, all financial liabilities are non-interest bearing and their maturity date are within one year.

For the year ended 31 March 2009, the following table details Giant Billion's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Giant Billion can be required to pay. The table includes both interest and principal cash flows.

	Within 1 year or on demand	**Total undiscounted cash flows**	**Carrying amount at year ended date**
	HK$	*HK$*	*HK$*
As at 31 March 2009			
Non-derivative financial liabilities			
Accrued expenses	56,055	56,055	56,055
Other loan	560,000	560,000	500,000
	616,055	616,055	556,055

(b) Fair value

The director of Giant Billion considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values due to their short-term maturities.

7. TURNOVER AND SEGMENT INFORMATION

Giant Billion did not generate any turnover during the Relevant Periods.

According to HKAS 14 "Segment Reporting", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as Giant Billion has not carried on any business since the date of incorporation. It is therefore not considered appropriate to disclose segment information.

8. TAXATION

No provision for Hong Kong Profit Tax has been made as Giant Billion did not generate any assessable profits in Hong Kong in the Relevant Periods.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 17.5% for the two years ended 31 March 2007 and 2008 and at 16.5% for the year ended 31 March 2009 of the estimated assessable profits.

The taxation for the Relevant Periods can be reconciled to the loss for the year as per the income statements as follows:

	Year ended 31 March		
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Loss for the year	(5,800)	(8,400)	(60,855)
Tax at the domestic income tax rate of 16.5% (2007 and 2008: 17.5%)	(1,015)	(1,470)	(10,041)
Tax effect of expenses not deductible for tax purpose	1,015	1,470	10,041
Taxation charge for the year	–	–	–

There were no significant unprovided deferred tax at the balance sheet date.

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	Year ended 31 March		
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Directors' remuneration	–	–	–
Staff cost	–	–	–
Auditor's remuneration	–	–	–

During the Relevant Periods, no directors waived any emoluments and no emoluments were paid to directors as an inducement to join or upon joining Giant Billion or as compensation for loss of office.

Auditor's remuneration for the Relevant Periods was borne by its ultimate holding company.

10. AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY/A FORMER SHAREHOLDER

The amount due from (to) ultimate holding company/a former shareholder is unsecured, non-interest bearing and repayable on demand.

11. OTHER LOAN

At 31 March 2009, other loan represented advances from Smart Genius Limited. The amount is unsecured, carries fixed-rate interest at 12% per annum (2008 and 2007: nil) and repayable within one year.

12. SHARE CAPITAL

	Number of shares	Amount *HK$*
Authorised:		
Ordinary shares of HK$1.00 each at 1 April 2006, 31 March 2007, 2008 and 2009	10,000	10,000
Issued and fully paid:		
Ordinary shares of HK$1.00 each at 1 April 2006, 31 March 2007, 2008 and 2009	3,000	3,000

13. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the Financial Information, Giant Billion had not entered into any other related party transactions during the Relevant Period.

(b) Compensation to key management personnel

For the year ended 31 March 2007, Mr. Ho Wai Yip, Mr. Ho Wai Ho and Mr. Ho Wai Chi, the directors of Giant Billion, consider that they are the only key management personnel of Giant Billion.

For the year ended 31 March 2008 and 2009, Mr. Wu Jia Neng, the sole director of Giant Billion, considers that he is the only key management personnel of Giant Billion.

No emolument was paid or payable to the directors of Giant Billion during the Relevant Period.

II. EVENTS AFTER THE BALANCE SHEET DATE

On 19 May 2009 and 2 June 2009, Giant Billion entered into a formal agreement (the "Formal Agreement") and a supplemental agreement (the "Supplemental Agreement") respectively with its ultimate holding company as vendor (the "Vendor"), the Company and a guarantor, pursuant to which the Company will acquire from the Vendor 49% of the issued share capital of Giant Billion at a consideration of HK$200,000,000 (the "Acquisition"), subject to the satisfaction of certain conditions as set out in Formal Agreement. Upon completion of the Acquisition, Giant Billion will become an associate of the Company.

Under the Formal Agreement, Giant Billion is required to establish a wholly foreign owned enterprise (the "PRC Company") under the laws of the People's Republic of China and according to the conditions precedent of the Formal Agreement to carry out the principal business of marketing, promotion, business consulting, and technical services including, but not limited to, connecting the business relationship among sports player, sports association, coach, supplier, advertiser and related government departments, and enhancing the development of sports competition in the schools, provinces, and in the public, etc. The required registered capital is, however, not specified in the Formal Agreement. Therefore, no capital commitment of a confirmed amount has been created for Giant Billion.

Details about the Formal Agreement are set out in the Company's announcement dated 3 June 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Giant Billion in respect of any period subsequent to 31 March 2009 and up to the date of this report.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044
Hong Kong

信永中和 ShineWing

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

7 September 2009

The Board of Directors
PME Group Limited
5th Floor, Unison Industrial Centre
Nos.27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of PME Group Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out in Appendix III of the circular dated 7 September 2009 (the "Circular") in connection with the acquisition of 49% of the issued share capital of Giant Billion Limited by Smart Genius Limited (the "Acquisition"), a wholly-owned subsidiary of the Company, which has been prepared by the directors of the Company (the "Directors"), for illustrative purpose only, to provide information about how the Acquisition might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-6 and III-7 to the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or any future date.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma consolidated balance sheet of Giant Billion Limited ("Giant Billion") and the Group (the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of the acquisition of 49% equity interest in Giant Billion might have affected the financial information of the Group.

The unaudited pro forma consolidated balance sheet of the Group after the Acquisition has been prepared based on (1) the audited consolidated balance sheet of the Group as at 31 December 2008, which has been extracted from the published annual report of the Company for the year ended 31 December 2008 as set out in Appendix I to the Circular and (2) the audited balance sheet of Giant Billion as at 31 March 2009 as set out in Appendix II to the Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Acquisition had been taken place at 31 December 2008.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group after the Acquisition had the Acquisition been completed as at 31 December 2008 or at any future dates.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP AFTER THE ACQUISITION

	Audited consolidated balance sheet of the Group as at 31 December 2008	Pro forma adjustments	Notes	Unaudited pro forma consolidated balance sheet of the Group after the Acquisition as at 31 December 2008
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Non-current assets				
Property, plant and equipment	105,999			105,999
Investment property	3,200			3,200
Prepaid lease payments	11,020			11,020
Available-for-sale investments	66			66
Interest in associates	225,410	200,000	*(1) & (3)*	425,410
Interest in a jointly controlled entity	6,001			6,001
Club debentures	350			350
	352,046			552,046
Current assets				
Inventories	27,017			27,017
Debtors, deposits and prepayments	158,018	(80,000)	*(1) & (2)*	78,018
Convertible bond designated as financial assets at fair value through profit or loss	7,047			7,047
Amounts due from a jointly controlled entity	111			111
Loan receivable from an associate	–	500	*(4)*	500
Loan receivables	58,650	(500)	*(4)*	58,150
Prepaid lease payments	290			290
Taxation recoverable	643			643
Held-for-trading investments	80,112			80,112
Deposits placed with a financial institution	19,579			19,579
Bank balances and cash	18,150			18,150
	369,617			289,617

	Audited consolidated balance sheet of the Group as at 31 December 2008	Pro forma adjustments		Unaudited pro forma consolidated balance sheet of the Group after the Acquisition as at 31 December 2008
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Current liabilities				
Creditors and accruals	72,761			72,761
Taxation payable	802			802
Obligation under a finance lease	74			74
Bank loans	14,211			14,211
Convertible bonds	–	45,598	*(1) & (2)*	45,598
	87,848			133,446
Net current assets	281,769			156,171
Total assets less current liabilities	633,815			708,217
Non-current liabilities				
Promissory notes	–	52,941	*(1) & (2)*	52,941
Obligation under a finance lease	132			132
Deferred taxation	2,452			2,452
	2,584			55,525
	631,231			652,692
Capital and reserves				
Share capital	17,586			17,586
Reserves	613,369	21,461	*(2)*	634,830
Equity attributable to equity holder	630,955			652,416
Minority interests	276			276
	631,231			652,692

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AFTER THE ACQUISITION

Notes:

(1) On 19 May 2009, Smart Genius Limited entered into sales and purchase agreement (the "Sales and Purchase Agreement") with Crown Sunny Limited (the "Vendor") to acquire 1,470 shares of HK$1.00 each in the issued share capital of Giant Billion, representing 49% of the entire issued share capital of Giant Billion ("Acquisition").

(2) The total consideration for the acquisition is HK$200,000,000 which is to be satisfied by the deposit paid to the Vendor of HK$80,000,000, issuance of HK$60,000,000 convertible bonds by the Company ("Convertible Bonds") and issuance of HK$60,000,000 of promissory notes ("Promissory Notes") to the Vendor.

(a) As at 31 December 2008, the Company has paid approximately HK$80,000,000 as refundable deposit for the Acquisition, which had been included in debtors, deposits and prepayments in the consolidated balance sheet of the Group as at 31 December 2008 as set out in Appendix I to this Circular.

(b) Pursuant to the Acquisition Agreement, the Convertible Bonds of the principal amount of HK$60,000,000 will be issued. The Convertible Bonds carry interests at 3% per annum on the outstanding principal amount and payable annually and mature 3 years from the date of issue. The initial conversion price had been set at HK$0.20 and the Company shall repay the outstanding principal amount and interest on the maturity date of the Convertible Bonds. The holders of the Convertible Bonds has the right to convert on any business day from the date of issue to 5 business days prior to the maturity date, the whole or any part(s) of the principal amount of the Convertible Bonds. The value of the Convertible Bonds is split into a liability component of approximately HK$45,598,000, which is carried in the unaudited pro forma consolidated balance sheet as a current liability, and an equity component of approximately HK$14,402,000, which is recognised in equity. The fair value of the liability component of the Convertible Bonds is calculated by discounting the future cash flow stream from the Convertible Bonds using an estimated effective interest rate of 13.201% per annum as if the Acquisition had been completed on 31 December 2008.

(c) Pursuant to the Acquisition Agreement, the Promissory Notes of the principal amount of HK$60,000,000 will be issued. The Promissory Notes shall bear an interest of 5% per annum, mature 3 years after the date of issuance and may be redeemed during the period commencing from three months after the date of issue of the Promissory Notes and until the date prior to the maturity date of the Promissory Notes. The fair value of the liability component the Promissory Notes of approximately HK$52,941,000 and the imputed interest of approximately HK$7,059,000 is calculated by discounting the future cash flow stream from the bonds using an estimated effective interest rate of 13.201% per annum.

(3) Upon completion of the acquisition, Giant Billion will be accounted for as an associate of the Group. The Group will apply the equity method to account for the acquisition of Giant Billion as an associate as the directors of the Company consider that the Group will have significant influence over Giant Billion to obtain benefits from its activities after the completion of the Acquisition.

In applying the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of Giant Billion after the date of acquisition. The Group's share of the profit or loss of Giant Billion is recognised in the Group's profit or loss. Distributions received from Giant Billion reduce the carrying amount of the investment.

For the purpose of preparing the Unaudited Pro Forma Financial Information of the Group after the Acquisition, the carrying value of the net assets of Giant Billion as per the Accountants' Report as set out in Appendix II of this circular are taken to be the fair values.

The amount of the excess of the cost of acquisition incurred by the Group over its interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of Giant Billion is recognised as goodwill and included in the interests in associates in the Unaudited Pro Forma Financial Information as if the acquisition was completed on 31 December 2008.

	HK$'000
Consideration	200,000
Add: Share of net liabilities	50
Goodwill	200,050

The net assets and liabilities acquired in the transaction are as follows:

	HK$'000
Net liabilities acquired	
Net liabilities of Giant Billion as at 31 December 2008	102
Share of net liabilities (49%)	50

On Completion of the acquisition of Giant Billion, the fair value of the consideration and the net identifiable assets and liabilities of Giant Billion will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information.

(4) The adjustment represented the reclassification of the loan advanced to Giant Billion of HK$500,000 which is due within one year.

(5) No adjustments have been made to reflect the cost of the Acquisition as, in the opinion of the Directors, such costs are not considered to be material.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 March 2009 of the market value of the 100% equity interest in the PRC Company.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

7 September 2009

The Directors
Smart Genius Limited
Room 809-812, 8th Floor
Shui On Centre
Nos. 6-8 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Smart Genius Limited (referred to as the "Company"), which is a wholly-owned subsidiary of PME Group Limited, for us to provide our opinion on the market value of the 100% equity interest in the PRC Company (referred to as the "Target") as at 31 March 2009.

This report describes the background of the Target and the basis of valuation and assumptions. It also explains the valuation methodologies utilized and presents our conclusion of value.

BASIS OF VALUATION

Our valuation has been carried out on the basis of market value. Market value is defined as *"the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*.

We have adopted "HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises" and "The Hong Kong Business Valuation Forum Business Valuation Standards" in preparing this valuation report.

BACKGROUND OF THE TARGET

The Target has entered into an exclusive technical and consulting services agreement (the "Services Agreement") with Beijing Zhongtijian Cultural Broadcast Company Limited (北京中體健文化傳播有限公司) (referred to as "Zhongtijian"). Except for the above mentioned business, the Target has no other operation or business.

Zhongtijian entered into a cooperation agreement (the "Cooperation Agreement") with China DTV Production Company Limited (央視風雲傳播有限公司) (referred to as "CDP") in relation to the operation and marketing of a digital sports television channel of "小球競技" (referred to as the "Channel"). The Channel will include programs of handball, bowling, petanque, billiards, sepak takraw, football, cricket and squash. Zhongtijian will be entitled to 70% of the after tax profit of the operation of the Channel and its related businesses.

According to the Services Agreement, the Target will be entitled to 65% of Zhongtijian's portion of the after tax profit, i.e. the Target will be entitled to 45.5% of the after tax profit from the operation of the Channel and its related business.

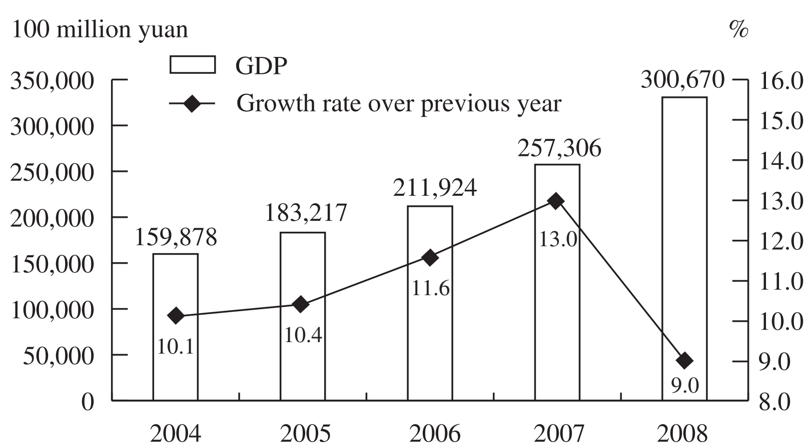
CDP was established by China Central Television (referred to as the "CCTV"), and is specialized in launching, programming and operation of the CCTV digital pay TV channels. CDP has developed 12 digital pay-TV channels.

INDUSTRY OVERVIEW

The General Economy

The gross domestic product (GDP) of the People's Republic of China (referred to as "PRC") in 2008 was RMB30,067.0 billion, up by 9.0% over the previous year. Analyzed by different industries, the added value of the primary industry was RMB3,400.0 billion, up by 5.5%, that of the secondary industry was RMB14,618.3 billion, up by 9.3% and the tertiary industry was RMB12,048.7 billion, up by 9.5%. The added value of the primary industry accounted for 11.3% of the GDP, up by 0.2% over that in the pervious year, that of the secondary industry accounted for 48.6%, up by 0.1%, and that of the tertiary industry accounted for 40.1%, down by 0.3%.

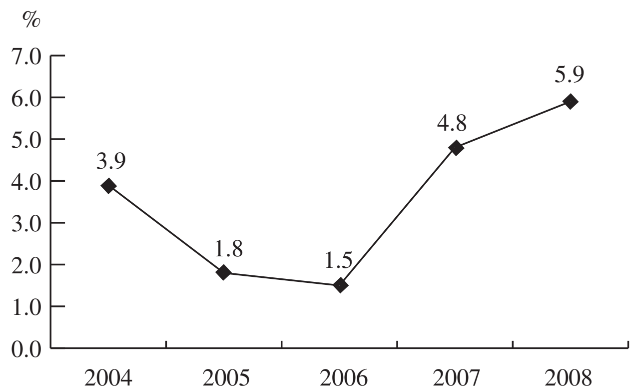
Gross Domestic Product of the PRC, 2004-2008



Source: National Bureau of Statistics of the PRC

The general level of consumer prices in the PRC in 2008 was up by 5.9% over the previous year. Of this total, the prices for food went up by 14.3%. The prices for investment in fixed assets were up by 8.9%. The producer prices for manufactured goods increased by 6.9%, of which, the prices for means of production increased by 7.7%, and for means of subsistence grew by 4.1%. The purchasing prices for raw materials, fuels and power went up by 10.5%. The producer prices for farm products were up by 14.1%. The prices for means of agricultural production were up by 20.3%. The sales prices for housing in 70 large and medium-sized cities were up by 6.5%, of which, that for new residential buildings went up by 7.1%, for second hand housing grew by 6.2%, and the prices for rental and leasing were up by 1.4%.

Changes in Consumer Prices in the PRC, 2004-2008



Source: National Bureau of Statistics of the PRC

The Television Viewing Market

The PRC has the largest television viewing market in the world, with televisions in 362 million households, of which 139 million households subscribed to cable television, as at 31 December 2006, according to Analysys International. However, only approximately 3.5% of television-viewing households in the PRC subscribed to digital television as at 31 December 2006.

Cable networks provide an important means of television transmission in the PRC. Approximately 139 million households, or 38% of television-viewing households in the PRC, subscribed to cable television as at 31 December 2006, up from 118 million households as at 31 December 2004, according to Analysys International. The government has invested heavily in the development of cable television networks as a primary means of making information and entertainment available to the public, with the result that the majority of urban households subscribe to basic cable television services. Urbanization is bringing with it rapid expansion of cable networks to formerly rural areas. The number of households linked to cable television networks is expected to reach 176 million households as at 31 December 2010, according to Analysys International.

The commercial potential of the PRC cable television industry, however, has yet to be fully developed.

The following table sets forth the actual and projected number of cable television subscribers and digital cable television subscribers in the PRC as at the dates indicated below:

	(millions of households, as of December 31)						
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Cable TV subscribers	118.00	128.40	138.50	148.30	157.70	166.90	175.70
Of which, digital cable TV subscribers	1.10	4.40	12.50	25.70	45.70	74.40	111.20

Source: Analysys International

SOURCE OF INFORMATION

For the purpose of our valuation, we have been furnished with the financial and operational data related to Zhongtijian, which were given by the senior management of the Company.

The business valuation of Zhongtijian required consideration of all pertinent factors affecting the economic benefits of the Target and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- The business nature of Zhongtijian;
- The financial information of Zhongtijian;
- The specific economic environment and competition for the market in which Zhongtijian operates or will operate;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of Zhongtijian, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for the Target, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Obtained financial and operational information of Zhongtijian;
- Performed market research and obtained statistical figures from public sources;

- Examined all relevant bases and assumptions of both the financial and operational information of Zhongtijian, which were provided by the senior management of the Company;

- Prepared a business financial model to derive the indicated value of Zhongtijian; and

- Presented all relevant information on the background of Zhongtijian, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Given the changing environment in which Zhongtijian operates or will operate, a number of assumptions have to be established in order to sufficiently support our concluded opinion of value of the Target. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where Zhongtijian operates or will operate;

- There will be no major changes in the current taxation law in the jurisdiction where Zhongtijian operates or will operate, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

- The financial information in respect of the Target has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Company;

- Exchange rates and interest rates will not differ materially from those presently prevailing; and

- Economic conditions will not deviate significantly from economic forecasts.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing Target. They are the market approach, the cost approach and the income approach.

The *market approach* provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market.

The *cost approach* provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

We have considered that the *income approach* is not appropriate to value the Target, as there are insufficient historical and forecasted financial data of the Target. The *cost approach* is also regarded inadequate in this valuation, as this approach does not take future growth potential of the Target into consideration. Thus, we have determined that the *market approach* is the most appropriate valuation approach for this valuation.

During the valuation, we have selected five listed companies, of which businesses were operating of pay televisions, which were similar to that of Zhongtijian. We determined their price multiples including "enterprise value to sales", "price to earnings" and "price to book value". Then we have applied these price multiples to the related financial data of Zhongtijian. Since the book value and the profit of the Target as at the date of valuation were not available, we have determined that "enterprise value to sales" (the "EV to Sales") be the most appropriate price multiple to estimate our concluded value based on the projected sales of the operation of the Channel and its related businesses, including receiving subscription fees of the Channel, receiving membership fees and holding billiards matches of RMB671,983 million in 2012, as provided by the senior management of Zhongtijian. We have reviewed the projected sales, and considered that such projection was prepared on reasonable basis.

The projected sales in 2012 was adopted as the sales from the operation of the Channel was expected to undergo a rapid growth in the coming few years, and the sales in 2012 were relatively more stable after the high growth period and the furthest forecast sales of the selected comparable companies available from Bloomberg is in 2012. A shorter period was not chosen since the growth potential could not be reflected.

According to the Cooperation Agreement and the Services Agreement, the Target will share 45.5% after tax profit from the operation of the Channel, and the sales was adjusted proportionally to reflect the profit sharing.

The comparable companies were selected based on the following criteria:

1. Companies were classified under the category Cable/Satellite TV in Bloomberg;

2. Companies were involved in the operation of sports channel; and

3. Companies' forecast sales in 2012 were available.

The exhaustive list of five listed companies matching with the above criteria were selected, and listed below:

Company	Market	Enterprise Value to Sales
Sky Network Television Limited	New Zealand	2.40
Cablevision Systems Corporation	The United States	1.78
British Sky Broadcasting Group	The United Kingdom	1.64
Sky Perfect JSAT Holdings, Inc.	Japan	1.13
WOWOW Inc.	Japan	0.20
Median:		**1.64**

The EV to Sales multiple that we have adopted is 1.64, being the median multiple of the five listed companies listed above. The EV to Sales multiple was calculated by dividing the enterprise value of the comparable companies by the forecasted sales in 2012 of each company, which were extracted from Bloomberg.

The enterprise value was calculated using the following formula:

Enterprise Value	=	Market Capitalization
	+	Preferred Equity
	+	Minority Interest
	+	Short-Term and Long-Term Debt
	–	Cash and Equivalents

The sales of Zhongtijian we adopted were the forecasted sales in 2012. The market value of the Target (45.5% interest in the Channel's operation) was then arrived from multiplying the proportioned projected sales by the EV to Sales multiple.

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. In the valuation, 25% have been used as the discount for lack of marketability (with reference to EVCA Valuation Guidelines, March 2001, issued by European Private Equity & Venture Capital Association (EVCA), which is widely accepted in the market.).

VALUATION COMMENTS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Company to estimate the value of the Target. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Company to estimate the value of 100% equity interest in the Target. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK$). The exchange rate adopted as at the date of valuation is RMB1=HK$1.1341.

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Target, Zhongtijian or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of a 100% equity interest in the Target as at 31 March 2009 was **HK$426,000,000 (HONG KONG DOLLARS FOUR HUNDRED AND TWENTY SIX MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, the Target, Zhongtijian, CDP, CCTV or the value reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Marco T. C. Sze
B.Eng(Hon), PGD(Eng), MBA(Acct),
CFA, AICPA/ABV, RBV
Director

Dr. Tony C. H. Cheng
BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ),
MHKIS, MCIArb, AFA, SIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIIE
Managing Director

Notes:

1. Mr. Marco T. C. Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York – Baruch College and is a holder of Chartered Financial Analyst. He is also a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in business valuation by the AICPA. In addition, he is a Registered Business Valuer registered with the Hong Kong Business Valuation Forum. He has about 4 years' experience in valuing similar assets or companies engaged in similar business activities as that of the Target in Hong Kong, China and the Asia-Pacific Region.

2. Dr. Tony C. H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 15 years' experience in valuing similar assets or companies engaged in similar business activities as that of the Target worldwide.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

SHARE CAPITAL

Assuming there is no change to the number of Shares in issue from the Latest Practicable Date to the Completion Date, the authorised and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) after the exercise of the conversion rights attached to the Convertible Bonds in full:

(a) As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares	100,000,000
Issued and fully paid or credited as fully paid:		
1,761,100,000	Shares	17,611,000

(b) After the exercise of the conversion rights attached to the Convertible Bonds in full

Authorised:		*HK$*
10,000,000,000	Shares	100,000,000
Issued and fully paid or credited as fully paid:		
1,761,100,000	Shares in issue as at the Latest Practicable Date	17,611,000
300,000,000	Conversion Shares to be allotted and issued	3,000,000
2,061,100,000		20,611,000

DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Number or attributable number of Shares/underlying Shares held or short positions	Nature of interests: Interest of controlled corporation	Nature of interests: Beneficial owner	Approximate percentage or attributable percentage of shareholding *(%)*
Mr. Cheng Kwok Woo	379,338,000(L)	318,438,000 *(Note 1)*	54,400,000 *(Note 2)* 6,500,000 *(Note 3)*	21.54
Mr. Cheng Kwong Cheong	379,338,000(L)	318,438,000 *(Note 1)*	54,400,000 *(Note 2)* 6,500,000 *(Note 3)*	21.54
Ms. Yeung Sau Han Agnes	15,000,000(L)		15,000,000 *(Note 3)*	0.85
Ms. Chan Shui Sheung Ivy	15,000,000(L)		15,000,000 *(Note 3)*	0.85

L: Long Position

Notes:

1. These Shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands. The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

2. Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 54,400,000 Shares.

3. These represent the Shares to be allotted and issued upon the exercise of the share options granted to Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy under the share option scheme of the Company, respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number or attributable number of Shares/underlying Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding *(%)*
PME Investments	318,438,000(L) *(Note 1)*	Beneficial owner	18.08
Ms. Cheng Wai Ying	318,438,000(L) *(Note 1)*	Interest of controlled corporation	20.21
	34,400,000(L) *(Note 2)*	Beneficial owner	
	3,000,000(L) *(Note 3)*	Beneficial owner	
Ms. Tsang Sui Tuen	379,338,000(L) *(Note 4)*	Interest of spouse	21.54
Ms. Wan Kam Ping	379,338,000(L) *(Note 5)*	Interest of spouse	21.54
Mr. Cheng Yau Kuen	355,838,000(L) *(Note 6)*	Interest of spouse	20.21

L: Long Position

Notes:

1. PME Investments is an investment holding company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

2. Ms. Cheng Wai Ying personally holds 34,400,000 Shares.

3. This represents the Shares to be allotted and issued upon the exercise of the share options granted to Ms. Cheng Wai Ying under the share option scheme of the Company.

4. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in the Shares and the underlying Shares that Mr. Cheng Kwok Woo has interests in.

5. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in the Shares and the underlying Shares that Mr. Cheng Kwong Cheong has interests in.

6. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interests in the Shares and the underlying Shares that Ms. Cheng Wai Ying has interests in.

(c) Persons who are interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of member of the Group	Name of shareholder	Approximate percentage
Host Luck Limited	Lau Kwan Ying, Dora	10%
Shanghai PME-XINHUA Polishing Materials Systems	上海新華化工廠 (Shanghai Xin Hua Chemical Factory#)	40%

\# The English translation of the Chinese name is included for information purpose only, and should not be regarded as official English translation of such Chinese name.

(d) Save as disclosed above, as at the Latest Practicable Date:

(i) the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(ii) none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

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

Save as disclosed above, as at the Latest Practicable Date, no Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

EXPERTS

The followings are the qualifications of the experts who have given opinions or advice in this circular:

Name	Qualification
SHINEWING (HK) CPA LIMITED (“SHINEWING”)	Certified Public Accountants
BMI Appraisals Limited (“BMI”)	Independent valuer

As at the Latest Practicable Date, each of SHINEWING and BMI did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of SHINEWING and BMI was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of SHINEWING and BMI has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts have been entered into by members of the Group within the two years preceding the issue of this circular and are or may be material:

(i) the sale and purchase agreement dated 17 December 2007 entered into between Sunbright Asia Limited, a wholly owned subsidiary of the Company, and Shellybeach Investments Limited for the acquisition of 71,000,000 shares of China Railway Logistics Limited (Stock Code: 8089) at a consideration of HK$284,000,000;

(ii) the subscription agreement dated 11 February 2008 entered into between Richcom Group Limited, a wholly owned subsidiary of the Company, and Betterment Enterprises Limited (“BEL”) for the subscription of convertible bonds of BEL at the principal amount of HK$64,000,000 (which represents 99.49% of the enlarged share capital of BEL after conversion) at a consideration of HK$64,045,337;

(iii) the placing agreement dated 8 April 2008 entered into between the Company and Hong Tong Hai Securities Limited ("Hong Tong Hai") as placing agent for the placing of 319,000,000 non-listed warrants of the Company at the warrant issue price of HK$0.01 per warrant. The warrants entitle the placees to subscribe for a maximum of 319,000,000 new Shares at an initial warrant exercise price of HK$0.50 per Share. The placing agreement was expired on 30 September 2008 and the warrant placing was not completed;

(iv) the sale and purchase agreement dated 21 May 2008 entered into between One Express Group Limited ("One Express"), a wholly owned subsidiary of the Company, and Mangreat Assets Corporation, Williamsburg Invest Limited and Homelink Venture Corporation (altogether as vendor) for the acquisition of 515,200,000 shares of BM Intelligence International Limited (Stock Code: 8158) at a consideration of 99,948,800;

(v) the placing agreement dated 20 October 2008 entered into between the Company and Hong Tong Hai as placing agent for the placing of 160,000,000 new Shares at a placing price of HK$0.10 per Share;

(vi) the placing agreement dated 18 February 2009 entered into between Top Good Holdings Limited ("Top Good"), a wholly owned subsidiary of the Company, and Kingston Securities Limited as placing agent for the subscription of convertible bonds of China Fortune Group Limited ("China Fortune") (Stock Code: 290) at the principal amount of HK$11,500,000 at a consideration of HK$11,500,000;

(vii) the sale and purchase agreement dated 12 March 2009 entered into between One Express, a wholly owned subsidiary of the Company, and Vital-Gain Global Limited for the disposal of 500,000,000 shares of China Bio-Med Regeneration Technology Limited (Stock Code: 8158) at a consideration of HK$60,000,000;

(viii) the subscription agreement dated 6 May 2009 entered into between Top Good, a wholly owned subsidiary of the Company, and China Fortune for the subscription of convertible bonds of China Fortune at the principal amount of HK$32,000,000 at a total subscription price of HK$32,000,000;

(ix) the placing agreement dated 21 May 2009 entered into between the Company and Fortune (HK) Securities Limited as placing agent for the placing of 159,000,000 new Shares at a placing price of HK$0.35 per Share. The placing agreement lapsed on 20 August 2009 and the placing was not completed; and

(x) the Formal Agreement.

MISCELLANEOUS

(a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company is located at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.

(c) Tricor Secretaries Limited, the transfer office of the Company in Hong Kong, is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Mr. Li Chak Hung, *CPA, FCCA*.

(e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (except Saturdays and public holidays) at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the accountants' report on the Target Company issued by SHINEWING as set out in Appendix II of this circular;

(c) the valuation report issued by BMI in respect of the valuation of the PRC Company;

(d) the letters of consent from SHINEWING and BMI referred to under "Experts" in this Appendix;

(e) the directors' service contracts referred to in the paragraph headed "Directors' Interests in Contracts" in this Appendix;

(f) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(g) the annual reports of the Company for each of the two financial years ended 31 December 2007 and 2008; and

(h) the circular of the Company dated 18 May 2009 in relation to, among other matters, a major transaction for disposal of shares in China Bio-Med Regeneration Technology Limited.

PME GROUP LIMITED
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 379)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("EGM") of PME Group Limited (the "Company") will be held at Unit 812, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong on Wednesday, 23 September 2009 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional agreement dated 19 May 2009 (the "Formal Agreement") as amended by the supplemental agreement dated 2 June 2009 (the "Supplemental Agreement") entered into among (i) Smart Genius Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, (ii) Crown Sunny Limited (the "Vendor"), (iii) Giant Billion Limited (the "Target Company"), and (iv) Mr. Wu Jia Neng (the "Guarantor"), pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell 1,470 issued shares of the Target Company, representing approximately 49% of the entire issued share capital of the Target Company (the "Acquisition"), at a total consideration of HK$200,000,000 which will be partly satisfied by the issue of convertible bonds by the Company (the "Convertible Bonds") to the Vendor (a copy of each of which is marked "A" and "B" respectively and produced to the EGM and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized to execute the Formal Agreement and the Supplemental Agreement and all such other documents, instruments and agreements for and on behalf of the Company and to do all such acts or things and to sign and execute all such other or further documents (if any) and to take all such steps which in his/her opinion, may be necessary, appropriate, desirable or expedient to give effect to or in connection with the matters contemplated therein and to agree to any variation, amendment, supplement or waiver of matters relating thereto as are in his/her opinion, in the interest of the Company, to the extent that such variation, amendment, supplement or waiver do not constitute material changes to the material terms of the transactions contemplated under the Formal Agreement;

* *For identification purpose only*

(c) conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares (as defined in the circular of the Company dated 7 September 2009), the issue of the Convertible Bond and the allotment and issue of the Conversion Shares which may fall to be issued by the Company to the Vendor upon the exercise of the conversion rights attaching to the Convertible Bonds be and are hereby confirmed and approved; and

(d) the directors of the Company be and are hereby authorized to issue the Convertible Bonds and the Conversion Shares pursuant to the terms of the Formal Agreement and the directors of the Company be and are hereby also authorized to do all such acts and things they consider necessary or expedient in relation to the exercise of the conversion right attaching to the Convertible Bonds."

By Order of the Board
PME Group Limited
Cheng Kwok Woo
Chairman

Hong Kong, 7 September 2009

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

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Articles of Association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the EGM is enclosed. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the head office and principal place of business of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.