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 a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in PME Group Limited (the "Company"), you should at once hand this circular accompanying with the form of proxy to the purchaser or 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 transferee.

PME GROUP LIMITED

必美宜集團有限公司*

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

VERY SUBSTANTIAL ACQUISITION RELATING TO THE ACQUISITION OF TERMINAL AND PORT OPERATIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an extraordinary general meeting of the Company to be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Thursday, 17 February 2011 at 10:00 a.m. (the "EGM") is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM 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 EGM, you are requested to complete the 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 if you so wish.

* *For identification purpose only*

27 January 2011

CONTENTS

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

"Able Winner"	Able Winner International Limited (興勝國際有限公司), a company incorporated in Hong Kong with limited liability and is an indirect wholly owned subsidiary of the Company
"Acquisition"	the acquisition of the Sale Share
"Adjustments"	the adjustments which the Consideration may be subjected to as summarized in the paragraph headed "Consideration" under the section headed "The Agreement"
"Agreement"	the sale and purchase agreement dated 15 October 2010 entered into between Able Winner and the Vendor in respect of the Acquisition as amended by the Supplemental Agreements
"associates"	has the meaning ascribed to in the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business
"Company"	PME Group Limited (stock code: 00379), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Agreement
"connected person(s)"	has the meaning ascribed to in the Listing Rules
"Consideration"	the consideration for the Acquisition, being not higher than RMB500,000,000, subject to the Adjustments
"Director(s)"	the director(s) of the Company

"EGM"	the extraordinary general meeting of the Company to be convened for approving, inter alia, the Agreement and the transactions contemplated therein
"Enlarged Group"	the Group as enlarged by the Acquisition
"Final Consideration"	the final consideration of the Acquisition, i.e. RMB343,679,250
"First Supplemental Agreement"	the first supplemental agreement dated 8 December 2010 entered into between Able Winner and the Vendor in respect of Final Consideration
"Framework Agreement"	the strategic restructuring cooperation framework agreement entered into between Able Winner and the PRC Party on 25 September 2010 in relation to the Proposed Restructuring
"Group"	the Company and its subsidiaries
"HK Company A"	Nobleland International Limited (祥和國際有限公司), a company incorporated in Hong Kong with limited liability and owns as to 5% of the registered capital of the Target Company
"HKFRS"	Hong Kong Financial Reporting Standards, which set out the accounting principles applicable in Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Parties"	to the best of the Directors' knowledge, information and belief after making reasonable enquiries, third parties independent of the Company and its connected persons
"Latest Practicable Date"	24 January 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Placing"	the placing of the convertible bonds by the Company pursuant to the placing agreement dated 7 January 2010 (as amended by supplemental placing agreements dated 7 April 2010 and 20 April 2010), details of which are set out in the announcement of the Company dated 11 January 2010 and the circular of the Company dated 26 April 2010
"PRC"	the People's Republic of China, for the purpose of this circular only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
"PRC Company A"	日照德興國際貿易有限公司 (Rizhao Dexing International Company Limited), a company incorporated in the PRC and owns as to 22% of the registered capital of the Target Company
"PRC Company B"	山東省國際信託投資有限公司 (Shandong International Trust Company Limited), a company incorporated in the PRC and owns as to 21% of the registered capital of the Target Company
"PRC Party"	日照港股份有限公司 (Rizhao Port Company Limited), a stock company incorporated in the PRC and the shares of which are listed on the stock exchange in Shanghai with stock code of 600017 and owns as to 26% of the registered capital of the Target Company
"Proposed Restructuring"	the proposed shareholding restructuring of the Target Company that each of the Target and the PRC Party will own 50% of the registered capital of the Target Company
"RHLPM"	Rizhao Harbour (Group) Lanshan Port Management Company Limited (日照港(集團)嵐山港務有限公司), a fellow subsidiary of the PRC Party
"Sale Share"	100% of the issued share capital of the Target owned by the Vendor before Completion
"Second Supplemental Agreement"	the second supplemental agreement dated 31 December 2010 entered into between Able Winner and the Vendor in respect of the extension of the long stop date of the Agreement and outstanding shareholder's and director's loans at Completion
"Share(s)"	existing ordinary share(s) of HK$0.01 each in the issued share capital of the Company

"Shareholders"	holders of Shares
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreements"	the First Supplemental Agreement and the Second Supplemental Agreement
"Target"	Upmove International Limited (晉瑞國際有限公司), a company incorporated in Hong Kong with limited liability, owns as to 26% of the registered capital of the Target Company and will own as to 50% of the registered capital of the Target Company upon completion of the Proposed Restructuring
"Target Company"	日照嵐山萬盛港業有限責任公司 (Rizhao Lanshan Wansheng Harbour Company Limited), a sino-foreign joint venture company established in the PRC
"Target Group"	the Target and the Target Company
"Track Record Period"	for the three years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010
"Valuation Report"	the independent business valuation report, which contains the valuation of the Target Company as at 30 June 2010, prepared by the independent valuer
"Vendor"	Ms. Li Li, the seller of the Sale Share
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.
"sq.m."	square meters

For the purpose of this circular, all amounts in RMB are translated into HK$ at an exchange rate of RMB1: HK$1.167.

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)
Ms. Yeung Sau Han Agnes
(Chief Executive Officer)
Ms. Chan Shui Sheung Ivy
Mr. Tin Ka Pak

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

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

27 January 2011

To the Shareholders,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION RELATING TO THE ACQUISITION OF TERMINAL AND PORT OPERATIONS

INTRODUCTION

On 8 November 2010, the Board announced that after trading hours on 15 October 2010, Able Winner (an indirect wholly owned subsidiary of the Company) entered into the Agreement with the Vendor, pursuant to which Able Winner conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Share at an aggregate cash consideration of not higher than RMB500,000,000 (approximately HK$583,500,000), subject to Adjustments.

After trading hours on 8 December 2010, Able Winner entered into the First Supplemental Agreement with the Vendor pursuant to which the Consideration of the Acquisition is agreed to be adjusted to RMB343,679,250 (approximately HK$401,073,685).

After trading hours on 31 December 2010, Able Winner entered into the Second Supplemental Agreement with the Vendor, pursuant to which (i) the long stop date of the Agreement is agreed to be extended to 28 February 2011; and (ii) if at Completion, there is any

* *For identification purpose only*

outstanding shareholder's loan or director's loan in the Target, Able Winner shall be provided with a written undertaking that all the shareholder's loan and director's loan be unconditionally waived or an assignment of loan entered into by the Vendor in favour of Able Winner to assign the said loan at a consideration of HK$1.

It is expected that the funding of the Final Consideration of HK$401,073,685 will be partially financed by the proceeds from the Placing as announced by the Company on 11 January 2010. The partial settlement of the Final Consideration from the Placing constitutes a change of use of proceeds and therefore requires Shareholders' approval.

As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As no Shareholder has material interest in the Acquisition, no Shareholder will be required to abstain from voting on the resolution(s) approving the Agreement and the transactions contemplated thereunder at the EGM.

The purpose of this circular is to provide the Shareholders with details of the Acquisition and a notice to convene the EGM to consider and, if thought fit, pass the resolutions to approve (i) the Agreement and the transactions contemplated thereunder; and (ii) the change of the use of proceeds from the Placing.

THE AGREEMENT

Date: 15 October 2010

Parties:

Vendor: Ms. Li Li, an Independent Third Party

Purchaser: Able Winner, an indirect wholly owned subsidiary of the Company

Assets to be acquired

Sale Share: 1 share of HK$1 each in the issued capital of the Target, being the entire issued share capital of the Target

The assets and liabilities of the Target to be acquired by the Company from the Vendor pursuant to the Agreement are in respect of the 50% equity interest in the Target Company.

Consideration

The Consideration of not higher than RMB500,000,000 (approximately HK$583,500,000), which is payable in US dollar, was determined after arm's length negotiation and is equivalent to a price-earnings ratio of approximately 6.34 times of the audited profit after taxation of the Target Company of approximately RMB157.7 million for the year ended 31 December 2009.

Pursuant to the terms of the Agreement, in the event that the valuation set out in the Valuation Report is less than the Consideration or the valuation expected by Able Winner, subject to the parties' agreement, the final Consideration for the Acquisition will be adjusted on dollar-to-dollar basis.

Each of the PRC Party and Able Winner had appointed their respective valuer to carry out valuation on the Target Company. Pursuant to the final Valuation Report prepared by the PRC valuer appointed by the PRC Party, the independent business valuation of the Target Company as at 30 June 2010 amounted to RMB687,358,500 (approximately HK$802,147,370). Pursuant to the draft valuation report (the "Hong Kong Valuation Report") prepared by the Hong Kong valuer appointed by Able Winner, the independent business valuation of the Target Company as at 31 October 2010 amounted to RMB700,000,000 (approximately HK$816,900,000). Upon considering the Valuation Report and the Hong Kong Valuation Report, Able Winner and the Vendor entered into the First Supplemental Agreement on 8 December 2010 and it was agreed that the Final Consideration is RMB343,679,250 (approximately HK$401,073,685).

The Final Consideration of the Acquisition represents:

(1) a discount of approximately 1.8% to the 50% of the independent business valuation of the Target Company as at 31 October 2010 prepared by the Hong Kong valuer appointed by Able Winner of RMB700,000,000 as set out in Appendix VII to this circular; and

(2) a price-earnings ratio of approximately 4.36 times of the audited profit after taxation of the Target Company of approximately RMB157.7 million for the year ended 31 December 2009.

The Final Consideration will be satisfied in full by way of cash upon Completion. As mentioned in the circular of the Company dated 26 April 2010, the Company intended to reallocate the proceeds from the Placing to finance the possible investment in a coal company in Shanxi in the PRC (the "Proposed Investment"). However, the Board reviews possible investment proposals from time to time. As the Board considered the Acquisition is more attractive and in view of the limited resources of the Company, the Board decided to proceed with the Acquisition and discontinue the Proposed Investment. The Company intended to reallocate the proceeds from the Placing to finance the Acquisition. It is expected that the funding of the Final Consideration will be financed by the proceeds from the Placing and the Company's internal financial resources.

The Final Consideration was also determined with reference to (i) the financial performance and asset position of the Target Company as well as its growth potential and business prospect; (ii) the potential economic growth in the PRC in respect of the port business; and (iii) the price-earnings ratios of the comparable companies listed on the main board of the Stock Exchange as at the date of the Agreement after consideration of difference of respective market capitalization, size and scale of the operation and capacity, marketability and lack of control in the Target Company. In view of the above, the Board considers that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The price to earnings ratios (P/E ratios) as at the date of the Agreement of the companies principally engaged in port operations in the PRC and listed on the main board of the Stock Exchange are summarized below:

Stock name	**P/E Ratio*** *(times)*
China Merchants Holdings (International) Company Limited (stock code: 144)	21.1
Xiamen International Port Co. Ltd. (stock code: 3378)	16.6
Tianjin Port Development Holdings Limited (stock code: 3382)	N.A.
Dalian Port (PDA) Company Limited (stock code: 2880)	13.7

* *calculated based on the financial information in the latest published annual reports of relevant companies and the companies' share prices as at the date of the Agreement*

The Company noted that the P/E ratios of above comparable companies ranged from 13.7 to 21.1, which are higher than the P/E ratio of the Target Company of 4.36 times. The Company considers that this may be due to the following reasons:

(i) the above comparable companies are listed companies with large market capitalization. Generally, listed companies have better financing abilities (including equity financing abilities) and higher marketability. Further, shareholders of a listed company are generally easy to realize their shares of the listed company in the liquid stock market. Therefore, the listing status of the above comparable companies yields a higher valuation to investors when compared to an unlisted company like the Target Company;

(ii) the size and the operation capacity of the ports of the above comparable companies are larger than that of the Target Company. It is usual for investors to have a higher valuation to large enterprises, as large enterprises enjoy economy of scale and have more resources and opportunities on business expansion; and

(iii) the Company will only acquire 50% equity interests in the Target Company upon Completion and therefore no control premium has been included in the Final Consideration.

In view of the above, the Directors consider that the Final Consideration is fair and reasonable and the Acquisition will bring a good return for the Shareholders.

Conditions

Completion is subject to fulfillment or, if applicable, waiver of the following conditions:

1. the approval by the Shareholders at the EGM of the Agreement and transactions contemplated thereunder;

2. Able Winner being satisfied in form and substance with the legal opinion in relation to the Agreement and the transactions contemplated thereunder issued by a qualified Hong Kong lawyer;

3. Able Winner being satisfied in form and substance with the legal opinion in relation to the Agreement and the transactions contemplated thereunder issued by a qualified PRC lawyer;

4. the financial statements of the Target Company for the three years ended 31 December 2009 and for the six months ended 30 June 2010 being audited by the Hong Kong certified public accountants and being issued unqualified auditors' opinion; the audited turnover of the Target Company for the year ended 31 December 2009 and for the six months ended 30 June 2010 shall be not less than RMB330 million and RMB190 million respectively and the audited net profit of the Target Company for the year ended 31 December 2009 and for the six months ended 30 June 2010 shall be not less than RMB150 million and RMB85 million respectively;

5. Able Winner having confirmed that it is satisfied with its due diligence results of the assets, liabilities, operations and business of the Target Group prepared by its consultants and agents;

6. the consents, authorisation, permission and approvals for the sale of the Sale Share being obtained;

7. there is no material adverse change in the existing business and operations of the Target Company;

8. prior to Completion, there is no transaction or situation that may lead to material adverse change in the Target Group;

9. any shareholders' loans, directors' loans and third parties' loans of the Target being repaid, if any. If at Completion, there is any outstanding shareholder's loan or director's loan, Able Winner shall be provided with a written undertaking that all the shareholder's loan and director's loan be unconditionally waived or an assignment of loan entered into by the Vendor in favour of Able Winner to assign the said loan at a consideration of HK$1;

10. any assets and liabilities not related to the investment in the Target Company being disposed by the Target;

11. the Target being the legal and beneficial owner of 50% of the equity interest in the Target Company after completion of the Proposed Restructuring;

12. the PRC Party being the legal and beneficial owner of 50% of the equity interest in the Target Company; and

13. Able Winner and the Vendor being reasonably satisfied with the Valuation Report.

On 31 December 2010, Able Winner and the Vendor mutually agreed to extend the long stop date of the Acquisition to 28 February 2011 or such other date as shall be mutually agreed by the parties to the Agreement.

All the above conditions (except conditions 1, 2, 3, 4, 11 and 12) can be waived by Able Winner. If any of the above conditions is not fulfilled or waived on or before 28 February 2011 or such other date as shall be mutually agreed by the parties to the Agreement, the Agreement shall terminate and each party's further rights and obligations will cease immediately without affecting a party's then accrued rights and obligations under the Agreement.

The above conditions (except conditions 1, 2, 3, 4, 11 and 12) would be waived if and only if the waiver of such conditions is in the interests of the Company and the Shareholders as a whole.

Condition 5 above stipulates that the Completion would be conditional on Able Winner having confirmed that it is satisfied with its due diligence results of the assets, liabilities, operations and business of the Target Group prepared by its consultants and agents.

The Company has performed its due diligence works on the Acquisition and considered reports of various professional parties in relation to the Acquisition, including Deloitte Touche Tohmatsu (certified public accountants), Asset Appraisal Limited (a professional surveyor) and Jiantian & Gongcheng (a qualified PRC law firm). Given the Company has a better understanding on the Target Group after the above works, it currently considers that engagement of consultants or agents to perform additional due diligence works on the Target Group would not bring substantial extra benefits to the Company.

The Company will continuously monitor the development of the Target Group's business and assess the necessity of engaging any consultants or agents for additional due diligence works. Should the Board satisfy with the due diligence results of the Target Group performed by the Company and that it is not necessary to engage consultants or agents to perform additional due diligence works, condition 5 above would be waived.

Given the Acquisition will involve a change in the shareholding structure of the Target Company, relevant approvals and consents are required in the PRC, including the resolution of the board and/or shareholders of the Target Company, the approval of Rizhao Foreign Trade & Economic Cooperation Bureau (日照市對外貿易經濟合作局) and relevant government approvals on business registration. The Target Company will apply for such necessary consents and approvals when appropriate.

The sale of the Sale Share would require the approval from the board of the Target and no consent or approval from the relevant regulatory authorities in Hong Kong is required.

The Company does not foresee any legal obstacle in obtaining the above relevant consents and/or approvals.

No exceptions and/or adverse events are noted in the draft PRC legal opinion. Based on the audited financial statements of the Target Company, (i) an unqualified audit opinion has been issued by the Hong Kong certified public accountants; and (ii) the turnover and profits of the Target Company have exceeded the agreed level in the Agreement. Conditions 4 and 13 above have been fulfilled as at the Latest Practicable Date.

Completion

Completion shall take place within five Business Days after each of the conditions set out above has been fulfilled or waived or such other date as shall be agreed between Able Winner and the Vendor.

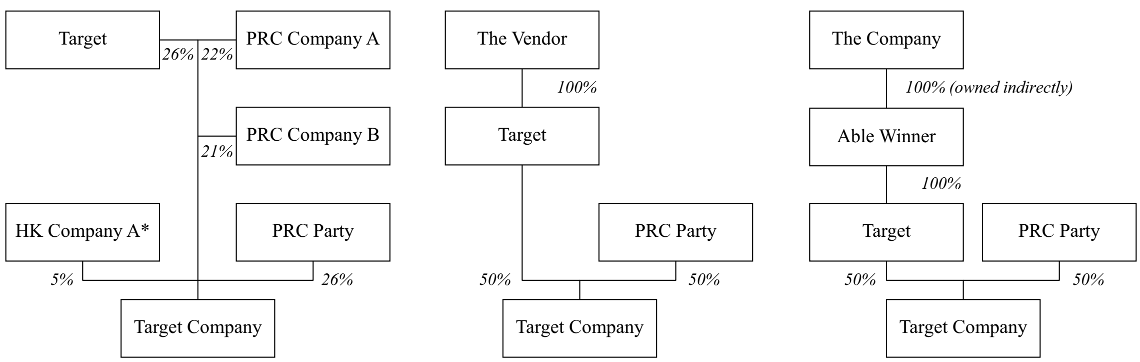
Pursuant to the Agreement, the Vendor undertakes to procure that, upon or after the Completion, Able Winner will be entitled to nominate and appoint number of directors to the board of directors of the Target Company, which shall equal to 50% of the total number of directors in the board of directors of the Target Company. Upon Completion, the Group will own as to 50% equity interest in the Target Company. It is expected that the Target Company will become a jointly-controlled entity of the Company and the Company will recognize its interest in the Target Company using proportionate consolidation method.

Most of the liabilities of the Target are liabilities due to its sole shareholder. It is a condition precedent to the Completion that any shareholders' loan, directors' loans and third parties' loans of the Target being repaid (if any). Pursuant to the Second Supplemental Agreement, if at Completion, there is any outstanding shareholder's loan or director's loan, Able Winner shall be provided with a written undertaking that all the shareholder's loan and director's loan be unconditionally waived or an assignment of loan entered into by the Vendor in favour of Able Winner to assign the said loan at a consideration of HK$1. Therefore, it is expected that the Target will not have any material liabilities upon Completion (except for amounts due to Able Winner in case of above-mentioned assignment of the said loan), and the Company expects that no significant funding is required to be made by the Company to finance the Target after Completion.

SHAREHOLDING STRUCTURES BEFORE AND AFTER THE PROPOSED RESTRUCTURING AND THE ACQUISITION

Set out below are the shareholding structures of the Target and the Target Company (i) as at the Latest Practicable Date immediately prior to the Proposal Restructuring; (ii) upon completion of the Proposed Restructuring but before Completion; and (iii) upon Completion:

(i) Immediately prior to the Proposed Restructuring **(ii) upon completion of the Proposed Restructuring but before Completion** **(iii) upon Completion**



* *The spouse of the Vendor beneficially owns as to 95% equity interest in HK Company A.*

Separate agreements in relation to the acquisition of the 24% equity interest in the Target Company by the Target from other joint venture partners of the Target Company have not been made as at the Latest Practicable Date. The Vendor and/or the Target will negotiate with other joint venture partners and procure to acquire such 24% equity interest in the Target Company prior to Completion.

RISK FACTORS

The Company may face certain risk factors in respect of the Acquisition. Major risks include, among other things, the followings:

Risks relating to the Group

1. Risks involved in investing a new business and running different lines of business

The Acquisition constitutes an investment in the new business sector of terminal and port operation in the PRC, which the Company has not previously had exposure to or experience in coupled with the regulatory environment, may pose significant challenges to the Group's administrative, financial and operational resources. Since the Group does not have any exposure to or experience in the new business, it is not in a position to assure the timing and amount of any return that may be generated from the new business, nor is it certain to control the operational risks that could lead to a loss.

There are different risks and returns for different line of businesses. The risks related to the existing Group's operations include but not limited to the risks related to the fluctuations in the prices of raw materials of polishing materials, keen competition of polishing materials in both Hong Kong and the PRC, risks of uncertain demand of polishing materials and polishing equipment market, the unpredictable nature of revenue and profitability from the investment in equity securities trading.

And the risks and returns of the Target Company's port business may not be the same as those of the Group's existing businesses. Details of the risks relating to the Target Company and port industry have been mentioned from page 15 to page 24 of this circular.

In running different lines of businesses, the Group's management may lose its business focus. It is also difficult for the management to manage the shareholders' expectation as the growth and returns differ in different business lines and different investment projects.

The coherence in running different lines of business greatly depends on the level of experience and accuracy of the management's assessment of the new business investment and its impact to the Company as a whole which will be affected by the information obtained for the new business, such as the accuracy of the historical data gathered, industrial and market information obtained, proposed changes in the government policy in the future years, expectation in the estimated length of the investment period and the period of returns, initial investment and any subsequent re-investment cost and/or related capital expenditure, economical changes, technological changes in the business, additional costs to be incurred for the contingency plans, foreseeable changes in the customer base and the market requirement in both products and services, industrial and market competitors, possible political, cultural or environmental changes and any possible changing elements. The effects arisen from these factors are different from the existing business which will ultimately affect the amount and timing of the Company's overall and consolidated investment with returns pattern if not managed properly.

2. The existing management of the Company has no experience in running the port business

This is a limiting factor of the existing management of the Company as they have no experience in running the port business and in the location in which the Company does not have any business presence. Although the Company will rely heavily on the expertise of the management of the Target Company, the existing management of the Company may lose organization focus and ability to identify potential strategic initiatives such as expansion capacity. The existing management may require additional time to implement and adjust to changes resulting from the Acquisition and measures to manage the risks associated with the business of the Target Company. In addition, the new measures may not have the desired effects on the Company's corporate structure, corporate governance or other aspects of the Company's operations. In addition, the Company may not be able to achieve the intended results in the new business activities in all cases. To the extent that the Company is not able to manage the growth of the Target Company successfully or otherwise obtain sufficient resources to support such growth, the business, financial condition, results of operations and prospects of the Group may be adversely affected.

The Company may also incur costs in recruiting, training and retaining personnel with the proper experience and knowledge to handle new and existing business activities.

3. *The Group is unable to complete the transaction if the PRC Party fails to acquire additional 24% equity interests in the Target Company*

Completion of the Acquisition is subject to the various conditions precedent set out in the Agreement, including but not limited to the completion of the Proposed Restructuring, having been fulfilled and there is no assurance that all of the conditions precedent can be fulfilled.

The Proposed Restructuring requires, among others, the PRC Party to acquire additional 24% equity interests in the Target Company. If the PRC Party is unable to do so, the Acquisition cannot be completed. Pursuant to the approval issued by Rizhao Finance Bureau (日照市財政局), it, in principle, agrees the PRC Party to acquire 5% and 19% equity interest in the Target Company from HK Company A and PRC Company A at a consideration not higher than RMB34,367,900 and RMB130,590,810 respectively. The risk of PRC Party to acquire additional 24% equity interests in the Target Company is out of the Company's control as the existing beneficially owners are Independent Third Parties and the acquisition is subject to government approval.

4. *There may be significant impact on the liquidity ratio of the Group after the payment of the Final Consideration in cash and providing further financial support to the Target Company for business expansion projects*

Pursuant to the Agreement, the Final Consideration is payable in cash. This may weaken the cash position of the Group.

As the Target Company has expansion plan with significant and continuous capital investment, if the expansion cannot be completed according to the planned schedule or exceeds the original budgets, the Target Company's financial burden may increase and it may require the Group's financial support. In addition, the expansion may not achieve the intended economic result or commercial viability and additional funding will be required. The timing of the internally generated funds may not be in-line with the fund required for capital expenditure as planned or refinancing its indebtedness, extra borrowings may be required and cost of additional funding will need to be additionally accounted for. The inflation in building material costs and unexpected change in interest rate for the borrowings are also two factors that may have great impacts to the cost and thus the financial position of the Target Company and the Group as well. Actual capital expenditures for the expansion may significantly exceed budgets because of various factors beyond the Target Company's control.

5. *Risks associated with the lack of absolute control of the Target Company*

Upon Completion, the Group will only hold 50% equity interests of the Target Company and 50% of the board representation in the board of directors of the Target Company. The Group may not have an absolute control over the Target Company, in particular, when the Group and the PRC Party have different views in managing the Target Company. There will be risks that no agreement is reached between the shareholders and/or the board members of the Target Company. Under such circumstances, a prolong discussion process between the shareholders and/or the board members of the Target Company may be required, and prolonged decision making process may adversely affect the Target Company's businesses.

Able Winner and the PRC Party agreed that upon completion of the Proposed Restructuring, both parties will appoint equal number of directors to the board of directors of the Target Company. After Completion, the Target (to be wholly owned by Able Winner after Completion) and the PRC Party will enter into a sino-foreign equity joint venture agreement and amend the articles of association of the Target Company to reflect changes of composition of shareholders, board representations and related procedures. As at the Latest Practicable Date, no shareholders' agreement between the PRC Party and the Target (or Able Winner) has been entered into and the new articles of association of the Target Company have not been finalized.

Able Winner and the PRC Party mutually agreed that each of them will act in the best interests of the Target Company in making business decisions of the Target Company after the Proposed Restructuring. They have accepted and agreed not to significantly change the existing business model of the Target Company.

If there is no unanimous consent in respect of major business decisions of the Target Company in future, the Company and the PRC Party have compromised that they would resolve the issues through negotiations and communications.

Risks relating to the Target Company

1. Delays and failure of the expansion plan and limitation of business growth

The business operations of the Target Company are directly influenced by its port capacity and its efficiency. The operation of the Target Company has one berth capable of accommodating two 50,000-tonne vessels equipped with total length of 602 meters. Cape Vessels DWT below 200,000 tonnes can be berthed on high tide after some off-load. The maximum daily discharging rate of mineral ores is 62,000 tonnes for Cape vessel and 53,000 tonnes for Panama vessel. The maximum annual handling capacity is 20,000,000 tonnes.

In the short to medium-term, the Target Company's terminal operations will be operating at near full capacity, which leaves limited room for further growth without significant investment in increasing capacity. According to the current plan, new berths will be built. It is expected there will be an additional annual handling capacity of 20,000,000 tonnes by early 2013 when the new berths are built and put into operation. The expansion plan is capital intensive and any new facilities that the Target Company establishes will require substantial expenditures. The Target Company may experience delays in the completion of the expansion and the total construction costs of the expansion may exceed the initial budget. Any expansion of the Target Company's capacity will be highly dependent upon its ability to obtain additional financing, which is subject to a variety of uncertainties, including:

- its future financial condition and credit rating;
- general market conditions for financing activities; and
- PRC government policies and regulations relating to ports operators and lending in general.

External financing may not be available in a timely manner, on acceptable terms, or at all. If the Target Company is unable to expand its capacity, the Target Company may be unable to grow the business or remain competitive, or provide services to companies with significant capacity requirements, which may have a material adverse effect on its ability to grow its revenues.

2. Concentration of the customers

The top three largest customers of the Target Company accounted for approximately 66%, 63%, 48% and 62% of the total revenue for the year ended 31 December 2007, 2008 and 2009 and for the eleven months ended 30 November 2010 respectively. Please refer to the section headed "Reliance on major customers" of this circular for details.

If these customers were to substantially reduce their use of the Target Company's terminals or otherwise terminate its business relationship with the Target Company entirely, there can be no assurance that the Target Company would be able to obtain business from other customers to replace any such lost sales or if the Target Company was to be able to obtain other business, that it would be on commercially reasonable terms. If the relationship with the said customers were to be so altered and the Target Company was unable to obtain comparable business elsewhere, its operating results, financial condition and business would be harmed.

3. Competition with the PRC Party and the Bohai Rim Region and other regional terminal operators

The PRC Party, a company listed on the Shanghai Stock Exchange, has subsidiaries which carry on similar business as the Target Company and may compete directly with the Target Company.

The Target Company also faces competition from other port terminal operators within Bohai Rim region and nearby region, namely Qingdao, Yantai and Lianyungang. For Qingdao, it is the largest iron ore import port in the PRC; for Yantai, it has direct routes to foreign countries and has 20 international routes; and for Lianyungang, its container transportation capacity reaches 200,000,000 standard pack. Apart from the keen competitions with other port terminals in the PRC, competitions also arise from similar companies with similar services provided in Qingdao and Lianyungang and those within Rizhao. The business of the Target Company may be adversely affected as a result of the competition from surrounding port terminal operators in Bohai Rim region and other nearby ports. In order to maintain the competitiveness, the Target Company will provide the best facilities, efficient and best loading and discharging services to the customers.

The Company considers that the Target Company's competition with the PRC Party is not keen, because of the following reasons:

(i) the Target Company's ports have the natural deep water advantage, which is in particular suitable for handling iron ores. In this regard, the Target Company loads and discharges mainly iron ores, contributing over 95% of its revenue in the Track Record Period; while the PRC Party handles a mixed profile of goods. Therefore, there has been no keen competition on customer orders for iron ores between the Target Company and the PRC Party. The Target Company maintains similar pricing level as its competitors. In view of the specialization in handling iron ores, the Target Company has provided tailor-made services to its customers and gained a good reputation in the market. The Target Company has a definite advantage to attract customers requiring import and export of iron ores; and

(ii) port location is one of the most important factors for the success of a port. Customers always choose a port that is most convenient for them to transport their goods to save the transportation costs. Therefore, customers usually choose the port that is located in their proximity or near relevant railway stations. They do not change their preferred ports frequently. By nature of the different port locations, the key customer base of the Target Company and the PRC Party is not exactly the same. Therefore, there is no keen competition between the Target Company and the PRC Party.

4. Reliance on services provided by the PRC Party and its associates (including RHLPM)

Pursuant to the agreements entered into between the Target Company and the PRC Party and its associates, the PRC Party and its associates would provide, among other services, to the Target Company administrative supports for terminals and logistics services, leasing of terminal facilities and equipment, logistic services and necessary construction of port facilities. For details, please refer to the section headed "Business Overview – (7) Relationship and ongoing transactions with the PRC Party and RHLPM".

The fee payable by the Target Company to the associates of the PRC Party (excluding the fees payable for construction work from 日照港建築安裝工程有限公司 which was capital in nature) represented approximately 21%, 36%, 30% and 25% of the total cost of services of the Target Company for the year ended 31 December 2007, 2008 and 2009 and for the eleven months ended 30 November 2010 respectively.

The Target Company employs the PRC Party and its associates (including RHLPM) to provide relevant port services because they are experienced in serving ports in Rizhao and Lanshan regions, and they have offered high quality of services. The Target Company intends to continue to use their port related services in future.

If they cease to provide the relevant services to the Target Company, the Target Company may require time to find replacements and may need extra efforts in cooperating with new service providers. Also, the service quality of the new service providers might not be as high as those from the PRC Party and its associates. In such cases, the Target Company's operations might be adversely affected.

Nevertheless, there are other service providers in the market capable of providing similar port related services, the Company believes that the Target Company could find suitable service providers to replace the PRC Party and its associates in such aspects. Therefore, it is considered that the Target Company relied on, but not heavily, the services provided by the PRC Party and its associates.

5. Increase in income tax rates affects profitability

Pursuant to the letter issued by the relevant PRC authority on 7 March 2005, under Guoshuihan, [2005] No. 6 (日照市國家稅務局日國稅函 [2005] 6號), the Target Company is exempted from PRC Enterprise Income Tax for the first five years commencing from its first profit-making year of operation and thereafter, the Target Company will be entitled to a 50% relief from PRC Enterprise Income Tax for the following five years ("Tax Preference"). The Target Company started these Tax Preference from 2005 when first profit-making year of operation began. The Target Company was exempted from the PRC Enterprise Income Taxes for the years ended 31 December 2007, 2008 and 2009.

The applicable income tax rate for the Target Company was 15% for the year ended 31 December 2007. Pursuant to Guoshui Fa [2007] No. 39, starting from 1 January 2008, the applicable income tax rates for companies with tax preference were changed from 15% to 18%, 20%, 22%, 24% and 25% for the years ended 31 December 2008, 2009, 2010, 2011 and 2012 respectively. The reduced PRC Enterprise Income Tax rate for the eleven months ended 30 November 2010 is 11%.

The effect of income tax preference is on decreasing and the tax charge will increase to the normal level of applicable tax rate. Thus, the tax burden of the Target Company is increasing and will affect its profitability.

6. Increase in interest rates affects profitability

As at 30 November 2010, the Target Company has bank borrowings of approximately RMB189.7 million. The interest payable on the bank borrowings is calculated based on variable interest rate. The benchmark interest rate fixed by The People's Bank of China ("PBOC") in the PRC is on increasing which is the result of the PRC government policy to control over-heated economy. Thus, the interest rate may continue to increase and in turn lead to an increase in interest expenses for the existing variable rate borrowings. Increase in interest rates will also affect the Target Company and its customers' ability to obtain financing which may in turn adversely affect the growth and financial condition of the Target Company and hence affect the profitability of the Target Company.

7. *Substantial and continuous capital expenditures affect the liquidity position*

According to the expansion and capital development planning, the Target Company will incur substantial and continuous capital expenditures. As at 30 November 2010, the Target Company had capital commitments of approximately RMB380 million. The capital commitments will be financed by internal resources and external financing. Earnings from the Target Company may be used to finance the expansion and hence, affect the liquidity of the Target Company.

There are also significant risks involved in the Target Company's expansion plans, including whether the timing and size of its expansion plans will result in greater revenues and profitability and not burden it with excessive debt or other costs and, further, whether it will be able to expand in a timely and efficient manner. The Target Company's success depends largely on its ability to anticipate and react to the expected changes in future demand for its services.

The risk of returns to shareholders is increased if the expansion plan cannot be completed on schedule or the actual cost exceeds the budgets. Also, the future fixed assets will involve depreciation expenses which may in turn negatively affect the Target Company's profitability.

8. *Obtaining the approvals for the usage of Port Construction Fee Refund in capital expenditure projects*

According to the Approval on Imposing Port Construction Fee From the Ports Exclusively Used by Enterprises (implemented on 26 May, 2000) and the Temporary Regulations on the Sharing Fund Use of Port Construction Fee (implemented on 1 January, 1997), 50% of port construction fee imposed from the ports exclusively used by enterprises will be refunded back to the aforesaid enterprises. The port construction fee refund shall be used to construct port infrastructure, port improvement projects and the water lighterage projects or repay the domestic or foreign debts of port infrastructure.

The usage of the port construction fee refund is monitored by relevant finance monitoring offices supervised by government bodies under the Ministry of Finance of the PRC.

The Target Company intends to apply the port construction fee refund in its future port infrastructure projects. The Target Company will follow the relevant procedures in respect of usage of the port construction fee refund under relevant rules and regulations in the PRC when the port construction fee refund is used.

During the years ended 31 December 2007, 2008 and 2009, refunds of port construction fee amounting to approximately RMB112,000,000, RMB65,000,000 and RMB56,000,000 were received from the Ministry of Transport of the PRC. As at 30 November 2010, the Target Company had port construction fee refund of RMB248,230,000 in total.

The usage of the amounts of the port construction fee is subject to the approval of the relevant PRC government authority. If there is any change in the policy in granting the approval or any change in the designated usage of the fund due to the change in government policy in future years, the Target Company may not be able to utilize such port construction fee and the Ministry of Transport of the PRC may require the Target Company to refund such funds.

9. The Target Company's success significantly depends on the key management and additional management

The Target Company is currently operated by the experienced key management. They have experience in port planning, construction, overall development strategy, day-to-day operation and management. As the Target Company will continue to undergo expansion following the Completion, if the Target Company is not successful in retaining and/or attracting key personnel subsequent to the Completion, this may result in loss of organization focus, poor execution of operations and inability to identify and execute potential strategic initiatives such as expansion capacity. The Target Company's business and results of operations could be materially and adversely affected.

There are nine members in the existing Target Company's board of directors, consisting of 2 representatives from the PRC Party and other representatives from other shareholders of the Target Company. Other than the board members of the Target Company, the management and operational employees are employed by the Target Company independently. In view of the aforesaid and that the PRC party has no domination in the Target Company's existing board of directors, the Company considers that the Target Company's management and operation are not controlled by the PRC Party.

Further, after Completion, the Group will be entitled to nominate and appoint half of the board members of the Target Company. The Company is confident that it will substantially participate in the decision making processes of the Target Company after the Acquisition.

In order to retain competent and experienced management and operational team for the Target Company's operations, the Target Company has offered a competitive remuneration package to its staff. The Target Company periodically reviews its staff remunerations and compares them to the salary levels of other companies in the port industry and in nearby locations. The Target Company also provides staff trainings and organizes staff recreation and gathering activities to enhance the sense of belonging of its staff in the Target Company.

Further, the Company has discussed with Mr. Feng Gang (vice general manager of the Target Company) and Mr. Liu Jiatao (secretary to the board of the Target Company) regarding the possible change of shareholding structure of the Target Company and the Acquisition. Mr. Feng and Mr. Liu have agreed to continue serving the Target Company after the proposed change of shareholding structure and the Acquisition.

As majority of the Target Company's senior management and operation staff has served for the Target Company for a long period of time, the staff morale is high and the cooperation between departments is effective. The Target Company will continue to use its best efforts to improve the working environment for its employees.

The Company considers that resignation of the Target Company's existing management may have a temporary impact to the Company, as the Company will need to spend time and efforts to recruit replacements. However, as the port operations (including the customers and suppliers) of the Target Company are stable and its business have been operated for many years, the impact of failure of retaining the existing Target Company's management would be minimal to the operations of the Target Company as a whole.

To assist the Company in managing the operation and performance of the Target Company, the Company is in the process of identifying potential candidates, having expertise in logistics and/or port industry, to be appointed as the Company's directors and/or senior management in the future.

10. The expected operational risks on the Target Company's operation

The operation of a terminal may be adversely affected by many factors, such as adverse weather condition preventing the parking of vessels to the berths and silting of channels etc. The occurrence of the above circumstances could disrupt operations at the terminals and adversely impact the Target Company's performance and operation.

Bad weather condition includes foggy weather in spring and windy weather in summer. Such bad weather, in some circumstances, would increase the turnover time of the goods and slow down the operations of the port (generally such circumstances do not occur more than 14 days in a year). Further, in severe weather condition, the operations of the ports of the Target Company might be required to suspend.

Besides, the channels near the ports might be silted and the vessels might not be able to operate in the port region appropriately. In order to prevent from silting of channels, the Target Company monitors the condition of the channels on quarterly basis and performs large scale silt displacement works every three years.

11. Assurance on the amount of future distributions of dividend

For the three years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010, the Target Company declared cash dividends of approximately RMB50.4 million, RMB39.2 million, RMB63.6 million and RMB92.7 million respectively, which have been fully paid and settled. The historical dividend and the above intention do not amount to any guarantee or representation or indication that the Target Company will declare and pay dividend in such manner in the future or declare and pay any dividend at all. There can be no assurance, and in fact it is not expected, that the amount of dividend declared by the Target Company in the future, if any, will be at the level declared and paid prior to the Acquisition.

Risk Factors relating to the Target Company's Industry

1. The Target Company's results of operations are affected by global trading volumes and economic, financial and political conditions.

The Target Company's results of operations are affected by the volume of its business which in turn depends on international trade volumes as well as the import and export volumes of the PRC generally. International trade volumes and Chinese import and export volumes will be affected by changes or developments in global economic, financial and political conditions, or fears of any of these. These are outside the Group's control. In particular, an economic slowdown in the PRC and/or globally may materially and adversely affect the Group's financial position and future prospects.

Other extraneous factors, such as impositions of trade barriers, sanctions, boycotts and other measures, trade disputes and work stoppages, particularly in the transportation services industry, and acts of war, hostilities, epidemics or terrorism, could adversely affect trading volumes and lead to a material decline in the demand for the Target Company's services and the results of operations of the Target Company will be adversely affected.

2. The Target Company is currently subject to security and customs standards, which may increase, and any failure by the Target Company to meet applicable requirements could cause its business to be harmed

The Target Company is currently required by the Ministry of Transport, State Administration for the Supervision of Work Safety (國家安全生產監督管理總局), the Customs General Administration and other government authorities of the PRC to fulfil certain security and customs standards at its facilities, including safety assessment schemes for port construction and assessment schemes for safety conditions initiated by port operators in respect of uncertainty in operation safety at terminals for the loading and unloading of other non-dangerous goods. In addition, personnel responsible for any inbound or outbound vessels entering or leaving from customs points shall arrange for declarations to the customs authority and submission of documentary evidence, and the vessel shall undergo supervision and inspection by the customs authority. No inbound or outbound vessels berthing at customs points are allowed to leave from a port without prior approval by the customs authority.

Consignees of imported goods and consignors of exported goods must arrange declaration to the customs authority and submission of import and export permits and relevant documentary evidence. Goods which are subject to national restrictions on import and export may not be released without evidence of import and export permits. Should the Target Company fail to fulfil these requirements, a penalty may be imposed or the Target Company may be subject to confiscation of income, if any, from such illegal actions. If the Target Company is to incur such a penalty, its business, financial condition and results of operations may be harmed. Any failure by the Target Company to control the costs involved in complying with these requirements could have a material adverse effect on its business, financial condition and results of operations.

As a result of terrorist activities and increased security concerns, there is a global move towards increased inspection procedures and tighter import and export controls and safety regulations. Although there are currently no specific regulations or compliance procedures that affect us in this regard, we cannot assure you that such regulations or procedures will not be introduced in the future. If the additional compliance costs of any such regulations or procedures cannot be recovered through higher ports fees and charges, the operating margins of port operators may be adversely affected.

3. The normal operations of the Target Company could be affected by natural disaster or other events beyond their control

Similar to many other businesses, our normal operations could be adversely affected or disrupted by natural disasters (such as earthquake, flood, fire, typhoons or other natural disaster or other force majeure events) or other events including but not limited to:

- mechanical and electrical equipment failure; and

- strike or lock-out or other industrial action by workers or employers.

These events would adversely affect the normal operations of the shipping industry and international trade which would, in turn, adversely affect business of the Target Company and could cause disruption to our operation in part or in whole therefore may materially affect our financial conditions and results of operations.

4. The industry of the Target Company is capital intensive, and failure to maintain sufficient capital may have an adverse impact on its business

The industry of the Target Company is capital intensive as it requires a large sum of capital contribution at early stage, including construction of port terminals and purchase of loading machines. However, when the ports commence the operations, there are stable operating cash inflows and no substantial working capital is required. The Target Company funds its working capital requirements out of its cash inflows from operating activities and short-term borrowings.

The Target Company may require more capital when it expands its business and plans to build new berths. If the Target Company fails to maintain sufficient capital through the operating activities or maintenance of bank loans, it may not have sufficient capital for its business expansion and its business plan may be adversely affected.

5. *The Target Company is in a highly regulated industry, subject to regulatory requirements, approvals and licences*

Any changes to the laws, regulations and policies governing the port industry in the PRC may have a material adverse effect on the Target Company's business and operations. The Ministry of Transport of the PRC and other relevant government departments currently formulate port dues and charges chargeable by port operators. Exports or imports of cargo must undergo customs and excise and quarantine and inspection procedures.

The Target Company operates its business pursuant to licences granted by various PRC government authorities. If any of these approvals or licences granted to the Target Company were revoked or suspended as a result of any changes in laws, regulations or government policies, the business and operations of the Target Company may be materially and adversely affected. However, the Company considers that the above risk of revocation or suspension of approvals or licences is low. As at the Latest Practicable Date, the Target Company has not received any notification for any material violation of relevant laws and regulations in the PRC.

In addition, construction of the Target Company's port infrastructure and facilities is subject to environmental and urban planning laws and procedures. The administration and changes of these laws or procedures may adversely affect the implementation of the Target Company's expansion plan.

6. *The Target Company is subject to a wide range of environmental regulations*

The Target Company is subject to PRC national and local environmental laws and regulations, including but not limited to regulations on air pollution, noise emissions, water and waste discharge. Any failure of the Target Company to comply with all applicable regulations could lead to substantial penalties, including penalties and administrative orders such as an order to cease operation or to terminate the business.

The Target Company could also incur civil liabilities such as abatement and compensation for loss. In addition, the Target Company may incur substantial additional costs to comply with existing and future environmental and other regulatory obligations including costs relating to maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of its ability to address pollution incidents. Any failure of the Target Company to control the costs involved in complying with these laws and regulations could have a material adverse effect on the Target Company's business, financial condition and results of operations.

Risk Factors relating to the PRC

1. The operations and assets of the Target Company in the PRC are subject to changes in the economic, political and social environment in the PRC

The Target Company currently operates solely in the PRC. Therefore, the results of operations and future prospects of the Target Company are subject to the economic, political and social developments in the PRC. The economy of PRC differs from the economies of developed countries in many respects, including with respect to the amount of government involvement, growth rate, level of development, allocation of resources, capital reinvestment, and control of foreign exchange.

The economy of the PRC has been gradually transitioning from a planned economy towards a more market-orientated economy. However, there is no assurance that the PRC government will continue to pursue economic reforms. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. The PRC government has in recent years implemented a series of measures, including but not limited to macro-economical control measures and export policies, to forestall threatening inflation and to stabilize PRC's economy. These measures may benefit the overall PRC economy in the long term but may also have an adverse effect on the Target Company and its operations.

The operations and future prospects of the Target Company could also be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretations thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and imposition of additional import restrictions in the future.

2. The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to the Company and to the Shareholders

The PRC legal system is based on written statutes. Prior legal decisions and judgments have limited precedential value. Since 1979, the PRC government has established a commercial legal system, and has made significance progress in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce and taxation. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many aspects. Furthermore, the PRC legal system is based in part on government policies and administrative rules that may have retrospective effect. As a result, we may not be aware of any violation of these policies and rules until some time after such violation. The legal protections available to the Target Company or the Company under these laws and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and the diversion of resources and management attention.

3. Movements in the exchange rate of the RMB may adversely affect the financial condition and results of operations of the Target Company

At present, RMB is not a freely traded currency and RMB exchange rates are tightly controlled by the PRC government. The value of the RMB against other foreign currencies is subject to changes in the PRC government's policies and international economic and political developments.

It is uncertain whether there will be any significant fluctuation of the RMB against the US dollars or other currencies. To the extent that RMB appreciates against US and Hong Kong dollars, the Company's results of operations, which are presented in Hong Kong dollars, will increase, and to the extent that the RMB depreciates in value, the Company results of operations, as presented in Hong Kong dollars will decrease. Any significant change in the exchange rates of the RMB against the US dollars and Hong Kong dollars could also affect the value of the Group's dividends, which would be funded by RMB but paid in Hong Kong dollars.

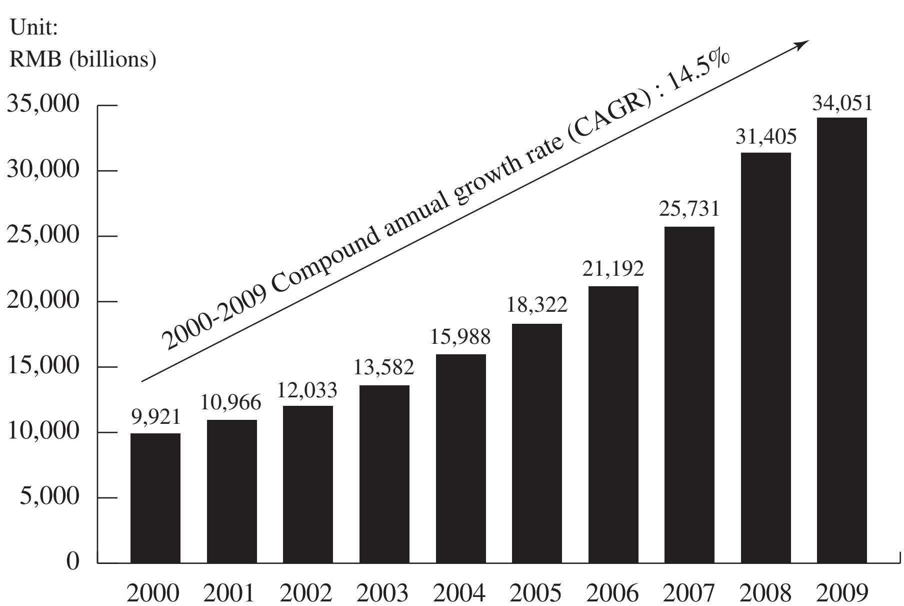
INDUSTRY OVERVIEW

PRC Port Industry

The PRC economy has shown strong momentum with an average gross domestic product annual growth rate of over 8% from its accession into the World Trade Organisation in December 2001 till the end of 2009. Foreign trade in the PRC has increased steadily with a compound annual growth rate of approximately 18.7% over the period from approximately US$474 billion in 2000 to approximately US$2.21 trillion in 2009. According to the PRC's Customs Statistics, the United States, Japan and South Korea have been three of the most important trade partners to the PRC in recent years, accounting for an aggregate trade value of approximately US$683.4 billion in 2009, representing approximately 31.0% of total foreign trade value of the PRC in 2009.

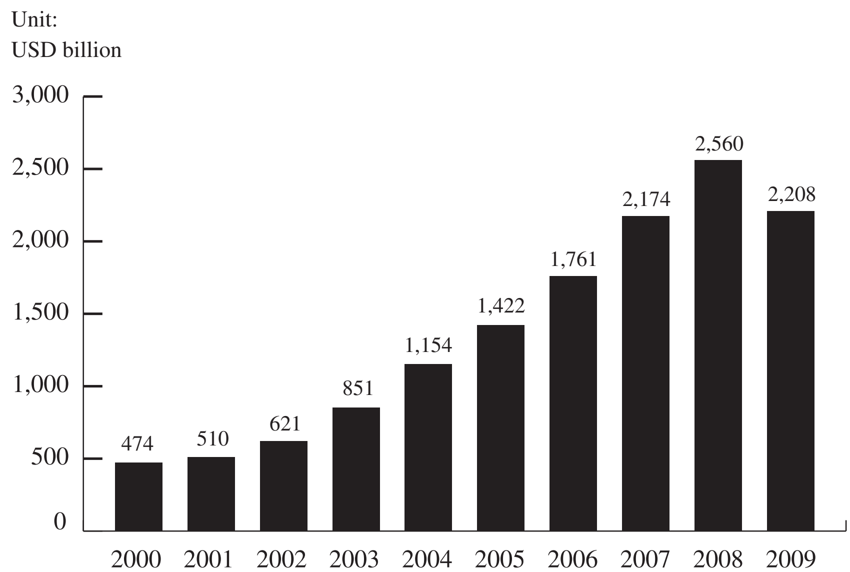
PRC GDP growth rate 2000-2009

Nominal GDP



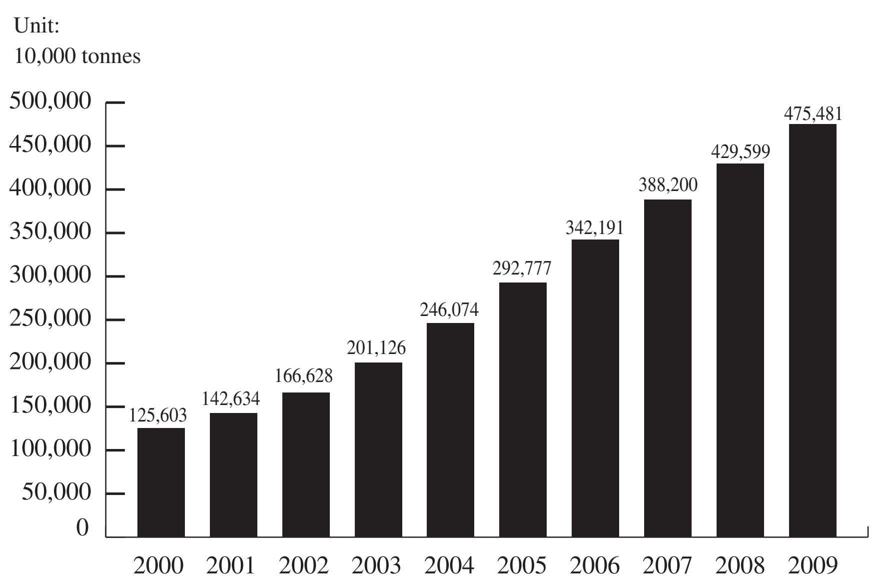
Source: National Bureau of Statistics, 2009 Yearbook

Total foreign trade value of PRC, 2000-2009



Source: National Bureau of Statistics

Aggregate cargo throughput at major ports in the PRC, 2000-2009



Source: National Bureau of Statistics

According to the Ministry of Transport, the aggregate cargo throughput at major ports has exceeded 7.7 billion tonnes in 2009 from approximately 5.9 billion tonnes in 2008, representing a growth rate of approximately 30.5%. The volume of cargo handled at the major ports (being the coastal ports with annual cargo throughput capacity of one million tonnes or more according to the Ministry of Transport) accounted for a substantial share of aggregate cargo throughput in the PRC. Driven by the growing economy and increasing foreign trade, both aggregate cargo throughput and foreign trade throughput of the PRC have increased substantially.

The non-containerised cargo throughput at major ports in the PRC, accounted for a substantial share of aggregate cargo throughput. Coal, petroleum and metal ores are the main types of non-containerised cargo handled at the ports of the PRC.

Table below sets out the throughput of major types of non-containerised cargo at major ports in the PRC from 2001 to 2009

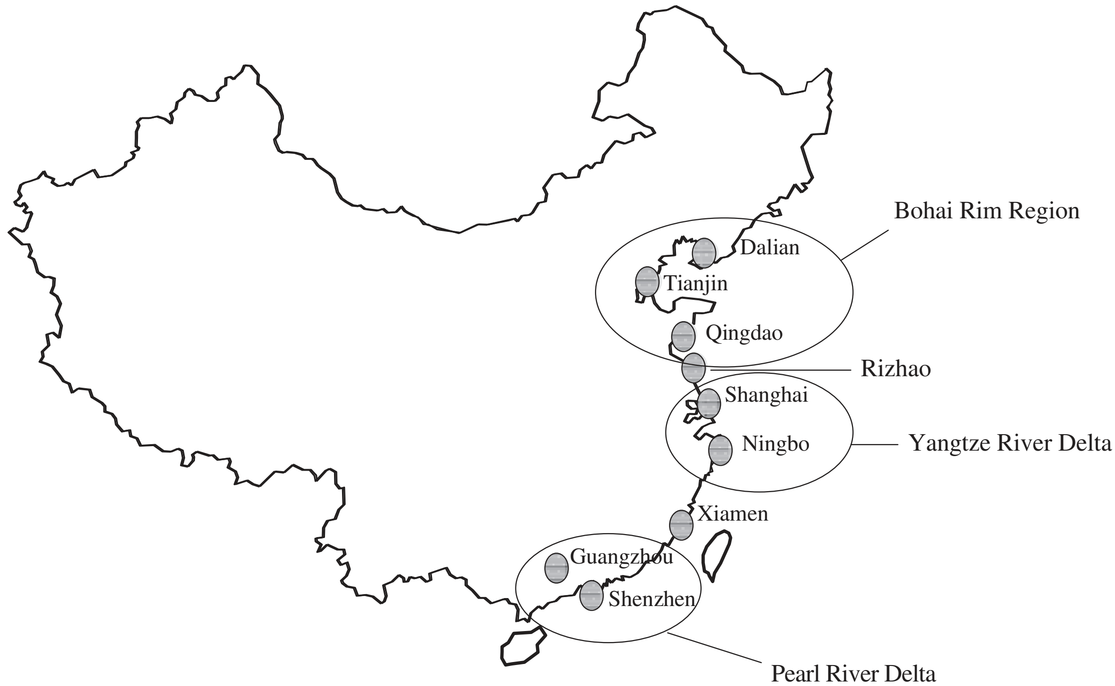
Throughput of major types of non-containerised cargo at major ports in the PRC from 2000 to 2009

Rank	**2009**		**2008**		**2007**	
	port	**throughput** *(million tonnes)*	**port**	**throughput** *(million tonnes)*	**port**	**throughput** *(million tonnes)*
1	Ningbo-Zhoushan	577	Ningbo-Zhoushan	520	Shanghai	492
2	Shanghai	495	Shanghai	508	Ningbo-Zhoushan	473
3	Tianjin	381	Tianjin	356	Guangzhou	343
4	Guangzhou	364	Guangzhou	347	Tianjin	309
5	Qingdao	315	Qingdao	300	Qingdao	265
6	Dalian	272	Qinhuangdao	252	Qinhuangdao	249
7	Qinhuangdao	249	Dalian	246	Dalian	223
8	Suzhou	246	Shenzhen	211	Shenzhen	200
9	Shenzhen	194	Suzhou	203	Suzhou	184
10	Rizhao	181	Rizhao	151	Rizhao	131

Source: Ministry of Transport of the People's Republic of China

According to the Ministry of Transport, there were over 400 ports in the PRC as of the end of 2009. The major ports are located within three principal regions, namely Bohai Rim Region (including the ports at Tianjin, Qinhuangdao, Dalian, Jiaodong peninsular, Qingdao and Rizhao), Yangtze River Delta (including the ports at Shanghai and Ningbo), and Pearl River Delta (including the ports at Shenzhen and Guangzhou).

The following map illustrates the three principal port regions in the PRC.



The ports in the Bohai Rim Region serve a vast hinterland. In addition to the traditional coal mining and heavy manufacturing industries, various other industries have emerged and developed since the implementation of economic reforms in the hinterland of this region. Aggregate cargo throughput of major ports in the Bohai Rim Region has achieved rapid growth from 2006 to 2009 benefiting from the Eleventh Five-Year Plan.

There are numerous light and heavy manufacturing industries in the hinterland of the Yangtze River Delta, and the ports in this region have benefited from the rapid development and reforms. Aggregate cargo throughput and container throughput of the Shanghai port ranked first among all major ports in the PRC.

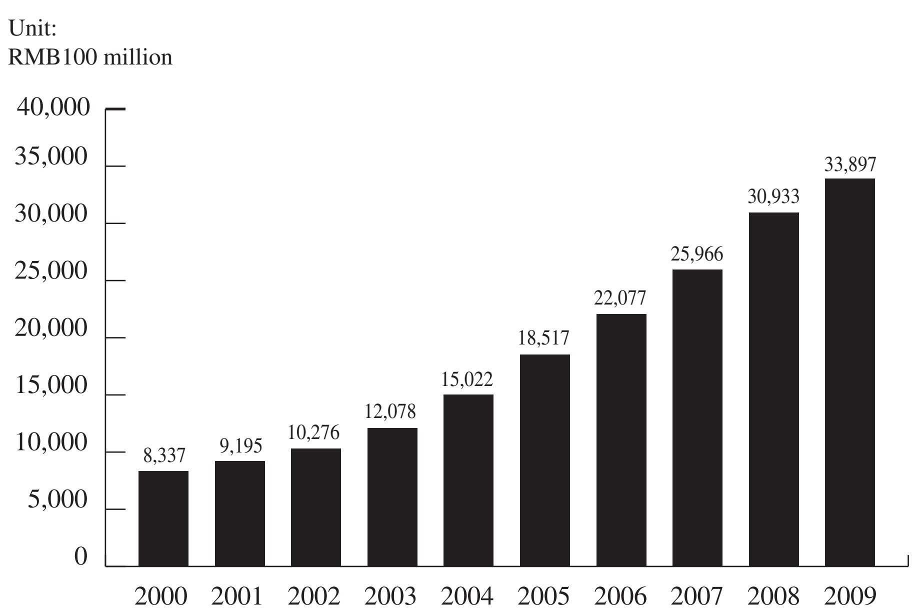
The manufacturing industries located in the hinterland of the Pearl River Delta are mainly engaged in the production of electronic, textiles and other consumer products. The ports in this region contributed a large proportion of total exports to the developed economies including the United States, Canada and the European Union in the recent years. Shenzhen port is a major export-driven container port in this region.

The table below sets forth aggregate cargo throughput of the ports at each of the three principal port regions:

	Aggregate cargo throughput (million tonnes)		
	2008	**2009**	**Growth**
			%
Bohai Rim Region			
Qingdao	300	315	5
Tianjin	356	381	7
Dalian	246	272	11
Rizhao	151	181	20
Yangtze River Delta			
Ningbo	520	577	11
Shanghai	508	495	(3)
Pearl River Delta			
Shenzhen	211	194	(8)
Guangzhou	347	364	5

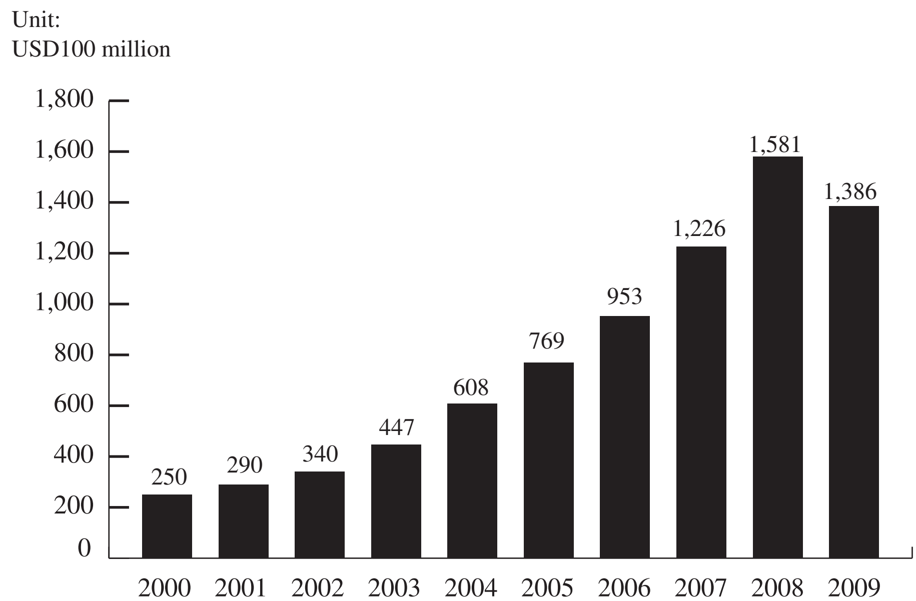
Source: Ministry of Transport, Statistics Bureau of Shenzhen, Statistics Bureau of Shanghai

Shandong province GDP from 2000-2009



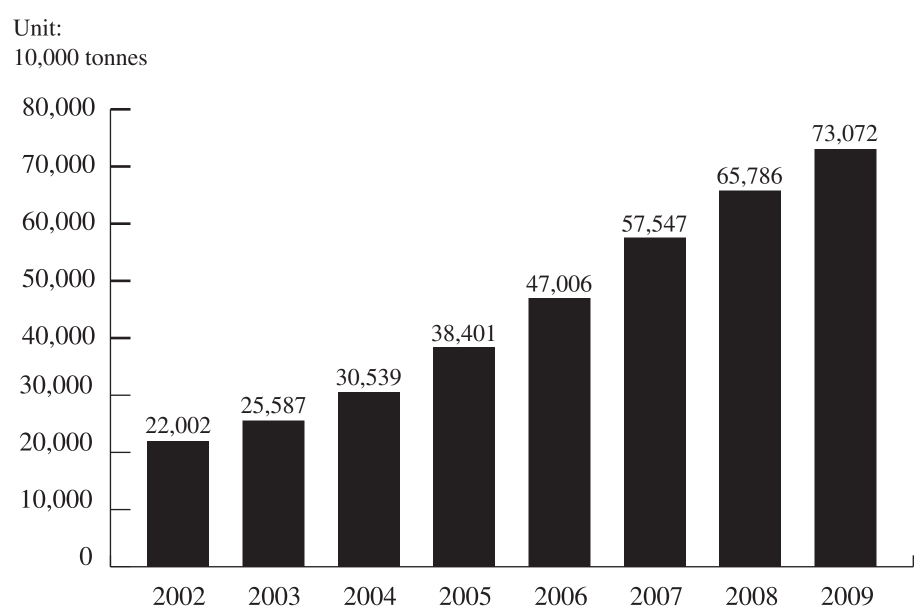
Source: National Bureau of Statistics

Shandong province foreign trade from 2000 to 2009



Source: Shandong Statistical Information Net

Throughput of major ports of Shandong province from 2000 to 2009



Source: Shandong Statistical Information Net

The port of Rizhao and Lanshan Harbour

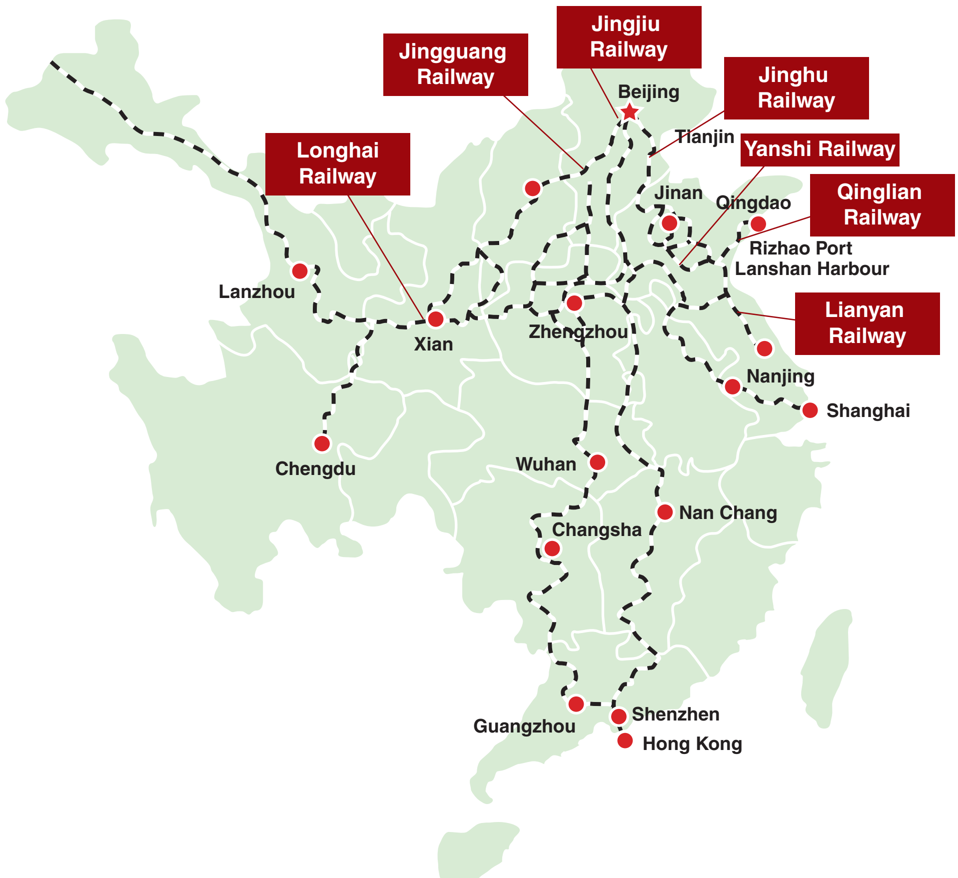
The following table sets out the top ten ports in the PRC, as measured by aggregate cargo throughput:

Port ranking	Aggregate cargo throughput (million tonnes)		
	2008	2009	Growth
			%
1. Ningbo	520	577	11
2. Shanghai	508	495	(3)
3. Tianjin	356	381	7
4. Guangzhou	347	364	5
5. Qingdao	300	315	5
6. Dalian	246	272	11
7. Qinhuangdao	252	249	(1)
8. Suzhou	203	246	21
9. Shenzhen	211	194	(8)
10. Rizhao	151	181	20

Source: Ministry of Transport, Statistics Bureau of Shanghai

The operation history of Lanshan Harbour can be traced back to the 1950's. As situated at 48 kilometers from the south of Rizhao Port, Lanshan Harbour is now equipped with approximately 9 berths of capacity from 5,000 tonnes to 50,000 tonnes each handling non-containerised cargoes. The close proximity of giant steel refineries increases loading, transportation and storage of metal ores in Lanshan Harbour. Over 95% of the cargo throughput of the Target Company during the Track Record Period was related to handling of metal ores.

Picture of transportation networks of major ports



Lanshan Harbour serves a vast hinterland. Ping-Lan railway stretches to Rizhao Port and links to Yan-Shi railway at Tieniumiao Station, which has wide connections with national main lines, such as Jing-Hu railway, Jing-Jiu railway and Longhai railway. Then runs westwards, passing by Yanzhou, Xinxiang, Houma to Xi'an station, thus the line forms a great east-west oriented railway artery paralleling the Long-Hai railway. Qing-Lian railway is from Qingdao to Lianyungang and links to Lian (yungang). Yan (cheng) railway is in the course of construction, and is expected to complete in 2012. Yan-Lan highway and Zao-Lan highway, which are under construction, will reach the port directly, and are linked to 204 National Road, Tong-San highway and Jing-Hu highway.

Development trend of the port industry in the PRC

Due to improving economic environment and competitive labour capacity and costs, the PRC's status as the "world's factory" is expected to continue to drive up trade volumes as well as port throughputs, with continuous shifting of manufacturing centers to the PRC by global manufacturers. Consequently, tremendous port development will be expected to catch-up with strong demand, though the PRC already has the newest port facilities in Asia, as expansion only in the few years.

With improving ports facilities and strong cargo resources, the PRC is expected to become a major transshipment centre for global carriers in North Asia, rivaling Korea, Taiwan and Hong Kong.

Regulations on port operation

According to Catalogue of Industries for Guiding Foreign Investment (revised in 2007), construction and operation of public dock facilities of ports is categorized in the encouraged catalogue. According to the Port Law of the People's Republic of China (implemented on 1 January 2004), the state encourages the economic organizations and individuals to invest in construction and operation of ports and protect the legitimate rights and interests of investors by force of law.

The port construction shall be in compliance with the port planning and no port facilities should be constructed in violation of the port planning.

The construction of the port engineering project shall go through the evaluation of environmental impacts by force of law. The security facilities and environmental protection facilities for port construction projects must be designed, implemented and put into use synchronously with the mainstay engineering. The use of land and water areas for port construction shall be in compliance with the provisions of the laws and regulations concerning the land administration, administration for use of seas, as well as other relevant laws and administrative regulations. The construction projects of port facilities can only be put into use after qualified acceptance examination upon their completion in compliance with the relevant state provisions.

According to the Port Law of the People's Republic of China (implemented on 1 January 2004) and the Provisions on the Administration of Port Operation (implemented on 1 March 2010), the company shall obtain the port operating license from the port administrative department with written application. The obtaining of the port operation license shall be available with fixed operation sites, corresponding facilities, equipment, professional technicians and management personnel relating to the businesses, together with other conditions specified by laws and regulations. In the business of operation, the port operators shall abide by the relevant laws and regulations, the provisions of the port operation rules of the competent traffic authority of the State Council and perform the contractual duties by force of law, thus providing customers with fair and excellent services. The port operators shall adopt effective measures for prevention and treatment of the pollution and harms to the environment according to the relevant laws and regulations on environmental protection. The port operators shall at the business sites publish the charging items and charging criteria of the operation services, which should not be implemented without publication. In case the operation charges of ports adopt the prices directed or determined by the government by force of law, the port operators shall execute in compliance with the provisions. The port operators shall pay all port administrative fees on time according to relevant regulations.

Regulations on the use of sea areas

According to the Law on the Administration of the Use of Sea Areas of the People's Republic of China (implemented on 1 January 2002), the sea areas are owned by the State, and the State Council exercises the right of ownership in the sea areas on behalf of the State. No entity or individual may seize, buy or sell the sea areas or illegally transfer them in other ways. Any entity or individual that intends to use the sea areas is required to obtain the right to their use in accordance with law. Any entity and individual may, for the use of sea areas, apply to the department in charge of marine administration under the people's government at or above the county level.

The department in charge of marine administration under the people's government at or above the county level shall, on the basis of the marine function zoning, examine applications for the use of sea areas, and shall, in accordance with the provisions of this law and the regulations of the people's government of the province, autonomous region, or municipality directly under the Central Government, submit the applications for approval to the people's government and the approval authority. When examining applications for the use of sea areas, the department in charge of marine administration shall solicit opinions from the departments concerned at the same level.

Where the use of a sea area is approved by the State Council after the application for its use is approved in accordance with law, it shall be registered with the department in charge of marine administration under the State Council, which shall issue to the applicant the certificate of sea use rights; where the use of a sea area is approved by a local people's government, it shall be registered with the said government, which shall issue to the applicant the certificate of the sea use rights. The applicant shall, beginning from the date he receives the certificate, obtain the right to use of the sea area.

Regulations on the use of coastal line

According to the Port Law of the People's Republic of China (implemented on 1 January 2004) and Provisions on the Administration of Port Construction (implemented on 1 June 2007), with respect to the construction of port facilities in the areas under overall planning of ports, if it uses the deep-water lines of ports, it shall be approved jointly by the competent traffic authority of the State Council and the comprehensive macro-control and adjustment department of economy of the State Council; if it uses the non-deep-water lines of ports, it shall be approved by the port administrative departments.

Regulations on storage operation

According to the Port Law of the People's Republic of China (implemented on 1 January 2004) and the Provisions on the Administration of Port Operation (implemented on 1 March 2010), the company who intends to run port storage business in China shall obtain the Port Operating License from the port administrative department with written application. Port operation includes the storage operation. The port operator shall run port operation abide by the operating scope permitted by the port administrative department.

The Target Company uses its own storage yard to run its port storage operation other than warehouse.

Regulation on port-related fees

Currently, relevant fees and charges on port operations in China are governed by PRC regulations. As prescribed in the rules promulgated by the Ministry of Transport, rates of fees charged by PRC port operators are stipulated for most terminal services, including non-containerised cargo handling, tugging, mooring, berthing and storage with a prescribed handling fee set for each type of cargo under such rules. Pursuant to the revised "Rules of Charges at Ports in the PRC (Domestic Trade)" which was effective from August 2005, port operators are permitted to charge a lump sum fee, which can be adjusted based on market conditions, for domestic trade non-containerised cargo handling and storage. Relevant fees for foreign trade non-containerised cargo must be set within the range stipulated under the "Rules of Charges at Ports in the PRC (Foreign Trade)", which was last revised in December 2001. Currently, relevant fees charged at the ports constructed and operated by foreign investment enterprises are not required to follow the rules promulgated by the Ministry of Transport. However, such fees must be reported to the local government for record.

BUSINESS OVERVIEW

(1) Introduction

The Target is an investment holding company incorporated in Hong Kong with limited liability on 26 January 2006. As at the Latest Practicable Date, the Target has been authorized to issue 10,000 ordinary shares of HK$1 each, of which one share of the Target has been issued and paid, where the Vendor is its sole shareholder. The principal asset of the Target is its holding of 26% equity interest in the Target Company. Other than the shareholding in the Target Company, the Target also has other investment in the PRC as at the date of the Agreement. It is a condition precedent to the Completion that the Target has to dispose all the assets and liabilities not related to the investment in the Target Company.

The Target Company is a sino-foreign equity joint venture established in the PRC on 25 August 2004. The operating period of the Target Company is 50 years from 25 August 2004 to 24 August 2054. The registered capital and the total investment amount of the Target Company were RMB140 million which has been fully paid up and RMB200 million respectively. RHLPM, a joint venture partner of the Target Company at its establishment, injected the work-in-progress of the two berths in Lanshan Harbour as its contribution of registered capital whilst all other joint venture partners injected cash as their contribution of registered capital. The RHLPM's stake in the Target Company was subsequently transferred to the PRC Party in March 2007.

The shareholding of the Target Company

As at the Latest Practicable Date, the Target Company is beneficially owned as to 26% by each of the Target and the PRC Party, as to 22% by PRC Company A, as to 21% by PRC Company B and as to 5% by HK Company A. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, all joint venture partners of the Target Company and their respective beneficially owners are Independent Third Parties.

(2) Key business drivers and key factors affecting the results of the Target Company

The followings are the key external drivers and internal factors affecting the operation and business of the Target Company:

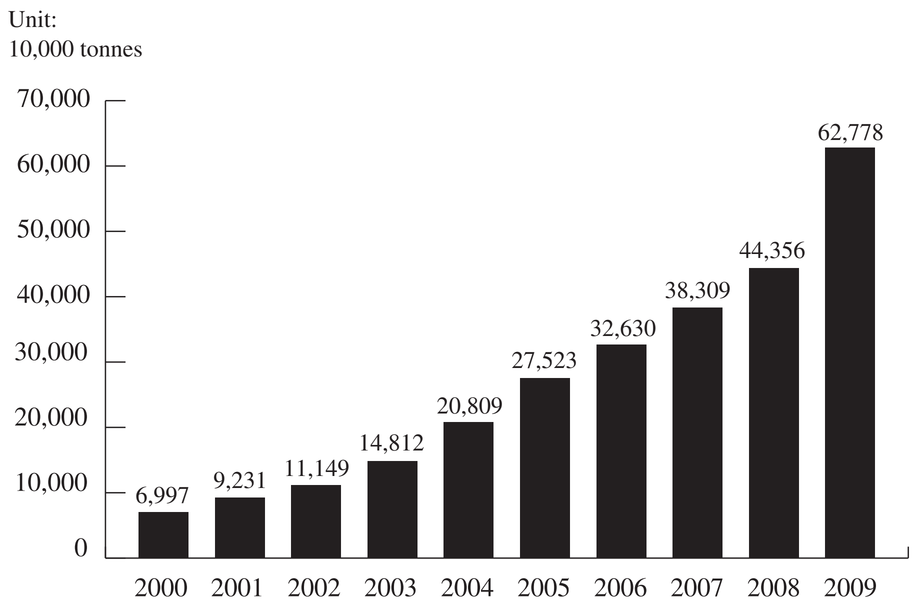
External Factors:

(i) Demand for iron ores in the PRC

China's gross domestic product (GDP) and the value of its foreign trade have increased significantly in recent years. According to the PRC National Bureau of Statistics, China's GDP rose from RMB9,921 billion (equivalent to approximately HK$11,578 billion) in 2000 to RMB34,051 billion (equivalent to approximately HK$39,738 billion) in 2009, representing a compound annual growth rate (CAGR) of 14.5%. Between 2000 and 2009, the value of China's total foreign trade rose from US$474 billion (equivalent to approximately HK$3,697 billion) to US$2,208 billion (equivalent to approximately HK$17,222 billion), representing a CAGR of 18.7%.

As a result of the rapid growth of the China's economy and trade and the development of infrastructure facilities in the PRC in recent years, the demand for iron ores has been increased significantly. According to the PRC National Bureau of Statistics, the import of iron ore in PRC rose from 69,970,000 tonnes in 2000 to 627,780,000 tonnes in 2009. The Company expects that the growth of the demand of iron ores in the PRC will be sustained in the future in line with the economy in the PRC. Given over 95% of the goods handled by the Target Company is iron ores, the Company expects that the Target Company will continue to receive more customer orders due to the growth in demand for iron ores in the PRC.

PRC import of iron ore 2000-2009



Source: National Bureau of Statistics

(ii) Globalisation of the world economy and trade, and development of the international shipping industry

One of the key drivers of the growth of the global port industry is the increase in international trades. Developments, such as improvements in world-wide communication systems, transport and trade links and diplomatic initiatives, including China's accession to the World Trade Organisation, make it easier for companies to source their products globally, thereby contributing to the growth in the port industry.

Further, the international shipping industry has developed rapidly in recent years, in terms of the number of shipping vessels plying trade routes. Among all regions of the world, Asia, in particular, has witnessed rapid growth in the shipping industry.

Internal Factors:

(i) Efficient and effective management

The Target Company maintains a simple management structure for its operation. As the Target Company is a private company and has a relatively small scale of operations, the management of Target Company responds quickly to the market and customer needs, when compared to other ports in the PRC operated by large state-owned enterprises.

Because of the efficient and effective management of the Target Company throughout the past years, the Target Company has built reputation among customers and maintained a group of customers with high loyalty.

(ii) Provision of high quality services

The Target Company has maintained long term business relationship with a group of external service providers. With the support of such service providers, the Target Company currently provides all-rounded services to its customers. From the moment a vessel parks at its berth, the Target Company will arrange all necessary procedures, including loading and off-loading, order dispatching, taking delivery, organizing logistics support to roads and railways etc. Customers are not required to carry out researches or quotations and monitor works on site by themselves.

Besides, the Target Company has its own storage areas for customers to temporarily place their goods before delivery. And the Target Company has its own equipment and facilities with high efficiency to shorten the time required in the loading and off-loading processes. For the above reasons, the Target Company has achieved a high turnover of goods and provided tailor-made services of high quality to its customers in the past years.

Also, as the services of the Target Company have been outsourced, the Target Company has been able to control the overall handling costs and overheads in an effective way. Under such arrangement and strategy, the Target Company has attained a relatively higher gross profit margin than its competitors.

Generally, the above external factors are out of the control of the Target Company. The Target Company has closely monitored the above internal factors and their impact to the performance of the Target Company.

(3) Principal strengths of the Target Company

(i) Strategic location of Lanshan port

The principal port operation of the Target Company is located in Lanshan port, Rizhao city, Shandong Province. It is located in north corner of Haizhou gulf of the Yellow Sea, being one of the nearest sea gates for the New Asia-Europe Continental Bridge and mid-western area in China. Its harbour is favorably endowed geographically with convenient water and land transportation. Therefore, Rizhao port is one of the designated locations for importing and exporting minerals, and the Target Company is well positioned to take advantage of the growing demand for trading of iron ore and other minerals.

(ii) Natural deep water advantages

Lanshan port is a natural deep water port with depth of 13 meters and located in Shandong Province in the northeastern China. Lanshan port is ice-free all year long and has a broad port with deep water channels. The Target Company is well positioned to leverage the natural deep water advantages of Lanshan port.

(iii) Comprehensive transportation network

The Lanshan port can be reached directly by Yan-Lan highway and Zao-Lan highway, which links to 204 National Road, Tong-San highway and Jing-Hu highway. The transportation network in Rizhao city and its hinterland is well developed, with various modes of transportation including sea, rail, road and air carriages. The convenient transportation condition enables the Target Company's customers to deliver their iron ores efficiently to iron and steel production plants.

The Board believes that the natural conditions, strategic location and transportation network of Lanshan port provide the Target Company with favourable conditions to conduct its business.

(iv) Numerous iron and steel industries nearby

The hinterland of the Target Company covers Shanxi (where large amount of coal is produced), Hebei, Shandong, Henan, Shaanxi (where the famous Terra-cotta is), Anhui, Gansu and portside industrial garden. Among such areas, there are numerous iron and steel industries and factories requiring imports of large amounts of ores for consumption. Further, Linyi, Xuzhou and Zibo areas are developing iron and steel industries in large scale. Also, Shandong Steel Group Rizhao Branch, which is only 8 kilometers from the Lanshan port, has started a project "famous brand steel base of Rizhao". It will form a steel factory with scale of 20,000,000 tonnes when the project is completed.

(v) Experienced management and operational team

The Target Company has a stable and competent management team. The management team members have extensive experience in the port industry and have served the Target Company for many years. Some of them had worked for relevant government authorities in the port industry, and are familiar with the industry practices. Please refer to the section "Senior Management of the Target Group" for details.

Further, the Target Company has engaged professional operation teams with abundant experience in port business. With such strong labor force, the Target Company provides high quality services to its customers at low costs.

(vi) Long term relationship with customers

The Target Company operates in a reputable port and maintains good and long term relationship with its customers. Its major customers include large iron and steel producers, and logistics and shipping companies. Many of them have placed steady orders with the Target Company during the Track Record Period.

Having a portfolio of long term customers, the Target Company can manage the creditworthiness of the customers better and reduce risk of bad debts. Generally, the long term customers of the Target Company have good repayment history and financial position. The management of the Target Company closely communicates with the major customers, understands their latest financial position and operations, and monitors their subsequent fee repayments.

(4) History and development

(i) History of the Company

The core businesses of the Target Group are centred in Lanshan Harbour, Shandong province. Lanshan Harbour is close to the Rizhao Port which is one of the top 10 major ports in the PRC. A brief chronology of key events for the Target Group is set out below.

Date	Event
August 2004	Establishment of the Target Company with registered capital of RMB100 million and obtained the relevant approval from Rizhao Foreign Trade and Economic Cooperation Bureau about the establishment. RHLPM, one of the original shareholders, injected berths and facilities of Lanshan port as its initial capital contribution
November 2004	Commencement of operation

Date	Event
June 2006	Increase of registered capital from RMB100 million to RMB140 million
August 2006	The Target, wholly owned by the Vendor, becomes a stakeholder and owns 26% equity interest in the Target Company
March 2007	PRC party becomes a stakeholder and owns 26% equity interest in the Target Company

(ii) Proposed Restructuring

As at the Latest Practicable Date, each of the Target and the PRC Party owns 26% equity interests in the Target Company. Upon Completion, each of the Target and the PRC Party will become the legal and beneficial owner of 50% of the equity interest in the Target Company.

The PRC Party will acquire 5% and 19% of equity interests in the Target Company from HK Company A and PRC Company A respectively before the Completion, while the Target will acquire 3% and 21% of equity interests in the Target Company from PRC Company A and PRC Company B respectively on or before the Completion. After such proposed transfer of equity interests in the Target Company, each of the Target and the PRC Party will own 50% equity interests in the Target Company.

Pursuant to the approval issued by Rizhao Finance Bureau (日照市財政局), it, in principle, agrees the PRC Party to acquire 5% and 19% equity interest in the Target Company from HK Company A and PRC Company A at a consideration not higher than RMB34,367,900 and RMB130,590,810 respectively.

The PRC Party is required to obtain approval from Rizhao Finance Bureau as it is a state-owned enterprise. Similar approval from Rizhao Finance Bureau is not required to be obtained by the Target.

(iii) Future business strategies

The primary business objective of the Target Company is to become a top distinctive international port company. The Target Company intends to implement the following business strategies in order to achieve its business objective:

(a) Increase the number and capacity of berths of the Target Company

Following the trend of increasing international trade, it is expected the demand for port terminal services will increase from the existing and potential customers. The Target Company intends to increase the number and capacity of its berths and terminals in order to increase iron ore and cargo throughput capacity and operational efficiency to meet the demand. The Target Company's construction in progress includes construction of new berths, and various expansion projects. Upon completion of such berth construction, the handling capacity of the Target Company will be greatly enhanced. Please refer to the section headed "Future development plan" on page 54 for details.

(b) Improve the quality of the services of the Target Company and its port-value added services

To enhance its competitive edge, the Target Company intends to improve the quality and efficiency of its principal loading and discharging services and its port-value added services to customers. The Target Company intends to review and streamline the operational flows of goods in carrying out its business to enable an efficient supply chain of iron ore and cargo.

(5) Business Model

The business model of the Target Company is to provide a platform and infrastructure of the port terminals for import and export of goods. The Target Company has the key assets of the ownership of the terminal infrastructures and relevant legal rights on operations of the ports (including sea use rights).

The key roles of the Target Company include:

(i) planning and implementation of business strategies;

(ii) construction of port terminals and related infrastructure;

(iii) provision of storage area and large terminal equipment for loading and discharging goods;

(iv) negotiation with customers, sales promotion and provision of customer services;

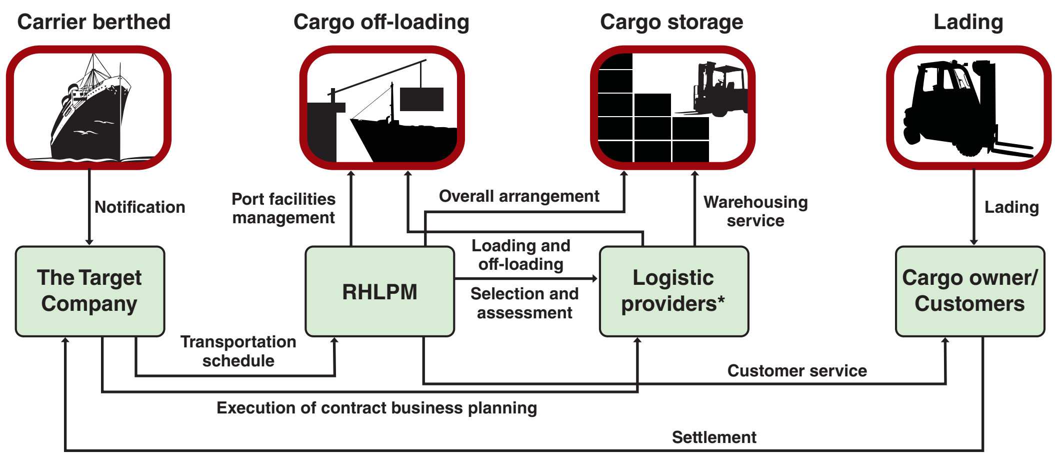
(v) sourcing of external service providers and supervising the quality of their services;

(vi) monitoring daily operations of the ports; and

(vii) financial management and budgeting of the ports.

For the port operations other than the above, the Target Company outsources the processes to external service providers. The outsourced services include port administration services and logistics and transportation services.

The Target Company provides "one-stationed port logistic services and solutions" to its customers. Customers can complete all the formalities in one service office, such as signing contracts, ordering dispatch, taking delivery, organizing in road and railway logistics, settling accounts, voicing complaint and getting response to the complaint. The business flow of the Target Group can be illustrated below:



* *including associates of the PRC Party*

Structure and basis of the fee charges, and the relationship among the Target Company, RHLPM, logistic providers and cargo owners/customers

The Target Company signs and negotiates contracts with its customers, i.e. the cargo owners. The total fees are levied based on the total volume of goods handled, and a charge on each ton of goods is agreed. The fees include all the relevant services required in vessel loading and off-loading, storage, and transportation between the berths and nearby railways/highways. The Target Company determines the charges with reference to the prices offered by its competitors and the reference prices stated by the PRC government. Generally, a discount of 5% to 10% is offered to long term and large customers.

The Target Company has a group of external port service providers with long term business relationship and the Target Company signs service agreements with those service providers (excluding the PRC Party and its associates) on an annual basis. Most of the external service providers of the Target Company have maintained business relationship with the Target Company for three years or above. There are numerous service providers in the region where the Target Company operates, and they are readily assessable. The Target Company selects its external service providers mainly based on the charges, size of the providers and the service quality (through its past experience and market reputation). The Target Company negotiates the charges with the external service providers based on the kinds of services required, the reputation of the service providers and the relevant market prices.

RHLPM mainly provides port administrative support to the Target Company, including the transportation control of the ports and berth maintenance support. RHLPM has provided services to the Target Company since the Target Company commenced its operations in 2004. Please refer to the section headed "Business Overview – (7) Relationship and ongoing transactions with the PRC Party and RHLPM" of this circular for details.

Sources of operational funding of the Target Company

The Target Company is able to support its daily operating fund needs by its internally generated revenues. It had positive operating cash flows of approximately RMB17,157,000, RMB138,028,000, RMB158,905,000 and RMB244,715,000 for the year ended 31 December 2007, 2008 and 2009 and for the eleven months ended 30 November 2010 respectively. Generally, external borrowings are not required by the Target Company for its daily business operations.

External debt financing will only be considered by the Target Company when it expects there will be significant capital expenditures in purchasing equipment and/or construction projects.

Top customers and suppliers of the Target Company

The top ten customers of the Target Company in the Track Record Period are as follow:

	Year ended 31 December			Eleven months ended 30 November
Top customers	**2007**	**2008**	**2009**	**2010**
(RMB'000)				
1st largest	134,817	154,799	94,329	123,532
2nd largest	35,388	27,024	45,401	40,504
3rd largest	17,239	15,991	22,422	29,097
4th largest	13,957	15,980	21,747	16,673
5th largest	11,852	12,778	19,621	13,884
6th-10th largest	35,971	43,225	60,272	46,747
Total	249,224	269,797	263,792	270,437
% to total revenue	88%	86%	79%	87%

The top five suppliers of the Target Company in the Track Record Period are as follows:

Top suppliers *(RMB'000)*	**Year ended 31 December 2007**	**2008**	**2009**	**Eleven months ended 30 November 2010**
1st largest	61,511	48,600	43,229	35,921
2nd largest	29,220	40,342	30,875	24,937
3rd largest	24,700	24,728	30,525	12,780
4th largest	14,136	15,462	12,418	12,665
5th largest	13,769	8,797	10,735	9,122
Total	143,336	137,929	127,782	95,425
% to total purchase(*)	69%	65%	59%	65%

(*) total purchase is calculated as the aggregate of total cost of services (net of depreciation and amortization) and additions of property, plant and equipment.

(6) Business of the Target Company

The Target Company is engaged in provision of terminal and logistic services including loading and discharging, storage and transfer of iron ore, steel products, timber and other goods and leasing of terminal facilities and equipment in Lanshan Harbour, Rizhao Port, Shandong province of the PRC. Over 95% of the goods handled by the Target Company were iron ores during the Track Record Period.

(i) The throughput, turnover and results of the Target Company for the Track Record Period

The Target Company mainly deals with loading and unloading, storage, transfer of iron ore and other bulk cargoes. Iron ore is the dominant and feature cargo, which is mainly from India, Australia, Brazil, Ukraine, Indonesia and Thailand. The Target Company has one berth capable of accommodating two 50,000-tonne vessels equipped with total length of 602 meters. Cape Vessels DWT below 200,000 tonnes can be berthed on high tide after some off-load. The maximum daily discharging rate of mineral ores is 62,000 tonnes for Cape vessel and 53,000 tonnes for Panama vessel. The annual handling capacity reaches 20,000,000 tonnes. The Target Company is equipped with handling facilities of 15 gantry cranes, 60 loaders, and 100 dump trucks, etc. These modern machines can accomplish loading & unloading, and transferring with high speed for large bulk carriers. A large storage yard with the area of 600,000 square meters is used by the Target Company to render a storage capacity of 5,000,000 tonnes per annum.

The throughput, turnover and results of the Target Company for each of the three years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010 were as follows:

	For the year ended 31 December			For the eleven months ended 30 November
	2007	**2008**	**2009**	**2010**
Throughput *(Tonne'000)*	15,350	16,190	16,250	14,790
Turnover *(RMB'000)*	283,227	313,073	335,909	311,764
Profits *(RMB'000)*	107,817	105,924	157,684	123,281

(ii) Storage facilities

The Target Company's storage services serve as a supporting function to its port loading and unloading services.

The large storage yard of the Target Company has been upkept with good care and protection. With the area of approximately 600,000 square meters and the annual storage capacity of 5,000,000 tonnes in the Lanshan port area, the Target Company's annual handling capacity reaches 20,000,000 tonnes. The Target Company charges its customers storage fees of approximately RMB5.5 million, RMB5.7 million, RMB15.0 million and RMB1.4 million in the years ended 31 December 2007, 2008 and 2009 and in the eleven months ended 30 November 2010 respectively.

(iii) Port-value added services

The Target Company is well equipped with handling facilities. There are more than 175 sets of machines, including 15 gantry cranes, 60 loaders, 100 dump trucks, etc. These modern machines can accomplish loading and unloading, and transferring with high speed for large bulk carriers. With better handling technology and facilities, the Target Company carries out its operation and business safely and efficiently.

Apart from the principal loading and discharging services, the Target Company also provides storage services and leasing services as port's value-added services. The Target Company leases out its terminal facilities and equipment to its customers, mainly RHLPM, during the Track Record Period.

Further, the Target Company actively develops outstretch services to provide one-stationed service to the customers, by combining the various works among customs, administrative and service departments. The Target Company aims to provide an operational environment with fast and convenient for import and export business.

(iv) Major customers and pricing policy

The Target Company's revenue is derived from the provision of loading and discharging services and storage services and leasing of terminal facilities and equipment, whereas revenue in relation to the provision of loading and discharging services accounted for over 85% of the Target Company during the Track Record Period. Major customers of the Target Company include major steel manufacturers in the northern region of the PRC and major iron ore suppliers in India, Canada, Brazil and Australia.

The table below sets out the revenue and percentage of revenue from the largest customer of the Target Company during the Track Record Period.

	Revenue *(RMB'000)*	**% of total revenue**
Year ended 31 December 2007	134,817	47.6%
Year ended 31 December 2008	154,799	49.4%
Year ended 31 December 2009	94,329	28.1%
Eleven months ended 30 November 2010	123,532	39.6%

The Target Company's customers settle payments in Renminbi. The Target Company generally provides its customers a 90-day credit term on average.

The Target Company determines the handling charges with reference to the market prices and tariffs published by the Ministry of Commerce from time to time. Storage charges are determined by market force.

(v) Sales and marketing

The Target Company has its own sales and marketing team. The team staff collects information, promotes sales of the Target Company's services, develops the market and provides after-sales services for customers. The staff frequently visits and communicates with customers and hosts promotion and public relations activities in order to understand the customers' needs, improve the Target Company's services and convince the customers to choose the Target Company's services.

(vi) Insurance, safety measures and internal controls

The Target Company maintains insurance policies to cover risks related to certain properties and fixed assets, third party liability, workers' compensation, vehicles, transportation, loading and discharging of iron ores. As at the Latest Practicable Date, the Target Company did not have any unsettled material insurance claim. The Board believes that the Target Company carries an adequate level of insurance and follows industry standards.

The Target Company is dedicated to the implementation of work safety measures and standards to ensure a safe working environment at work sites and that the work undertaken by the Target Company does not pose any danger to the general public. The Target Company's safety measures and standards include equipment operation procedures for loading and discharging of iron ores, fire-fighting measures, warehousing procedures, vessel berthing and unberthing procedures.

The Target Company has adopted a series of internal control measures including the segregation of powers between the board of directors and the senior management of the Target Company, strengthening of reporting lines of senior management, and imposition and clarification of authorization powers of senior management. Segregation of powers is designed to ensure that decision-making powers will not be vested with one person. Strengthening of reporting lines is designed to ensure that there is a defined accountability of the management and to facilitate proper flow of information within the management structure. Imposition and clarification of authorization power will minimize abuse of power by the management. The internal control measures cover the supervision on the management and operation of the Target Company, production process, procurement of major equipment and machinery, contracts formation and execution and financial management.

Further, the Target Company actively enforces quality management system to regulate the control of the operating site. When the ores are unloaded from the vessels, strict controls will be taken, such as special stacking for special cargo, ladder-shaped stacking, double covers, separate marks, regular spraying and special personnel for care and protection. This ensures that the customers' properties and interests are well protected.

(vii) Environmental protection

The Target Company is subject to PRC national and local environmental laws and regulations including but not limited to regulations on air pollution, noise emissions, water and waste discharge. Before approval is granted for the commencement of the construction of a terminal or berth project, the Target Company needs to undergo environmental assessments and submit environmental impact study report to the relevant government authorities. As at the Latest Practicable Date, the Target Company's terminal or berth has received all necessary environmental approvals. At completion of each terminal or berth project, the relevant government authorities will inspect the site to ensure that applicable environmental standards have been complied with. The Target Company has complied and will continue to comply with the requirements of the environmental laws and regulations in the PRC in all material aspects.

As at the Latest Practicable Date, the Target Company has not received any notification for any material violation of environmental protection laws and regulations in the PRC.

(viii) Competition

The Target Company faces competition from other port terminal operators within the Rizhao port areas, including the PRC Party, and the port terminal operators nearby, e.g. port terminal operators in Qingdao port, Tianjin port and Qinhuangdao port.

The major competitive factors in the port terminal industry are location and services. With the strategic location in which the Target Company operates and its long term relationship with its customers, the Target Company has competitive advantages over its competitors. The Target Company will continue to enhance its position through increasing its handling capacity and improve the quality and efficiency of its services.

(ix) Legal proceedings

As at the Latest Practicable Date, the Target Company is not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on the financial condition or operations of the Target Company.

(x) Property interests

The Target Company's principal properties are located in the PRC. It held land and buildings for its terminal and leased an office unit in East Lanshan Port. Please refer to Appendix VI for the property valuation report of the Target Group.

(xi) Construction in progress

As at 30 November 2010, the Target Company had construction in progress and capital commitment of approximately RMB49,798,000 and RMB380,373,000 respectively. The budget for the construction plan of new berths is approximately RMB380 million. The Target Company's construction in progress mainly comprises of several construction projects of new berths and storage facilities in Lanshan Harbour. The new berths under construction in the Lanshan port area are expected to accommodate one 70,000-tonne vessel and one 100,000-tonne vessel. Please refer to the section headed "Future development plan" on page 54 for further details.

(xii) Sea use rights

According to the Port Law of the People's Republic of China (implemented on 1 January 2004) and the Provisions on the Administration of Port Construction (implemented on 1 June 2007), the construction of port facilities and use of deep water port line must be approved by the relevant supervising authorities of the State Council and the relevant port administrative authority. Currently, the Target Company has obtained the sea use certificates in respect of its berths (including those under construction).

(xiii) Human resources

As at the Latest Practicable Date, the Target Group had approximately 58 permanent employees located in Lanshan Harbour, Shandong Province, the PRC. The following table shows a breakdown of the employees by function as at the Latest Practicable Date:

Functions	*Number of staff*
Management	8
Finance and administration	12
Sales and marketing	11
Terminal operation and construction projects	27
Total	58

Senior Management of the Target Group

Shang Jinrui, 46, is the Chairman of the Target Company. Mr. Shang has over 20 year experience in port management and has established several reputable business brand names in port industry such as Shandong Timber Transportation and Storage Centre. He was a deputy head of Lanshan Maritime Safety Administration, a deputy head of Lanshan Port Management Bureau, a vice general manager of Rizhao Port Group and a general manager of Rizhao Harbour (Group) Lanshan Port Management Company Limited.

Feng Gang, 35, is the vice general manager of the Target Company. He has extensive experience in strategic management, port operation and management. Mr. Feng was a consultancy advisor of BearingPoint, Inc.

Gao Ming, 40, is the vice general manger of the Target Company. He has extensive experience in port construction and management, and has been responsible for numerous large port construction projects. Mr. Gao was a head of construction and planning department of Lanshan Port Management Bureau, a deputy head of Lanshan Port Management Bureau and a vice general manager of Rizhao Harbour (Group) Lanshan Port Management Company Limited.

Liu Cuntian, 51, is the vice general manger of the Target Company. He has extensive experience in operation and management of port business. Mr. Liu was a manager of Lanshan Port Management Bureau (tug shipping), and was a head of safety production department and an assistant to general manager in Rizhao Harbour (Group) Lanshan Port Management Company Limited.

Liu Jiatao, 40, is the secretary to the board of the Target Company. He has extensive experience in operation, management and market development of port business. Mr. Liu was a deputy head of business department, office deputy supervisor and project office supervisor in Lanshan Port Bureau.

Wang Ying, 28, is the financial controller of the Target Company. Ms. Wang had been worked for the Shanghai Luhai Petroleum and Chemical Corporation in the finance and accounting field.

Liu Jian, 40, is the deputy general manager of the Target Company. He has extensive experience in management of port mechanical facilities and equipment, and production management. Mr. Liu was a deputy manager of the property company in Rizhao Harbour (Group) Lanshan Port Management Company Limited, a deputy manager of the Rizhao Wantai Logistics Company, and also a deputy manager of a mechanical equipment company in Rizhao Harbour (Group) Lanshan Port Management Company Limited.

Song Guangyou, 39, is the deputy general manager of the Target Company. He has extensive port production management experience and strong market development expertise. Mr. Song was a supervisor of the technical office of the first loading and off-loading company and team leader of the mechanical team of Lanshan Port Bureau. He was a deputy manager and then manager of the production department of the Target Company.

(xiv) Regulatory approval

The Target Company is currently required by the Ministry of Transport, State Administration for the Supervision of Work Safety (國家安全生產監督管理總局), the Customs General Administration and other government authorities of the PRC to fulfil certain security and customs standards at its facilities, including safety assessment schemes for port construction and assessment schemes for safety conditions initiated by port operators in respect of uncertainty in operation safety at terminals for the loading and unloading of other non-dangerous goods. In addition, personnel responsible for any inbound or outbound vessels entering or leaving from customs points shall arrange for declarations to the customs authority and submission of documentary evidence, and the vessel shall undergo supervision and inspection by the customs authority. No inbound or outbound vessels berthing at customs points are allowed to leave from a port without prior approval by the customs authority.

(7) Relationship and ongoing transactions with the PRC Party and RHLPM

To facilitate an efficient operation of Lanshan Harbour as a whole, the Target Company and the PRC Party or its associates (including RHLPM) have entered into certain arrangements in relation to development of Lanshan Harbour and the mutual use of berths and various port facilities of the parties. Pursuant to the agreements entered into between the Target Company and the PRC Party and its associates, the PRC Party and its associates would provide, among other services, to the Target Company administrative supports for terminals and logistics services, leasing of terminal facilities and equipment, logistic services and necessary construction of port facilities. The Target Company will first utilise its own resources and workforce before requesting the services from the PRC Party and its associates. The service fees include both fixed and variable fee. The variable fee is calculated based on the different type of cargoes handled, types of required services and volume, such service fees are payable by the Target Company to the PRC Party and its associates on monthly basis. On the other hand, the Target Company generates rental income from leasing of its terminal facilities and equipment to the PRC Party and/or its associates. A summary of the contracts entered into between the Target Company and the PRC Party and its associates in relation to the administration and management services in respect of Lanshan Harbour is set out below:

Nature of service	**Basis of fee calculation**
Key services provided by the PRC Party and its associates to the Target Company:	
Port administration services	Annual fixed fee
Auxiliary service	Reference to statutory price
Berth maintenance fee	Sharing based on capacity of berth
Berth usage fee	Based on volume of cargo
Storage fee	Based on storage area
Leasing fee on terminal facilities and equipment	Based on hours of facilities and equipment used
Key services provided by the Target Company to the PRC Party and its associates:	
Berth usage fee	Based on volume of cargo
Storage fee	Based on storage area
Leasing fee on terminal facilities and equipment	Based on hours of facilities and equipment used

The basis and rates for respective services charged by the Target Company to the PRC Party and its associates are generally the same as those charged by the PRC Party and its associates to the Target Company.

For the three years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010, the aggregate amounts of fees payable by the Target Company to the associates of the PRC Party were RMB40.6 million, RMB55.1 million, RMB79.0 million and RMB46.1 million respectively. The amount of income received by the Target Company from RHLPM were RMB35.4 million, RMB5.3 million, RMB21.7 million and RMB29.1 million for the above periods respectively.

The fees payable by the Target Company to the associates of the PRC Party increased significantly in 2009 was mainly because there was a large scale enhancement project on the Target Company's storage area carried out by日照港建築安裝工程有限公司 (an associate of the PRC Party) in 2009.

The income received by the Target Company from RHLPM represented leasing income on terminal facilities and equipment, and the demand was driven by the needs of RHLPM. The amounts decreased significantly in 2008 was mainly because RHLPM acquired new equipment and upgraded its existing facilities in that year; and so RHLPM required less leasing services for facilities and equipment from the Target Company in 2008. The amounts increased again in 2009 was mainly because the remarkable growth of the turnover of the PRC Party. RHLPM therefore required more leasing services from the Target Company in 2009.

(8) Future development plan

According to the expansion plan of the Target Group, new berths will be built on the western side of the existing berth with additional annual handling capacity of approximately 20,000,000 tonnes. The new berths are expected to be 587 meters long and could accommodate one 70,000-tonne vessel and one 100,000-tonne vessel. The new berths will be equipped with storage facilities. The Lanshan Harbour will be developed into an advanced non-containerised cargo port handling iron ores and other bulk cargoes. The Target Group will grow into a top modern joint venture with advanced facilities, efficient operation and effective management which are required for the distribution of iron ore and other bulk goods and cargo.

The Target Company has started its business expansion plan of constructing more berths in 2010 and it is expected to be completed and ready for operations by early 2013. The total budget of the construction project is approximately RMB380 million.

Payment will be made by the Target Company according to the progress of completion of relevant construction works. Approximately 15% to 20% of the project sum will be retained by the Target Company as a warranty for the quality of the works, and will only be paid after the relevant facilities have been satisfactorily tested and verified by the Target Company. It is expected to spend approximately RMB230 million in 2011 and approximately RMB150 million 2012.

In view of the positive operating cash inflows of the Target Company of RMB158,905,000 and RMB244,715,000 for the year ended 31 December 2009 and for the eleven months ended 30 November 2010 respectively, the Company considers that the Target Company will able to implement its expansion plan using its internally generated funds and its available bank loans. The Target Company borrowed new bank loans of RMB100 million in August 2010 for the above business expansion project.

The Company expects that it is not necessary for the Company to make substantial capital contribution into the Target Company for the above business expansion of the Target Company.

The Target Group will also improve its ore storage and distribution ability, enhancing its port comprehensive distribution ability. The Target Group will also expedite construction process of the additional berths and dump site, improve its storage service, maximise the port and dump site capacity match, strengthen the port function and ability gradually to cope with the increase in demand in the future. The Target Group will also co-operate with the railroad departments in developing railway connection to improve the port's ability in distribution of goods.

Reliance on major customers

The Target Company had a high concentration of customers in the Track Record Period. The details of the top three customers of the Target Company in the Track Record Period were as follows:

Top customers *(RMB'000)*	**Year ended 31 December 2007**	**2008**	**2009**	**Eleven months ended 30 November 2010**
1st largest	134,817	154,799	94,329	123,532
2nd largest	35,388	27,024	45,401	40,504
3rd largest	17,239	15,991	22,422	29,097
Total	187,444	197,814	162,152	193,133
% to total revenue	66%	63%	48%	62%

The largest customer of the Target Company is a large steel manufacturing enterprise in Shandong, the PRC. It is a third party independent of the PRC Party, the Target Company and the Company. Generally, the Target Company signs contracts on a short term basis with small customers, and signs contracts on an annual basis with large customers. The terms of the contracts will be re-negotiated when the contracts end. The Target Company prepares tailor-made contracts for each customer to satisfy their different needs, and the scope of services in the contracts may include storage and logistics services.

Most of the customers of the Target Company have more than four years business relationship with the Target Company. For example, the Target Company has provided services to its largest customer since the Target Company's incorporation in 2004.

The Target Company has its own sales and marketing workforce and has continuously sought to promote the company and attract potential customers. However, as the demand of port services has been strong as a result of the strong demand of iron ores in the PRC, the Target Company has been able to substantially utilised its throughput capacity. The Target Company does not have enough capacity to serve new big clients. Therefore, the new customers were relatively small in terms of order size in the Track Record Period. The Target Company will build new berths of higher capacity to increase its overall operation capacity and to attract customers using large vessels.

Further, the Target Company is used to have a high concentration of customers because it is easier and cost effective for the Target Company to handle a small number of customers in providing the services. The Target Company prefers retaining its large customers and maintaining a smaller number of customers. It is expected that such business strategy of the Target Company in maintaining stable customer base will not be changed significantly in the future.

The Company considers that the impact of losing its large customers, if any, is low and it will not materially affect the business of the Target Company. Although the Target Company will continue to find new customers, there may be difficulties to identify new customers with such large amounts of orders. The Target Company will use its best endeavour to find customer orders to replenish the shortfall. Under the strong demand of iron ores and the robust economy in the PRC, the Company considers that the impact of losing its large customers will be under control.

The Target Company has been able to manage the decrease of customer orders from its large customers. The revenues from the largest customer of the Target Company decreased from RMB154,799,000 in 2008 to RMB94,329,000 in 2009, while the revenues from loading and discharging services of the Target Company remained stable in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET

Set out below are certain financial information extracted from the accountants' report of the Target for the three years ended 31 December 2009 and the eleven months ended 30 November 2010 prepared under HKFRS, as set out in Appendix I to this circular.

	For the year ended 31 December			For the eleven months ended 30 November
(HK$'000)	**2007**	**2008**	**2009**	**2010**
Summary of statements of comprehensive income				
Share of profits of associates	28,745	31,503	51,644	39,961
– Target Company	28,745	30,864	46,524	36,692
– 山西卓鋒鈦業有限公司	–	639	5,120	3,269
Profit before taxation	29,633	30,733	51,626	31,601
Profit after taxation	29,633	29,158	49,044	29,603
Summary of statements of financial position				
Total assets	89,741	126,959	177,385	169,747
Total liabilities	60,743	73,591	91,999	77,232
Net assets	28,998	53,368	85,386	92,515

Operating results

The Target is an investment holding company. During the Track Record Period, the Target did not commence any active business operations and did not generate any turnover.

The Target's investments comprise of two PRC associates. The results of the Target for the Track Record Period were mainly derived from the share of the results of the associates.

The Target recorded share of profits from its investments of approximately HK$28.7 million, HK$31.5 million, HK$51.6 million and HK$40.0 million (including approximately HK$28.7 million, HK$30.9 million, HK$46.5 million and HK$36.7 million respectively from sharing of profits from the Target Company) for the years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010 respectively and profit after taxation of approximately HK$29.6 million, HK$29.2 million, HK$49.0 million and HK$29.6 million for the years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010 respectively.

The share of post-acquisition profits from the interests in associates increased significantly for the year ended 31 December 2009 was mainly attributable to the increase in the share of post-acquisition profits from the Target Company, one of the associates.

Liquidity and financial resources

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the Target had cash and bank balances of approximately HK$5.1 million, HK$4.2 million, HK$0.7 million and HK$30.8 million respectively and did not have any bank borrowings.

Capital structure, treasury policies and gearing ratio

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the Target had net asset values of approximately HK$29.0 million, HK$53.4 million, HK$85.4 million and HK$92.5 million respectively, and did not have any bank borrowings. The gearing ratio (as calculated by total liabilities to total assets) was approximately 0.68, 0.58, 0.52 and 0.45 as at 31 December 2007, 2008 and 2009 and 30 November 2010, respectively.

Significant investments, material acquisitions and disposals

During the Track Record Period, the Target did not have any material acquisitions and disposals of subsidiaries or associated companies. During the Track Record Period, the significant investments held by the Target were the investments in the Target Company and 山西卓鋒鈦業有限公司. It is a condition precedent to the Agreement that investment not related to the Target Company be disposed before Completion. On 15 December 2010, the Target completed the disposal of its investment in 山西卓鋒鈦業有限公司.

Capital commitment

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the Target did not have any material capital commitment.

Exchange rate exposures

The Target's dividend income are mainly denominated in Renminbi. The operating expenses of the Target is in Hong Kong dollars. The Target's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates.

Contingent liabilities

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the Target did not have any material contingent liabilities or obligations.

Employment and remuneration policy

During the Track Record Period, the Target did not pay any director's remuneration and did not have any employee (hence no staff cost was incurred).

Charges on assets

None of the Target's assets was charged or subject to any encumbrance as at 31 December 2007, 2008 and 2009 and 30 November 2010.

Prospects and future plans

On 15 December 2010, the Target completed the disposal of its investment in 山西卓鋒鈦業有限公司. Before the Completion, the Target will acquire additional 24% equity interest in the Target Company, the 50% equity interest in the Target Company will then be its sole investment.

After the Completion, the Target will become a wholly-owned subsidiary of the Company and own 50% equity interest in the Target Company.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET COMPANY

Critical Accounting Policies of the Target Company

The discussion and analysis of the financial position and results of operations of Target Company as included in this circular is based on the financial information prepared using the significant accounting policies set forth in note 3 to the accountant's report of the Target Company, which conform with HKFRS. The critical accounting estimates and judgments that the Target Company uses in applying its accounting policies are set out in note 5 to the accountant's report. Please refer to the accountant's report of the Target Company set out in Appendix II to this circular for details.

Below is a summary of certain significant accounting policies of the Target Company.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes. Income from provision of iron ore terminals and logistic services are recognised when the respective services are rendered. Income from leasing of terminal facilities and equipment is recognised when the terminals and related facilities are leased upon request with no fixed lease term. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other fixed assets, commences when the assets are ready for their intended uses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Sea use rights

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

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Overview

Set out below are certain financial information extracted from the accountants' report of the Target Company for the three years ended 31 December 2007, 2008 and 2009 and for the eleven months ended 30 November 2010 prepared under HKFRS, as set out in Appendix II to this circular:

	For the year ended 31 December			Eleven months ended 30 November	Eleven months ended 30 November
Statements of comprehensive income	**2007**	**2008**	**2009**	**2009**	**2010**
(RMB'000)				**(unaudited)**	
Revenue	283,227	313,073	335,909	284,149	311,764
Cost of services	155,484	186,310	159,225	140,308	157,026
Gross profit	127,743	126,763	176,684	143,841	154,738
Gross profit %	45.1%	40.5%	52.6%	50.6%	49.6%
Finance costs	11,201	9,930	5,495	4,647	2,051
Income tax expense	–	–	–	–	15,309
Net Profit	107,817	105,924	157,684	127,841	123,281
Net profit %	38.1%	33.8%	46.9%	45.0%	39.5%
Statements of financial position					
Total assets	583,151	688,087	828,677		1,005,955
Total liabilities	346,684	384,896	431,402		578,089
Net assets	236,467	303,191	397,275		427,866

The Target Company provides loading and discharging services to its clients. Revenue from loading and discharging services is calculated based on the volume of cargo loaded and off-loaded from carriers.

The Target Company also derives revenue from the provision of storage services to its clients in relation to storage of off loaded cargo at the ports prior to transportation to destination assigned by clients or cargo to be loaded on carriers. Generally, the Target Company provides a rent-free period of approximately two months to its customers. Revenue from storage services is calculated based on the duration and the storage area required.

The Target Company's revenue from the provision of leasing of terminal facilities and equipment was mainly derived from services provided to RHLPM. As disclosed in the paragraph under "Relationship and ongoing transactions with the PRC Party and RHLPM" under the section headed "Business Overview", the Target Company and the PRC Party and its associates (including RHLPM) have entered into certain arrangements in relation to, inter alias, the mutual use of berths and various port facilities of the parties to facilitate an efficient operation of Lanshan Harbour as a whole. For the three years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010, RMB35.4 million RMB5.3 million, RMB21.7 million and RMB29.1 million was received from RHLPM, in relation to the provision of leasing of terminal facilities and equipment to RHLPM by the Target Company respectively.

The Target Company considers that the loading and discharging services are its main revenue in the whole business segment. Storage and leasing services are ancillary services, and only provided at the request of the customers. Therefore, the income from storage and leasing services in the Track Record Period mainly depends on the individual customer needs, and the income from those services might not have a direct relationship with the revenue from loading and discharging services.

Further, the Company has employed external service providers for the port operations which require more manpower, e.g. logistics and transportation services. As such, the Target Company does not require huge labor force.

The Company regards the PRC Party is the closest competitor of the Target Company in Rizhao. Based on the published financial information of the PRC Party, the PRC Party recorded a remarkable growth in turnover since the year 2007. The growth rate of turnover of the PRC Party was approximately 48% and 36% in the year 2008 and 2009 respectively. It is considered that such growth rates outperformed that of the Target Company was probably due to the completion of construction of new berths by the PRC Party in those years, which led to an expansion in throughput capacity of the PRC Party. In this regard, the Target Company plans to construct new berths to increase its throughput capacity.

BUSINESS REVIEW

Operating results for the eleven months ended 30 November 2010

Revenue

For the eleven months ended 30 November 2010, the revenue of the Target Company was approximately RMB311.8 million, representing an increase of approximately 9.7% as compared to the same period in 2009.

The increase in revenue was mainly attributable to the increase in the throughput and the customers' demand as a result of the recovery of the global economy.

Cost of services

Cost of services increased by approximately 11.9% from approximately RMB140 million in the eleven months ended 30 November 2009 to approximately RMB157 million in the eleven months ended 30 November 2010.

The increase in cost of services in the eleven months ended 30 November 2010 was mainly attributable to the cost of ancillary services for the increased throughput during the period.

Gross profit

The gross profit for the eleven months ended 30 November 2010 was approximately RMB154.7 million, representing an increase of approximately 7.6% as compared to the same period in 2009. The gross profit ratio for the eleven months ended 30 November 2010 was approximately 49.6%, which was slightly less than that of 50.6% in the eleven months ended 30 November 2009.

Finance costs

Finance costs represent the interest charges on Target Company's bank borrowings. The decrease of finance costs of 55.9% from RMB4.6 million in the eleven months ended 30 November 2009 to RMB2.1 million in the eleven months ended 30 November 2010 was mainly due to the repayments of bank borrowings by the Target Company during the second half of 2009 and the first half of 2010. New bank borrowings of RMB100 million were raised by the Target Company in August 2010.

Income tax

Pursuant to the letter issued by the relevant PRC authority on 7 March 2005, under Guoshuihan, [2005] No.6 (日照市國家稅務局日國稅函 [2005] 6號 , the Target Company is exempted from PRC Enterprise Income Tax for the first five years commencing from its first profit-making year of operation and thereafter, the Target Company will be entitled to a 50% relief from PRC Enterprise Income Tax for the following five years ("Tax Preference"). The charge of PRC Enterprise Income Tax for the Track Record Period has been provided for after taking these tax incentives into account.

The Target Company started the Tax Preference from 2005 when its first profit-making year of operation began. The Target Company was exempted from the PRC Enterprise Income Taxes for the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2009.

As the income tax exemption of the Target Company ended at the end of 2009, the income tax expense increased significantly from RMB nil in the eleven months ended 30 November 2009 to RMB15.3 million in the eleven months ended 30 November 2010.

The applicable income tax rate for The Target Company was 22% for the eleven months ended 30 November 2010. Under the Tax Preference, the Target Company was entitled to a 50% relief, and so the reduced PRC Enterprise Income Tax rate for the Target Company for the eleven months ended 30 November 2010 is 11%.

Net profit

The profit attributable to owners of the Target Company was approximately RMB123.3 million for the eleven months ended 30 November 2010, representing a decrease of approximately 3.6% from approximately RMB127.8 million for the same period in 2009. The decrease of the net profit was mainly because a PRC Enterprise Income Tax of RMB15.3 million was charged in the eleven months ended 30 November 2010, following the income tax exemption for the Target Company ended in 2009.

Operating results for the year ended 31 December 2009

Revenue

For the year ended 31 December 2009, the revenue of the Target Company was approximately RMB335.9 million, representing an increase of approximately 7.3% as compared to the same period in 2008.

The increase of revenue in 2009 was mainly attributable to the increase in revenue from storage services and leasing of terminal facilities and equipment.

Cost of services

Cost of services decreased by approximately 14.5% from approximately RMB186.3 million in 2008 to approximately RMB159.2 million in 2009.

The cost of services in the year ended 31 December 2009 mainly represented by port service charges and depreciation and amortization charges on property, plant and equipment and sea use rights.

The decrease of the total cost of services in the year ended 31 December 2009 was mainly because the Target Company streamlined its operation and increased its operational efficiency in the year, and so its own facilities and resources were better utilised and less external port services were incurred.

Gross profit

The gross profit was approximately RMB176.7 million in 2009, representing an increase of approximately 39.4% as compared to the same period in 2008. The increase in the gross profit was mainly due to the increase in revenues and the decrease in the cost of services.

The gross profit ratio for the year ended 31 December 2009 was approximately 52.6%, which was higher than that of 40.5% in year ended 31 December 2008. The increase in the gross profit ratio was mainly because of the better operational efficiency of the Target Company in 2009.

Finance costs

Finance costs represent the interest charges on Target Company's bank borrowings. The decrease of finance costs of 44.7% from RMB9.9 million in the year ended 31 December 2008 to RMB5.5 million in the year ended 31 December 2009 was mainly due to the repayments of bank borrowings by the Target Company during the year ended 31 December 2009. No new bank borrowings were incurred by the Target Company during the year ended 31 December 2009.

Income tax

The applicable income tax rate for The Target Company was 18% and 20% for the years ended 31 December 2008 and 2009 respectively. Under the Tax Preference, the Target Company was entitled to a full exemption of income tax in the years ended 31 December 2008 and 2009.

Net profit

The profit attributable to owners of the Target Company was approximately RMB157.7 million for the year ended 31 December 2009, representing an increase of approximately 48.9% from approximately RMB105.9 million for the same period in 2008. The increase in the profit attributable to owners of the Target Company was mainly due to the increase in the gross profit.

Operating results for the years ended 31 December 2007 and 2008

Revenue

For the year ended 31 December 2008, the revenue of the Target Company was approximately RMB313.1 million, representing an increase of approximately 10.5% as compared to the same period in 2007.

For the year ended 31 December 2008, Target Company's revenue from loading and discharging services increased by 24.7% from RMB241.1 million to RMB300.6 million mainly due to the increase of volume of cargo throughput from 15.4 million tons to 16.2 million tons and the increase in the charging rate.

The increase of the throughput was mainly because of the growing demand of iron ores in the PRC property development market in the year ended 31 December 2008. The average charging rate of the Target Company was increased by approximately 15% in respect of each ton of iron ores handled in the year of 2008.

Cost of services

Cost of services increased by approximately 19.8% from approximately RMB155.5 million in 2007 to approximately RMB186.3 million in 2008.

The increase of the total cost of services in the year ended 31 December 2008 was mainly due to the increase of port service charges. The increase of the port service charges in the year ended 31 December 2008 was mainly because of the increase in the throughput. Further, as the turnover of the customers' goods slowed down during the year, more storage areas and related logistics services are employed externally to serve the longer period of goods placed in the ports.

Gross profit

The gross profit was approximately RMB126.8 million in 2008, representing a slight decrease of approximately 0.8% as compared to the same period in 2007. The decrease in the gross profit in 2008 was mainly due to the decrease in the gross profit ratio.

The gross profit ratio for the year ended 31 December 2008 was approximately 40.5%, which was lower than that of 45.1% in the year ended 31 December 2007. The decrease in the gross profit ratio was mainly because of the increase of port service charges.

Finance costs

Finance costs represent the interest charges on Target Company's bank borrowings. The decrease of finance costs of 11.3% from RMB11.2 million in the year ended 31 December 2007 to RMB9.9 million in the year ended 31 December 2008 was mainly due to the repayments of bank borrowings by the Target Company during the year ended 31 December 2008. No new bank borrowings were incurred by the Target Company during the year ended 31 December 2008.

Income tax

The applicable income tax rate for the Target Company was 15% and 18% for the years ended 31 December 2007 and 2008 respectively. Under the Tax Preference, the Target Company was entitled to a full exemption of income tax in the years ended 31 December 2007 and 2008.

Net profit

The profit attributable to owners of the Target Company was approximately RMB105.9 million in 2008, representing a slight decrease of approximately 1.8% from the profit of approximately RMB107.8 million in 2007.

Breakdown of revenue

Revenue of the Target Company *(RMB'000)*	Year ended 31 December 2007	2008	2009	Eleven months ended 30 November 2009 (unaudited)	Eleven months ended 30 November 2010
Revenue from loading and discharging services	241,148	300,554	297,815	257,518	280,470
Revenue from storage services	5,507	5,701	14,983	4,073	1,377
Revenue from leasing of terminal facilities and equipment	36,572	6,818	23,111	22,558	29,917

For the years ended 31 December 2007, 2008 and 2009 and for the eleven months ended 30 November 2010, the Target Company is mainly engaged in the provision of iron ore terminals and logistic services, which include loading and discharging, storage of iron ore, and leasing of terminal facilities and equipment in Shandong province of the PRC. Provision of iron ore terminals and logistic services in Shandong province of the PRC is the Target Company's principal activity and it is the single operating segment of the Target Company.

Liquidity and financial resources

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the total cash and cash equivalents of the Target Company were approximately RMB28.7 million, RMB99.4 million, RMB121.2 million and RMB319.3 million respectively. The increase in the total cash and cash equivalents of the Target Company were mainly due to the net cash generated from its operating activities during the years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010.

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the total bank borrowings of the Target Company were approximately RMB194.0 million, RMB159.8 million, RMB120.6 million and RMB189.7 million respectively. The decrease in the total bank borrowings of the Target Company in 2008 and 2009 was mainly due to the repayments of the bank borrowings by the Target Company during the years ended 31 December 2007, 2008 and 2009. New bank loans of RMB100 million were raised in August 2010 for business expansion.

As at 31 December 2007, 2008 and 2009 and 30 November 2010, all bank borrowings of Target Company were variable-rate borrowings based on benchmark interest rate fixed by the People's Bank of China. During the years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010, the variable-rate borrowings of the Target Company had weighted average interests at 7.33%, 6.98%, 5.94% and 5.38% per annum respectively.

Capital Structure, treasury policies and gearing ratio

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the total equities of the Target Company were approximately RMB236.5 million, RMB303.2 million, RMB397.3 million and RMB427.9 million respectively.

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the total bank borrowings of the Target Company were approximately RMB194.0 million, RMB159.8 million, RMB120.6 million and RMB189.7 million respectively. The decrease in the Target Company's bank borrowings from 2007 to 2009 led to the decrease of its finance costs during the years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010.

The gearing ratios (as calculated by total liabilities to total assets) of the Target Company were approximately 0.59, 0.56, 0.52 and 0.57 as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively. The Target Company's gearing ratio improved continuously during the years ended 31 December 2007, 2008 and 2009, mainly because of the repayments of the bank borrowings and the increase of the total equity of the Target Company. The Target Company's gearing ratio increased in the eleven months ended 30 November 2010 was mainly due to bank loans of RMB100 million were raised by the Target Company in the period. Further, the gearing ratios as calculated by total liabilities less port construction fee refund to total assets of the Target Company were approximately 0.40, 0.30, 0.24 and 0.33 as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively.

Analysis of other financial ratios of the Target Company

	Year ended 31 December 2007	**Year ended 31 December 2008**	**Year ended 31 December 2009**	**Eleven months ended 30 November 2010**
Debtors' turnover day (number of days) = average debtors/(Credit sales/365 days) or average debtors/(Credit sales/334 days) for the period ended 30 November 2010	51	53	53	71
Current ratio = Current assets/current liabilities	2.4	2.9	2.6	1.7
Creditors' turnover day (number of days) = average creditors/(Cost of services/365 days) or average creditors/(Cost of services/334 days) for the period ended 30 November 2010	21	21	31	34
Net cash from operating activities *(RMB'000)*	17,157	138,028	158,905	244,715
Provision for bad and doubtful debts to trade and other receivables (%)	2.5%	1.8%	2.7%	2.3%

The debtors' turnover day of the Target Company is around 2 to 3 months in the Track Record Period. The increase in the debtors' turnover day in the eleven months ended 30 November 2010 was mainly because the Target Company accelerates the debt collection process near year end.

The current ratio of the Target Company ranged from 1.7 to 2.9 in the Track Record Period. Generally, a current ratio of over 1 is considered a healthy liquidity position for a company.

The creditors turnover day of the Target Company ranged from 21 to 34 days in the Track Record Period. Generally, suppliers grant a credit period of one to three months to the Target Company.

The Target Company maintained positive operating cash inflows in the Track Record Period. The increase in the operating cash inflows during the Track Record Period was mainly attributable to the increase in revenues of the Target Company. The relatively low level of operating cash inflows in 2007 was mainly because of settlement of material trade and other payables during the year.

The Target Company's customers are of high credit and the risk of bad debts on receivables is low. The provision for bad and doubtful debts to trade and other receivables ranged from 1.8% to 2.7% in the Track Record Period.

Significant investments, material acquisitions and disposals

For the years ended 31 December 2007, 2008 and 2009 and for the eleven months ended 30 November 2010, the Target Company did not have any material acquisitions and disposals of subsidiaries or associated companies.

Property, plant and equipment

The property, plant and equipment of the Target Company mainly included terminals, terminal equipment and construction in progress for the port operation of the Target Company. As at 31 December 2007, 2008 and 2009 and 30 November 2010, the carrying values of the terminals of the Target Company amounted to RMB246.1 million, RMB241.5 million, RMB318.4 million and RMB311.4 million respectively whilst the carrying values of the terminal equipment of the Target Company amounted to RMB97.7 million, RMB86.5 million, RMB77.3 million and RMB67.6 million respectively. The carrying value of the construction in progress, which mainly represents the land reclamation costs, amounted to RMB49.8 million as at 30 November 2010.

Sea use rights

According to the sea area use certificates, the Target Company is granted for terms ranging from 48 to 50 years to construct facilities and structures at specified areas of the sea and carry out terminals and logistic operations in Foshou Wan, Lanshan district, Rizhao City, Shandong, the PRC. As at 31 December 2007, 2008 and 2009 and 30 November 2010, the carrying values of the sea use rights of the Target Company amounted to RMB42.4 million, RMB41.5 million, RMB47.5 million and RMB46.6 million respectively.

Assessment of impairment of property, plant and equipment and sea use rights of the Target Company

It was considered that there was no indication of impairment on the property, plant and equipment and sea use rights of the Target Company during the Track Record Period, after considering the following factors:

1. The Target Company had net profits continuously for the three financial years ended 31 December 2009;

2. The Target Company had positive operating cash inflows for the three financial years ended 31 December 2009; and

3. There has been no significant adverse change in the profitable terminal and logistic operations.

If there is an indication that the property, plant and equipment and sea use rights of the Target Company need to be impaired, the management of the Target Company will make a formal estimation of their recoverable amount. The recoverable amount of the property, plant and equipment and sea use rights is the higher of their fair values less costs to sell and their values in use.

Dividend policy

The Target Company has no written dividend policy or agreed dividend payout ratio. The management of the Target Company decides the payout of dividends depends on the performance of the Target Company, its financial resources on hand and the expected future funding requirements. The Target Company has maintained a high dividend payout ratio (calculated as dividends paid/net profits in the year) ranging from approximately 37% to 47% in the three years ended 31 December 2009.

Capital commitment

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the Target Company has capital commitments (contracted for and not contracted for) of RMB18.6 million, RMB58.5 million, RMB21.0 million and RMB380.4 million respectively.

The capital commitments as at 30 November 2010 mainly represented the planned construction of new berths.

Exchange rate exposures

The Target Company collects its revenue and incurs its expenditures in RMB. It has no significant exposure to any foreign currency exchange risk.

Contingent liabilities

As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 November 2010, the Target Company did not have any material contingent liabilities or obligations.

Employment and remuneration policy

As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 November 2010, the Target Company had 26, 59, 59 and 58 employees respectively.

During the years ended 31 December 2007, 2008 and 2009 and the eleven months ended 30 November 2010, the Target Company incurred staff costs (including directors' remuneration) of RMB2.3 million, RMB3.9 million, RMB6.7 million and RMB7.0 million respectively.

Charges on assets

As at 31 December 2007, 2008 and 2009 and 30 November 2010, certain Target Company's terminal facilities and equipment with carrying values of approximately RMB244.1 million, RMB232.9 million, RMB219.6 million and RMB207.4 million were pledged to secure its bank borrowings respectively.

Prospects and future plans

Please refer to the section headed "Future development plan" on page 54 for details.

LEGAL AND REGULATORY REQUIREMENTS

1. Overview

According to "Catalogue of Industries for Guiding Foreign Investment (revised in 2007)", construction and operation of public dock facilities of ports is categorized in the encouraged catalogue.

According to "Port Law of the People's Republic of China (implemented on 1 January 2004)", the state encourages the economic organizations and individuals at home and abroad to invest on construction and operation of ports and protect the legitimate rights and interests of investors by force of law.

The State Council and the relevant local people's government of and above county level shall in the plan on national economy and social development embody the requirements for port development and planning and protect and make rational use of the port resources by force of law.

2. The Regulations on Construction of Ports

According to "Port Law of the People's Republic of China (implemented on 1 January 2004)" and "Provisions on the Administration of Port Construction (implemented on 1 June 2007)", following regulations shall be observed by the economic organizations and individuals who intend to construct ports in China:

The construction of port facilities in the overall planned areas of ports and use of the deep-water lines of ports should be approved by the competent traffic authority of the State Council jointly with the comprehensive and macro-control and adjustment department of economy of the State Council, and the construction of port facilities and use of the non-deep-water lines of ports should be approved by the port administrative departments.

The port construction shall be in compliance with the port planning and no port facilities should be constructed in violation of the port planning.

The port construction projects requiring for approval by the relevant organ according to the state provisions, shall go through the examination and approval procedures in compliance with the relevant state provisions, which shall conform to the relevant state standards and technological norms. The construction of the port engineering project shall go through the evaluation of environmental impacts by force of law. The security facilities and environmental protection facilities for port construction projects must be designed, implemented and put into use synchronously with the mainstay engineering.

The use of land and water areas for port construction shall be handled with in compliance with the provisions of the laws and administrative regulations concerning the land administration, administration for use of seas, as well as other relevant laws and administrative regulations.

The places of the ports where dangerous cargoes are processed and where sanitary and insecticide treatment are made shall meet the requirements of the overall port planning and the relevant state security production, firefighting, inspection, quarantine and environmental protection, and their distance from densely populated areas and passenger facilities of the ports shall conform to the provisions of the relevant departments of the State Council. The construction may be started only upon handling of the relevant formalities by force of law and approval by the port administrative department.

The construction projects of port facilities can only be put into use after qualified acceptance examination upon their completion in compliance with the relevant state provisions.

Under the Port Law of the People's Republic of China (implemented on 1 January 2004), if the construction of port facilities is in the areas under overall planning of ports and uses coastal lines, it shall be approved by the transport authority. The Target Company obtained the project approval of its existing ports from the Shandong Development and Planning

Commission in 2002, and started the construction in 2003. As the Target Company obtained the project approval in 2002 when the above relevant laws and regulations had not come into effect, it considers that it does not require to apply for the coast line usage approval. As at the Latest Practicable Date, the Target Company has not been requested by the Ministry of Transport and/or relevant authorities for the coastal line usage approval. Should the coastal line usage approval is necessary, the Target Company will proceed with the application for the approval in due course.

3. The Regulations on Operation of Ports

According to "Port Law of the People's Republic of China (implemented on 1 January 2004) "and "Provisions on the Administration of Port Operation (implemented on 1 March 2010)", following regulations shall be observed by the economic organizations and individuals who intend to operate ports in China:

In terms of the current port operating business of the Company in China, the Company shall obtain the port operating license from the port administrative department with written application.

The obtaining of the port operation license shall be available with fixed operation sites, corresponding facilities, equipment, professional technicians and management personnel relating to the operation businesses, together with other conditions specified by laws and regulations.

In the business of operation, the port operators shall abide by the relevant laws and regulations, the provisions of the port operation rules of the competent traffic authority of the State Council and perform the contractual duties by force of law, thus providing customers with fair and excellent services. The operators undertaking the port passenger services shall adopt effective measures for the security passengers, provide passengers with quick, convenient and flexible services, and maintain good climate for waiting of the scheduled travel. The port operators shall adopt effective measures for prevention and treatment of the pollution and harms to the environment according to the relevant laws and regulations on environmental protection.

The port operators shall at the business sites publish the charging items and charging criteria of the operation services, which should not be implemented without publication. In case the operation charges of ports adopt the prices directed or determined by the government by force of law, the port operators shall execute in compliance with the provisions.

The port operators shall pay all port administrative fees on time according to relevant regulations.

4. The Regulations on Port-related Fees

Relevant fees charged by the port operators in the People's Republic of China are regulated by the "Regulations of Ports Charges in the People's Republic of China (Domestic Trade)" which became effective on 1 August 2005 and "Regulations of Ports Charges in the People's Republic of China (Foreign Trade)" which was revised and became effective on 1 January 2002.

In aforesaid regulations on port-related fees promulgated by the Ministry of Transport, a series of reference rate of charge for port services is stipulated. However, the port operators could adjust the rate of charge for some port services based on market conditions.

5. Obtained licenses and approvals

The Target Company has obtained all necessary licenses for its current operation and business including:

(i) The Enterprise Legal Person Business Licence (registration number: 371100400001416) renewed and issued by the Industrial & Commercial Administration Bureau of Rizhao City on 6 May 2008, pursuant to which Wansheng Harbour's business scope is defined as "construction of the harbour and pier facilities, loading/unloading, storage and transportation of steel, woods and other goods within the harbour premises (other than hazardous chemicals and goods restricted and prohibited by the Government)".

(ii) Approval on Enterprises Invested by Citizens from Taiwan, Hong Kong and Macau, PRC (Shang Wai Zi Lu Fu Ri Zi No. [2004] 1882) issued by People's Government of Shandong Province on 4 May 2008.

(iii) Port Operation License (Lu Ri Gang Jing Zi No. 10006) issued by the Harbour and Freight Administration of Rizhao City on 14 July 2010, which expires on 14 July 2013, pursuant to which, Wansheng Harbour is permitted to be engaged in operation of pier and other port facilities; loading/unloading, barging and warehousing of goods within the port area; loading/unloading of goods within the port area; warehousing of goods within the port area; and

(iv) Customs Clearance Registration of Consigner/Consignee of Imported & Exported Goods with Customs of the People's Republic of China (Customs Registration No.3711931304) issued by the Customs Authority of Rizhao City, which expires on 31 March 2011.

COMPETITIVE EDGE

The Directors are of the view that the Target Company is to be benefited from:

- The sustainable long-term economic growth and increase in fixed assets investments in the PRC, which are expected to drive an increasing demand for steel products and imported ore.

- The advantageous location of Lanshan Port / Rizhao Port in Northeastern China where a number of the PRC's major steel manufacturers are based and the Target Company has established the stable business relationships with such steel manufacturers.

- The natural deep water advantage with the depth of 13 meters of Lanshan Port/ Rizhao Port coupled with its location at southern part of Shandong province, which facilitated the Rizhao Port's development in iron ore import business.

- Apart from the existing one 50,000-tonnes vessels berth, the sea usage right of approximately 1,500 acres (1,000,000 sq.m.) of which several 100,000 to 300,000-tonnes vessel berths could be built to cope with the increase in business in the future contemplated.

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group is principally engaged in the manufacture and trading of polishing materials and equipments and investment. As disclosed in the 2009 annual report of the Company, the competition in the polishing materials market in both Hong Kong and Mainland China has remained keen and the Directors have been actively seeking different business opportunities to diversify its businesses and will grasp every investment and business opportunities as they arise to enhance value for its shareholders.

The current business model of the Company can be categorized into three business segments which comprises (i) manufacturing of abrasive products, polishing compounds and wheels; (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment.

Reference is made to the announcement of the Company dated 9 December 2009 and the circular of the Company dated 13 December 2010 in relation to the disposal (the "Disposal") of Magic Horizon Investment Limited and its subsidiaries (together, the "Magic Horizon Group") which constitutes a major and connected transaction of the Company. The Magic Horizon Group which primarily owns the manufacturing plant and carries out the manufacturing process of the Group. As the Magic Horizon Group to be disposed was engaged in a very specialised industry (i.e. manufacturing and trading of polishing materials), the Company required lengthy time to research for market comparables and the circular was delayed. The Disposal was completed on 30 December 2010. Currently, the Group maintains the operation of all the three existing business segments which include (i) manufacturing of abrasive products, polishing compounds and wheels (under the subcontracting arrangement); (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment.

Upon Completion, the Group will maintain the operation of all the existing business segments and will expand its business scope and will concurrently be engaged in port operation in Lanshan Harbour, Rizhao Port, Shandong province of the PRC under close cooperation with the PRC Party and its associates. The Company currently does not deploy related expertise of port operation. It is the Company's intention to retain the existing management of the Target Company for the daily management and operation of the Target Company after the Completion.

Taking into account (i) the expected sustainable long-term economic development in the PRC; (ii) the advantageous location of Lanshan Port/Rizhao Port in Northeastern China; (iii) the long term good relationship with the existing customers and a relationship with the PRC Party and its associates upon Completion and (iv) the profitable track record of the Target Company of the audited profit after taxation of approximately RMB157.7 million for the year ended 31 December 2009, the Board is of the view that the entering into the Agreement is in line with the business development strategy of the Group and will enable the Group to diversify its business exposure in terminal and port operation. The Board considers that the terms of the Agreement are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

COMPANY'S FEASIBILITY STUDY ON THE TARGET COMPANY

The Company and the Board adopt prudent approach in selecting investment opportunities. In considering the Acquisition and determining the Consideration, the Board placed lots of emphasis on the financial performance, profitability and legal compliance of the Target Company.

Therefore, the major commercial terms required by the Company and agreed by the Vendor are that the Completion will be subject to the followings:

(i) the financial statements of the Target Company for the three years ended 31 December 2009 and for the six months ended 30 June 2010 being audited by the Hong Kong certified public accountants and being issued unqualified auditors' opinion; the audited turnover of the Target Company for the year ended 31 December 2009 and for the six months ended 30 June 2010 shall be not less than RMB330 million and RMB190 million respectively and the audited net profit of the Target Company for the year ended 31 December 2009 and for the six months ended 30 June 2010 shall be not less than RMB150 million and RMB85 million respectively;

(ii) Able Winner having confirmed that it is satisfied with its due diligence results of the assets, liabilities, operations and business of the Target Group prepared by its consultants and agents; and

(iii) Able Winner being satisfied in form and substance with the legal opinion in relation to the Agreement and the transactions contemplated thereunder issued by a qualified PRC lawyer.

As part of the due diligence works performed by the Company, the management of the Company has reviewed the management accounts and audited financial statements of the Target Company for the three years ended 31 December 2009 and for the six months ended 30 June 2010.

The management of the Company is satisfied with the audited financial statements of the Target Company which was issued with an unqualified auditors' opinion by Deloitte Touche Tohmatsu, a reputable international auditing firm. The Target Company recorded audited turnover of approximately RMB336 million and RMB197 million for the year ended 31 December 2009 and for the six months ended 30 June 2010 respectively. The Target Company recorded audited profit of RMB158 million and RMB87 million for the year ended 31 December 2009 and for the six months ended 30 June 2010 respectively. The historical financial performance of the Target Company exceeds the relevant figures as required under the Agreement. Further, the Target Company recorded audited profit of RMB123 million for the eleven months ended 30 November 2010. The Board is satisfied with the continuous improvement of the revenues and the profits of the Target Company during the Track Record Period.

The management of the Company has performed site visits to the Target Company's principal operation sites in the Lanshan Harbour, Rizhao Port, to understand the business, operation and development of the Target Company. During the site visits, the management of the Company conducted interviews with the senior management of the Target Company and discussed the major financial performance and operational issues of the Target Company. The management of the Company considers that the port business and operation of the Target Company will provide stable revenue and operating cash flows to the Group. The Board is confident that the Target Company will be a significant income stream contributing to the Group in the long run after the Completion.

The Board has appointed Jingtian & Gongcheng (北京市競天公誠律師事務所), a qualified PRC law firm, to perform legal due diligence works on the Target Company. The PRC lawyer has examined the validity of the title certificates and ownership of the Target Company's properties, including sea use rights. It also investigated various legal compliance issues of the Target Company, including incorporation, operations, significant assets, taxation, foreign exchanges, insurance, environmental protection, material contracts and litigation. The scope of legal due diligence work includes (but not limited to) the following areas:

(i) due diligence on the legal status and corporate information of the Target Company, including but not limited to the incorporation, capital and modification situations and bankruptcy/winding up situations (if any) of the Target Company;

(ii) due diligence on the business aspects of the Target Company, including but not limited to business scope, relevant authorization and approvals, operation qualifications and special business supervisions;

(iii) due diligence on assets situation of the Target Company including but not limited to real estate, patent, trademark, etc;

(iv) due diligence on material contracts of the Target Company, including but not limited to loan agreements, etc;

(v) due diligence on property ownership and leased property interest of the Target Company including but not limited to mortgages on the property, claims from third party or other restrictions;

(vi) investigation on all existing, pending or threatened lawsuits, arbitrations, disputes or prosecution, other legal proceeding, investigation or enquiry by any statutory or governmental body, department, or any claims, actions or demands involving of the Target Company;

(vii) investigation on the long-term investment of the Target Company; and

(viii) compliance check for the tax registration, tax payment status (based on relevant documents obtained by or with the assistance of the Target Company from relevant tax authorities) and tax benefits and relevant government approvals of the Target Company.

Jingtian & Gongcheng, the Company's PRC lawyers, has provided their draft legal opinion to the Board and the Board is satisfied with the findings. No material legal violation on the asset titles or certificates for the operation of the Target Company was noted.

Regarding the business plans and developments plans, Jingtian & Gongcheng has conducted their legal due diligence work on the approvals, consents and authorizations received for the projects pending construction of the Target Company.

Further, the Board has appointed Asset Appraisal Ltd., an independent professional valuer, to value the properties (including sea use rights) and the business of the Target Company. Please refer to Appendices VI and VII for the details of the relevant valuation reports.

For the property valuation (as contained in Appendix VI), the Board is satisfied with that the valuation amounts were higher than the relevant book amounts of the properties of the Target Company as at 31 October 2010. The management of the Company considers that the properties (including land use rights and sea use rights) of the Target Company are properly held by it.

For the business valuation (as contained in Appendix VII), the Board has reviewed the assumptions and valuation method adopted in the business valuation report. The major assumptions of the business valuation are as follows (please refer to Appendix VII for the detailed list of assumptions):

(i) there will be no major change in the existing political, legal and economic conditions in which Target Company is being operated, and save for those proposed changes on taxation policies announced by the Tax Bureau, there will be no major change in the current taxation law and tax rates;

(ii) the availability of finance will not be a constraint on the forecast growth of the Target Company's operations in accordance with the business plans and the projection;

(iii) the Target Company shall have uninterrupted rights to operate its existing business during the unexpired term of its authorized enterprise operating period and has obtained all necessary permits and approvals to carry out its business; and

(iv) the Target Company shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support their business operations.

The Board considers that the above major assumptions adopted in the business valuation are appropriate and fair and reasonable. This is because:

(i) port business of the Target Company relies heavily on the overall PRC economy and political environment, including the rules and regulations on import and export of mineral ores. Any major change in the economic and political environment will affect the demand and supply of mineral ores, and hence the business of the Target Company;

(ii) according to the Target Company's business plans, the Target Company will continuously make investment in constructing new berths and purchasing new equipment to increase its handling capacity. Such investment requires significant capital contributions. If there are any difficulties in obtaining necessary funding to implement the business plans of the Target Company, the Target Company may not expand its operations as planned.

The Board notes that the Target Company had capital commitment and bank borrowings of approximately RMB380 million and RMB190 million as at 30 November 2010 respectively. In view of the cash and bank balances of the Target Company of approximately RMB319 million as at 30 November 2010 and the continuous operating cash inflows of the Target Company, the Board considers that there will be sufficient financial resources to support the future development of the Target Company. The Board has also appointed reporting accountants to review the future cash flows of the Enlarged Group for the next twelve months from the issue of this circular.

(iii) most of the land use rights certificates and sea area use certificates held by the Target Company were granted for terms of approximately 50 years. The Board does not foresee any restrictions on the Target Company from operating its existing port business in Lanshan Harbour. Also, the Board is not aware of any material infringement of relevant regulations and law by the Target Company in respect of its port operations;

(iv) the term of the joint venture for the Target Company is from 25 August 2004 to 24 August 2054. According to the Port Operation License, the Target Company is permitted to operate ports and other ports objects, run loading, lighterage and storage business within the ports area and run goods loading and goods storage within the ports area. To obtain the port operation license, the applicant shall have fixed operation sites, corresponding facilities, equipment, professional technicians and management personnel relating to the operation businesses, as well as being qualified for other conditions specified by laws and regulations.

The Target Company has obtained all necessary licenses for its current operation and business. In this regard, the Company considers that the assumption that the Target Company has obtained all necessary permits and approvals to carry out its business is appropriate, and the likelihood of not fulfilling this assumption is low; and

(v) the Target Company has a competent management team, experienced in the terminal and port industry and the Target Company's operations. Such management team has worked for the Target Company for many years. The Board considers that there will be no material change to the Target Company's management team after the Completion.

As the valuer has carried out site inspection of the major operating facilities of the Target Company, made relevant enquiries and obtained relevant information. The business valuation report provides useful information (including analysis of port industry, economic environment, operational environment and comparable companies) to the Company for considering the Acquisition.

Upon the review of the financial performance and operational environment of the Target Company and upon completion of the above mentioned due diligence trip to the Lanshan Harbour, the Board considers that the future of the Target Company and the Lanshan Harbour is positive and that the Acquisition is a good investment opportunity to the Group.

Qualified opinion on the accountants report of the Target

The Company noted that the financial statements of the Target as set out in the accountants' report of the Target (Appendix I) were qualified by the reporting accountants. It was because the scope of the reporting accountants' procedures was limited as the sole director of the Target was unable to provide adequate financial information in respect of an associate, 山西卓鋒鈦業有限公司, for the Track Record Period for the reporting accountants' examination.

The Company considers that the above qualification from the reporting accountants on the Target in relation to 山西卓鋒鈦業有限公司 was irrelevant to and would not materially impact the Acquisition and the Group, in view of the following:

(i) the Target is an investment holding company. Its main assets are its equity interests in the Target Company and 山西卓鋒鈦業有限公司. It does not carry out any operations;

(ii) the Company targets to acquire the Target's equity interests in the Target Company, but not the Target's equity interests in 山西卓鋒鈦業有限公司. The reporting accountants have issued an unqualified audit opinion on the Target Company's financial information in the Track Record Period, please refer to the accountants report of the Target Company in Appendix II for details; and

(iii) the Target completed the disposal of all its equity interests in 山西卓鋒鈦業有限公司 for RMB8,250,000 on 15 December 2010. Therefore, the Company will not acquire any equity interests in 山西卓鋒鈦業有限公司 (through the Target) from the Acquisition upon Completion.

BUSINESS MODEL OF THE GROUP

As mentioned above, the Group completed the disposal of Magic Horizon Group on 30 December 2010. We would like to set out the business models of the Group before and after the Disposal of Magic Horizon Group and the Acquisition below:

(i) Business model of the Group before the Disposal and the Acquisition

The business model of the Group before the Disposal and the Acquisition can be categorized into three business segments which comprises (i) manufacturing of abrasive products, polishing compounds and wheels; (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment.

In respect of manufacturing of abrasive products, polishing compounds and wheels, the products are manufactured and sold under the brand name owned by the Group. After the Group receives orders from its customers, it will place order with Dongguan PME Polishing Materials & Equipment Co. Ltd. (東莞必美宜拋光材料器材有限公司) ("Dongguan PME"), which owns the manufacturing plant (the "Manufacturing Plant") in Dongguan, for manufacturing the relevant products.

Trading of polishing materials and polishing equipment are carried on under another Hong Kong subsidiaries of the Company.

Investments in trading equity securities and long term strategic investment are carried out under separate wholly owned subsidiaries of the Company.

(ii) Business model of the Group after the Disposal (and before the Acquisition)

As stated in the announcement of the Company dated 9 December 2009 in relation to the Disposal, Magic Horizon Group had unaudited liabilities of approximately HK$27,511,000 as at 31 August 2009 and recorded attributable loss before and after taxation of approximately HK$7,067,000 for the year ended 31 December 2008. Accordingly, the Company entered into a sale and purchase agreement on 25 November 2009 to dispose of Magic Horizon Group which primarily owns the Manufacturing Plant and carries out the manufacturing process of the Group.

The Company also entered into a master processing agreement (the "Master Processing Agreement") on 25 November 2009, pursuant to which the Group will outsource the manufacturing process to Billionlink Holdings Limited (the "Processor"), which is the purchaser of Magic Horizon Group upon completion of the Disposal. The Disposal was completed on 30 December 2010.

After the Disposal, the Group continues to maintain its brand name and customer base. Pursuant to the Master Processing Agreement, Best Chief Ventures Limited (the "Supplier"), a wholly owned subsidiary of the Company, will supply the relevant raw materials to the Processor for further processing into the final products. All the final products will be sold and delivered by the Group under its own brand name.

The Group has the flexibility to outsource the manufacturing process to other independent processors if they will charge for a lower processing price. However, other independent processors who can be easily identified are generally smaller in scale with limited production capacity and can only process limited types of products as compared to that of Magic Horizon Group. Therefore, the Group can only outsource processing process of certain products to other independent processors which process relevant skills and processing capacity. It is anticipated that the Group's polishing products namely Sisal Sewn Disc, Cotton Loose Buff, Ventilated Sisal Buff, Cotton Strip Buff, Non-woven Flap Wheel, Non-woven Pad, ITO Buff, Finishing Flap Brush, General Purpose Wheel, Light Deburring Wheel, Cut & Polishing Wheel, Metal Finishing Wheel, Level Cut Wheel, Convolute Wheel, Buffing Compound Tripoli, Buffing Compound Alumina and Polishing Abrasive, which account for approximately 30% of the segment revenue of the Group's polishing materials and equipment segment, can be processed by other independent processors.

As the Supplier will only pay a processing fee to the Processor, it is expected that the Group will continue to recognize all the sales revenue of the products to be manufactured by the Processor under the Master Processing Agreement. As the processing fee is fixed under the Master Processing Agreement, it is expected that the gross profit margin of the sales of the manufacturing products will not be adversely affected by the Disposal and subcontracting arrangement.

Currently after the Disposal, the Group maintains the operation of all the three existing business segments which include (i) manufacturing of abrasive products, polishing compounds and wheels (under the subcontracting arrangement pursuant to the Master Processing Agreement); (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment. It is expected that the scale of operation of the existing business segments would have no material changes after the Disposal.

(iii) Business model of the Group after the Disposal and the Acquisition

As mentioned, the Group maintains the operation of all the existing business segments. Upon completion of the Acquisition, the Group will become a conglomerate and expand its business scope and will concurrently be engaged in port operation in Lanshan Harbour, Rizhao Port, Shandong province of the PRC.

The revenue of the Target Company has been generated from the provision of terminal and logistic services in Lanshan Harbour, Rizhao Port, Shandong province of the PRC. Based on the accountants' report of the Target Company as set out in Appendix II to this circular, the turnover and the profit after taxation for the year ended 31 December 2009 of the Target Company was RMB335.9 million and RMB157.7 million respectively whilst its turnover and profit after taxation for the eleven months ended 30 November 2010 was RMB311.8 million and RMB123.3 million respectively. The net asset value of the Target Company as at 30 November 2010 was RMB427.9 million. It is expected that the scale of revenue, profit and net assets of the Group will be enhanced after the Completion.

The Company's plan in allocation of financial and management resources between the Target Group and the existing business lines

The Group allocates its financial and management resources in order to bring the best benefits and interests to the Shareholders.

The Company considers that both its existing businesses and the new port business do not require any further substantial capital injection. The Group will bear less financial burden after the sale of Manufacturing Plant.

The plan in financial allocation between the Target Group and the existing business lines depends on the expansion plan of the Target Group and the independent business and operation needs of the Group's existing business lines. According to the Target Group's business plans, the Target Group will continuously make investment in constructing new berths and purchasing new equipment to increase its handling capacity.

The Group's management will closely monitor the funding requirements of different business lines and investment projects in order to utilize its cash resources in the most effective way.

Regarding the management resources, the Company is in the process of identifying potential candidates, having expertise in logistics and/or port industry, to be appointed as the Company's directors and/or senior management in the future. The Company considers that, with the support of the new management members and the existing management of the Group and the Target Group, sufficient management resources would be allocated to both the Group's existing and new businesses.

The Company's assessment on the feasibility of the combined business model

Upon Completion, the Group will maintain the operation of all the existing business segments and will expand its business scope to include port operation in Lanshan Harbour under close cooperation with the PRC Party and its associates. The Group will closely monitor the financial performance, the funding requirements and the management effectiveness under the combined business model of the Group's existing businesses and the Target Company's business.

The Company expects that its existing businesses and the new port business do not require any further substantial capital injection, and is not aware of any adverse change to the performance of those businesses as at the Latest Practicable Date.

Regarding the management effectiveness, the Company currently does not deploy related expertise of port operation. It is the Company's intention to retain the existing management of the Target Group for the daily management and operation of the Target Group after the Completion. Further, the Company is in the process of identifying potential candidates, having expertise in logistics and/or port industry, to be appointed as the Company's directors and/or senior management in the future.

The existing management of the Group may require additional time to implement and adjust to changes resulting from the Acquisition. However, the Group's management will adopt measures to manage the risks associated with the business of the Target Group, including closely monitor of the Target Company's performance and frequent communications with the Target Company's management.

If the new measures do not have the desired effects on the Company's corporate structure, corporate governance or other aspects of the Company's operations and the growth of the Target Group are not managed successfully or otherwise obtained sufficient resources to support such growth, the combined business model, financial condition, results of operations and prospects of the Group may be adversely affected.

Save as the above-mentioned, it is expected that the scale of revenue, profit and net assets of the Group will be enhanced after the Completion. The Directors believe the combined business model is feasible.

FINANCIAL EFFECT OF THE ACQUISITION

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the unaudited total assets of the Group as at 30 June 2010 were approximately HK$1,179,002,000 and the unaudited pro forma total assets of the Enlarged Group would amount to approximately HK$1,584,073,000. The unaudited total liabilities of the Group as at 30 June 2010 were approximately HK$344,114,000 and the unaudited pro forma total liabilities of the Enlarged Group would amount to approximately HK$749,185,000. The unaudited total equity of the Group as at 30 June 2010 approximately HK$834,888,000 and the unaudited pro forma total equity of the Enlarged Group would remain unchanged. Assuming the Acquisition took place on 1 January 2009, the Group's profit attributable to owners of the Company for the year ended 31 December 2009 of HK$158,359,000 would become to a profit of HK$250,887,000, deriving mainly from the share of profits of the Target Company.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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

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

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

In addition, the Board considers that with the Target Group's profitable track record and future prospects, the Acquisition is in line with the Group's business development strategy of exploring and developing profitable business and could improve the results and strengthen the financial position of the Group.

Upon completion of the Acquisition, the Group's business segments will be (i) manufacturing of abrasive products, polishing compounds and wheels (under the subcontracting arrangement pursuant to the Master Processing Agreement); (ii) trading of polishing materials and polishing equipment; (iii) investments in trading equity securities and long term strategic investment; and (iv) terminal and port operations.

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

EGM

A notice convening the EGM at which resolutions will be proposed to consider, and if thought fit, to approve (i) the Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder and (ii) the change of the use of proceeds from the Placing to be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Thursday, 17 February 2011 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's head office and principal place of business at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

As no Shareholder has material interest in the Agreement (as amended by the Supplemental Agreements), no Shareholder will be required to abstain from voting on the resolution(s) approving the Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder at the EGM.

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

Based on the reasons set out in the section headed "Reasons for and Benefit of the Acquisition" above, the Board considers that (i) the terms of the Acquisition; and (ii) the change of the use of proceeds from the Placing are fair and reasonable so far as the Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions to be put forward to the Shareholders at the EGM to consider and, if thought fit, approve (i) the Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder and (ii) the change of the use of proceeds from the Placing.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

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

The following is the text of an accountants' report of the Target received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, for inclusion in this circular.

Deloitte.
德勤

27 January 2011

The Directors
PME Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Upmove International Limited (晉瑞國際集團有限公司) ("Upmove") for each of the three years ended 31 December 2009 and eleven months ended 30 November 2010 (the "Relevant Periods") for inclusion in the circular issued by PME Group Limited (the "Company") dated 27 January 2011 (the "Circular") in connection with the proposed very substantial acquisition of 100% equity interest in Upmove. Upmove was incorporated in Hong Kong with limited liability on 26 January 2006 and is an investment holding company.

During the Relevant Periods and as of the date of this report, Upmove had the following investments in associates:

Name of associate	Place of establishment/ form of the entity	Registered capital directly attributable to Upmove		Principal activities
Rizhaolanshan Wansheng Harbour Co., Ltd ("Rizhaolanshan")	The People's Republic of China (the "PRC")/ Sino-foreign equity joint venture	RMB36,400,000	26%	Provision of iron ore terminals and logistic services
山西卓鋒鈦業有限公司 ("山西卓鋒鈦業")	The PRC/ Sino-foreign equity joint venture	RMB8,250,000	25%	Production of precise metallic mineral products

The statutory financial statements of Upmove which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the three years ended 31 March 2008, 2009 and 2010 were audited by S. H. Yeung & Co., Certified Public Accountants (Practising).

For the purpose of this report, the sole director of Upmove has prepared the financial statements of Upmove for the Relevant Periods in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the HKICPA (the "Underlying Financial Statements"). We have, for the purpose of this report, carried out independent audit procedures on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

However, the scope of our procedures was limited as the sole director of Upmove was unable to provide adequate financial information in respect of an associate, 山西卓鋒鈦業, for the Relevant Periods, for our examination. We have therefore been unable to carry out audit procedures to obtain sufficient and reliable audit evidence to satisfy ourselves as to whether Upmove's share of net assets in 山西卓鋒鈦業 with carrying amounts of HK$8,405,000, HK$9,885,000 and HK$15,130,000 as at 31 December 2007, 2008 and 2009 respectively and its share of profit of nil, HK$639,000, HK$5,120,000 and HK$3,269,000 for the years ended 31 December 2007, 2008, 2009 and the eleven months ended 30 November 2010 respectively and the impairment loss on investment in an associate of HK$9,500,000 recognised for the eleven months ended 30 November 2010 are free from material misstatement.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular without making any adjustment.

The sole director of Upmove is responsible for the preparation of the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient appropriate evidence concerning Upmove's interest in 山西卓鋒鈦業 as mentioned above, in our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Upmove as at 31 December 2007, 2008 and 2009 and 30 November 2010 and of its results and cash flows for the Relevant Periods.

The comparative statement of comprehensive income, statement of cash flows and statement of changes in equity of Upmove for the eleven months ended 30 November 2009, together with the notes thereon (the "30 November 2009 Financial Information") were prepared by the sole director of Upmove solely for the purpose of this report. We have reviewed the 30 November 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 November 2009 Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 November 2009 Financial Information. As mentioned above, the scope of our procedures was limited as the sole director of Upmove was unable to provide adequate financial information in respect of 山西卓鋒鈦業 for our review. Based on our review, except for the effects of such adjustments, if any, as might have been determined had we been able to satisfy ourselves as to Upmove's share of profit from 山西卓鋒鈦業 of HK$5,482,000 for the eleven months ended 30 November 2009, nothing has come to our attention that causes us to believe that the 30 November 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRSs.

(A) FINANCIAL INFORMATION

Statements of comprehensive income

		Year ended 31 December			Eleven months ended 30 November	
		2007	2008	2009	2009	2010
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Other income, other gains and losses	*8*	906	(753)	1	1	1,162
Administrative expenses		(18)	(17)	(19)	(10)	(22)
Impairment loss on investment in an associate		–	–	–	–	(9,500)
Share of profits of associates						
– Rizhaolanshan		28,745	30,864	46,524	37,710	36,692
– 山西卓鋒鈦業		–	639	5,120	5,482	3,269
Profit before taxation	*9*	29,633	30,733	51,626	43,183	31,601
Income tax expense	*10*	–	(1,575)	(2,582)	(2,160)	(1,998)
Profit for the year/period		29,633	29,158	49,044	41,023	29,603
Other comprehensive income						
Exchange differences arising on translation		2,552	6,535	2,811	2,821	3,527
Total comprehensive income		32,185	35,693	51,855	43,844	33,130

Statements of financial position

	NOTES	As at 31 December 2007 HK$'000	2008 HK$'000	2009 HK$'000	As at 30 November 2010 HK$'000
Non-current assets					
Interests in associates	13				
– Rizhaolanshan		63,046	88,342	117,212	129,601
– 山西卓鋒鈦業		8,405	9,885	15,130	–
		71,451	98,227	132,342	129,601
Other receivables	14	13,183	24,506	–	–
		84,634	122,733	132,342	129,601
Current assets					
Other receivables	14	–	–	44,343	–
Bank balances and cash	15	5,107	4,226	700	30,786
		5,107	4,226	45,043	30,786
Assets classified as held for sale	18	–	–	–	9,360
		5,107	4,226	45,043	40,146
Current liabilities					
Amount due to a shareholder	14	47,532	47,467	43,941	44,008
Dividend payable		13,183	24,506	44,343	28,874
Accrued charges		28	43	60	65
		60,743	72,016	88,344	72,947
Liabilities associated with assets classified as held for sale	18	–	–	–	288
		60,743	72,016	88,344	73,235
Net current liabilities		(55,636)	(67,790)	(43,301)	(33,089)
Net assets		28,998	54,943	89,041	96,512
Capital and reserves					
Share capital	16	–	–	–	–
Reserves		28,998	53,368	85,386	92,515
Total equity		28,998	53,368	85,386	92,515
Non-current liability					
Deferred taxation liability	17	–	1,575	3,655	3,997
		28,998	54,943	89,041	96,512

Statements of changes in equity

	Share capital *HK$'000*	Translation reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*
At 1 January 2007	–	(28)	10,024	9,996
Exchange differences	–	2,552	–	2,552
Profit for the year	–	–	29,633	29,633
Total comprehensive income for the year	–	2,552	29,633	32,185
Dividends recognised as distributions *(note 12)*	–	–	(13,183)	(13,183)
At 31 December 2007	–	2,524	26,474	28,998
Exchange differences	–	6,535	–	6,535
Profit for the year	–	–	29,158	29,158
Total comprehensive income for the year	–	6,535	29,158	35,693
Dividends recognised as distributions *(note 12)*	–	–	(11,323)	(11,323)
At 31 December 2008	–	9,059	44,309	53,368
Exchange differences	–	2,811	–	2,811
Profit for the year	–	–	49,044	49,044
Total comprehensive income for the year	–	2,811	49,044	51,855
Dividends recognised as distributions *(note 12)*	–	–	(19,837)	(19,837)
At 31 December 2009	–	11,870	73,516	85,386
Exchange differences	–	3,527	–	3,527
Profit for the period	–	–	29,603	29,603
Total comprehensive income for the period	–	3,527	29,603	33,130
Dividends recognised as distributions *(note 12)*	–	–	(26,001)	(26,001)
At 30 November 2010	–	15,397	77,118	92,515
(Unaudited)				
At 1 January 2009	–	9,059	44,309	53,368
Exchange differences	–	2,821	–	2,821
Profit for the period	–	–	41,023	41,023
Total comprehensive income for the period	–	2,821	41,023	43,844
Dividends recognised as distributions	–	–	(19,837)	(19,837)
At 30 November 2009	–	11,880	65,495	77,375

Statements of cash flows

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Operating activities					
Profit before taxation	29,633	30,733	51,626	43,183	31,601
Adjustments for:					
Interest income	(32)	(8)	(1)	(1)	–
Share of profits of associates	(28,745)	(31,503)	(51,644)	(43,192)	(39,961)
Impairment loss on investment in an associate	–	–	–	–	9,500
Operating cash flow before movements in working capital	856	(778)	(19)	(10)	1,140
Increase in accrued charges	3	15	17	10	5
Cash generated from operations	859	(763)	(2)	–	1,145
Tax paid	–	–	(502)	–	(1,368)
Net cash from (used in) operating activities	859	(763)	(504)	–	(223)
Investing activities					
(Increase) decrease in other receivables	(13,183)	(11,323)	(19,837)	(19,838)	44,343
Increase in investments in associates	–	(61)	–	–	–
Dividend received from associates	13,183	11,323	20,340	19,838	27,369
Interest received	32	8	1	1	–
Net cash (used in) from investing activities	32	(53)	504	1	71,712
Financing activities					
Dividend paid	–	–	–	–	(41,470)
(Repayment to) advance from a shareholder	(181)	(65)	(3,526)	–	67
Cash used in financing activities	(181)	(65)	(3,526)	–	(41,403)
Net increase (decrease) in cash and cash equivalents	710	(881)	(3,526)	1	30,086
Cash and cash equivalents at the beginning of the year/period	4,397	5,107	4,226	4,226	700
Cash and cash equivalents at the end of the year/period, representing bank balances and cash	5,107	4,226	700	4,227	30,786

Notes to Financial Information

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Upmove was established and registered in Hong Kong with limited liability on 26 January 2006. The address of the registered office and principal place of business of Upmove is Room 808, 8/F, Winning Commercial Building, 46-48 Hillwood Road, Tsim Sha Tsui, Kowloon.

The Financial Information is presented in Hong Kong dollars ("HK$").

At 30 November 2010, Upmove had net current liabilities of approximately HK$33,089,000. In spite of these, the Financial Information has been prepared on a going concern basis since the sole shareholder of Upmove has agreed to provide adequate funds to enable Upmove to meet in full its financial obligations as they fall due in the foreseeable future.

2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Upmove has consistently applied the HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") amendments and interpretations ("INT") issued by the HKICPA that are effective for annual accounting period beginning on 1 January 2010 throughout the Relevant Periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[7]
HKAS 24 (Revised)	Related party disclosures[2]
HKAS 32 (Amendment)	Classification of rights issues[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[4]
HKFRS 1 (Amendments)	Severe Hype-inflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendment)	Disclosures – transfer of financial assets[5]
HKFRS 9	Financial instruments[6]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[2]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[4]

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

The sole director of Upmove anticipates that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Upmove.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interests in associates

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

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

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in Upmove's share of net assets of the associates, less any identified impairment loss. When Upmove'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 Upmove's net investment in the associate), Upmove 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 Upmove has incurred legal or constructive obligations or made payments on behalf of that associate.

Foreign currencies

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

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

For the purposes of presenting the financial statements, the assets and liabilities of Upmove are translated into the presentation currency (i.e. Hong Kong dollar) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss. Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary difference. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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 associates. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Upmove 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Upmove's financial assets include other receivables and bank balances and cash which are classified into loans and receivables.

Effective interest method

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

Interest income is recognised on an effective interest 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. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been impacted. 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.

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.

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by Upmove 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 Upmove after deducting all of its 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 to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including amount due to a shareholder, dividend payable, and accrued charges are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Upmove 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 Upmove 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 is recognised in profit or loss.

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

4. CAPITAL RISK MANAGEMENT

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

The capital structure of Upmove consists share capital and amount due to a shareholder.

The sole director of Upmove reviews the capital structure on an annual basis. As part of this review, the sole director considers the cost of capital and the risks associated with each class of capital. The sole director of Upmove will balance its overall capital structure through the payment of dividends, issuance of new shares and advances from the shareholder.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	18,290	28,732	45,043	30,786
Financial liabilities				
Amortised cost	60,743	72,016	88,344	72,947

Financial risk management objectives and policies

Upmove's major financial instruments include other receivables, bank balances and cash, amount due to a shareholder, dividend payable and accrued charges. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The sole director manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

Upmove's cash flow interest rate risk primarily relates to variable-rate bank balances. In the opinion of its sole director, the exposure is insignificant.

Credit risk

Upmove's credit risk is primarily attributable to other receivables and bank balances. Upmove's maximum exposure to credit risk which will cause a financial loss to Upmove in the event of the counterparties failure to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position.

In order to minimise credit risk, the sole director reviews the recoverable amount of its other receivables due from an independent third party, which is a private company in PRC, regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. Upmove has concentration of credit risk as all its other receivables are due from one party. The sole director considers that Upmove's credit risk is insignificant as the amount has been fully recovered subsequent to the latest reporting period.

The credit risk on liquid funds is limited because Upmove's bank balances are deposited with a bank of high credit ratings.

Financial risk management objectives and policies

Liquidity risk

In the management of the liquidity risk, Upmove monitors and maintains a level of cash and cash equivalents deemed adequate by the sole director to finance Upmove's operations and mitigate the effects of fluctuations in cash flows.

Upmove had net current liabilities of approximately HK$55,636,000, HK$67,790,000, HK$43,301,000 and HK$33,089,000 as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively. In the opinion of the sole director of Upmove, the liquidity of Upmove can be maintained in the coming year taking into consideration of dividends to be received from associates and the financial support provided by the shareholder of Upmove.

The non-derivative financial liabilities of Upmove with undiscounted cash flow of approximately HK$60,743,000, HK$72,016,000, HK$88,344,000 and HK$72,947,000 as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively, are repayable on demand.

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The sole director of Upmove considers that the carrying values of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their corresponding fair values.

6. SEGMENT INFORMATION

Upmove is principally engaged in investment holding in two associates. The sole director regards it as a single operating segment and therefore, no segment information is presented.

All non-current assets of Upmove are located in the PRC.

7. DIRECTOR'S REMUNERATION AND EMPLOYEES' EMOLUMENTS

During the Relevant Periods, no emoluments were paid or payable to the sole director. Upmove has no other employee during the Relevant Periods.

8. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Other income					
Interest income	32	8	1	1	–
Other gains and losses					
Net foreign exchange gains	874	(761)	–	–	1,162
Total	906	(753)	1	1	1,162

9. PROFIT BEFORE TAXATION

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before taxation has been arrived at after charging:					
Auditor's remuneration	15	15	17	9	–

10. INCOME TAX EXPENSE

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
The taxation charge comprises:					
Withholding tax	–	–	502	–	1,368
Deferred tax *(note 17)*	–	1,575	2,080	2,160	630
	–	1,575	2,582	2,160	1,998

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax has been made in the Financial Information as Upmove had no assessable profit derived in Hong Kong during the Relevant Periods.

Pursuant to the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their sources within the PRC.

Pursuant to a tax treaty between the PRC and Hong Kong that became effective on 8 December 2006, a company incorporated in Hong Kong is subject to a withholding tax at the rate of 5% on dividends it receives from a company established in the PRC if it holds 25% or more of the PRC company, or 10% if holds less than 25% of the PRC company. As Upmove holds 25% or more equity interest in its investments in associates which were established in the PRC, dividend income received from the associates is subject to a 5% withholding tax.

The taxation for the year/period can be reconciled to the profit before taxation per the statement of comprehensive income as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2007	2008	2009	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before taxation	29,633	30,733	51,626	43,183	31,601
Taxation at Hong Kong Profit Tax rate 17.5%, 16.5%, 16.5%, 16.5% and 16.5%	5,186	5,071	8,518	7,125	5,214
Tax effect of income not taxable	(156)	–	–	–	(189)
Tax effect of expenses not deductible	–	127	3	2	1,569
Tax effect of share of profits of associates	(5,030)	(5,198)	(8,521)	(7,127)	(6,594)
Tax effect of withholding tax on undistributed profits from associates	–	1,575	2,080	2,160	630
Withholding tax	–	–	502	–	1,368
Income tax expense	–	1,575	2,582	2,160	1,998

11. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

12. DIVIDENDS

Upmove declared dividend of approximately HK$13,183,000, HK$11,323,000, HK$19,837,000 and HK$26,001,000 for the year ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2010 respectively. The amounts have not been paid up to the date of this report.

13. INTERESTS IN ASSOCIATES

	As at 31 December			As at 30 November
	2007	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	52,279	52,340	52,340	44,242
Other comprehensive income – translation reserve	(553)	5,982	8,793	10,586
Share of post-acquisition profits, net of dividends received	19,725	39,905	71,209	74,773
	71,451	98,227	132,342	129,601

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

	As at 31 December			As at 30 November
	2007	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	598,457	727,291	858,302	1,171,938
Total liabilities	(322,174)	(347,965)	(346,955)	(673,475)
Net assets	276,283	379,326	511,347	498,463
Upmove's share of net assets of associates	71,451	98,227	132,342	129,601

	Year ended 31 December			Eleven months ended 30 November
	2007	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	252,102	429,147	583,658	535,019
Profit for the year	110,566	121,266	199,422	154,201
Upmove's share of profits of associates for the year/period	28,745	31,503	51,644	39,961

14. OTHER RECEIVABLES AND AMOUNT DUE TO THE SHAREHOLDER

The balances are interest free, unsecured and repayable on demand.

As the amounts of other receivables were not expected to be recovered in coming one year as at 31 December 2007 and 2008, the amounts were classified as non-current assets.

Other receivables had been fully settled during the eleven months period ended 30 November 2010.

15. BANK BALANCES AND CASH

Bank balances held by Upmove with original maturity of three months or less carry interest at prevailing market rates.

16. SHARE CAPITAL

	As at 31 December 2007, 2008 and 2009 and 30 November 2010 *HK$'000*
Authorised	
10,000 ordinary share of HK$1 each	10
Issued and fully paid:	
1 ordinary share of HK$1 each	–

Upmove was incorporated with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares at HK$1 each. On 26 January 2006 (date of incorporation), Upmove issued 1 ordinary share of HK$1 each at par.

17. DEFERRED TAXATION LIABILITY

	Withholding tax on undistributed profits of associates *HK$'000*
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Charge to profit or loss	1,575
At 31 December 2008	1,575
Charge to profit or loss	2,582
Release upon the receipt of dividends from associates	(502)
At 31 December 2009	3,655
Charge to profit or loss	1,998
Release upon the receipt of dividends from associates	(1,368)
Release upon assets reclassified as held for sale	(288)
At 30 November 2010	3,997

18. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

Pursuant to the sales and purchases agreement dated 20 October 2010, the sole director of Upmove had decided to dispose of Upmove's entire equity interest in 山西卓鋒鈦業 to a related party, of which the beneficial owner is the spouse of the sole director of Upmove, at a consideration of RMB8,250,000 (the "Disposal").

As such, the carrying amount of the interest in 山西卓鋒鈦業 of HK$18,860,000 as at 30 November 2010 was written down to the estimated realisable value of HK$9,360,000 and classified as assets held for sale.

The deferred tax liabilities of HK$288,000 recognised for the withholding tax on the share of profit from 山西卓鋒鈦業 for previous years were classified as liabilities associated with asset held for sale.

The Disposal was completed on 15 December 2010.

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Upmove for any period subsequent to 30 November 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of an accountants' report of the Target Company received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, for inclusion in this circular.

Deloitte.
德勤

27 January 2011

The Directors
PME Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Rizhaolanshan Wansheng Harbour Co., Ltd.* (日照嵐山萬盛港業有限責任公司) (the "Rizhaolanshan") for each of the three years ended 31 December 2009 and eleven months ended 30 November 2010 (the "Relevant Periods") for inclusion in the circular issued by PME Group Limited (the "Company") dated 27 January 2011 (the "Circular") in connection with the proposed very substantial acquisition of 50% equity interest in Rizhaolanshan via the acquisition of 100% equity interest in Upmove International Limited. Rizhaolanshan is a sino-foreign equity joint venture incorporated in the People's Republic of China (the "PRC") with limited liability. The shareholders of Rizhaolanshan included 日照港股份有限公司, 晉瑞國際集團有限公司, 日照德興國際貿易有限公司, 山東省國際信託投資有限公司 and 祥和國際有限公司, which owned 26%, 26%, 22%, 21%, and 5% equity interest in Rizhaolanshan as at 30 November 2010 respectively. Upon the completion of the group restructuring as set out under section iii on page 12 of the Circular, PME Group Limited will acquire 50% equity interest in Rizhaolanshan.

Rizhaolanshan was established on 25 August 2004 and is engaged in the provision of iron ore terminals and logistic services which include loading and discharging, storage of iron ore, and leasing of terminal facilities and equipment in Shandong province of the PRC.

The statutory financial statements of the Rizhaolanshan which were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC for the years ended 31 December 2007, 2008 and 2009 were audited by the following certified public accountants registered in the PRC.

Periods covered

Year ended 31 December 2007	Wanlong Certified Public Accountants Co., Ltd.* (萬隆會計師事務所有限公司)
Year ended 31 December 2008	Shenzhen Nanfang-Minhe Certified Public Accountants Co., Ltd.* (深圳南方民和會計師事務所)
Year ended 31 December 2009	Shenzhen Nanfang-Minhe Certified Public Accountants Co., Ltd.* (深圳南方民和會計師事務所)

* The English name is for identification purpose only. The official name is in Chinese.

We have audited the management accounts of Rizhaolanshan, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the Relevant Periods (the "Underlying Financial Statements").

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Rizhaolanshan for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustments were considered necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Rizhaolanshan are responsible for the Underlying Financial Statements and the directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Rizhaolanshan as at 31 December 2007, 2008 and 2009 and 30 November 2010 and of the results and cash flows of Rizhaolanshan for the Relevant Periods.

The comparative statement of comprehensive income, statement of cash flows and statement of changes in equity of Rizhaolanshan for the eleven months ended 30 November 2009, together with the notes thereon (the "30 November 2009 Financial Information") were prepared by the directors of Rizhaolanshan solely for the purpose of this report. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the 30 November 2009 Financial Information consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the 30 November 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRSs.

(A) FINANCIAL INFORMATION

Statement of comprehensive income

		Year ended 31 December			Eleven months ended 30 November	
	NOTES	**2007**	**2008**	**2009**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*7*	283,227	313,073	335,909	284,149	311,764
Cost of services		(155,484)	(186,310)	(159,225)	(140,308)	(157,026)
Gross profit		127,743	126,763	176,684	143,841	154,738
Other income, other gains and losses	*9*	89	949	(479)	375	620
Administrative expenses		(8,814)	(11,858)	(13,026)	(11,728)	(14,717)
Finance costs	*10*	(11,201)	(9,930)	(5,495)	(4,647)	(2,051)
Profit before taxation		107,817	105,924	157,684	127,841	138,590
Income tax expense	*11*	–	–	–	–	(15,309)
Profit and total comprehensive income attributable to owners of Rizhaolanshan	*12*	107,817	105,924	157,684	127,841	123,281

Statement of financial position

	NOTES	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	As at 30 November 2010 RMB'000
Non-current assets					
Property, plant and equipment	15	363,332	391,054	440,524	431,271
Sea use rights	16	42,383	41,521	47,466	46,551
Prepaid lease payments	17	–	3,700	9,730	9,534
Deposits for acquisition of a sea use right	16	–	–	24,153	37,158
		405,715	436,275	521,873	524,514
Current assets					
Trade and other receivables	18	60,776	52,913	68,171	81,064
Prepaid lease payments	17	–	88	214	214
Bills receivable	18	81,580	99,399	116,823	73,140
Amounts due from related companies	19	6,426	–	408	7,700
Bank balances and cash	20	28,654	99,412	121,188	319,323
		177,436	251,812	306,804	481,441
Current liabilities					
Trade and other payables	21	39,681	45,776	59,114	128,865
Amounts due to related companies	22	753	2,080	18,428	7,463
Bank borrowings due within one year	23	34,210	39,180	41,410	142,330
Tax payables		–	–	–	3,851
		74,644	87,036	118,952	282,509
Net current assets		102,792	164,776	187,852	198,932
Total assets less current liabilities		508,507	601,051	709,725	723,446
Capital and reserves					
Paid-up capital	24	140,000	140,000	140,000	140,000
Reserves		96,467	163,191	257,275	287,866
Equity attributable to owners of Rizhaolanshan		236,467	303,191	397,275	427,866
Non-current liabilities					
Bank borrowings	23	159,810	120,630	79,220	47,350
Port construction fee refund	25	112,230	177,230	233,230	248,230
		272,040	297,860	312,450	295,580
Total equity and non-current liabilities		508,507	601,051	709,725	723,446

Statement of changes in equity

	Attributable to owners of Rizhaolanshan				
	Paid-up capital	**Share premium**	**Other reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
At 1 January 2007	140,000	23	492	38,535	179,050
Profit and total comprehensive income for the year	–	–	–	107,817	107,817
Dividend paid	–	–	–	(50,400)	(50,400)
At 31 December 2007	140,000	23	492	95,952	236,467
Profit and total comprehensive income for the year	–	–	–	105,924	105,924
Dividend paid	–	–	–	(39,200)	(39,200)
At 31 December 2008	140,000	23	492	162,676	303,191
Profit and total comprehensive income for the year	–	–	–	157,684	157,684
Dividend paid	–	–	–	(63,600)	(63,600)
At 31 December 2009	140,000	23	492	256,760	397,275
Profit and total comprehensive income for the period	–	–	–	123,281	123,281
Dividend paid	–	–	–	(92,690)	(92,690)
At 30 November 2010	140,000	23	492	287,351	427,866
(Unaudited)					
At 1 January 2009	140,000	23	492	162,676	303,191
Profit and total comprehensive income for the period	–	–	–	127,841	127,841
Dividend paid	–	–	–	(63,600)	(63,600)
At 30 November 2009	140,000	23	492	226,917	367,432

Note: As stipulated by the relevant laws and regulations in the PRC and the Articles of Association of Rizhaolanshan, the board of directors of Rizhaolanshan may appropriate, on a discretionary basis, a portion of net profit before the distribution of the net profit each year/period. The other reserve can only be used upon approval by the board of directors of Rizhaolanshan to offset accumulated losses or increase capital.

Statement of cash flows

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities					
Profit before taxation	107,817	105,924	157,684	127,841	138,590
Adjustments for:					
Depreciation of property, plant and equipment	14,812	17,055	17,597	15,966	17,900
Amortisation of prepaid lease payments – land use rights	–	4	141	124	196
Amortisation of sea use rights	561	862	908	790	915
Allowance for (reversal of) bad and doubtful debts	671	(571)	923	–	–
Interest income	(730)	(379)	(444)	(375)	(620)
Finance costs	11,201	9,930	5,495	4,647	2,051
Loss on disposal of property, plant and equipment	–	1	–	–	–
Operating cash flow before movements in working capital	134,332	132,826	182,304	148,993	159,032
Decrease (increase) in trade and other receivables	13,266	8,434	(16,181)	(26,740)	(12,893)
(Increase) decrease in bills receivable	(7,489)	(17,819)	(17,424)	(12,689)	43,683
(Increase) decrease in amounts due from related companies	(120)	6,426	–	–	(7,700)
Increase (decrease) in amounts due to related companies	753	112	8,170	25,211	(2,893)
(Decrease) increase in trade and other payables	(123,585)	8,049	2,036	(11,750)	76,944
Cash generated from operations	17,157	138,028	158,905	123,025	256,173
Tax paid	–	–	–	–	(11,458)
Net cash from operating activities	17,157	138,028	158,905	123,025	244,715

Statement of cash flows *(Continued)*

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Investing activities					
Interest received	730	379	444	375	620
Advances to related companies	–	–	(408)	–	408
Proceeds from disposal of property, plant and equipment	258	–	–	–	175
Acquisition of land lease	–	(3,792)	(6,297)	(6,297)	–
Acquisition of sea use rights	(36,141)	–	(6,853)	–	–
Purchase of property, plant and equipment	(78,870)	(41,518)	(43,336)	(42,969)	(19,104)
Deposits paid for acquisition of a sea use right	–	–	(24,153)	–	(13,005)
Net cash used in investing activities	(114,023)	(44,931)	(80,603)	(48,891)	(30,906)
Financing activities					
New bank borrowings raised	100,000	–	–	–	100,000
Repayments of bank borrowings	(165,980)	(34,210)	(39,180)	(29,180)	(30,950)
Increase in port construction fee refund	112,230	65,000	56,000	50,000	15,000
Advance from (repayment to) a related company	–	6	12	(6)	(18)
Interest paid	(15,072)	(13,935)	(9,758)	(9,117)	(7,016)
Dividend paid	(50,400)	(39,200)	(63,600)	(63,600)	(92,690)
Net cash used in financing activities	(19,222)	(22,339)	(56,526)	(51,903)	(15,674)
Net (decrease) increase in cash and cash equivalents	(116,088)	70,758	21,776	22,231	198,135
Cash and cash equivalents at the beginning of the year/period	144,742	28,654	99,412	99,412	121,188
Cash and cash equivalents at the end of the year/period, representing bank balances and cash	28,654	99,412	121,188	121,643	319,323

Notes to Financial Information

1. GENERAL

Rizhaolanshan was established and registered in the PRC with limited liability on 25 August 2004. The address of the registered office and principal place of business of Rizhaolanshan is Port of Lanshan, Foshou Wan, Lanshan district, Rizhao City, Shandong, the PRC.

The Financial Information is presented in Renminbi ("RMB") which is also the functional currency of Rizhaolanshan.

2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Rizhaolanshan has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") amendments and interpretations ("INT") issued by the HKICPA that are effective for annual accounting periods beginning on 1 January 2010.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[7]
HKAS 24 (Revised)	Related party disclosures[2]
HKAS 32 (Amendment)	Classification of rights issues[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[4]
HKFRS 1 (Amendments)	Severe Hype-inflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendment)	Disclosures – transfer of financial assets[5]
HKFRS 9	Financial instruments[6]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[2]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 January 2011.

3 Effective for annual periods beginning on or after 1 February 2010.

4 Effective for annual periods beginning on or after 1 July 2010.

5 Effective for annual periods beginning on or after 1 July 2011.

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

7 Effective for annual periods beginning on or after 1 January 2012.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of Rizhaolanshan's financial assets.

The directors of Rizhaolanshan 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 Rizhaolanshan.

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared on the historical cost basis as explained in the accounting policies set out below.

The financial information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Revenue recognition

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

Income from provision of iron ore terminals and logistic services are recognised when the respective services are rendered.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other fixed assets, commences when the assets are ready for their intended uses.

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

Leasing

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

Rizhaolanshan as lessee

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 on a straight-line basis over the lease term.

Sea use rights

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to state-managed retirement benefit plans are charged as an expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Rizhaolanshan 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Rizhaolanshan's financial assets are classified as loans and receivables.

Effective interest method

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

Interest income is recognised on an effective interest 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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, amounts due from related companies as well as bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of loans and receivables is set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been impacted. 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 loans and receivables, such as trade 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 Rizhaolanshan's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

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 loans and receivables is reduced by the impairment loss directly with the exception of trade 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 the trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by Rizhaolanshan 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 Rizhaolanshan after deducting all of its 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 to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related companies and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Rizhaolanshan 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 Rizhaolanshan 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 receivables is recognised in profit or loss.

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

Leasehold land and building

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 if they meet the definition of operating leases and amortised over the lease term on a straight-line basis.

Borrowing costs

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

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

Notes to Financial Information *(Continued)*

4. CAPITAL RISK MANAGEMENT

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

The capital structure of Rizhaolanshan consists of equity attributable to its owners, comprising paid-up capital and reserves.

The directors of Rizhaolanshan review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, Rizhaolanshan will balance its overall capital structure through the payment of dividends, raising its registered capital as well as the issue of new debts or the redemption of existing debts.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation of property, plant and equipment

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

Estimated allowance of trade and other receivables

Rizhaolanshan makes allowance of trade and other receivables based on an assessment of the recoverability of receivables. Allowance is applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	170,735	237,358	299,151	473,612
Financial liabilities				
Amortised cost	234,454	207,666	198,172	326,008

Financial risk management objectives and policies

Rizhaolanshan's major financial instruments include trade and other receivables, bills receivable, amounts due from (to) related companies, trade and other payables and bank borrowings, as well as bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

Notes to Financial Information *(Continued)*

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Interest rate risk

Rizhaolanshan's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings.

Rizhaolanshan has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

Rizhaolanshan's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate fixed by The People's Bank of China ("PBOC") arising from Rizhaolanshan's bank borrowings. Rizhaolanshan's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments relating to variable-rate bank balances and bank borrowings as at 31 December 2007, 2008 and 2009 and 30 November 2010. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year/period. A 10 basis point (31 December 2007, 2008 and 2009 and 30 November 2010: 10 basis points) increase or decrease in variable-rate bank balances is used when reporting interest rate risk internally to key management personnel and represents management' s assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, Rizhaolanshan's post-tax profit for each of the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2010 would increase or decrease by approximately RMB29,000, RMB99,000, RMB121,000 and RMB284,000 respectively.

For the Relevant Periods, a 50 basis point increase or decrease in variable-rate bank borrowings is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, Rizhaolanshan's post-tax profit for each of the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2010 would decrease or increase by approximately RMB970,000, RMB799,000, RMB603,000 and RMB844,000 respectively.

Foreign currency risk

Rizhaolanshan collects all of its revenue in RMB and incurred all of the expenditures as well as capital expenditures in RMB. The directors considered that Rizhaolanshan has no exposure to any foreign currency exchange risk.

Credit risk

Rizhaolanshan's credit risk is primarily attributable to trade and other receivables and bank balances.

Rizhaolanshan's maximum exposure to credit risk which will cause a financial loss to Rizhaolanshan in the event of the counterparties failure to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that Rizhaolanshan's credit risk is significantly reduced.

Notes to Financial Information *(Continued)*

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

Rizhaolanshan has concentration of credit risk on trade receivables from two customers, which are iron and steel manufacturing private companies located in Shandong province of the PRC with good repayment history and financial position. The Rizhaolanshan's trade receivables from this customer as at the corresponding years/periods end contributing over 10% of the total trade receivables of Rizhaolanshan are as follows:

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Customer A	20,415	4,667	10,056	15,772
Customer B *(Note)*	N/A	N/A	N/A	8,780

Note: The corresponding trade receivable did not contribute over 10% of the total trade receivables of Rizhaolanshan as at the relevant year/period end.

Rizhaolanshan does not have any other significant concentration of credit risk. The management closely monitors the subsequent settlement of the counterparties. In this regard, the directors of Rizhaolanshan consider that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because Rizhaolanshan's bank balances are deposited with banks of high credit ratings in the PRC.

Liquidity risk

In the management of the liquidity risk, Rizhaolanshan monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Rizhaolanshan's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details Rizhaolanshan's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Rizhaolanshan can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Notes to Financial Information *(Continued)*

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	Less than 3 months or on demand	Between 3 to 6 months	Between 7 to 12 months	Between 1 to 3 years	Over 3 years	Total undiscounted cash flows	Total carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2007								
Non-derivative financial liabilities								
Trade and other payables	N/A	39,681	–	–	–	–	39,681	39,681
Amounts due to related companies	N/A	753	–	–	–	–	753	753
Bank borrowings	7.33%	9,931	12,615	24,698	143,372	39,069	229,685	194,020
		50,365	12,615	24,698	143,372	39,069	270,119	234,454
As at 31 December 2008								
Non-derivative financial liabilities								
Trade and other payables	N/A	45,776	–	–	–	–	45,776	45,776
Amounts due to related companies	N/A	2,080	–	–	–	–	2,080	2,080
Bank borrowings	6.98%	11,953	12,648	24,775	115,751	17,314	182,441	159,810
		59,809	12,648	24,775	115,751	17,314	230,297	207,666
As at 31 December 2009								
Non-derivative financial liabilities								
Trade and other payables	N/A	59,114	–	–	–	–	59,114	59,114
Amounts due to related companies	N/A	18,428	–	–	–	–	18,428	18,428
Bank borrowings	5.94%	11,812	12,109	23,742	82,459	2,942	133,064	120,630
		89,354	12,109	23,742	82,459	2,942	210,606	198,172
As at 30 November 2010								
Non-derivative financial liabilities								
Trade and other payables	N/A	128,865	–	–	–	–	128,865	128,865
Amounts due to related companies	N/A	7,463	–	–	–	–	7,463	7,463
Bank borrowings	5.38%	11,788	11,638	128,179	50,470	–	202,075	189,680
		148,116	11,638	128,179	50,470	–	338,403	326,008

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to Financial Information *(Continued)*

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

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

7. REVENUE AND SEGMENT INFORMATION

Revenue

Rizhaolanshan is mainly engaged in the provision of iron ore terminals and logistic services, which include loading and discharging, storage of iron ore, and leasing of terminal facilities and equipment in Shandong province of the PRC.

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue					
Loading and discharging services	241,148	300,554	297,815	257,518	280,470
Storage services	5,507	5,701	14,983	4,073	1,377
Leasing of terminal facilities and equipment	36,572	6,818	23,111	22,558	29,917
	283,227	313,073	335,909	284,149	311,764

Segment information

The chief operating decision-maker has been identified as Rizhaolanshan's executive directors. Provision of iron ore terminals and logistic services in Shandong province of the PRC is the Rizhaolanshan's principal activity. The executive directors regard it as a single operating segment and therefore, no segment information is presented.

For the purpose of performance assessment, information reported to Rizhaolanshan's executive directors is more specifically focused on the gross profit of the entire business which is prepared in accordance with accounting policies of Rizhaolanshan. Details of revenue and gross profit of Rizhaolanshan are shown in the statement of comprehensive income on page 3 of this report.

Notes to Financial Information *(Continued)*

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue of Rizhaolanshan are as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A	134,817	154,799	94,329	80,438	123,532
Customer B *(Note)*	N/A	N/A	45,401	40,135	40,504
Customer C *(Note)*	35,388	N/A	N/A	N/A	N/A

Note: The corresponding revenue did not contribute over 10% of the total revenue of Rizhaolanshan for the relevant year/period.

All revenue of Rizhaolanshan are derived from the PRC.

All non-current assets of Rizhaolanshan are located in PRC, its country of domicile.

8. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

Directors' remuneration

During the Relevant Periods, there was no remuneration paid or payable to eight of the total of nine directors of Rizhaolanshan. The remuneration paid or payable to the remaining director was as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fee	–	–	–	–	–
Salaries, allowances and benefits in kind	129	158	176	160	172
Discretionary bonuses *(Note)*	42	63	83	55	59
Contributions to retirement benefit scheme	10	12	14	13	15
Total remuneration	181	233	273	228	246

Note: The discretionary bonus is determined by reference to the Rizhaolanshan's operating results and the performance of the director and approved by the board of directors.

During the Relevant Periods, no remuneration was paid by Rizhaolanshan to the directors of Rizhaolanshan as an inducement to join or upon joining Rizhaolanshan or as compensation for loss of office. None of the directors of Rizhaolanshan has waived any remuneration during the Relevant Periods.

Notes to Financial Information *(Continued)*

8. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees' emoluments

The five highest paid individuals included one director of Rizhaolanshan for each of the three years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2009 and 2010. The total emoluments of the remaining four individuals for the Relevant Periods, which were individually less than HK$1,000,000, were as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	376	495	549	500	527
Discretionary bonuses	132	201	261	176	175
Contributions to retirement benefit scheme	37	49	57	52	59
	545	745	867	728	761

During the Relevant Periods, no emoluments were paid by Rizhaolanshan to the five highest paid individuals as an inducement to join or upon joining Rizhaolanshan.

9. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income					
Bank interest income	730	379	444	375	620
Others	30	–	–	–	–
	760	379	444	375	620
Other gain and losses					
(Allowance for) reversal of bad and doubtful debts	(671)	571	(923)	–	–
Loss on disposal of property, plant and equipment	–	(1)	–	–	–
	(671)	570	(923)	–	–
Total	89	949	(479)	375	620

Notes to Financial Information *(Continued)*

10. FINANCE COSTS

	Year ended 31 December			Eleven months ended 30 November	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interests on borrowings repayable within five years:					
– Bank loans	8,448	6,820	9,758	9,117	7,016
Interests on borrowings repayable over five years:					
– Bank loans	6,624	7,115	–	–	–
Total borrowing costs	15,072	13,935	9,758	9,117	7,016
Less: amounts capitalised	(3,871)	(4,005)	(4,263)	(4,470)	(4,965)
	11,201	9,930	5,495	4,647	2,051

Borrowing costs capitalised during the year/period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.18%, 7.68%, 6.76%, 6.25% and 5.26% per annum for year ended 31 December 2007, 31 December 2008, and 31 December 2009, and eleven months ended 30 November 2009 and 30 November 2010 respectively to expenditure on qualifying assets.

11. INCOME TAX EXPENSE

	Year ended 31 December			Eleven months ended 30 November	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
The charge comprises PRC Enterprise Income Tax					
Current taxation	–	–	–	–	15,309

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax has been made in the Financial Information as Rizhaolanshan had no assessable profit derived in Hong Kong during the Relevant Periods.

Pursuant to the letter issued by the relevant PRC authority on 7 March 2005, under Guoshuihan, [2005] No. 6 (日照市國家稅務局日國稅函 [2005] 6號), Rizhaolanshan is exempted from PRC Enterprise Income Tax for the first five years commencing from its first profit-making year of operation and thereafter, Rizhaolanshan will be entitled to a 50% relief from PRC Enterprise Income Tax for the following five years ("Tax preference"). The charge of PRC Enterprise Income Tax for the Relevant Periods has been provided for after taking these tax incentives into account. Rizhaolanshan started these Tax preference from 2005 when its first profit-making year of operation began. Rizhaolanshan was exempted from the PRC Enterprise Income Taxes for the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2009.

Notes to Financial Information *(Continued)*

11. INCOME TAX EXPENSE *(Continued)*

The applicable income tax rate for Rizhaolanshan was 15% for the year ended 31 December 2007. Pursuant to Guoshui Fa [2007] No. 39, starting from 1 January 2008, the applicable income tax rates for enterprises with tax preference were changed from 15% to 18%, 20%, 22%, 24% and 25% for the years ended 31 December 2008, 2009, 2010, 2011 and 2012 respectively. The reduced PRC Enterprise Income Tax rate for the eleven months ended 30 November 2010 is 11% after taking into consideration of the 50% relief granted under the Tax preference.

The taxation for the year/period can be reconciled to the profit before taxation per the statement of comprehensive income as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before taxation	107,817	105,924	157,684	127,841	138,590
Taxation at applicable income tax rate	16,173	19,066	31,537	25,568	30,490
Effect of tax exemption or concession granted under the Tax preference	(16,173)	(19,066)	(31,537)	(25,568)	(15,409)
Others	–	–	–	–	228
Income tax expense	–	–	–	–	15,309

12. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Eleven months ended 30 November	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit for the year/period has been arrived at after charging (crediting):					
Staff costs (excluding directors):					
Salaries and other benefits	1,951	3,319	5,846	5,544	6,230
Contributions to retirement benefits schemes	155	324	538	488	481
	2,106	3,643	6,384	6,032	6,711
Auditor's remuneration	80	85	70	70	70
Depreciation of property, plant and equipment	14,812	17,055	17,597	15,966	17,900
Amortisation of prepaid lease payments – land use rights	–	4	141	124	196
Amortisation of sea use rights	561	862	908	790	915

13. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. DIVIDENDS

Rizhaolanshan declared and paid a total dividend of RMB50,400,000, RMB39,200,000, RMB63,600,000, RMB63,600,000 and RMB92,690,000 for the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2009 and 2010 respectively.

Notes to Financial Information *(Continued)*

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Terminals	Terminal equipment	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2007	1,555	172,690	113,020	292	259	30,716	318,532
Additions	–	1,764	4,495	874	35	68,816	75,984
Disposals	–	–	(344)	–	–	–	(344)
Transfer	–	82,659	–	–	–	(82,659)	–
At 31 December 2007	1,555	257,113	117,171	1,166	294	16,873	394,172
Additions	–	901	–	588	82	43,207	44,778
Disposals	–	–	–	–	(2)	–	(2)
At 31 December 2008	1,555	258,014	117,171	1,754	374	60,080	438,948
Additions	–	299	2,200	7	–	64,561	67,067
Transfer	–	82,401	–	–	–	(82,401)	–
At 31 December 2009	1,555	340,714	119,371	1,761	374	42,240	506,015
Additions	–	863	–	288	113	7,558	8,822
Disposals	–	–	–	(186)	(2)	–	(188)
At 30 November 2010	1,555	341,577	119,371	1,863	485	49,798	514,649
DEPRECIATION							
At 1 January 2007	104	7,185	8,687	62	76	–	16,114
Provided for the year	52	3,787	10,826	92	55	–	14,812
Eliminated on disposals	–	–	(86)	–	–	–	(86)
At 31 December 2007	156	10,972	19,427	154	131	–	30,840
Provided for the year	52	5,497	11,244	197	65	–	17,055
Eliminated on disposals	–	–	–	–	(1)	–	(1)
At 31 December 2008	208	16,469	30,671	351	195	–	47,894
Provided for the year	52	5,860	11,388	221	76	–	17,597
At 31 December 2009	260	22,329	42,059	572	271	–	65,491
Provided for the period	47	7,871	9,731	194	57	–	17,900
Eliminated on disposals	–	–	–	(12)	(1)	–	(13)
At 30 November 2010	307	30,200	51,790	754	327	–	83,378
CARRYING VALUES							
At 31 December 2007	1,399	246,141	97,744	1,012	163	16,873	363,332
At 31 December 2008	1,347	241,545	86,500	1,403	179	60,080	391,054
At 31 December 2009	1,295	318,385	77,312	1,189	103	42,240	440,524
At 30 November 2010	1,248	311,377	67,581	1,109	158	49,798	431,271

Notes to Financial Information *(Continued)*

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	3% – 4%
Terminals *(Note)*	2%
Terminal equipment	8% – 32%
Motor vehicles	13% – 16%
Other equipment	19% – 32%

Note: These represent land from sea reclamation, which is used as berths and storage areas.

As at 31 December 2007, 2008 and 2009 and 30 November 2010, certain of Rizhaolanshan's terminal facilities and equipment were pledged to secure bank borrowings. The carrying values of the pledged assets are as follows:

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Terminal facilities and equipment	244,098	232,858	219,554	207,366

Notes to Financial Information *(Continued)*

16. SEA USE RIGHTS

The payments to obtain sea use rights are initially at cost. The payments are amortised on a straight-line basis over the respective terms stated on the sea area use certificates. According to the sea area use certificates, Rizhaolanshan is granted for terms ranging from 48 to 50 years to construct facilities and structures at specified areas of the sea and carry out terminals and logistic operations in Foshou Wan, Lanshan district, Rizhao City, Shandong, the PRC.

	HK$'000
COST	
At 1 January 2007	6,938
Addition	36,141
At 31 December 2007 and 31 December 2008	43,079
Addition	6,853
At 31 December 2009 and 30 November 2010	49,932
AMORTISATION	
At 1 January 2007	135
Charge for the year	561
At 31 December 2007	696
Charge for the year	862
At 31 December 2008	1,558
Charge for the year	908
At 31 December 2009	2,466
Charge for the period	915
At 30 November 2010	3,381
CARRYING VALUES	
At 31 December 2007	42,383
At 31 December 2008	41,521
At 31 December 2009	47,466
At 30 November 2010	46,551

As at 31 December 2009 and 30 November 2010, deposits of HK$24,153,000 and HK$37,158,000 had been paid to acquire a sea use right. The respective sea use right certificate was obtained on 2 December 2010.

Notes to Financial Information *(Continued)*

17. PREPAID LEASE PAYMENTS

Rizhaolanshan's prepaid lease payments comprise:

	As at 31 December			As at 30 November
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leasehold land in the PRC under medium-term leases				
Current assets	–	88	214	214
Non-current assets	–	3,700	9,730	9,534
	–	3,788	9,944	9,748

18. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	As at 31 December			As at 30 November
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables				
Trade receivables	55,120	38,535	62,492	74,108
Less: Allowance for bad and doubtful debts	(1,543)	(961)	(1,881)	(1,881)
	53,577	37,574	60,611	72,227
Other receivables	7,199	15,350	7,574	8,851
Less: Allowance for bad and doubtful debts	–	(11)	(14)	(14)
	7,199	15,339	7,560	8,837
Total trade and other receivables	60,776	52,913	68,171	81,064

Rizhaolanshan has a policy of allowing its trade customers credit periods of average 90 days.

The following is an aged analysis of trade receivables based on the invoice date, net of allowance for doubtful debts:

	As at 31 December			As at 30 November
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	53,577	29,342	60,195	63,954
91 to 180 days	–	5,802	416	5,435
181 to 365 days	–	2,430	–	2,838
	53,577	37,574	60,611	72,227

Notes to Financial Information *(Continued)*

18. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(Continued)*

The Group has policy of allowance for bad and doubtful debts which is based on the evaluation of collectability and age of accounts and on management's judgment including credit worthiness and past collection history of each customer.

Before accepting any new customer, Rizhaolanshan will assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

In determining the recoverability of the trade receivables, Rizhaolanshan considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Except for the concentration risk on a customer as disclosed in note 6, the concentration of credit risk is limited due to the remaining customer base being large and unrelated. The directors also believe that there is no further credit provision required in excess of the allowance for doubtful debts.

As at 31 December 2007, 2008 and 2009 and 30 November 2010, the trade receivables of RMB53,577,000, RMB29,342,000, RMB60,195,000 and RMB63,954,000 respectively were neither past due nor impaired for which the directors of Rizhaolanshan consider these amounts are of good credit quality with reference to past repayment history and financial positions of those customers.

As at 31 December 2008, 31 December 2009 and 30 November 2010, trade receivables of RMB8,232,000, RMB416,000 and RMB8,273,000 respectively were past due but not impaired as certain of the receivables were subsequently settled and the customers have no history of default on receivables and the directors of Rizhaolanshan believe that the amounts are recoverable. Rizhaolanshan does not hold any collateral over these balances. There were no past due trade receivables as at 31 December 2007.

The following is an aged analysis of trade receivables which are past due but not impaired:

Aging of trade receivables which are past due but not impaired

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
91 to 180 days	–	5,802	416	5,435
181 to 365 days	–	2,430	–	2,838
	–	8,232	416	8,273

Movement in the allowance for bad and doubtful debts

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the year/period	872	1,543	961	1,881
Impairment losses recognised	671	–	920	–
Impairment losses reversed	–	(582)	–	–
Balance at end of the year/period	1,543	961	1,881	1,881

Notes to Financial Information *(Continued)*

18. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(Continued)*

Other receivables

Other receivables amounting to RMB7,199,000, RMB15,339,000, RMB7,560,000 and RMB8,837,000 as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively comprise receivables from third parties and deposits paid to suppliers and are unsecured, interest free and recoverable within one year.

Movement in the allowance for bad and doubtful debts

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the year/period	–	–	11	14
Impairment losses recognised	–	11	3	–
Balance at end of the year/period	–	11	14	14

Bills receivables

All bills receivable are aged within 180 days.

19. AMOUNTS DUE FROM RELATED COMPANIES

The balances are interest free, unsecured and repayable on demand.

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading in nature				
– Amount due from 日照港 (集團) 嵐山港務有限公司 *(Note i)*	6,426	–	–	7,185
– Amount due from 日照臨港國際物流有限公司 *(Note iii)*	–	–	–	515
Non trading in nature				
– Amount due from 晉瑞國際有限公司 *(Note ii)*	–	–	408	–
Balance at end of the year/period	6,426	–	408	7,700

The trade balance aged within 90 days, which is not yet past due at the end of reporting date.

Notes to Financial Information *(Continued)*

19. AMOUNTS DUE FROM RELATED COMPANIES *(Continued)*

Notes:

(i) 日照港 (集團)嵐山港務有限公司 is a related company of Rizhaolanshan, which has common directorship of 尚金瑞, a director of Rizhaolanshan; and beneficially owned by 日照港 (集團)有限公司, ultimate holding company of 日照港股份有限公司, a shareholder of Rizhaolanshan.

(ii) 晉瑞國際有限公司 is a related company of Rizhaolanshan, which is a shareholder of Rizhaolanshan. The maximum outstanding balance disclosed pursuant to section 161B of the Hong Kong Companies Ordinance during the Relevant Periods are stated as follows:

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Maximum outstanding balance	–	–	408	408

(iii) 日照臨港國際物流有限公司 is a related company of Rizhaolanshan, which is a subsidiary of 日照港(集團)嵐山港務有限公司.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash and bank balances held by Rizhaolanshan with original maturity of three months or less and carry interest at market rates of average 0.72%, 0.36%, 0.36% and 0.36% per annum as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively.

21. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables				
Trade payables	9,022	12,450	14,834	16,888
Other payables	30,659	33,326	44,280	111,977
Total trade and other payables	39,681	45,776	59,114	128,865

The following is an aged analysis of trade payables based on the invoice date:

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	9,022	12,450	14,834	16,888

Notes to Financial Information *(Continued)*

21. TRADE AND OTHER PAYABLES *(Continued)*

Other payables

As at 31 December 2007, 2008 and 2009 and 30 November 2010, included in other payables is an amount of RMB2,239,000, RMB285,000, RMB11,587,000 and RMB4,394,000 respectively owed to certain suppliers who were construction contractors or machinery suppliers to Rizhaolanshan.

Included in other payables is port construction fee payable to the PRC government of RMB20,686,000, RMB23,566,000, RMB20,158,000 and RMB90,928,000 as at 31 December 2007, 2008 and 2009 and 30 November 2010 respectively. Port construction fee payable is repayable on demand, interest free and unsecured.

22. AMOUNTS DUE TO RELATED COMPANIES

The balances are interest free, unsecured and repayable on demand.

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading in nature				
– Amount due to 日照港股份有限公司 *(Note i)*	–	–	–	6,142
– Amount due to 日照港(集團)嵐山港務有限公司	–	–	8,868	–
– Amount due to 日照臨港國際物流有限公司	753	865	167	–
	753	865	9,035	6,142
Non trading in nature				
– Amount due to 日照港建築安裝工程有限公司 *(Note ii)*	–	1,209	9,375	1,321
– Amount due to 日照港(集團)嵐山港務有限公司	–	6	18	–
	–	1,215	9,393	1,321
Balance at end of the year/period	753	2,080	18,428	7,463

The balance of trade nature aged within 90 days at the end of reporting date.

Notes:

(i) 日照港股份有限公司 is one of the shareholders of Rizhaolanshan.

(ii) 日照港建築安裝工程有限公司 is related company of Rizhaolanshan, which is a wholly owned subsidiary of 日照港 (集團)有限公司, ultimate holding company of 日照港股份有限公司, a shareholder of Rizhaolanshan. The balances represent payables for construction work.

Notes to Financial Information *(Continued)*

22. AMOUNTS DUE TO RELATED COMPANIES *(Continued)*

The average credit period taken by Rizhaolanshan for trade purchase from its related companies is 90 days. The following is an aged analysis of trade payable to the related companies at the end of the reporting period:

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 90 days	753	865	3,490	6,142
91 days to 180 days	–	–	5,545	–
181 days to 365 days	–	–	–	–
	753	865	9,035	6,142

23. BANK BORROWINGS

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts repayable:				
Within one year	34,210	39,180	41,410	142,330
In more than one year but not more than two years	39,180	41,410	42,090	25,610
In more than two years but not more than five years	106,890	79,220	37,130	21,740
In more than five years	13,740	–	–	–
Total bank loans	194,020	159,810	120,630	189,680
Less: Amounts due within one year shown under current liabilities	34,210	39,180	41,410	142,330
	159,810	120,630	79,220	47,350

Rizhaolanshan's bank borrowings are secured by its terminal facilities and equipment and guaranteed by 日照港 (集團)嵐山港務有限公司 (a related company as explained in note 19). Details of the pledge of assets and related company's guarantee to secure banking facilities are set out in notes 15 and 28 respectively.

As at 31 December 2007, 2008 and 2009 and 30 November 2010, all bank borrowings of Rizhaolanshan are variable-rate borrowings based on benchmark interest rate fixed by PBOC. As at 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2010, the variable-rate borrowings carry weighted average interest at 7.33%, 6.98%, 5.94% and 5.38% per annum respectively.

Notes to Financial Information *(Continued)*

24. PAID-UP CAPITAL

Rizhaolanshan was established on 25 August 2004 with a registered and paid-up capital of RMB140,000,000.

25. PORT CONSTRUCTION FEE REFUND

During the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2010, refunds of port construction fee (the "Refunds") amounting to approximately RMB112,000,000, RMB65,000,000, RMB56,000,000 and RMB15,000,000 were received from the Ministry of Transport of the PRC respectively.

The usage of the amounts of the Refunds is subject to the approval of the relevant PRC government authority. As at the end of each reporting periods, no amount of the Refunds has been utilised by the Rizhaolanshan.

26. CAPITAL COMMITMENTS

At the end of the reporting period, Rizhaolanshan had the following capital commitments:

	As at 31 December			As at 30 November
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	18,636	58,459	21,000	320,050
Capital expenditure commitments in respect of the acquisition of property, plant and equipment authorised but not contracted for	–	–	–	60,323

27. RETIREMENT BENEFITS SCHEMES

The PRC employees of Rizhaolanshan are members of a state-managed retirement benefit scheme operated by the local government. Rizhaolanshan is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of Rizhaolanshan with respect to the retirement benefit scheme is to make the specified contributions.

During each of the years ended 31 December 2007, 2008 and 2009 and eleven months ended 30 November 2009 and 2010, Rizhaolanshan made total contributions to the retirement benefit schemes approximately of RMB165,000, RMB336,000, RMB552,000, RMB501,000 and RMB496,000 respectively.

Notes to Financial Information *(Continued)*

28. RELATED PARTY TRANSACTIONS

In addition to the amounts due from (to) related companies disclosed in notes 19 and 22, Rizhaolanshan had entered the following related party transactions:

	Year ended 31 December			Eleven months ended 30 November	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Charges on administrative supports for terminals and logistics services provided by 日照港 (集團)嵐山港務有限公司 *(Note)*	29,220	40,342	43,229	42,014	35,921
Terminal facilities and equipment leasing income from 日照港 (集團)嵐山港務有限公司 *(Note)*	35,388	5,326	21,747	21,687	29,097
Charges on administrative supports for terminals and logistics services provided by 日照港股份有限公司 *(Note)*	–	–	–	–	6,142
Logistic services charged by 日照臨港國際物流有限公司 *(Note)*	2,808	8,772	4,902	4,035	3,988
Construction work charged by 日照港建築安裝工程有限公司 *(Note)*	8,544	5,969	30,875	–	–

日照港 (集團)嵐山港務有限公司 guaranteed the banking facilities of Rizhaolanshan during the Relevant Periods. 日照港 (集團)嵐山港務有限公司 did not charge Rizhaolanshan for such guarantee provided.

Rizhaolanshan provided a maximum guarantee of RMB247,000,000 towards the banking facilities of 日照港 (集團)嵐山港務有限公司 from 3 June 2008 to 30 November 2010, Rizhaolanshan did not charge 日照港 (集團)嵐山港務有限公司 for such guarantee provided. In the opinion of the management, the fair value of the guarantee contract is not significant.

The directors of Rizhaolanshan considered that the directors and the five highest paid individuals are the key management of Rizhaolanshan, whose emoluments are disclosed in note 8.

Note: Details of relationship with Rizhaolanshan are disclosed in notes 19 and 22.

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Rizhaolanshan in respect of any period subsequent to 30 November 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for each of the three years ended 31 December 2009 as extracted from the respective published audited financial statements:

AUDITED CONSOLIDATED RESULTS

	For the year ended 31 December		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Turnover	319,588	298,089	258,884
Revenue	176,709	211,256	258,884
Cost of sales	(162,370)	(200,003)	(222,819)
Gross profit	14,339	11,253	36,065
Other income, gain and loss	13,158	8,120	5,522
Selling and distribution expenses	(12,192)	(10,676)	(11,603)
Administrative expenses	(64,368)	(71,088)	(56,913)
Increase (decrease) in fair value of investment property	900	(694)	–
Loss on revaluation on buildings	(20,107)	–	(186)
(Loss) gain on disposal of subsidiaries	(31,787)	5,815	–
Loss on deemed partial disposal of an associate	(6,301)	–	–
Gain on disposal of associates	97,498	–	–
Gain on disposal of held for trading investments	26,988	24,907	–
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	165,370	154,465	–
Impairment loss recognised in respect of available-for-sale investments	–	(199,500)	–
Impairment loss recognised in respect of acquisition of an associate	–	(43,674)	–
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	(161,008)	–
Impairment loss recognised in respect of loan receivables and interest receivables	(29,893)	–	–
Increase (decrease) in fair value of held for trading investments	17,318	(15,792)	–
Return on advances and charge over assets granted to an associate	18,898	–	–
Share of results of associates	(1,109)	29,943	–
Share of result of a jointly controlled entity	1,356	172	(154)
Finance costs	(1,032)	(1,163)	(2,027)
Profit (loss) before taxation	189,036	(268,920)	(29,296)
Taxation	(29,985)	528	556
Profit (loss) for the year	159,051	(268,392)	(28,740)
Attributable to:			
Owners of the Company	158,359	(268,371)	(28,796)
Minority interests	692	(21)	56
	159,051	(268,392)	(28,740)

ASSETS AND LIABILITIES

	As at 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	304,406	352,046	430,942
Current assets	587,871	369,617	485,989
Current liabilities	64,606	87,848	37,660
Net current assets	523,265	281,769	448,329
Total assets less current liabilities	827,671	633,815	879,271
Capital and reserves			
Share capital	18,052	17,586	15,986
Reserves	804,947	613,369	859,565
Equity attributable to owners of the Company	822,999	630,955	875,551
Minority interests	968	276	311
Total equity	823,967	631,231	875,862
Non-current liabilities	3,704	2,584	3,409
	827,671	633,815	879,271

AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2009

Please refer to the 2009 annual report of the Company as set out (i) on the website of the Stock Exchange (www.hkexnews.hk); and (ii) the Company's website at www.pme8.com for details of the audited financial statements of the Group for the year ended 31 December 2009.

UNAUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2010

Please refer to the 2010 interim report of the Company as set out (i) on the website of the Stock Exchange (www.hkexnews.hk); and (ii) the Company's website at www.pme8.com for details of the unaudited financial information of the Group for the six months ended 30 June 2010.

INDEBTEDNESS

As at 30 November 2010, the Group had secured bank borrowings of approximately HK$11,562,000, amounts due to financial institutions of approximately HK$3,119,000, unsecured convertible bonds of HK$302,400,000 and unsecured promissory notes of HK$60,000,000.

As at 30 November 2010, the Group had pledged its leasehold land and buildings, bank deposit, interest in an associate, available-for-sale investments and held for trading investments with carrying value of approximately HK$58,569,000, HK$6,500,000, HK$16,879,000, HK$21,495,000 and HK$51,484,000 respectively to secure the general credit facilities granted to the Group.

As at 30 November 2010, the Group had no material contingent liabilities.

At the close of business on 30 November 2010, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Target had an amount due to a shareholder of approximately HK$44,008,000 and dividend payable of HK$28,874,000 respectively.

At the close of business on 30 November 2010, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Target Company had outstanding bank borrowings of approximately RMB189,680,000 and amounts due to related companies of approximately RMB7,463,000.

The outstanding bank borrowings were secured by the pledge of certain property, plant and equipment of RMB207,366,000 and the corporate guarantee from a related party 日照港(集團)嵐山港務有限公司.

Also, at the close of business on 30 November 2010, being the latest practicable date for the purpose of preparing this indebtedness prior to the printing of this circular, the Target Company had provided a maximum guarantee of RMB247,000,000 towards the banking facilities of 日照港(集團)嵐山港務有限公司, a related company.

Save as aforesaid and apart from intra-group liabilities, as at 30 November 2010, the Enlarged 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.

WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that following the Completion and after taking into account the financial resources available to the Enlarged Group, including internal generated funds and the available banking facilities, the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

The following is the management discussion and analysis of the Group's financial conditions and results of operations for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010:

FOR THE SIX MONTHS ENDED 30 JUNE 2010

Operating Results

The Group's turnover for the six months ended 30 June 2010 decreased by 27.2% to HK$88.0 million as compared with the corresponding period in 2009. The decrease in turnover was mainly due to decrease in proceeds from disposals of held for trading investments. Segmental revenue of polishing materials and equipment division increased by 9.2% for the six months ended 30 June 2010, as compared with the same period last year. Segmental revenue of investment division for the six months ended 30 June 2010 amounted to HK$3,000, representing a decrease of 99.7% as compared with the same period last year.

Loss for the six months ended 30 June 2010 attributable to the owners of the Company was approximately HK$70.5 million (six months ended 30 June 2009: profit of HK$108.7 million), which was mainly due to decrease in fair value of held for trading investments, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss and decrease in gain on disposals of associates as compared with the same period last year.

The increase in the revenue of polishing materials and equipment division was due to increase in demand for the Group's products as a result of the economic recovery in the first half of 2010. As the Group has been concentrating on sales of the manufacturing and trading products with higher margin, the gross profit margin of the Group's products increased from 7.2% in the first half of 2009 to 10.9% in the first half of 2010. The investment division recorded a segmental loss of approximately HK$59.2 million as a result of decrease in fair value of held for trading investments and convertible bonds held.

Acquisition and Disposal

The transaction in relation to the acquisition of 49% equity interests in Giant Billion at the consideration of HK$200,000,000 was completed on 1 February 2010. Details were set out in the Company's announcements dated 3 June 2009 and 5 January 2010 and circular dated 7 September 2009.

Future plans and prospectus

It is expected that economic recovery will continue but there is still full of uncertainty in terms of the sustainability of the recovery. It is expected that demand for consumer products will grow but in a slow pace. The costs of raw materials are increasing, but it is difficult to transfer all the cost increases to the customers as the market competition is very keen. The Directors remain cautious of the outlook of the polishing product business. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin and expand its distribution network.

The acquisition of 49% equity interests in Giant Billion was completed in February 2010. In view of the fact that 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 Group believe that the cable television industry in the PRC has great potential for further development. The Directors consider that the investment in Giant Billion will provide a good opportunity for the Group to participate in the media industry in the PRC and bring return to the Group. It is expected that the respective digital sports television channel will be ready for public broadcast in 2011.

The recovery of the global economy remains uncertain. As there are potential pitfalls in the external environment, the Directors will continue to adopt prudent investment strategies, but believe that attractive investment opportunities are available as companies and businesses may well be undervalued in a volatile financial market. In May 2010, the Company successfully raised approximately HK$260.7 million through issuing convertible bonds to an investor. The new fund raised has strengthened the cash flow of the Group and has provided funding for future investments.

Liquidity, financial resources, gearing ratio and capital structure

During the period under review, the Company placed convertible bonds of HK$264,000,000 to an investor. The net proceeds from the placing, after deducting the placing commission, are approximately HK$260,700,000. As at 30 June 2010, net proceeds of approximately HK$260,700,000 have been deposited into a licensed bank in Hong Kong and will be applied in accordance with the plans as set out in the Company's circular dated 26 April 2010.

As at 30 June 2010, the Group had interest-bearing bank borrowings of approximately HK$11.1 million (31 December 2009: HK$11.5 million), which were to mature within one year. The Directors expect that all the bank borrowings will be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2010, current assets of the Group amounted to approximately HK$698.8 million (31 December 2009: HK$587.9 million). The Group's current ratio (measured as total current assets to total current liabilities) was approximately 12.1 times as at 30 June 2010 as compared with 9.1 times as at 31 December 2009. At 30 June 2010, the Group had total assets of approximately HK$1,179.0 million (31 December 2009: HK$892.3 million) and total liabilities of approximately HK$344.1 million (31 December 2009: HK$68.3 million), representing a gearing ratio (measured as total liabilities to total assets) of 29.2% as at 30 June 2010 as compared with 7.7% as at 31 December 2009.

Charge on assets

As at 30 June 2010, the Group had pledged its leasehold land and buildings, investments in listed securities and pledged deposits with carrying values of approximately HK$59,266,000, HK$180,277,000 and HK$6,200,000 respectively to secure the general credit facilities granted to the Group.

Foreign exchange exposure

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

Employees and Remuneration

As at 30 June 2010, the Group had approximately 155 employees (31 December 2009: 150 employees) in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Company also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2010.

Capital Commitments

The Group had no capital commitments as at 30 June 2010.

FOR THE YEAR ENDED 31 DECEMBER 2009

Operating Results

The Group's turnover for the year ended 31 December 2009 moderately increased by 7.2% to HK$319,588,000 as compared with last year. The increase in turnover was mainly attributed from the proceeds from held for trading investments during the year. During the year 2009, segmental revenue of polishing materials and equipments and investment divisions decreased by 16.3% and 99.2% respectively as compared with last year.

Profit for the year ended 31 December 2009 attributable to the shareholders of the Company was approximately HK$158.4 million (2008: Loss HK$268.4 million). The Group recorded a profit for the year ended 31 December 2009 as compared to a loss for the year ended 31 December 2008 mainly due to decrease in impairment losses recognised in respect of available-for-sale investments and goodwill on acquisition of subsidiaries and associate.

Segmental loss of the polishing materials and equipments division increased from approximately HK$28.8 million in 2008 to HK$43.0 million in 2009, which was mainly due to the loss on revaluation of buildings amounting to approximately HK$20.1 million for the year ended 31 December 2009. The gross profit margin of polishing materials and equipments division had been improved from 5.2% in 2008 to 8.1% in 2009.

Since the recovery of financial market during 2009, the investment division recorded a segmental profit of approximately HK$240.5 million, as compared with the segmental loss of approximately HK$236.2 million in 2008, which was mainly caused by the decrease in fair value of held for trading investments amounting to approximately HK$15.8 million and the impairment loss on available-for-sale investments amounting to approximately HK$199.5 million in 2008. In addition, the Group recorded gain on disposal of its interests in associates amounting to approximately HK$97.5 million in 2009.

Acquisition and Disposal

At 31 December 2009, the Group held available-for-sales investments, interests in associates, convertible bonds designated as financial assets at fair value through profit or loss and held for trading investments amounting to approximately HK$137.1 million, HK$135.4 million, HK$101.3 million and HK$115.2 million respectively. During the year, the Group recorded gain on disposal of associates amounting to approximately HK$97.5 million and increase in fair value of held for trading investments amounting to approximately HK$17.3 million.

In March 2009, the Group entered into an agreement with an independent third party to dispose of its investment in China Bio-Med Regeneration Technology Limited at consideration of HK$60 million. The proceeds from the disposal will be applied partly to reduce the Group's liability and partly as general working capital for future investment potential.

On 19 May 2009, Smart Genius Limited ("Smart Genius") entered into a formal agreement with Crown Sunny Limited ("Crown Sunny") to acquire 49% equity interest in Giant Billion Limited at a consideration of HK$200,000,000. The deposits of HK$80,000,000 paid will be applied as part of the consideration. The acquisition was completed on 1 February 2010.

As one of the cost saving measures of the Group, in November 2009, the wholly-owned subsidiaries of the Company, Best Chief Ventures Limited ("Best Chief"), Teamcom Group Limited ("Teamcom") and PME International Company Limited ("PMEI"), entered into a conditional sale and purchase agreement to dispose of its 100% equity interest in Magic Horizon Investment Limited ("Magic Horizon") (collectively, the "Disposal"). Magic Horizon and its subsidiaries ("Magic Horizon Group") are principally engaged in the manufacturing and trading of polishing materials. Taking into account of the continuing losses incurred by Magic Horizon Group, the Disposal represents a good opportunity for the Company to realize its investment in Magic Horizon Group and to free up resources for development and investment in other potential business opportunities. Completion of the Disposal is subject to, inter alia, shareholders' approval at the extraordinary general meeting to be convened and held by the Company.

Future plans and prospectus

2010 is expected to be both a crucial, yet complicated year in terms of economic development in Hong Kong and the PRC as they continue to counteract the global financial crisis while maintaining a stable and comparatively fast economic growth as well as accelerating transformation in growth patterns. The Group will continue to explore and develop profitable businesses while enforcing cost-saving measures, especially with respect to the manufacturing and trading of products in order to enhance its profit ratio.

The acquisition of 49% equity interest in Giant Billion was completed in February 2010. In view of the fact that the PRC has one of the largest television viewing markets in the world and that cable networks provide an important means of television transmission in the PRC, the Group intends to develop the business in the media and advertising sector 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 and bring reasonable return to the Group.

The competition in the polishing materials market in both Hong Kong and Mainland China has remained keen in 2009. The Group has made every effort to control its costs, taken advantage of its well-established sales network and expanded its distribution network.

Taking advantage of the recovery of the Hong Kong stock market in the second half of 2009, the Group recorded a considerable sum of investment gain from its trading in listed securities. As the recovery of the global economy remains uncertain and as there remains potential pitfalls in the external environment, the Directors will continue to adopt prudent investment policies, but believe that attractive investment opportunities are still available as companies and businesses may well be undervalued in a volatile financial market.

In January 2010, the Company announced a potential strategic cooperation regarding the restructuring and development of natural resources business in the PRC as part of the Company's ongoing efforts to consider further diversification of its business portfolio and risk management. The Directors have been actively seeking different business opportunities to diversify its businesses and will grasp every investment and business opportunities as they arise to enhance value for its shareholders.

Liquidity, financial resources, gearing ratio and capital structure

At 31 December 2009, the Group had interest-bearing bank borrowings of approximately HK$11.5 million (31 December 2008: HK$14.2 million), which were of maturity within one year. The Board expects that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continues to provide funding to the Group's operations.

At 31 December 2009, current assets of the Group amounted to approximately HK$587.9 million (31 December 2008: HK$369.6 million). The Group's current ratio was approximately 9.1 as at 31 December 2009 as compared with 4.2 as at 31 December 2008. At 31 December 2009, the Group had total assets of approximately HK$892.3 million (31 December 2008: HK$721.1 million) and total liabilities of approximately HK$68.3 million (31 December 2008: HK$90.4 million), representing a gearing ratio (measured as total liabilities to total assets) of 7.7% as at 31 December 2009 as compared with 12.5% as at 31 December 2008.

Charge on assets

At 31 December 2009, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$59.9 million (31 December 2008: HK$84.9 million) and the held for trading investments with carrying amount of HK$115.2 million (31 December 2008: HK$80.1 million) have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

Foreign exchange exposure

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

Employees and Remuneration

At 31 December 2009, the Group had approximately 150 (2008: 210) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

Contingent liabilities

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

Capital Commitments

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

FOR THE YEAR ENDED 31 DECEMBER 2008

Operating Results

The Group's turnover for the year ended 31 December 2008 increased by 15.1% to HK$298.1 million as compared with last year. The increase in turnover was mainly attributed from the increase in turnover of the investment division during the year. During the year 2008, segmental revenue of manufacturing and trading divisions decreased by 5.4% and 25.3% respectively and segmental revenue of technical services division increased by 178.5%, as compared with last year. Segmental revenue of investment division for the year 2008 decreased by 98.0%.

Loss for the year ended 31 December 2008 attributable to the shareholders of the Company was approximately HK$268.4 million (2007: HK$28.8 million). The loss for the year ended 31 December 2008 was mainly due to the impairment loss on the Group's available-for-sale investments, impairment loss recognised in respect of goodwill on acquisition of associates and subsidiaries and decrease in fair value of held-for-trading investments as a result of the general downturn in the financial markets and increase in administrative expenses.

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. As such, the gross profit margin in the second half of 2008 decreased substantially and thus resulted in the decrease in overall gross profit for the year 2008. The administrative expenses for the year increased by HK$14.2 million from HK$56.9 million in 2007 to HK$71.1 million in 2008 mainly due to the setup of the investment division in second half of 2007.

The global financial markets declined in the year of 2008 in the wake of the outbreak of the financial tsunami. During the year under review, Hong Kong stock market decreased as affected by global financial tsunami. The Group's investments in the listed shares in Hong Kong stock market recorded a substantial impairment loss as a result of the decrease in the stock market prices. For the year ended 31 December 2008, the Group recorded net realised gain of HK$24.9 million on disposal of held-for-trading investments. The decrease in fair value of held-for-trading investments amounted to HK$15.8 million and impairment loss on available for- sale investments amounted to HK$199.5 million.

Acquisition and Disposal

On 15 January 2008, Smart Genius, a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Crown Sunny in relation to the intention of the proposed acquisition of 51% equity interests in Giant Billion, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Crown Sunny. On 30 January 2008, Smart Genius further entered into a heads of agreement ("Heads of Agreement") with Crown Sunny. Refundable deposits of HK$32,000,000 and HK$48,000,000, totaling HK$80,000,000, had been paid to Crown Sunny upon execution of the MOU and the Heads of Agreement respectively.

Under the Heads of Agreement, Crown Sunny had given Smart Genius an exclusive right to 30 April 2008 to continue the due diligence review and during such period, Crown Sunny 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 Crown Sunny. 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 the 2008 annual report, the due diligence review and negotiation with Crown Sunny are still in progress.

Future plans and prospectus

Looking ahead to year 2009, it will still be a difficult year due to continued economic downturn. Although the governments worldwide have taken massive fiscal and monetary policies to counter the economic turmoil and stabilise the financial markets, and the PRC government has implemented various steps to push up the export industries, the rising unemployment and the change in investment environment may further deteriorate the consumer market in the United States and Europe. The competition in 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.

Liquidity, financial resources, gearing ratio and capital structure

At 31 December 2008, the Group had interest-bearing bank borrowings of approximately HK$14.2 million (31 December 2007: HK$20.9 million), which were of maturity within one year. The Board expects that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continues to provide funding to the Group's operations.

At 31 December 2008, current assets of the Group amounted to approximately HK$369.6 million (31 December 2007: HK$486.0 million). The Group's current ratio was approximately 4.2 as at 31 December 2008 as compared with 12.9 as at 31 December 2007. At 31 December 2008, the Group had total assets of approximately HK$721.7 million (31 December 2007: HK$916.9 million) and total liabilities of approximately HK$90.4 million (31 December 2007: HK$41.1 million), representing a gearing ratio (measured as total liabilities to total assets) of 12.5% as at 31 December 2008 as compared with 4.5% as at 31 December 2007.

Charge on assets

At 31 December 2008, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$84.9 million (31 December 2007: HK$82.1 million) and the held-for-trading investments with carrying amount of HK$80.1 million (2007: Nil) have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

Foreign exchange exposure

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

Employees and Remuneration

At 31 December 2008, the Group had approximately 210 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2008.

Capital Commitments

The Group has no capital commitment as at 31 December 2008.

FOR THE YEAR ENDED 31 DECEMBER 2007

Operating Results

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name PME and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover was contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The Group's turnover for the year 2007 has moderately increased by 10.1% from approximately HK$235.2 million in 2006 to approximately HK$258.9 million. The loss for the year 2007 was approximately HK$28.8 million (2006: profit of HK$5.5 million).

The increase in turnover is mainly due to increase in sales in Mainland China and Hong Kong market. During the year, increase in raw materials prices and production overheads and the appreciation of Renminbi have increased the costs of good sold. Due to keen competition in the market, the Group is in difficulty to transfer the increased costs to its customers, thus resulting a decrease in gross profit margin. The increase in administrative expenses also leads to the loss for the year.

Acquisition and Disposal

The Group had no major acquisition and disposal for the year ended 31 December 2007.

Future plans and prospectus

In 2008, the management foresee the prolonged increase in the production costs, especially the raw materials and labour costs, would continue. The Group will endeavour to accelerate profit in the coming year by keeping on cost control, continuously extending and developing PRC market, and raising product prices moderately in order to offset the effect of increase in the product costs. Despite the US sub-prime lending crisis which has caused the slowdown of the global capital market, the management believes that PRC market would not be greatly affected. We expect the dramatic growth of the PRC economy, and will keep looking for investment projects with potential appreciation in the PRC, in order to bring up return to shareholders in the coming years.

Liquidity, financial resources, gearing ratio and capital structure

During 2007, the Company has successfully raised HK$650 million from the market through placement of new shares and unlisted warrants of the Company. The funds raised have enhanced the capital base of the Company and provide strong resource for the Group to expand its core businesses and to explore new business opportunities in the future.

On 31 December 2007, the Group had interest-bearing bank borrowings of approximately HK$20.9 million (31 December 2006: HK$19.5 million), which were of maturity within one year. The Directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations.

On 31 December 2007, current assets of the Group amounted to approximately HK$486.0 million (31 December 2006: HK$138.7 million). The Group's current ratio was approximately 12.9 as at 31 December 2007 as compared with 4.5 as at 31st December, 2006. At 31 December 2007, the Group had total assets of approximately HK$917.0 million (31 December 2006: HK$275.3 million) and total liabilities of approximately HK$41.1 million (31 December 2006: HK$34.5 million), representing a gearing ratio (measured as total liabilities to total assets) of 4.5% as at 31 December 2007 as compared with 12.5% as at 31 December 2006.

Charge on assets

At 31 December 2007, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$82.1 million (31 December 2006: HK$79.1 million) have been pledged to banks to secure the banking facilities granted to the Group.

Foreign exchange exposure

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

Employees and Remuneration

On 31 December, 2007, the Group had approximately 230 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2007.

Capital Commitments

The Group has no capital commitment as at 31 December 2007.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying is an illustrative Unaudited Pro Forma Financial Information which has been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for illustrating the effect of the proposed very substantial acquisition (the "Acquisition") of 100% equity interest in Upmove International Limited ("Upmove") might have affected the financial information of the PME Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") (Upmove together with the Group immediately after the completion of the Acquisition are collectively referred to as the "Enlarged Group").

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2010 as extracted from the published interim report of the Company as at 30 June 2010; (ii) the audited statement of financial position of Upmove as at 30 November 2010 as set out in Appendix I to this Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Acquisition had been taken place at 30 June 2010.

The unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on (i) the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2009 as extracted from the published annual report of the Company as at 31 December 2009; (ii) the audited statement of comprehensive income and the audited statement of cash flows of Upmove for the year ended 31 December 2009 as set out in Appendix I to this Circular, as if the Acquisition had been completed on 1 January 2009.

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, results of operations or cash flows of the Enlarged Group had the Acquisition been completed as at 30 June 2010 or at any future dates.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group 30.6.2010	Upmove 30.11.2010	Pro forma Adjustments		Upmove Adjusted	Pro forma Adjustments		Enlarged Group 30.6.2010
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
	A	**B**	**C**		**D=B+C**	**E**		**F=A+D+E**
Non-current assets								
Property, plant and equipment	18,676	–			–			18,676
Investment properties	4,100	–			–			4,100
Available-for-sale investments	110,299	–			–			110,299
Interests in associates	338,699	129,601	119,632	*(3A)*	–			338,699
			(249,233)	*(3B)*				
Interests in jointly controlled entities	8,112	–	249,233	*(3B)*	249,233	155,838	*(3E)*	413,183
Club debentures	350	–			–			350
	480,236	129,601			249,233			885,307
Current assets								
Inventories	15,763	–			–			15,763
Debtors, bills receivable, deposits and prepayments	50,034	–			–			50,034
Convertible bonds designated as financial assets at fair value through profit or loss	78,899	–			–			78,899
Amounts due from associates	44,364	–			–			44,364
Loan receivables	59,873	–			–			59,873
Taxation recoverable	574	–			–			574
Held for trading investments	71,998	–			–			71,998
Deposits placed with financial institutions	13	–			–			13
Pledged deposits	6,200	–			–			6,200
Bank balances and cash	287,285	30,786	(30,786)	*(3D)*	–			287,285
	615,003	30,786			–			615,003
Assets classified as held for sale	83,763	9,360	(9,360)	*(3C)*	–			83,763
	698,766	40,146			–			698,766

	The Group 30.6.2010 HK$'000 A	Upmove 30.11.2010 HK$'000 B	Pro forma Adjustments HK$'000 C		Upmove Adjusted HK$'000 D=B+C	Pro forma Adjustments HK$'000 E		Enlarged Group 30.6.2010 HK$'000 F=A+D+E
Current liabilities								
Creditors and accruals	11,461	65	(65)	*(3D)*	–	401,074	*(3E)*	412,535
Dividend payable	–	28,874	(28,874)	*(3D)*	–			–
Amount due to a shareholder	–	44,008	119,632	*(3A)*	–			–
			(9,611)	*(3C)*				
			(154,029)	*(3D)*				
Taxation payable	32,452	–			–			32,452
Bank and other loans	5,644	–			–			5,644
	49,557	72,947			–			450,631
Liabilities directly associated with assets classified as held for sale	8,058	288	(288)	*(3C)*	–			8,058
	57,615	73,235			–			458,689
Net current assets (liabilities)	641,151	(33,089)			–			240,077
Total assets less current liabilities	1,121,387	96,512			249,233			1,125,384
Capital and reserves								
Share capital	18,147	–			–	–	*(3E)*	18,147
Reserves	815,810	92,515	539	*(3C)*	245,236	(245,236)	*(3E)*	815,810
			152,182	*(3D)*				
Equity attributable to owners of the Company	833,957	92,515			(245,236)			833,957
Non-controlling interests	931	–			–			931
Total equity	834,888	92,515			(245,236)			834,888
Non-current liabilities								
Convertible bonds	232,956	–						232,956
Promissory notes	49,839	–						49,839
Deferred taxation	3,704	3,997			3,997			7,701
	286,499	3,997			3,997			290,496
	1,121,387	96,512			249,233			1,125,384

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group 31.12.2009	Upmove 31.12.2009	Pro forma adjustments		Upmove Adjusted 31.12.2009	Pro forma Adjustments	Enlarged Group 31.12.2009
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C		D=B+C	E	F=A+D+E
Turnover	319,588	–			–		319,588
Revenue	176,709	–			–		176,709
Cost of sales	(162,370)	–			–		(162,370)
Gross profit	14,339	–			–		14,339
Other income, gain and loss	13,158	1			1		13,159
Selling and distribution expenses	(12,192)	–			–		(12,192)
Administrative expenses	(64,368)	(19)			(19)		(64,387)
Increase in fair value of investment property	900	–			–		900
Loss on revaluation on buildings	(20,107)	–			–		(20,107)
Loss on disposal of subsidiaries	(31,787)	–			–		(31,787)
Loss on deemed partial disposal of an associate	(6,301)	–			–		(6,301)
Gain on disposal of associates	97,498	–	539	*(3C)*	539		98,037
Gain on disposal of held for trading investments	26,988	–			–		26,988
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	165,370	–			–		165,370
Impairment loss recognised in respect of loan receivables and interest receivables	(29,893)	–			–		(29,893)
Increase in fair value of held for trading investments	17,318	–			–		17,318
Return on advances and charge over assets granted to an associate	18,898	–			–		18,898
Share of results of associates	(1,109)	51,644	(46,524)	*(4)*	5,120		4,011
Share of results of jointly controlled entities	1,356	–	89,469	*(4)*	89,469		90,825
Finance costs	(1,032)	–			–		(1,032)
Profit before taxation	189,036	51,626			95,110		284,146
Taxation	(29,985)	(2,582)			(2,582)		(32,567)
Profit for the year	159,051	49,044			92,528		251,579
Attributable to:							
Owners of the Company	158,359	49,044	43,484		92,528		250,887
Non-controlling interests	692	–			–		692
	159,051	49,044			92,528		251,579

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group 31.12.2009	Upmove 31.12.2009	Pro forma Adjustments	Upmove adjusted	Pro forma Adjustments	Enlarged Group 31.12.2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	**B**	**C**	**D=B+C**	**E**	**F=A+D+E**
Profit for the year	159,051	49,044	43,484	92,528		251,579
Other comprehensive income						
Exchange difference arising from translation of foreign operations	–	2,811		2,811		2,811
Share of other comprehensive income of associates	213	–		–		213
Disposal of associates	(567)	–		–		(567)
Net fair value gain on available-for-sale investments	22,774	–		–		22,774
Loss on revaluation on buildings	(2,533)	–		–		(2,533)
Deferred tax arising on revaluation on available-for-sale investments	(3,758)	–		–		(3,758)
Deferred tax arising on revaluation on building	1,305	–		–		1,305
Other comprehensive income for the year (net of tax)	17,434	2,811		2,811		20,245
Total comprehensive income for the year	176,485	51,855		95,339		271,824
Attributable to:						
Owners of the Company	175,793	51,855	43,484	95,339		271,132
Non-controlling interests	692	–		–		692
	176,485	51,855		95,339		271,824

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group 31.12.2009	Upmove 31.12.2009	Pro forma Adjustments		Upmove adjusted	Pro forma Adjustments	Enlarged Group 31.12.2009
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C		D=B+C	E	F=A+D+E
OPERATING ACTIVITIES							
Profit before taxation	189,036	51,626	43,484		95,110		284,146
Adjustments for:							
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	(165,370)	–			–		(165,370)
Increase in fair value of held for trading investments	(17,318)	–			–		(17,318)
Increase in fair value of investment property	(900)	–			–		(900)
Depreciation of property, plant and equipment	8,519	–			–		8,519
Discount on issue of shares for settlement of a liability	(3,087)	–			–		(3,087)
Finance costs	1,032	–			–		1,032
Gain on disposal of associates	(97,498)	–	(539)	*(3C)*	(539)		(98,037)
Gain on disposal of property, plant and equipment	(1)	–			–		(1)
Interest income	(8,499)	(1)			(1)		(8,500)
Impairment loss on trade debtors	5,153	–			–		5,153
Loss on disposal of subsidiaries	31,787	–			–		31,787
Impairment loss recognised in respect of loans receivables and interest receivables	29,893	–			–		29,893
Loss on deemed partial disposal of an associate	6,301	–			–		6,301
Amortisation of prepaid lease payments	290	–			–		290
Loss on revaluation on buildings	20,107	–			–		20,107
Return on advances and charge over assets granted to an associate	(18,898)	–			–		(18,898)
Reversal of allowance for inventories	(618)	–			–		(618)
Reversal of impairment loss on trade debtors	(240)	–			–		(240)
Share of results of associates	1,109	(51,644)	46,524	*(4)*	(5,120)		(4,011)
Share of results of jointly controlled entities	(1,356)	–	(89,469)	*(4)*	(89,469)		(90,825)

	The Group 31.12.2009 HK$'000 A	Upmove 31.12.2009 HK$'000 B	Pro forma Adjustments HK$'000 C	Upmove adjusted HK$'000 D=B+C	Pro forma Adjustments HK$'000 E		Enlarged Group 31.12.2009 HK$'000 F=A+D+E
Operating cash flows before movements in working capital	(20,558)	(19)		(19)			(20,577)
Decrease in inventories	10,587						10,587
Increase in debtors, bills receivable, deposits and prepayments	(18,309)	–		–			(18,309)
Increase in convertible bonds designated as financial assets at fair value through profit or loss	(86,809)	–		–			(86,809)
Increase in amount due from a jointly controlled entity	(2,163)	–		–			(2,163)
Increase in loans receivables	(20,118)	–		–			(20,118)
Increase in held for trading investments	(15,909)	–		–			(15,909)
Decrease in deposits placed with financial institutions	16,376	–		–			16,376
(Decrease) increase in creditors and accruals	(35,473)	17		17	401,074	*(5)*	365,618
Cash (used in) from operations	(172,376)	(2)		(2)			228,696
Income tax refunded (paid)	73	(502)		(502)			(429)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(172,303)	(504)		(504)			228,267
INVESTING ACTIVITIES							
Increase in other receivables	–	(19,837)		(19,837)			(19,837)
Disposal of associates	171,025	–		–			171,025
Disposal of subsidiaries	28,506	–		–			28,506
Dividend received from associates	–	20,340		20,340			20,340
Interest received	5,438	1		1			5,439
Proceeds from disposal of property, plant and equipment	5	–		–			5
Advances to an associate	(22,672)	–		–			(22,672)
Purchases of available-for-sale investments	(12,653)	–		–			(12,653)
Purchases of property, plant and equipment	(1,099)	–		–			(1,099)
Acquisition of a subsidiary	(35)	–		–	(401,074)	*(5)*	(401,109)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	168,515	504		504			(232,055)

	The Group 31.12.2009 HK$'000 A	Upmove 31.12.2009 HK$'000 B	Pro forma Adjustments HK$'000 C	Upmove adjusted HK$'000 D=B+C	Pro forma Adjustments HK$'000 E	Enlarged Group 31.12.2009 HK$'000 F=A+D+E
FINANCING ACTIVITIES						
Other loans raised	5,866	–		–		5,866
Proceeds from issue of shares upon exercises of options	188	–		–		188
Repayment of amount due to a shareholder	–	(3,526)		(3,526)		(3,526)
Repayments of bank loans	(3,198)	–		–		(3,198)
Interest paid	(1,014)	–		–		(1,014)
Repayments of obligation under a finance lease	(206)	–		–		(206)
Finance lease charges paid	(18)	–		–		(18)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	1,618	(3,526)		(3,526)		(1,908)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,170)	(3,526)		(3,526)		(5,696)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	18,146	4,226		4,226		22,372
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	15,976	700		700		16,676
Cash and cash equivalents at the end of the year, represented by:						
Bank balances and cash	14,591	700		700		15,291
Bank overdrafts	(94)	–		–		(94)
Bank balances and cash included in assets classified as held for sales	1,479	–		–		1,479
	15,976	700		700		16,676

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

(1) During the year ended 31 December 2009, the Company had entered into a sales and purchase agreement for the disposal of 100% equity interests of Magic Horizon Investment Limited and its subsidiaries at an aggregate consideration of HK$66,000,010, subject to certain adjustments. Details of which are set out in the Company's announcement dated 2 May 2010. The disposal has been completed on 30 December 2010.

For the purpose of the Unaudited Pro Forma Financial Information, the above disposal has not been taken into account and no adjustment had been made in respect thereof.

(2) On 25 September 2010, Able Winner International Limited ("Able Winner"), a wholly-owned subsidiary of the Company, entered into a strategic restructuring cooperation framework agreement (the "Framework Agreement") with Rizhao Port Company Limited* (日照港股份有限公司, the "Rizhao Port"), a stock company incorporated in the PRC and the shares of which are listed on the stock exchange in Shanghai, pursuant to which Rizhaolanshan Wansheng Harbour Co., Ltd.* (日照嵐山萬盛港業有限責任公司, "Rizhaolanshan") will undergo a restructuring (the "Restructuring") such that each of Able Winner and Rizhao Port will own 50% of the registered capital of Rizhaolanshan.

On 15 October 2010, Able Winner entered into a conditional sales and purchase agreement (the "Sales and Purchase Agreement") with Ms. Li Li (the "Vendor") to acquire 1 share of HK$1.00 in the issued share capital of Upmove, representing the entire issued share capital of Upmove (the "Acquisition"). The total consideration for the Acquisition will not be higher than RMB500,000,000 (equivalent to approximately HK$583,500,000) which is subject to adjustment.

On 8 December 2010, Able Winner entered into a supplementary agreement with the Vendor, and the final consideration for the acquisition of 100% equity interest in Upmove is RMB343,679,250 (equivalent to approximately HK$401,073,685) which is to be satisfied by way of cash upon completion. As set out on page 7 of this Circular, the consideration will be partially financed by proceeds from the placing as announced by the Company on 11 January 2010 and the Company's internal financial resources.

(3A) Upmove currently holds 26% equity interest in Rizhaolanshan. Pursuant to the Sales and Purchase Agreement, Upmove will procure to acquire a further 24% equity interest in Rizhaolanshan before the completion of the Acquisition could take place and this constitutes a condition precedent, among other things, to the completion of the Acquisition. Separate agreements in relation to the acquisition of the further 24% equity interest in Rizhaolanshan from other joint venture partners of Rizhaolanshan have not yet been reached as at the date of this Circular.

The Group will result in owning an effective equity interest of 50% in Rizhaolanshan and Rizhaolanshan will be accounted for as a jointly controlled entity of the Group as the Group will be entitled to nominate and appoint 50% of the total number of directors in the board of directors of Rizhaolanshan after completion of the Acquisition. For the purpose of preparing the Unaudited Pro Forma Financial Information, the equity method had been applied in accounting for the Group's interest in Rizhaolanshan in accordance with the existing accounting policy of the Group. The investment in a jointly controlled entity is initially recognised at cost and the carrying amount is increased or decreased to account for the Group's share of the profit or loss of Rizhaolanshan after the date of the Acquisition. The Group's share of the profit or loss of Rizhaolanshan is recognised in the Group's profit or loss. Distributions received from Rizhaolanshan will reduce the carrying amount of the investment.

The directors of the Company are considering applying the proportionate consolidation method to account for Rizhaolanshan upon completion of the Acquisition. The directors of the Company have taken into consideration of the significance of the operations, asset and liabilities of Rizhaolanshan, and considers that the proportionate consolidation method will better reflect the substance and economic reality of the Group's interest in Rizhaolanshan. The adoption of the proportionate consolidation upon the completion of the Acquisition will be different from the existing accounting policy adopted by the Group and will constitute a change in accounting policy.

* *For identification only*

Upon actual completion of the Acquisition, Rizhaolanshan will be accounted for as a jointly controlled entity of the Group. The allocation of the consideration to the Group's interest in Rizhaolanshan will have to be assessed based on the fulfillment or waiver of the various conditions as stipulated in the Sales and Purchase Agreement as mentioned in Note 3A and on pages 5 to 11 of this Circular. As a result of the assessment, the share of net assets of Rizhaolanshan may be different from that estimated based on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information.

The adjustment of approximately HK$119,632,000 (equivalent to approximately RMB102,688,000) represented Upmove's additional share of net assets in Rizhaolanshan resulting from the Restructuring (calculated as 24% of RMB427,866,000, net asset value of Rizhaolanshan as at 30 November 2010 as set out in the Appendix II to the Circular). As set out on page 12 of this Circular, no agreements have been entered into between Upmove and the other joint venture partners of Rizhaolanshan in respect of the acquisition of the further 24% interest in Rizhaolanshan. For the purpose of the unaudited pro forma consolidated statement of financial position, the consideration payable for the acquisition of the additional 24% interests in Rizhaolanshan is assumed to be the same as the corresponding share in the net assets of Rizhaolanshan as at 30 November 2010.

On completion of the Acquisition, the final consideration payable for the acquisition of additional 24% interest in Rizhaolanshan may be different from that estimated above. As a result, the additional share of net assets in Rizhaolanshan may be different from that estimated based on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information. Accordingly, the actual interest in Rizhaolanshan recognised as interest in a jointly controlled entity at the completion of the transaction may be different from that as presented above.

(3B) The adjustment of HK$249,233,000 represented the reclassification of Upmove's 50% equity interest in Rizhaolanshan from interest in an associate to interest in a jointly controlled entity, as if the Restructuring had been completed on 30 June 2010.

(3C) The adjustment represented Upmove's disposal of its 25% interest in an associate, 山西卓鋒鈦業有限公司 ("山西卓鋒鈦業"). On 20 October 2010, Upmove and Heroview Holdings Limited ("Heroview"), a limited liability company incorporated in Hong Kong owned by the spouse of the shareholder of Upmove, entered into a sales and purchase agreement pursuant to which Upmove will dispose of its 25% interest in 山西卓鋒鈦業 to Heroview at a consideration of approximately HK$9,611,000 (equivalent to RMB8,250,000). Upmove's investment in 山西卓鋒鈦業 and the related liabilities had been classified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale in the unaudited pro forma consolidated statement of financial position. On 16 December 2010, the Vendor, Upmove and Heroview entered into an agreement pursuant to which an outstanding amount due to shareholder of RMB8,250,000 payable by Upmove shall be undertaken by Heroview. The adjustment reflects the set-off of the consideration receivable of HK$9,611,000 against the amount due to shareholder and the disposal of 山西卓鋒鈦業 will result in a pro forma gain of approximately HK$539,000, and the gain is recognised in the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma cash flow statements. On actual completion of the disposal, the gain or loss will have to be reassessed. As a result of the assessment, the amount of gain or loss on disposal of 山西卓鋒鈦業 may be different from that estimated based on the basis stated in the Unaudited Pro Forma Financial Information.

(3D) On 31 December 2010, the Vendor and Upmove entered into a supplemental agreement pursuant to which the Vendor agreed to waive all outstanding liabilities due to Upmove's shareholder(s) and undertake all liabilities of Upmove. The adjustment reflects the waiver of current account with shareholder, dividend payable and undertaking of all liabilities pursuant to the signed supplemental agreement. For the purpose of preparing the unaudited pro forma consolidated statement of financial position, the directors of the Company assumes Upmove will repay all bank balances and cash to Upmove's shareholder(s).

(3E) The Acquisition is to be accounted for as a purchase of assets and liabilities since the operation of Upmove proposed to be acquired by the Group does not constitute a business for accounting purposes. Upmove engages solely in investment holding activities.

For the purpose of preparation of the Unaudited Pro Forma Financial Information, in the opinion of the directors of the Company, in accordance with the accounting policy of the Group, the excess of the value of consideration paid over the net assets and liabilities acquired of approximately HK$155,838,000 is allocated to the investment in Rizhaolanshan, on the basis that the fair value of other identifiable assets and liabilities of Upmove approximates to their respectively carrying amounts.

The adjustment represented the elimination of Able Winner's investment in Upmove, the pre-acquisition reserve of HK$245,236,000 of Upmove, and fair value adjustment of HK$155,838,000 of the Group's interest in 50% equity interest in Rizhaolanshan accounted for as an acquisition of asset through acquisition of a subsidiary (calculated as the consideration payable for the acquisition of Upmove less the pre-acquisition reserves of Upmove). The consideration payable of approximately HK$401,074,000 will be financed by proceeds from the placing as announced by the Company on 11 January 2010 and the Company's internal financial resources. Pursuant to the Sales and Purchase Agreement, the consideration of HK$401,074,000 shall be satisfied by way of cash upon completion. For the purpose of the Unaudited Pro Forma Financial Information, the consideration is assumed to be settled within one year.

(3F) In assessing whether or not there is any impairment in the above adjusted investment in Rizhaolanshan, the directors of the Company have reviewed the carrying value of Rizhaolanshan's assets and liabilities. Based on the assessment, the directors of the Company are of the opinion that there are no indications that the investment in Rizhaolanshan may be impaired.

The directors and auditors of the Company will carry out impairment review of the Group's investment in Rizhaolanshan in accordance with applicable Hong Kong Financial Reporting Standards at the end of each financial reporting period.

(4) For the purpose of the unaudited pro forma consolidated income statement of the Enlarged Group, the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, adjustments are made to account for Upmove's additional share of results, other comprehensive income and cash flows of Rizhaolanshan of approximately HK$42,945,000 (equivalent to approximately RMB37,844,000) for the year ended 31 December 2009 (calculated as 24% of RMB157,684,000).

Assuming the Acquisition had taken place on 1 January 2009, the adjustment of approximately HK$46,524,000 represented the reclassification of the share of results of 26% equity interest in Rizhaolanshan from interest in an associate to interest in a jointly controlled entity, and the adjustment of approximately HK$89,469,000 represented the aggregate share of results of 50% equity interest in Rizhaolanshan. Such pro forma adjustment will have continuing income statement and cash flows effect on the Enlarged Group.

(5) Assuming the Restructuring of Rizhaolanshan had taken place on 1 January 2009, the adjustment of HK$119,632,000 represented the pro forma consideration payable based on the assumption specified in Note 3A for the acquisition of the additional 24% equity interest in Rizhaolanshan. The actual consideration would be different from the pro forma amount.

Assuming the Acquisition of Upmove had taken place on 1 January 2009, the adjustment of approximately HK$401,074,000 which represented the cash outflow arising from the Acquisition at 1 January 2009. For the purpose of the Unaudited Pro Forma Financial Information, the directors of the Company assume that the consideration payable for the acquisition of 100% equity interest of Upmove of approximately HK$401,074,000 will be settled within one year at a time when the Group is able to raise sufficient additional funding to finance the Acquisition.

(6) Basis of translation

Translation of RMB into HK$ is made in the Unaudited Pro Forma Financial Information of the Enlarged Group at the average rate of HK$1 = RMB0.8812 for the preparation of the unaudited pro forma consolidated income statement of the Enlarged Group, the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group and the closing rate of HK$1 = RMB0.8584 for the preparation of unaudited pro forma consolidated statement of financial position of the Enlarged Group.

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

信永中和 ShineWing

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

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

27 January 2011

The Directors
PME Group Limited

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 V of the circular dated 27 January 2011 (the "Circular") in connection with the Company's proposed acquisition (the "Acquisition") of 100% of the issued share capital of Upmove International Limited (together with the Group collectively referred to as the "Enlarged Group") by Able Winner International Limited, 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 V-1 to V-11 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 Enlarged Group as at 30 June 2010 or at any future date; or

- the results and cash flows of the Enlarged Group for the year ended 31 December 2009 or for any future periods.

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

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 October 2010 of the property interests held by the Target Group .

Asset Appraisal Limited
資產評值顧問有限公司

Room 802, 8/F, On Hong Commercial Building
145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
安康商業大廈8字樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

27 January 2011

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

Dear Sirs,

Re: Valuation of Property Interests situated in the People's Republic of China

In accordance with the instructions from **PME Group Limited** (referred to as the "Company") to value the property interests (referred to as the "Property Interests") held by the Target Company or its subsidiaries (altogether referred to as the "Target Group") situated in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Property Interests as at **31 October 2010** (the "date of valuation").

Basis of Valuation

The Property Interests in Group I of this report which are held by the Target Group have been valued on the basis of **Depreciated Replacement Cost** ("**DRC**"). The basis of DRC is a surrogate for Market Value and is defined as "an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements thereon, less allowance for physical deterioration and all relevant forms of obsolescence and optimization (if any)".

For owner occupied specialized properties where it is impracticable to identify the Market Value by market comparison basis, the DRC is considered as the most appropriate basis of valuation. The underlying theory of this base is the Market Value of the appraised property should, at least, be equivalent to the replacement cost of the remaining service potential of the appraised property i.e. the DRC of the appraised assets. In our opinion, the DRC generally furnishes the most reliable indication of value for property where it is not practicable to ascertain its value on market bases.

Specialized properties is defined as "certain types of properties which are rarely, if ever, sold on the open market, except by way of a sale of the business of which they are a part (business in occupation), due to their uniqueness arising from the specialized nature and design of the buildings, their configuration, size, location or otherwise". Having considered the inherent and general characteristics of the Facilities, we are of the opinion that they belong to specialized properties and are impracticable to ascertain their values on market value basis. Being valued on the basis of DRC, our valuation is subject to the adequate potential profitability of the businesses operating the Facilities having due regard to the values of the total assets plus other assets in associate with the operations and the nature of the operations.

Our valuation of the Property Interests in Group II of this report which are held by the Enlarged Group under leasehold interests represents the market value which we would define as intended to mean "the estimated amount for which a property or the interest thereof 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".

Valuation Methodology

As mentioned above, we valued the Property Interests in Group I on DRC basis. The assessment of the DRC of the Property Interests requires an estimate of the market value of the land in existing use and an estimate of the new replacement (reproduction) cost of the buildings and other site works as at the valuation date, from which deductions are then made to allow for age, condition, functional obsolescence, etc..

In valuing the Market Value of the land portions of the Property Interests in Group I, the "Direct Comparison Method" is adopted where comparison based on price information of comparable properties is made. Comparable land parcels of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each land parcel in order to arrive at a fair comparison of market values.

We have ascribed no commercial value to the Property Interests in Group II of this report which are held by the Enlarged Group under leasehold interests due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents of the leasehold interests.

Assumptions

We have assumed that the owners of the Property Interests in Group I have the rights to sell, mortgage, charge or otherwise dispose of them to any third party free from any Government prior approval and payment of any additional premium or substantial fee to Government authorities.

Our valuation has been made on the assumption that the owner sells the Property Interests in Group I of this report on the market in their existing states without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the Property Interests.

For the Property Interests in Group I are held under long term Land Use Right Terms, we have assumed that the owners of the Property Interests have free and uninterrupted rights to use the properties for the whole of the unexpired terms of their respective Land Use Rights subject to payment of land use fees (if any). Full settlements of land premium/purchase consideration by the owners in the acquisition of the land use rights are assumed in our valuation.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the properties situated in the PRC are used. For the Property Interests valued by the "Depreciated Replacement Cost" method, we have assumed that prospective earnings would provide a reasonable return on the market value of the Properties plus the value of any assets not included in the valuation, and adequate net working capital. Our valuation of the Property Interests is subject to adjustment if prospective earnings are not adequate to justify ownership of the assets at the valuation levels.

For the Property Interests in Group I in which berths, dockyards, mooring facilities for oil tankers are provided, we have assumed that the owners of the Property Interests have been granted as part of the land use rights in those Properties the marine access for the site coastal line where the berths have been built.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

Titleship

We have been provided with copies of legal documents regarding the Property Interests. However, we have not verified ownership of the Property Interests and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Jingtian & Gongcheng (競天公誠律師事務所), to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights in the Property Interests.

All disclosures in relation to property title have been stated herein for reference only. No responsibility regarding legal title to the Property Interests is assumed in this valuation report.

Limiting Conditions

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property Interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property Interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value. Our valuation have been made on the assumption that the seller sells the Property Interests on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the Property Interests.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Property Interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the properties. However, no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are unable to report whether the buildings and structures of the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services of the buildings and structures of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

The market values arrived at by adopting DRC basis does not represent the amount that might be realized from piecemeal dispositions of the concerned properties in the marketplace or from an alternative use of the assets.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
For and on behalf of
Asset Appraisal Limited

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experiences in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

	Property	Capital value in existing state as at 31 October 2010 *RMB*	Interest attributable to the Target Group as at 31 October 2010 *%*	Value of property interest attributable to the Target Group as at 31 October 2010 *RMB*
	Group I – Property Interests held by the Target Group			
1.	Buildings and land of Iron Ore Terminal in Lanshan Port, Rizhao City, Shandong Province, the PRC	600,000,000	50	300,000,000
	Group II – Properties rented by the Target Group			
2.	An office unit located at level one of an office building in East Lanshan Port, Rizhao City, Shandong Province, the PRC	No commercial value		No commercial value
	Total:	600,000,000		300,000,000

VALUATION CERTIFICATE

Group I – Property Interests held by the Target Group

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010
1.	Buildings and land of Iron Ore Terminal in Lanshan Port, Rizhao City, Shandong Province, the PRC	The property comprises two parcels of land with a total area of 80,656.9 square metres and seven sea use rights area with a total area of 1,903,826 square metres. As at the valuation date, out of the seven sea use rights area, land reclamation for two sea use rights area covering a total area of approximately 360,000 square metres have been completed. The aforesaid two land parcels together with the reclaimed land are currently developed into two 50,000-dwt vessel berths, loading/unloading bay and storage yards. The remaining sea use rights areas covering a total area of approximately 1,543,826 square metres of which land reclamation work is in progress is developing into new berths, dam and storage ground of the terminal upon completion of sea reclamation. A 4-storey building with a gross floor area of approximately 1,182.00 square meters, which was completed in about 2004, were erected on the storage yard. The land use rights of the two parcels of land with a total site area 80,656.9 square metres have been granted for the a land use right term expiring on 28 December 2057 for port (港口碼頭) use and 17 November 2050 for storage use respectively. The sea use rights of the sea use areas have been granted for terms expiring on between 2 June 2053 and 9 December 2059 for reclamation, transportation and port uses.	The property is developed and operated by the Target Group as an iron ore terminal.	RMB600,000,000 50% interest attributable to the Company: RMB300,000,000

Notes:

1. As stipulated in the Land Use Rights Certificate (*ref. no. Ri Lan Guo Yong (2010) Di No. 2 (日嵐國用 (2010)第 2號)*) issued by the Rizhao Municipal People's Government on 11 December 2009, the land use rights of portion of the subject land parcel with an area of 76,678 square meters are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 6 April 2053 for port (港口碼頭) use.

2. As stipulated in another Land Use Rights Certificate (*ref. no. Ri Lan Guo Yong (2008) Di No. 443 (日嵐國用 (2008)第 443號)*) issued by Rizhao Municipal People's Government on 17 December 2008, the land use rights of another portion of the subject land parcel with an area of 3,978.9 square meters are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 6 April 2053 for storage use.

3. As stipulated in the Sea Area Use Certificate (海域使用權證書) (*ref. no. Guo Hai Zheng No. 033700008 (國海証033700008號)*) issued by Shandong Province People's Government (山東省人民政府) dated 18 April 2005, the sea use rights of the sea use areas with an area of approximately 90,000 square metres are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 2 June 2053 for sea reclamation for Lanshan General Berth Phase 1 Construction (嵐山港通用泊位一期工程). A lump sum sea area use fee of RMB1,166,400 has been fully settled.

4. As stipulated in another Sea Area Use Certificate (海域使用權證書) (*ref. no. Guo Hai Zheng No. 053700801 (國海証053700801號)*) issued by Shandong Province People's Government (山東省人民政府) dated 28 February 2006, the sea use rights of the sea use areas with an area of approximately 270,000 square metres are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 27 February 2056 for sea reclamation for Lanshan General Berth Phase 2 Construction (嵐山港通用泊位二期工程). A lump sum sea area use fee of RMB5,771,300 has been fully settled.

5. As stipulated in another Sea Area Use Certificate (海域使用權證書) (*ref. no. Guo Hai Zheng No. 073700290 (國海証073700290號))* issued by Shandong Province People's Government (山東省人民政府) dated 31 May 2007, the sea use rights of the sea use areas with an area of approximately 493,000 square metres are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 30 May 2057 for sea reclamation for West Embankment General Berth Construction (西突堤通用泊位工程). A lump sum sea area use fee of RMB18,042,061 has been fully settled.

6. As stipulated in another Sea Area Use Certificate (海域使用權證書) (*ref. no. Guo Hai Zheng No. 073700289 (國海証073700289號)*) issued by Shandong Province People's Government (山東省人民政府) dated 31 May 2007, the sea use rights of the sea use areas with an area of approximately 494,500 square metres are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 30 May 2057 for sea reclamation for West Embankment Storage Ground Construction (西突堤貨場工程). A lump sum sea area use fee of RMB18,097,958 has fully been settled.

7. As stipulated in another Sea Area Use Certificate (海域使用權證書) (*ref. no. Guo Hai Zheng No. 093700956 (國海証093700956號)*) issued by Shandong Province People's Government (山東省人民政府) dated 10 December 2009, the sea use rights of the sea use areas with an area of approximately 101,222 square metres are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 9 December 2059 for sea reclamation for Rizhao Port Lanshan Port Area Berth Nos. 15 and 16 Construction (日照港嵐山港區 15#、16#泊位工程). A lump sum sea area use fee of RMB6,837,915 has been fully settled.

8. As stipulated in another Sea Area Use Certificate (海域使用權證書) (*ref. no. Guo Hai Zheng No. 093700957 (國海証093700957號)*) issued by Shandong Province People's Government (山東省人民政府) dated 10 December 2009, the sea use rights of the sea use areas with an area of approximately 101,222 square metres are held by Rizhao Lanshan Wansheng Harbour Company Limited for a term expiring on 9 December 2059 for Rizhao Port Lanshan Port Area Berth Nos. 15 and 16 Construction (日照港嵐山港區 15#、16#泊位工程) at an annual sea area use fee of RMB16,244.6.

9. As stipulated in the Sea Use Right Fee Payment Agreement (海域使用金徵繳協議) *(ref. no. Lu Hai Yu Xie Zi (2009) Di No. 002 (魯海域協字(2009)第002號))* issued by Shandong Provincial Oceanic and Fishery Department (山東省海洋與漁業廳) dated 10 December 2009, Shandong Provincial Oceanic and Fishery Department agreed to grant the sea use rights with an area of approximately 353,882 square metres to Rizhao Lanshan Wansheng Harbour Company Limited for a term of 50 years commencing from 10 December 2009 for a consideration of RMB37,157,610 for storage yard (碓場) and port (港口碼頭) uses.

10. As at the date of valuation, Building Ownership Certificate for the aforesaid buildings and structures of the property have not yet been issued. In the course of our valuation, we have assumed that the subject buildings have been duly examined and approved by the relevant government authorities as safe for use and in compliance with all the relevant requirements for industrial use. In addition, we have also assumed that Rizhao Lanshan Wansheng Harbour Company Limited shall have no legal impediment and subject to no substantial charge for obtaining the Building Ownership Certificate for all the buildings and structures of the property.

11. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the followings:

(i) Pursuant to the Grant Contract of State-owned Land Use Rights (*ref. no. Lan Tu He Zi No. (2007)42 (嵐土合字(2007)42號)*) dated 29 July 2003, Rizhao Lanshan Wansheng Harbour Company Limited was granted the land use rights of the a portion of the subject land parcel with an area of 76,665 square metres by the Rizhao Municipal People's Government for a term of 50 years for port use at a consideration of RMB18,016,275 payable in 60 days from the contract date. The land premium has been fully settled as evidenced from a payment receipt issued by the Non-fiscal Income Administration Bureau of Lanshan District, Rizhao City (日照市嵐山區非稅收入管理局) on 20 August 2009;

(ii) According to the written confirmation from Rizhao Lanshan Wansheng Harbour Company Limited, it is not subject to any penalty from the Government due to the late payment of land premium as mentioned in note (i) above. It further confirmed that it has not been claimed by the Government for additional land premium due to the upward adjustment on actual land area by an order of 13 square metres after completion of land survey;

(iii) Pursuant to a Land Use Rights Transfer Agreement (*ref. no. Ri Tu Zhuan He Zi (2008) Di No.43 (日土轉合字(2008)第43號)*) dated 18 November 2008, Rizhao Lanshan Wansheng Harbour Company Limited was transferred the land use rights of the another portion of the subject land parcel an area of 3,976.7 square metres by 日照市嵐山恒鑫冷藏廠 at a consideration of RMB1,507,200. The land use rights of the land parcel concerned are commencing on 18 November 2008 and expiring on 17 November 2050 for storage use. The land use right transfer consideration has been fully settled;

(iv) Rizhao Lanshan Wansheng Harbour Company Limited has been issued two sets of Land Use Right Certificate for and legally owns the land use rights of the subject land parcel;

(v) The land use rights of the property are not subject to mortgage, charge and any third parties' rights. Rizhao Lanshan Wansheng Harbour Company Limited has the rights to use, lease, transfer, mortgage or dispose of the land use rights of the property throughout the unexpired land use rights term of the subject land parcel;

(vi) Rizhao Lanshan Wansheng Harbour Company Limited has secured sea use rights of six sea areas via six sets of Sea Use Rights Certificate. Save for the berth construction works and the vertical dam modification work which have been pledged for bank mortgage, the sea use rights of the property are not subject to mortgage, charge and any third parties' rights. Rizhao Lanshan Wansheng Harbour Company Limited has the rights to use, lease, transfer, mortgage or dispose of the sea use rights of the property within the unexpired sea use rights terms;

(vii) For those portions of sea use areas of which reclamation works are currently underway, Rizhao Lanshan Wansheng Harbour Company Limited shall have no legal impediment to complete land title registration (with payment of necessary charges including but not limiting to land premium) and replace their corresponding sea use rights certificates by land use rights certificate upon completion of the reclamation work;

(viii) Rizhao Lanshan Wansheng Harbour Company Limited has obtained the following relevant approvals and consents for the construction and operations of its existing 50,000-dwt berth and the modified vertical dam:

- Instrument Regarding Views on the Outline of Environmental Impact Assessment on Lanshan Harbour Berths Construction (關於嵐山港通用泊位碼頭工程環境影響評價大綱審批意見的函) (Ref. Lu Huan Fa No. [2001] 556 魯環發[2001]556號) issued by the Environmental Preservation Bureau of Shandong Province (山東省環境保護局) on 28 November 2001;

- Approval on Pre-evaluation of Occupational Safety and Health of Lanshan Port Berth Construction (關於嵐山港通用泊位工程勞動安全衛生預評價報告的批覆) (Ref. Ting Ren Lao Zhi No. 2007-77 廳人勞字[2002]77號) issued by the Administration Office of the Transportation Bureau (交通部辦公廳) on 5 March 2002;

- Approval on Feasibility Study on Lanshan Port Berth Construction (關於嵐山港通用泊位工程可行性研究報告的批覆) (Ref No. Lu Ji Ji Chu No. 2002-708 魯計基礎[2002]708號) issued by the Shandong Development and Planning Committee on 28 June 2002;

- Instrument Regarding Approval on Environmental Impact Study for Lanshan Port Berth Construction (關於嵐山港通用泊位工程環境影響報告書審批意見的函) (Ref. Lu Huan Shen No. 2002-10魯環審[2002]10號) issued by the Environmental Preservation Bureau of Shandong Province (山東省環境保護局) on 9 July 2002;

- Opinion on the Approval Regarding Environmental Impact Study for Lanshan Port Berth Construction (關於 <嵐山港通用泊位工程環境影響報告書 >的審核意見) (Ref. Lu Yu Hai Huan Bao Han No. 2002-7 魯漁海環保函[2002]7號) issued by the Shandong Marine and Fishery Office (山東省海洋與漁業廳) on 11 July 2002;

- Approval on the Preliminary Design of Lanshan Port Berth Construction (關於嵐山港通用泊位工程初步設計的批覆) (Ref. Lu Jiao Gui Hua No. 2002-134魯交規劃[2002]134號) jointly issued by the Shandong Transportation Administration Office (山東省交通廳) and the Shandong Development and Planning Committee on 27 December 2002;

- Approval on Two Applications on Sea Use Right for Lanshan Port Berth Phase 1 Construction (關於同意嵐山港通用泊位一期工程等兩宗專案用海海域使用的批覆) (Ref. Lu Zheng Hai Yu Zhi No. 2003-3魯政海域字[2003]3號) issued by the Municipal Government of Shandong on 27 February 2003;

- Opinion on the Adjustment on Dimensions of the Plan of Existing Port Basin of Lanshan Port (關於調整嵐山港現有港池規劃尺度的意見) (Ref. Ri Gang Hang Fa No. 2004-64日港航發[2004] 64號) issued by the Rizhao Port Administration Bureau (日照市港航局) on 6 November 2004;

- Certificate on Passing Completion Examination on Construction of Key Projects of Shandong Province (山東省重點建設專案檔案驗收合格證書) (Ref. Lu Dang Yan Zhi No. 2005-001魯檔驗字[2005]001號) issued by the Shandong Document Administration Bureau (山東省檔案局);

- Opinion on Passing Fire System Construction Completion Examination (建築工程消防驗收意見書) (Ref. Lan Gang Gong Xiao Yan No. 3嵐港公消驗第3號) issued by the Rizhao Public Order Administration Bureau Lanshan Port Area Branch (日照市公安局嵐山港區分局) on 28 January 2005;

- Opinion on Environmental Protection Facilities Completion Examination (環保驗收意見) (Ref. Huan Yan No. 2005-01環驗[2005]01號) issued by the Rizhao Environmental Preservation Bureau (日照市環境保護局) on 24 February 2005;

- Notification on the Issue of Certification on Passing Completion Examination on the Construction of the Extension of the Lanshan Petrochemical Terminal and Lanshan Port General Berth) 關於印發嵐山港液體石油化工品碼頭擴建工程及嵐山港通用泊位工程竣工驗收證書的通知 (Ref [2005] Lu Jiao Gui Hui Han No. 13[2005]魯交規劃函13號) issued by the Shandong Transportation Administration Office on 6 April 2005;

- 《關於嵐山港通用泊位工程初步設計變更的批覆》 (魯交規劃[2005]25號) issued by the Shandong Transportation Administration Office and the Shandong Development and Planning Committee on 1 March 2005;

- Acknowledgment on Receipt of Filing of Enterprise Technological Modification Application (企業技術改造專案備案回執) (Ref. Ri Jin Mao Tou Bei No. 2005-004 日經貿投備[2005]004號) issued by the Rizhao Economy and Trade Committee on 23 March 2005;

- Opinion on Approval on Environmental Protection Scheme (環保審批意見) issued by the Rizhao Environmental Preservation Bureau (日照市環境保護局) on 9 May 2005;

- Report on Passing Completion Examination on Technical Modification Work (技術改造項目竣工驗收報告) jointly issued by Rizhao Marine Administration Bureau (日照海事局), the Rizhao Port Administration Bureau, the Rizhao Security Supervision Bureau (日照市安監局), the Rizhao Public Order Administration Bureau Lanshan Branch and the Rizhao Port Construction Quality Supervision Station (日照港口工程品質監督站) on 8 July 2005; and

- Certificate on Passing Completion Examination on Hygienic Matter of Construction Works (建築專案竣工衛生驗收認可書) (Ref. Lu Wei Jian Yan Zhi No. 2005-16 魯衛建驗字[2005]第16號) issued by the Shandong Hygiene Office (山東省衛生廳) on 16 September 2005.

(ix) Rizhao Lanshan Wansheng Harbour Company Limited is a Sino-foreign Equity Joint Venture incorporated under the PRC laws. It has been issued a Business Licence (Registered No. 371100400001416) by the Administration of Industrial and Commerce of Rizhao on 6 May 2008 and an Approval on Enterprises Invested by Citizens from Taiwan, Hong Kong and Macau, PRC by the Municipal Government of Shandong Province on 4 May 2008. According to the aforesaid documents, Rizhao Lanshan Wansheng Harbour Company Limited was incorporated on 15 August 2004 with both registered capital and paid up capital of RMB140 million. It has a permitted scope of businesses of sea port and port related facility construction, loading/unloading, storage and transport of steel, timber and other goods (except dangerous goods and state restricted / prohibited goods) within port area. Shareholders of the joint venture include Rizhao Port Holdings Co. Ltd. (日照港股份有限公司), Rizhao Dexing International Trading Co. Ltd. (日照德興國際貿易有限公司), Shandong Province International Trust Investment Co. Ltd. (山東省國際信託投資有限公司), Upmove International Limited and Nobleland International Limited with respective shareholding of 26%, 22%, 21%, 26% and 5%. Profit or loss of Rizhao Lanshan Wansheng Harbour Company Limited shall be shared by the shareholders in accordance with their respective shareholdings in Rizhao Lanshan Wansheng Harbour Company Limited.

(x) Rizhao Lanshan Wansheng Harbour Company Limited has passed the annual corporate assessment for 2009. Besides the Business Licence and the Approval on Enterprises Invested by Citizens from Taiwan, Hong Kong and Macau, PRC as mentioned in note (ix) above, Rizhao Lanshan Wansheng Harbour Company Limited has obtained the following permit or certificate for the purpose of carrying out its business operations:

- The PRC Corporation Code Certificate (中華人民共和國組織機構代碼證, Code No. 75748957-3) issued by the Quality and Technical Supervision Bureau of Rizhao City, Shandong Province (山東省日照市品質技術監督局) and valid until 17 April 2012;

- Port Operation Permit (港口經營許可證 , Ref. Ri Zhao Gang Jin Zi No. 006) issued by the Port Administration Bureau of the Communication Department of Shandong Province (山東省交通廳港航局) on 23 November 2004. According to the said permit, Rizhao Lanshan Wansheng Harbour Company Limited has been authorized to carrying out port and other port related facility operations, loading/unloading, barging and storage of cargoes within port area; and

- The PRC Import and Export Consignee and Consignor Custom Clearance Registration Certificate (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書, Custom Registration Code 3711931304) issued by the Custom of Rizhao and valid until 31 March 2011.

(xi) Rizhao Lanshan Wansheng Harbour Company Limited has obtained all necessary permits, consents and qualification certificates for carrying out its existing business operations. With written declaration from Rizhao Lanshan Wansheng Harbour Company Limited and the investigation by the PRC lawyer, unless those issues already disclosed in the PRC Legal Opinion as otherwise, the PRC lawyer did not discover any situation that Rizhao Lanshan Wansheng Harbour Company Limited was being punished by the Government authorities by reason of performing business activities beyond its permitted scope of businesses or any activity that is outlaw.

VALUATION CERTIFICATE

Group II – Properties rented by the Target Group

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010
2.	An office unit located at level one of an office building in East Lanshan Port, Rizhao City, Shandong Province, the PRC	The property comprises an office unit on Level 1 within a 5-storey office complex completed in about 1988. The gross floor area of the property is approximately 300 square metres. The property is rented by the Target Group for a term of 24 months commencing on 1 January 2010 and expiring on 31 December 2011 at a monthly rent of RMB25,000 for office use.	The property is operated by the Target Group as offices.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Rizhao Harbour (Group) Lanshan Port Management Company Limited (日照港(集團)嵐山港務有限公司) as lessor and Rizhao Lanshan Wansheng Harbour Company Limited as lessee, the property is rented by the lessee for a term of 24 months commencing on 1 January 2010 and expiring on 31 December 2011 at a monthly rent of RMB25,000 for office use.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the followings:

   (i) The owner of the property is Rizhao Harbour (Group) Lanshan Port Management Company Limited (日照港(集團)嵐山港務有限公司);

   (ii) Pursuant to the tenancy agreement between Rizhao Lanshan Wansheng Harbour Company Limited and Rizhao Harbour (Group) Lanshan Port Management Company Limited, the latter leased to the former the property with a gross floor area of 300 square metres for a term of 24 months commencing on 1 January 2010 and expiring on 31 December 2011; and

   (iii) The tenancy agreement is binding to both parties and its validity shall not be impaired due to the fact the tenancy agreement has not yet been completed with proper registration procedures.

PROPERTY RECONCILIATION

(for the property interests owned by the Target Company)

Property	**Buildings and land of Iron Ore Terminal in Lanshan Port, Rizhao City, Shandong Province, the PRC**
	RMB'000
Carrying value as at 30 November 2010 *(Note 1)*	455,666
– Property, plant and equipment	
– buildings	1,248
– terminals	311,377
– construction in progress	49,798
– Sea use rights	46,551
– Deposits for acquisition of sea use right	37,158
– Prepaid lease payments (non-current)	9,534
Add: Depreciation and amortization for the one month ended 30 November 2010 *(Note 2)*	803
Carrying value as at 31 October 2010 *(Note 2)*	456,469
Revaluation Surplus	143,531
Valuation Report as at 31 October 2010 *(Note 3)*	600,000

Notes:

1. extracted from the Accountants' Report (see Appendix II to this circular)

2. extracted from the management account of the Company

3. extracted from the valuation report of the Target Group (see Appendix VI of this circular)

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 October 2010 of Rizhaolanshan.

Asset Appraisal Limited
資產評值顧問有限公司

Room 802, 8/F, On Hong Commercial Building
145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
安康商業大廈8字樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

27 January 2011

The Board of Directors
PME Group Limited
5/F Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan Shatin New Territories
Hong Kong

Dear Sirs,

Re: Business Valuation of Rizhao Lanshan Wansheng Harbour Company Limited

In accordance with the instructions from **PME Group Limited** (the "Company"), we have completed a valuation of 100% issued share capital of Rizhao Lanshan Wansheng Harbour Company Limited (日照嵐山萬盛港業有限責任公司, referred to as "Rizhaolanshan") as at 31 October 2010 (the "Valuation Date").

We confirm that we have carried out site inspection of the major operating facilities of Rizhaolanshan, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing our opinion of fair value of Rizhaolanshan as at the Valuation Date.

This report identifies the assets appraised, describes the basis and methodology of valuation, investigation and analysis, assumptions, limiting conditions and presents our opinion of value.

1. INTRODUCTION

Rizhaolanshan is a sino-foreign equity joint venture established in the PRC on 25 August 2004. The operating period of Rizhaolanshan is 50 years from 25 August 2004 to 24 August 2054. It is engaged in provision of terminal and logistic services including loading and discharging, storage and transfers of iron ore, steel products, timber and other goods and leasing of terminal facilities and equipment in Lanshan Harbour, Rizhao Port, Shandong Province, the PRC. The operations of Rizhaolanshan are centered around an iron ore terminal featured with one berth capable of accommodating two 50,000-dwt vessels and various port related facilities. Major customers of Rizhaolanshan include steel manufacturers in the northern region of the PRC and major iron ore suppliers in India, Canada, Brazil and Australia.

The throughput of Rizhao Lanshan for each of the three years ended 31 December 2007, 2008 and 2009 and the six month ended 30 June 2010 was as follows:

	2007	**2008**	**2009**	**Jan-June 2010**
		('000 tonnes)		
Throughput	15,350	16,190	16,250	10,060

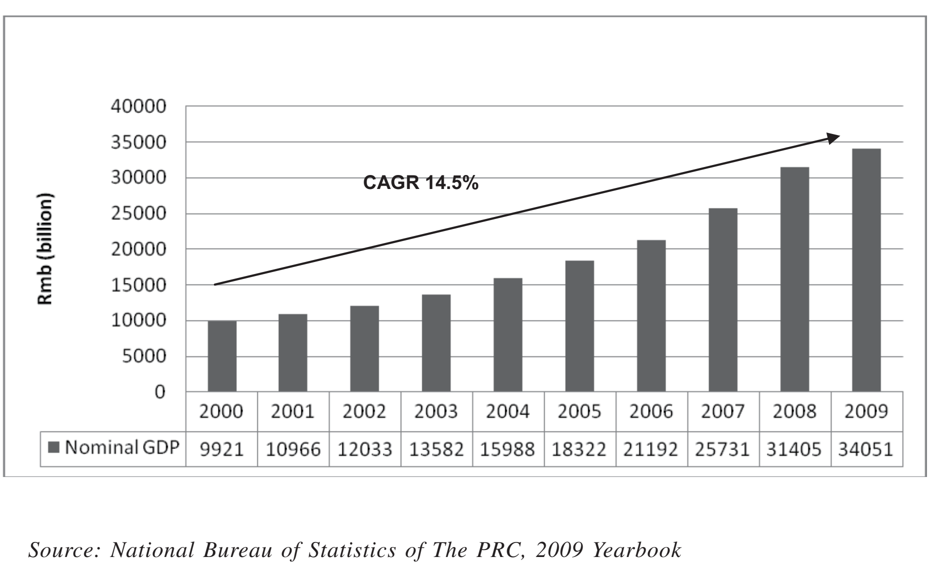
2. ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS

In conjunction with the preparation of this valuation opinion, we have reviewed and analysed the current economic conditions in the PRC as there is little doubt that the PRC's economic progress has contributed to the growth in demand for shipping and hence port facilities. The PRC's industrialization has been predominantly export-led and most of the iron ore, oil, gas and industrial raw materials that underpin its development are imported. Therefore, the economic conditions of the PRC will have impacted on the business performance of Rizhaolanshan.

PRC's Economic Outlook

According to the National Bureau of Statistics of the PRC, the Nominal Gross Domestic Product ("GDP") of the PRC in 2009 was RMB34,051 billion, representing a 9.1% growth year-on-year and a CAGR of 14.5% since 2000.

Nominal GDP



Source: National Bureau of Statistics of The PRC, 2009 Yearbook

The PRC's per capita nominal GDP increased from RMB14,185 to RMB25,511 from 2005 to 2009.

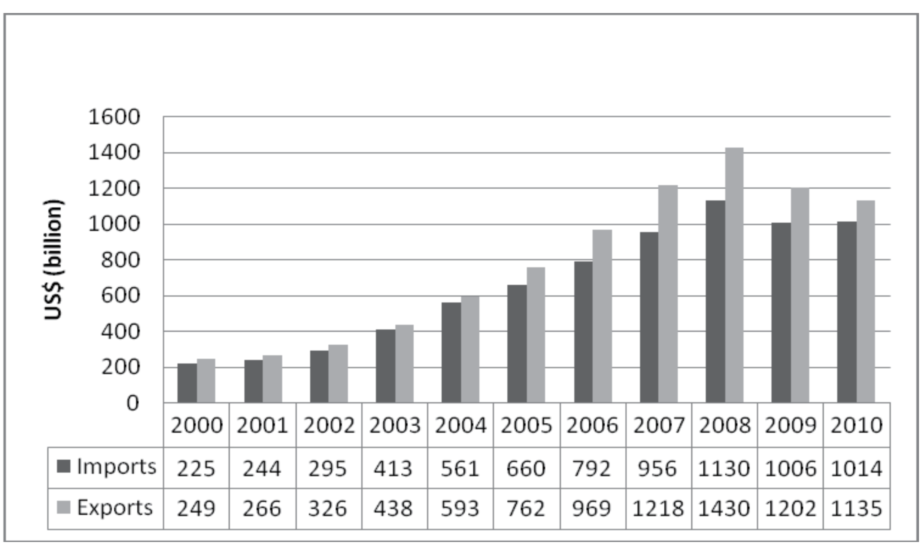
In order to stimulate domestic demand in response to the global financial crisis in 2008, the PRC government announced a RMB4 trillion stimulus package through measures for economic growth in various industries. Boosted by the RMB4 trillion government stimulus plan and the cumulative effects of fiscal and monetary easing, the PRC has shifted its economy driver from exports towards domestic consumption and made the most impressive recovery from the global financial crisis among all major economies.

Port Industry in PRC

With the rapid growth of economic development in the PRC and international trading due to globalization, there is an increasing demand of bulk goods such as coal, ores, steel etc. in PRC and therefore water transportation would be one of the best choices in long distant transportation of bulk goods. As a result, the PRC has been experiencing a robust growth in her port industry, with an average growth rate of above 15% year on year from 2001 to 2009. Although there was economic downturn in year 2008 and 2009, the growth rates were still approximately 12% and 17% respectively, standing above 10%.

The following chart illustrates the value of The PRC's imports and exports for the periods indicated.

Value of Imports & Exports

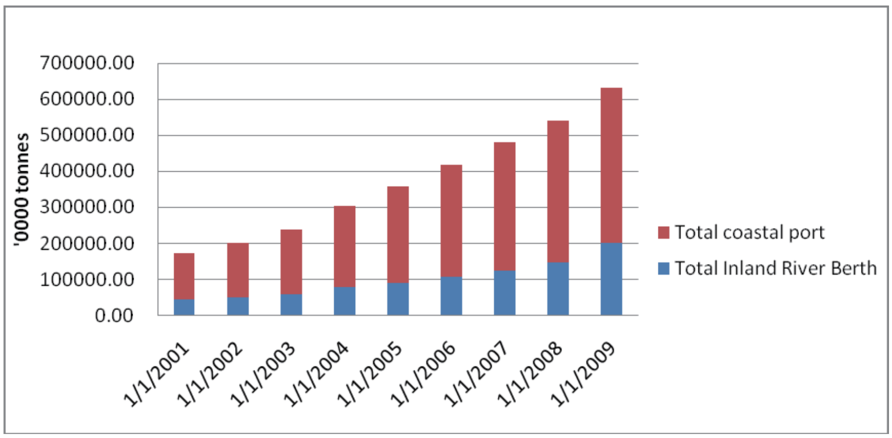


Source: National Bureau of Statistics of The PRC, 2009 Yearbook

As a result of increases in import and export volumes, the PRC's annual port throughput has increased steadily in recent, at a CAGR of 15.6% from 2001 to 2009.

The following chart illustrates the PRC's Cargo-handling capacity for the periods indicated:

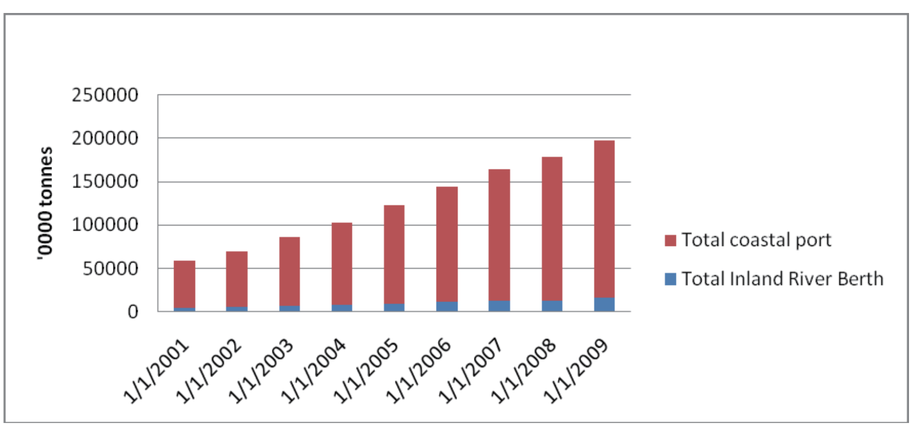
Cargo-handling capacity in China



(Source: Ministry of Transport of the PRC)

The graph below shows the cumulative throughput (as at November in each year) of port industry due to foreign trading from year 2001 to 2009.

Cargo-handling capacity (Foreign Trade)



(Source: Ministry of Transport of the PRC)

Planning of coastal port in The PRC

According to the "the PRC National Coastal Ports Arrangement Planning", the coastal port in the PRC is divided into five categories based on the status of economic development and specialty in different districts, the status of the ports there and the economic benefit of transportation of different type of goods. The five groups are Bohai Rim region, Yangtze River Delta region, Southeastern coastal region, Pearl River Delta region and Southwestern coastal region.

Group of ports	Main ports	Other ports
Bohai Rim region	Dalian, Tianjin, Qingdao, Yingkou, Qinhuangdao, Rizhao, Yantai	Dandong, Jinzhou, Tangshan, Huanghua, Weihai
Yangtze River Delta	Shanghai, Ningbo, Lianyungang	Zhoushan, Wenzhou, Nanjing, Zhenjiang, Nantong, Suzhou
Southeastern coastal region	Xiamen, Fuzhou	Quanzhou, Putian, Zhangzhou
Pearl River Delta	Guangzhou, Shenzhen, Shantou, Zhuhai	Shanwei, Huizhou, Humen, Maoming, Yangjiang
Southwestern coastal region	Zhanjiang, Fangcheng, Haikou	Beihai, Qinzhou, Yangpu, Basuo, Sanya

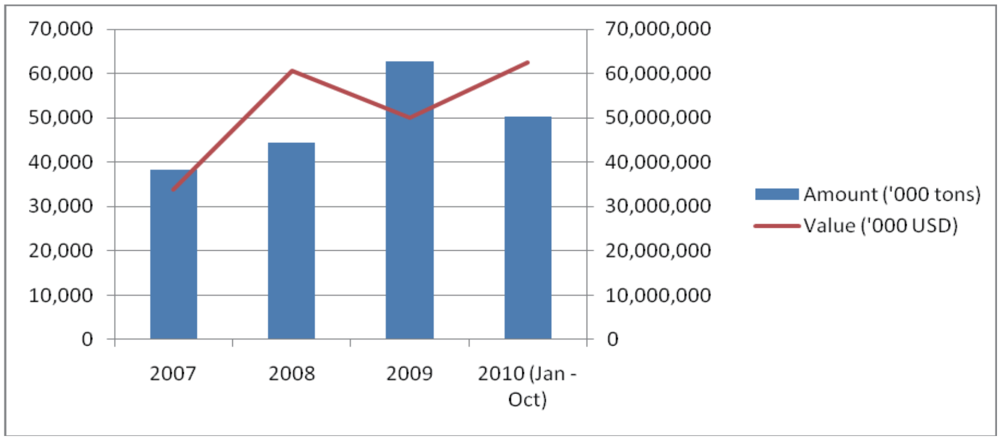
The major types of freight handled in major coastal ports are coal, petroleum, metal ores, steel and iron, mineral building materials, cement, timber, nonmetal ores, chemical fertilizers and pesticides, salt and grains. The table below shows the trend of five types of freights with largest volume handled by major coastal ports over years.

	2004	2005	2006	2007	2008
			('0000 tonnes)		
Coal and their products	57,113	63,514	70,468	81,924	88,949
Petroleum, Natural gas and their products	35,051	37,637	39,661	41,718	44,970
Metal Ores	31,769	41,963	51,272	57,967	67,643
Steel and Iron	10,928	12,522	15,497	18,626	18,265
Mineral Building	18,529	24,439	27,597	24,028	30,228

(Source: The PRC Statistical Yearbook 2009)

Iron Ore port

Iron Ore is an important raw material for producing Steel and Iron, therefore, the iron port industry is closely related to the steel and iron industry in the PRC as it is now experiencing rapid growth in development of infrastructure. In spite of the global economic downturn in 2008 and 2009, there was a significant growth with about 41% of iron ore import to the PRC. The graph below shows the general trend of the import of iron ore and their refined ore in the PRC.



(Source: the PRC Customs)

In the PRC, there are seven major iron ore ports including Rizhao, Zhanjiang, Lianyungang, Lanshan, Tianjin, Qingdao and Beilun port.

Port of Rizhao

Ranking in volume handled ('0000 tonnes) in Bohai Rim region:

Cargo-handling capacity:

Rank	Port	2010 (Jan-Aug)
1	Tianjin	26,530
2	Qingdao	23,055
3	Dalian	21,058
4	Qinhuangdao	17,721
5	Tangshan	15,885
6	Rizhao	15,106
7	Yingkou	14,982
8	Yantai	10,101
9	Huanghua	6,141

Cargo-handling capacity (Foreign trade):

Rank	Port	2010 (Jan-Aug)
1	Qingdao	17,266
2	Tianjin	13,748
3	Rizhao	10,220
4	Tangshan	7,322
5	Dalian	7,189
6	Yantai	3,822
7	Yingkou	3,176
8	Qinhuangdao	1,261
9	Huanghua	366

(Source: Ministry of Transport of the PRC)

Port of Lanshan is located about 40.4 km south of Port of Rizhao. As the throughput of the Port of Rizhao increases in an extremely high speed, the capacity of it is no longer enough and thus this brings prosperity to Port of Lanshan.

As mentioned in a public announcement issued by Rizhao Port Co., Ltd. (600017CH) on 15 October 2010, the throughput of the Rizhao Port has reached its maximum capacity and some of the cargo handling has to be diverted to the Lanshan Port.

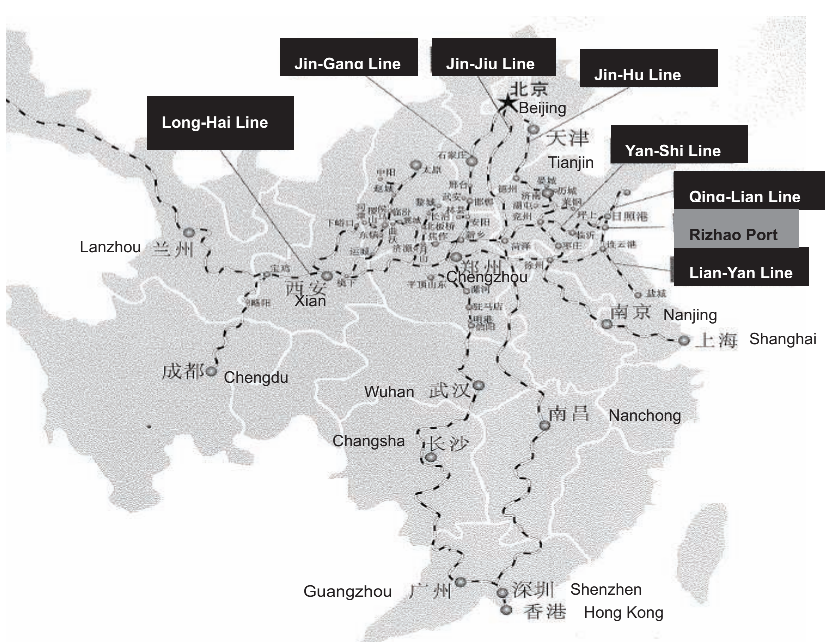
Port of Lanshan

In the Lanshan Port area There were total 9 berths with bulk cargo handling capacity ranging from 5,000 to 100,000 tonnes each as at year 2009. It is located in north corner of the Haizhou Gulf of the Yellow sea and is one of the nearest sea gates for the New Asia-Europe Continental Bridge and mid-western area in the PRC. It is now the largest base for importing cassava, asphalt processing and storing in the PRC and the largest distribution centre of liquefaction products in the northern part above the Yangtze River. Moreover, it is also market for trading timber in the North China region, base of importing bulk grain for the East China and base of importing raw iron ore and products for the Lunan region. To cope with the increasing demand, it is foreseen that more berths will start operation. Apart from the Lanshan Port area, there is the Lanbei Port area which is responsible for handling oil and liquid chemical; the Lanqiao Port area for handling oil; the Tonghai Port area for handling chemical; and the Steel Port for handling steel and iron ores.

Hinterland and Transportation

There is a large area of hinterland of the port. It covers Shanxi, Hebei, Shandong, Henan, Shaanxi, Anhui, Gansu and other large areas. In there, many iron and steel industries and factories require a large amount of ores as Linyi, Xuzhou, Zibo area are now developing iron and steel industries. The Shandong Steel Group Rizhao Branch has been running the project of “famous brand steel base of Rizhao” which is located closely to the port and it is foreseen that large amount of iron ores is in demand in the near future.

The following map illustrates the provinces and regions for which the port of Lanshan is connected by the railways:



The port of Lanshan has a very large hinterland. The Ping-Lan Railway is linking the port to the Yan-Shi Railway at the Tieniumiao Station, which has wide connections with many national main lines, such as the Jin-Hu Railway, the Jing-Jiu Railway and the Longhai Railway. Running westwards, passing by Yanzhou, Xinxiang, Houma to Xi'an station, the line forms a great east-west oriented railway artery paralleling the Long-Hai Railway. Currently, the Qing-Lian Railway which is running from Qingdao to Lianyungang, linking to the Lian (Lianyungang) – Yan (Yancheng) Railway, is under construction and this will undoubtedly raise the competitiveness of Port of Lanshan.

Road network are generally more effective for short distance within the province for neighboring cities. The Yan-Lan Highway and the Zao-Lan Highway are now under construction which provide direct road access to the port of Rizhao and linkage to the 204 National Road, the Tong-San Highway and the Jing-Hu Highway.

Future Development of Port of Lanshan

According to the "Master Plan for the Port of Rizhao" released by the Ministry of Transport of the PRC in March 2009, the southern part of Port of Lanshan will be focused on transforming into a bulk handling area. Moreover, based on an announcement of the National 12th Five-Year Plan, the Port of Lanshan will be a key construction project included into the development planning of port and shipping business. The focus would be expanding the scale of infrastructure of the port, expanding the channel, breakwater, anchorage and other public infrastructure so as to enhance the scale of the Port for handling ore and oil bulk.

The Port owned by Rizhaolanshan

The throughput of Rizhao Lanshan for each of the three years ended 31 December 2007, 2008 and 2009 and the six month ended 30 June 2010 was as follows:

2007	**2008**	**2009**	**Jan-June 2010**
('000 tonnes)	*('000 tonnes)*	*('000 tonnes)*	*('000 tonnes)*
15,350	16,190	16,250	10,060

As advised by the Rizhaolanshan, approximately 95% throughput of the port is regarding iron ore.

The competitive advantages of Rizhaolanshan include:

- Strategic location of Lanshan Port – the port operated by Rizhaolanshan is located in Lanshan Port. It is located in north corner of Haizhou gulf of the Yellow Sea, being one of the nearest sea gates for the New Asia-Europe Continental Bridge and mid-western area in China. Therefore, the port is one of the designated location for importing and exporting minerals. Furthermore, the water of the Lanshan Port is ice-free which enables the port to operate in the whole year. Rizhaolanshan is well positioned to take advantage of the growing demand for trading of iron ore and other minerals; and

- Comprehensive transportation network – the port is well served by railway network and highway network. The Ping-Lan Railway is situated immediately adjacent to the port operated by Rizhaolanshan and links to the Yan-Shi Railway. In addition, the port is reached directly by the Yan-Lan Highway and the Zao-Lan Highway which link to the 204 National Road, the Tong-San Highway and the Jing-Hu Highway. The convenient transportation condition enables customers to deliver their iron ores efficiently to iron and steel production plants.

3. BASIS OF VALUATION

The value of Rizhaolanshan has been arrived at on the basis of "Fair Value" in the premise of continued use which, in our appraisal, reflects the future economic benefit to be derived from the ownership of Rizhaolanshan. Fair Value is defined as the estimated amount at which an asset might be expected to exchange on the Valuation Date 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.

The definition of fair value adopted in this valuation report is similar and/or interchangeable with definitions of the valuation standards below:

Market Value

According to The Hong Kong Business Valuation Forum – Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Fair Market Value

The International Valuation Glossary defines fair market value as the amount at which an asset would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

For the purpose of this valuation, the term fair value will be used throughout this valuation report. Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum, which are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

4. VALUATION METHODOLOGY

In arriving at our value, we have considered three generally accepted approaches. There are market approach, asset-based approach and income approach.

The Asset Based Approach

The asset based approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes.

The asset based approach is not appropriate for valuing the operating rights either as it disregards the economic benefits of the assets of Rizhaolanshan.

The Income Approach

In this method, value depends on the present worth of future economic benefits to be derived. Thus, an indication of value is developed by discounting future debt free cash flows (DFCFs) available for distribution to the owners to their present worth at market-derived rates of return appropriate for the risks and hazards of investing in similar business.

A discount rate is the expected rate of return that an investor would have to give up by investing in the subject asset instead of available alternative investments that are comparable in terms of risk and other investment characteristics.

We have considered that the income approach is not the most optimal appropriate to value Rizhaolanshan, as this approach involves adoption of much more assumptions than the other two approaches, not all of which can be easily quantified or ascertained. In the event of any such assumptions are founded to be incorrect or unfounded, the valuation would be significantly affected. Thus, we have determined that the Market Approach is the most appropriate valuation approach for this valuation.

The Market Approach

The market approach determines the fair value of the assets by reference to the transaction prices, or "valuation multiples" implicit in the transaction prices, of identical or similar assets on the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar business enterprises by a financial parameter, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustment are required to the transaction prices or valuation multiples to reflect the differentiating characteristics of the business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are know.

In addition, listed entities engaging in similar line of businesses can also be used to benchmark as the current market capitalization of a listed company can be substituted for the transaction price as it represents what investors in the market are willing to pay for the equity in a particular company at that point of time.

We have adopted the Guideline Public Company Method for valuing Rizhaolanshan under the market approach as there are certain publicly traded companies engaged in the same or similar line of businesses as Rizhaolanshan can be identified. The shares of these publicly traded companies are actively traded in free and open markets and provide valid indicators of value to permit meaningful comparison.

We have selected the following comparable companies which are devoted in the development and operation of ports in the PRC:

Comparable 1: Dalian Port (PDA) Company Limited (2880 HK)

Dalian Port (PDA) Company Limited is an oil and container terminal operators in the PRC. The company operates in four segments, which include the provision of oil/liquefied chemicals terminal and logistics services, the provision of container terminal and logistics services, automobile terminal and logistics services and the provision of port value-added services. In 2009, the company operates 300,000-dwt crude oil terminal, which was jointly constructed with PetroChina International Dalian Co., Ltd. (PetroChina International). The company operates in three Northeastern provinces of the PRC, including Heilongjiang Province, Jilin Province and Liaoning Province.

Comparable 2: Xiamen International Port Co., Ltd. (3378 HK)

Xiamen International Port Co., Ltd. (Xiamen Port Co) is a port terminal operator in Xiamen, the PRC. Its principal activities include container, bulk and general cargo loading and unloading businesses, such ancillary value-added port services as port related logistics, shipping agency, tugboat berthing and unberthing services, tallying and building materials manufacturing, processing and selling and the trading of industrial products. The company is also engaged in long-term investment business. It operates in five business segments: container loading and unloading and storage business; bulk/general cargo loading and unloading business; ancillary value-added port services; manufacturing and selling of building materials, and trading of industrial products.

Comparable 3: Tianjin Port Company Limited (600717 CH)

Tianjin Port Company Limited is principally engaged in cargo loading and unloading, as well as provision of port services. It operates such businesses as cargo loading and unloading, commodities distribution, port services, tugboat services, shipping brokerage services and goods processing. During the year ended 31

December 2009, the company handled approximately 195.8 million tonnes of bulk goods and approximately 4.465 million TEUs, as well as 16,120 ships for shipping brokerage and approximately 68.35 million tonnes of cargo agent services.

Comparable 4: Shenzhen Yan Tian Port Holdings Co., Ltd. (000088 CH)

Shenzhen Yan Tian Port Holdings Co., Ltd is principally engaged in the operation of toll, logistic services, development and operation of ports, the handling and transportation of cargoes, as well as the construction and operation of port supporting facilities, including transportation facilities, storage and industrial facilities, as well as service facilities. The company is also involved in container repairing business, entrepot trading business, as well as the import and export business of cargoes and technologies, among others. According to the annual report, over 50% of the income is contributed from the toll from highway and road logistic services.

Comparable 5: Yingkou Port Liability Co., Ltd. (600317 CH)

Yingkou Port Liability Co., Ltd principally provides port cargo loading and unloading services, storage services, as well as transportation services. Its ports mainly handle metallic ores, non-metallic ores, iron and steel, petroleum and related products, as well as coal and foodstuffs. They also handles containers, oil products, liquefied chemical products and automobile roll on/roll off shipping. During the year ended 31 December 2009, the company obtained 100% of its total revenue from its cargo loading and unloading business. In 2009, the company achieved a cargo throughput of 120.47 million tonnes.

Comparable 6: Rizhao Port Co., Ltd. (600017 CH)

Rizhao Port Co., Ltd. is principally engaged in the port loading and unloading, cargo warehousing for bulk cargoes such as coal, ores and cement, as well as port management business. During the year ended 31 December 2009, the company achieved a throughput of 144.38 million tonnes of cargoes, including 23.14 million tonnes of coal, and 106.89 million tonnes of metal ores.

Comparable 7: China Merchants Holdings (International) Company Limited (144.HK)

China Merchants Holdings (International) Company Limited (CMHI) is a port investor and operator. Ports operations include container terminal operation, bulk and general cargo terminal operation, logistics park operation, ports transportation and airport cargo.

Comparable 8: Beihai Port Co., Ltd. (000582 CH)

Beihai Port Co., Ltd. is a PRC-based company primarily engaged in port services. The company operates its businesses through loading and unloading, warehousing, ocean shipping agency and commodities trading. During the year ended 31 December 2009, the company handled approximately 6.14 million tonnes of cargoes.

Comparable 9: Tianjin Port Development Holdings Limited (3382 HK)

Tianjin Port Development Holdings Limited is an investment holding company. Through its subsidiaries, the company operates in two business segments namely the provision of port cargo handling service and sales business. The port cargo handling operation includes the handling of containers and non-containerised cargoes. On 16 March 2009, the company entered into a sale and purchase agreement with Tianjin Port Group, pursuant to which it acquired a 56.81% issued shares of Tianjin Port Company Limited (600717 CH).

Comparable companies' financial ratios as at 31 October 2010 are as follows:

		Comparable Companies								
	Rizhaolanshan	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Gross Margin	50.6%	44.4%	23.5%	21.6%	63.6%	33.9%	27.5%	49.3%	25.0%	23.9%
Profit Margin	34.3%	36.0%	15.3%	9.7%	125.3%	11.6%	15.6%	96.5%	11.8%	3.8%
Total Debt to Equity	25.6%	60.3%	10.6%	48.4%	4.1%	165.4%	66.4%	28.1%	94.9%	35.7%
Total Debt to Asset	11.5%	31.5%	7.9%	28.6%	3.8%	59.8%	37.1%	26.5%	39.4%	19.8%
EV to Sales Ratio		6.1	1.9	1.9	17.0	6.0	4.2	22.3	6.7	3.3

Source: Bloomberg and respective company financial statement

We have employed the Enterprise Value-to-Sales ratio (EV/S) based on publicly available information including Bloomberg database and the financial statements and announcements of respective comparable companies. EV is defined as the fair value of market capitalization plus total of interest bearing debts and minority interest minus cash and cash equivalents of a business enterprise.

The EV/S ratio takes the company's EV and divides it by the same company's total revenues over the past 12 months. We have arrived at the EV/S ratio of each of the comparable companies based on their market share prices as established in the trading through the Stock Exchange as well as their financial data as reported in their latest publicly announced annual reports.

EV/S ratio is considered to be the most appropriate multiple for valuing Rizhaolanshan for the following grounds:

- As Rizhaolanshan and all the comparable companies are engaging in similar lines of business, the measure of revenues provide a good proxy of profitability of the business from core business operations with the minimum degrees of adjustments by various accounting treatments, especially where the business operations in question are involving huge capital investment on fixed assets; and

- Enterprise value is more appropriate when comparing values of companies with different degrees of financial leverage.

Those comparable companies have been identified and selected on the following criteria:

- They are principal engaged in port and port related services; and

- Their business activities are carried out within the mainland China.

The EV/S ratio is ranging from 1.9× to 22.3× with a sample mean and a sample standard derivation of 7.71× and 7.12× respectively. Comparable 4 and 7 with respective EV/S ratio of 17× and 22.3× (having more than 1 standard derivation away from the sample mean) are considered to be outliers and are excluded from our comparison.

The sample mean of the EV/S ratio of the comparable companies (excluding comparable nos. 4 and 7) is 4.3×. As reported from the management account of Rizhaolanshan, for the 12-month period between November 2009 and October 2010, it generated a revenues of RMB346,749,241.

Based on an expected EV/S ratio of 4.3× and a revenue of RMB346,749,241, the fair value of the EV of Rizhaolanshan is RMB346,749,241 × 4.3 = RMB1,491,021,736.

The above assessed EV is translated into equity value of Rizhaolanshan by adding cash and cash equivalent and deducting total interest bearing debts of Rizhaolanshan. Pursuant the management account as at 31 October 2010, the interest bearing debts included RMB100,000,000 as short term loans, RMB337,909,458 as long term borrowings. Cash on hand of Rizhaolanshan at 31 October 2010 as reported in the said management account was RMB310,077,574.45.

Before concluding our opinion on fair value for the share equity of Rizhaolanshan, we have applied to the assessed value a marketability discount. Marketability is defined as the ability to convert the business into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists. Several empirical studies have been published that attempt to quantify the discount for lack of marketability. These studies include the restricted stock studies and the pre-IPO studies, such as Emory Pre-IPO Discount Studies and Determining Discounts for Lack of Marketability: A Companion guide to the FMB Restricted Stock Study^{TM} by FMV Opinions, Inc. With consideration of this factors, we adopted a marketability discount of 49%.

5. VALUATION ASSUMPTIONS

Our appraisal included on-site inspection of the port, discussions with the management of the Company in relation to the history and nature of the business of Rizhaolanshan; a study of the unaudited financial statements; a review of the information provided by the management in connection with the strategy of and the plan of action to be taken to implement the business plan. We have assumed that such information, opinions and representation provided to us are true and accurate. Before arrived at our opinion of value, we have considered the following major factors:

i. the nature and the prospect of the concerned business operations;

ii. the financial conditions of Rizhaolanshan;

iii. the specific economic and competitive element affecting Rizhaolanshan, the industry and the market which it operates;

iv. the market-derived investment returns of enterprises engaged in a similar line of business;

v. the business risk of Rizhaolanshan; and

vi. the financial statements of Rizhaolanshan.

In view of the general environment and the particular situation in which Rizhaolanshan is operating, the following assumptions have been adopted in our appraisal in order to sufficiently support our concluded value of Rizhaolanshan:

i. there will be no major change in the existing political, legal and economic conditions in which Rizhaolanshan is being operated;

ii. save for those proposed changes on taxation policies announced by the Tax Bureau, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by Rizhaolanshan;

iii. the interest rates and exchange rates will not differ materially from those presently prevailing;

iv. the availability of finance will not be a constraint on the forecast growth of Rizhaolanshan operations in accordance with the business plans and the projection;

v. Rizhaolanshan shall have uninterrupted rights to operate its existing business during the unexpired term of its authorized enterprise operating period;

vi. The unaudited financial statements of Rizhaolanshan as supplied to us have been prepared in a manner truly and accurately reflected the financial position of Rizhaolanshan as at the respective balance sheet dates;

vii. the production facilities, systems and the technology utilized by Rizhaolanshan in carrying out its existing businesses do not infringe any relevant regulations and law;

viii. Rizhaolanshan has obtained all necessary permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;

ix. Except those stated in the financial statements, Rizhaolanshan is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever;

x. Rizhaolanshan shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support their business operations;

xi. the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary Business Enterprise Value of Rizhaolanshan;

xii. there will be no material changes in the Company's business strategy and its production structure.

6. LIMITING CONDITIONS

During the course of our valuation, we have reviewed the financial information, management representations and other pertinent data and the information made available to us. We have no reason to doubt the truth and accuracy of the information provided to us. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed site measurement to verify the correctness of the port areas but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar assets in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions and areas are approximations.

We shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made. No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the business enterprise and its operating assets valued. In this valuation, it is presumed that, unless otherwise noted, the owners' claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers.

Our conclusions assume continuation of prudent management policies over whatever period of time considered to be necessary in order to maintain the character and integrity of the assets valued. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect their market value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

We do not investigate any industrial safety and health related regulations in association with this particular operations. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the government legislation and guidance.

No allowance has been made in our valuation for any off-balance sheet charges, debts or amounts owing on the assets valued nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the assets valued are free from any off-balance sheet encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

7. CONCLUSION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, in our opinion, the fair value of the shareholder equity of Rizhaolanshan as of the **31 October 2010** is **RMB700,000,000 (RENMINBI SEVEN HUNDRED MILLION ONLY).**

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Yours faithfully,
For and on behalf of
Asset Appraisal Ltd.

Tse Wai Leung
CFA
Director

Tse Wai Leung is a CFA charterholder. He is on the list of Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experiences in conducting business and intangible assets valuation for private and public companies in various industries, including similar assets or companies engaged in business activities similar to those of the Target Company.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would made any statement therein or this circular misleading.

2. 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	 Beneficial owner	Approximate percentage or attributable percentage of shareholding *(%)*
Mr. Cheng Kwok Woo	380,838,000(L)	318,438,000 *(Note 1)*	60,900,000 *(Note 2)* 1,500,000 *(Note 3)*	14.97

Name of Director	Number or attributable number of Shares/underlying Shares held or short positions	Nature of interests Interest of controlled corporation	Beneficial owner	Approximate percentage or attributable percentage of shareholding *(%)*
Mr. Cheng Kwong Cheong	374,338,000(L)	318,438,000 *(Note 1)*	54,400,000 *(Note 2)* 1,500,000 *(Note 3)*	14.71
Ms. Yeung Sau Han Agnes	175,000,000(L)		175,000,000 *(Note 3)*	6.88
Ms. Chan Shui Sheung Ivy	550,000(L)		550,000	0.02

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 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

2. Mr. Cheng Kwok Woo personally holds 60,900,000 Shares 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 and Ms. Yeung Sau Han Agnes 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	12.52
Ms. Tsang Sui Tuen	380,838,000(L) *(Note 2)*	Interest of spouse	14.97
Ms. Wan Kam Ping	374,338,000(L) *(Note 3)*	Interest of spouse	14.71
Crown Sunny Limited	300,000,000(L)	Beneficial owner *(Note 4)*	11.79
Mr. Wu Jia Neng	300,000,000(L)	Interest of controlled corporation *(Note 5)*	11.79
Worldkin Development Limited	4,760,000,000(L) 3,000,000,000(S)	Beneficial owner *(Note 6)*	187.09 117.92
Mr. Wong Lik Ping	4,760,000,000(L) 3,000,000,000(S)	Interest of controlled corporation *(Note 7)*	187.09 117.92

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 *(%)*
Yardley Finance Limited	3,000,000,000(L)	Security interest *(Note 8)*	117.92
Mr. Chan Kin Sun	48,430,000(L)	Beneficial owner *(Note 9)*	1.90
	3,000,000,000(L)	Interest of controlled corporation *(Note 10)*	117.92
Shanxi Coal Transportation and Sales Group (HK) Co., Limited ("Shanxi Coal HK") (山西煤炭運銷集團 (香港)有限公司)	3,320,000,000(L)	Beneficial owner *(Note 11)*	130.49
Shanxi Coal Transportation and Sales Group Co., Limited ("Shanxi Coal") (山西煤炭運銷集團有限公司)	3,320,000,000(L)	Interest of controlled corporation *(Note 12)*	130.49
Mr. Ng Leung Ho	520,000,000(L)	Beneficial owner	20.44
Mr. Ma Deguang	200,000,000(L)	Beneficial owner	7.86

L: Long Position
S: Short 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 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

2. 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.

3. 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.

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

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

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

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

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

9. Mr. Chan Kin Sun personally holds 48,430,000 Shares.

10. Mr. Chan Kin Sun holds entire equity interests of Yardley Finance Limited and is accordingly deemed to have interests in the underlying Shares that Yardley Finance Limited has interests in.

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

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

(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.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

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 Enlarged 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 2009, 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 Enlarged Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting which is significant in relation to the business of the Enlarged Group.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and based on information provided by the Vendors, the Target Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Target Group.

6. EXPERTS AND CONSENTS

The qualifications of the experts who have given opinion in this circular is as follows:

Name	Qualification
Deloitte Touche Tohmatsu ("DTT")	Certified Public Accountants
Asset Appraisal Limited ("Asset Appraisal")	Professional Surveyor
Shinewing (HK) CPA Limited ("Shinewing")	Certified Public Accountants

As at the Latest Practicable Date, each of DTT, Asset Appraisal and Shinewing had no shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Enlarged Group or is proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.

Each of DTT, Asset Appraisal and Shinewing has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by the members of the Enlarged Group within two years immediately preceding the date of this circular, which are or may be material:

(i) 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;

(ii) the sale and purchase agreement dated 12 March 2009 entered into between One Express Group Limited, a wholly owned subsidiary of the Company, as vendor and Vital-Gain Global Limited as purchaser 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. The disposal was completed on 5 June 2009;

(iii) 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 subscription price of HK$32,000,000;

(iv) 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. This placing agreement lapsed on 20 August 2009;

(v) the sale and purchase agreement dated 19 May 2009 (as amended by the supplemental agreement dated 2 June 2009) entered into among Crown Sunny Limited as vendor, Smart Genius Limited, a wholly owned subsidiary of the Company as purchaser, Giant Billion Limited as target company and Mr. Wu Jia Neng as guarantor for the acquisition of 1,470 shares of Giant Billion Limited at a consideration of HK$200,000,000. The acquisition was completed on 1 February 2010;

(vi) the sale and purchase agreement dated 25 November 2009 (as amended by four supplemental agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010) entered into among Billionlink Holdings Limited ("Billionlink") as purchaser and Best Chief Ventures Limited, Teamcom Group Limited and PME International Company Limited (all are wholly owned subsidiaries of the Company) as vendors in relation to the disposal of Magic Horizon Investment Limited and the master processing agreement dated 25 November 2009 (as amended by a supplemental agreement dated 22 November 2010) entered into between Billionlink and Best Chief Ventures Limited in relation to the processing of raw materials by Billionlink. Details of which are set out in the circular of the Company dated 13 December 2010. The disposal was completed on 30 December 2010;

(vii) the placing agreement dated 7 January 2010 (as amended by the supplemental agreements dated 7 April 2010 and 20 April 2010) entered into between the Company and Fortune (HK) Securities Limited as placing agent for the placing of convertible bonds up to a principal amount of HK$264,000,000 at a conversion price of HK$0.03 per conversion share. The placing was completed on 27 May 2010; and

(viii) the Agreement and the Supplemental Agreements.

8. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2009, being the date to which the latest audited consolidated financial statements of the Group were made up.

9. GENERAL

(a) The joint company secretaries of the Company are Mr. Li Chak Hung, *CPA, FCCA,* and Mr. Lai Ka Fai, a solicitor.

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

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

(d) 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.

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on any weekday (Saturdays and public holidays excepted) during 9:30 a.m. to 5:00 p.m. at the head office of the Company 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 annual reports of the Company for the two years ended 31 December 2009;

(c) the interim report of the Company for the six months ended 30 June 2010;

(d) the accountant's report of the Target, the text of which is set out in Appendix I of this circular;

(e) the accountant's report of the Target Company, the text of which is set out in Appendix II of this circular;

(f) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V of this circular;

(g) the valuation report on the property interests of the Target Group, the text of which is set out in Appendix VI of this circular;

(h) the business valuation report of the Target Company, the text of which is set out in Appendix VII of this circular;

(i) the directors' service contracts referred to in the paragraph headed "Directors' interests in contracts and assets" in this Appendix;

(j) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(k) the written consent referred to in the paragraph headed "Experts and consents" in this appendix; and

(l) the circular of the Company dated 13 December 2010 in relation to the Disposal.

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 (the "Meeting") of PME Group Limited (the "Company") will be held on Thursday, 17 February 2011 at 10:00 a.m. at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong for considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

A. the sale and purchase agreement (the "Original Agreement") dated 15 October 2010 entered into between Able Winner International Limited ("Able Winner"), a wholly owned subsidiary of the Company, as the purchaser and Ms. Li Li as the vendor (the "Vendor"), as amended by the supplemental agreements dated 8 and 31 December 2010 (the "Supplemental Agreements") (the Original Agreement and the Supplemental Agreements, together, as the "Agreement") (a copy of each of the Original Agreement and Supplemental Agreements is tabled at the meeting and marked "A" and "B" respectively and initialed by the chairman of the meeting (the "Chairman") for identification purpose), pursuant to which Able Winner conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued and paid-up share capital of Upmove International Limited at a cash consideration of RMB343,679,250 pursuant to the terms and subject to the conditions set out in the Agreement, and the execution of the Agreement by Able Winner, be and are hereby approved, ratified and confirmed; and that any other transactions contemplated under the Agreement, be and are hereby approved; and

B. any one of the directors of the Company be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he may consider necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Agreement) as are, in the opinion of the directors of the Company or the duly authorised committee, in the interest of the Company and its shareholders as a whole."

* *For identification purpose only*

2. "**THAT** conditional upon the passing of resolution numbered 1 as set out in the notice convening this meeting of which this resolution form part, the use of proceeds from the placing of the convertible bonds by the Company pursuant to the placing agreement dated 7 January 2010 (as amended by supplemental placing agreements dated 7 April 2010 and 20 April 2010) be revised with effect from the date of this resolution and will now be applied by the Company to finance part of the cash consideration of RMB343,679,250 pursuant the Agreement be and is hereby approved."

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

Hong Kong, 27 January 2011

Head Office and Principal Place of Business in Hong Kong:
5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation is entitled to exercise the same powers on behalf of the member of the Company which he or they represent as such member of the Company could exercise.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.

3. The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to 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 forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting thereof at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint holders of any share any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.