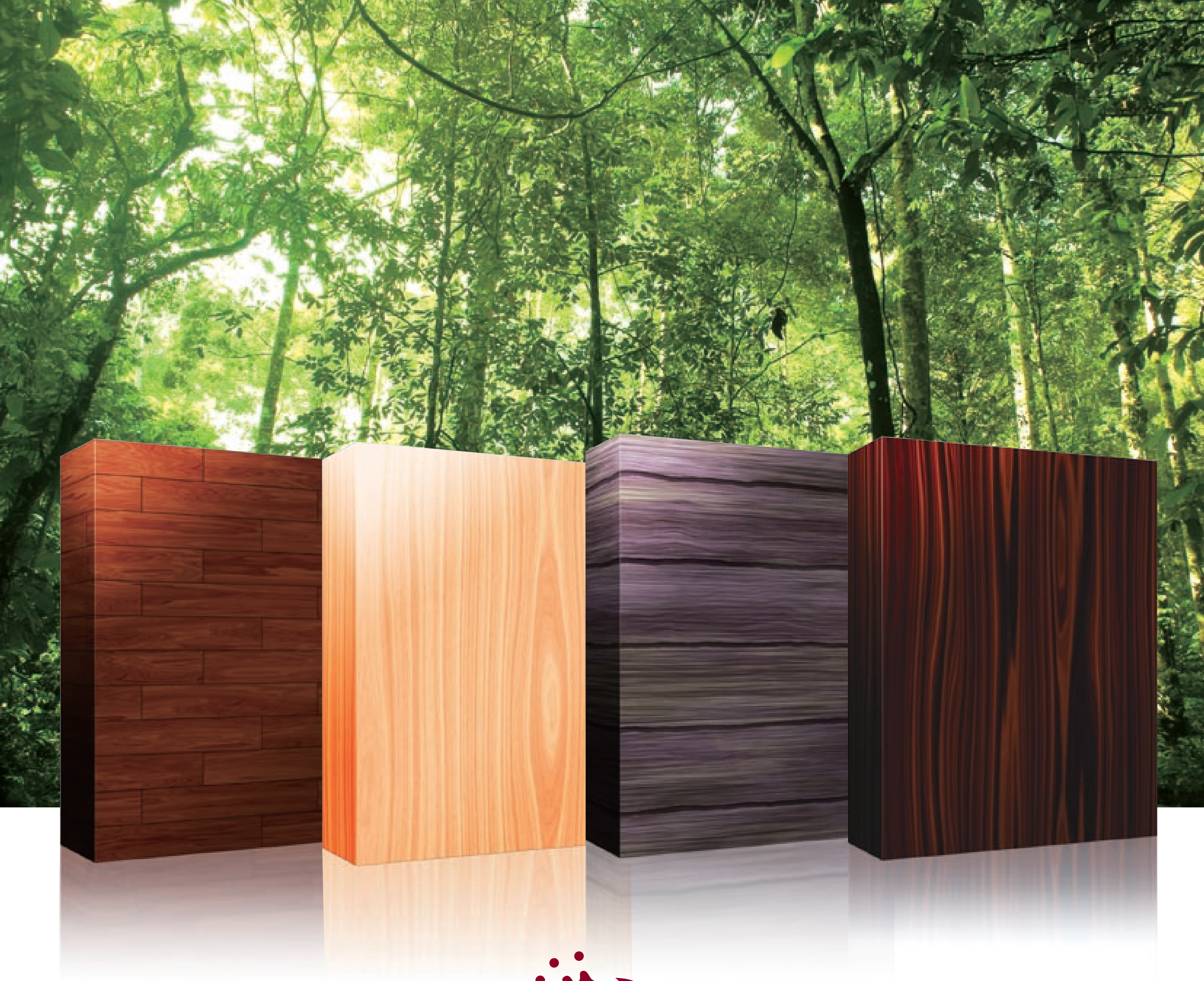

China Asean Resources Limited

神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

Annual Report 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

Board of Directors

Executive directors
LEUNG Sze Yuan, Alan *(Chairman)*
ZHANG Zhenzhong *(Chief Executive Officer)*

Non-executive directors
LI Nga Kuk, James
LI Tai To, Titus

Independent non-executive directors
FAN Wan Tat
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

Audit Committee

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

Nomination Committee

TAM Wai Leung, Joseph *(Chairman)*
FAN Wan Tat
Leung Sze Yuan, Alan

Remuneration Committee

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
LEUNG Sze Yuan, Alan

Compliance Officer

LEUNG Sze Yuan, Alan

Company Secretary

LAI Tin Yin, Fion (resigned on 22 Dec 2009)
LAM Kam Ming, Simon

Bermuda Assistant Secretary

Appleby Services (Bermuda) Ltd.

Qualified Accountant

LAI Tin Yin, Fion (resigned on 22 Dec 2009)
LAM Kam Ming, Simon

Auditor

KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

Head Office and Principal Place of Business

8th Floor, Teda Building
87 Wing Lok Street, Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM12

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Ltd
Rooms 1901-5, 19th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

GEM Stock Code

8186

Website Address

www.chinaaseanresources.com

Chairman's Statement

I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2009.

Result Analysis

- Reference is made to the Company's announcements on 26 March 2009 and 9 June 2009 in relation to the unauthorized disposal (the "Unauthorized Disposal") of the Company's ownership in a subsidiary, namely, Sinnowa Medical Science and Technology Co., Ltd. ("Sinnowa"), a medical equipment company incorporated in Nanjing, the PRC, of which the Company should own 65% equity interest. Unless otherwise defined herein, terms used in this result announcement shall have the same meanings as those defined in the announcement as referred.

  The Company lodged a request for administrative review for reviewing the governmental approval of the Unauthorised Disposal and registration of the unauthorised sale and purchase agreements. In the midst of the administrative review, the Company was notified in October 2009 that one of the current registered owners of Sinnowa filed a civil claim against the Group in the courts of Nanjing, PRC so as to seek the court's declaration that the transfer of the Company's 65% interest in Sinnowa is legal and valid. Both the administrative review lodged by the Company and the civil claim against the Company are in progress, but no judgment has been issued by the relevant PRC authorities or courts yet.

  The Company has been unable to obtain the management financial statements of Sinnowa since 31 December 2008. As such, the financial result of Sinnowa has been deconsolidated as from 1 January 2009.

  The Company engaged an independent consultancy company (the "Consultant") to conduct a review on the internal control system of the Group and the report thereof was issued in September 2009. The Board and the Special Investigation Committee of the Company agreed with the recommendations made by the Consultant and appointed the Consultant to oversee the implementation of an internal control enhancement program, and the major recommendations have been implemented.

  Because of the significance of the uncertainty about the outcome of the investigation of the Unauthorised Disposal together with whether the deconsolidation of Sinnowa is appropriate, the independent auditor does not express an opinion on the consolidated financial statements.

- Reference is made to the Company's announcement on 2 March 2010 in relation to disposal of subsidiaries engaged in research and medical businesses in the PRC, namely the entire registered capital of CB Pharmaceutical (Nanjing) Co., Ltd. (南京神州佳美製藥有限公司) and 75% of the entire issued capital of Medical China Technology Limited (the "Disposal Group"). Unless otherwise defined herein, terms used in this result announcement shall have the same meanings as those defined in the announcement as referred.

Chairman's Statement

In view of the Disposal Group represented a single segment of the Group, the financial result of the Disposal Group has been classified as discontinued operations for the year ended 31 December 2009. The assets and liabilities of the Disposal Group will be presented as a single line under "assets/liabilities classified as held for sale" at 31 December 2009.

- For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$343,000, representing a decrease of 99% over the year 2008, primarily as a result of the deconsolidation of Sinnowa. Loss attributable to equity holders of the Company was approximately HK$49,763,000 (2008: Profit of HK$68,665,000) due to the following reasons:

  (a) Deconsolidation of the results of Sinnowa;

  (b) The fact that there was no income generated from the one off initial service fee and sub-concession of its forest in Cambodia for the year ended 31 December 2009, as compared to the income of approximately HK$129,985,000 from such business during the year ended 31 December 2008; and

  (c) Loss for the year from discontinued operations of approximately HK$19,747,000 resulting from the fair value remeasurement on the Disposal Group.

- For the year ended 31 December 2009, loss per share is 2.61 Hong Kong cents (2008: earnings per share of 3.81 Hong Kong cents).

- The directors do not recommend the payment of final dividend for the year 2009 (2008: Nil).

Business Review

The two forests owned by the Group in Cambodia have a total site area of approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group has completed the construction of a self owned and operated sawn timber factory with an annual capacity of 10,000 cubic metres. A sawn timber and wood flooring material factory, owned by subcontractors with a capacity of 15,000 cubic metres, is under construction.

In 2009, we logged and cleared approximately 450 hectares of forest, and planted 270 hectares of rubber trees, acacia trees and jatropha curcas on the cleared land. In November 2009, the Group completed its maiden export shipment of timber products from Cambodia.

Chairman's Statement

Business Outlook

In 2010, the Group expects to increase its production of sawn timber and wood flooring material in Cambodia, and to expand its sale network to include both export and domestic sales in Cambodia.

As additional forest land is cleared, the Group intends to expand its rubber tree plantations, which are expected to generate sustainable income for the Group upon maturity.

Acknowledgement

I hereby express my gratitude to all the directors for their contributions, and on behalf of the Board, I would like to extend my sincere appreciation to all the employees, customers, suppliers and business partners of the Group, as well as all the shareholders of the Company for your contributions and continued support.

Leung Sze Yuan, Alan
Chairman

24 March 2010

Management Discussion and Analysis

Financial Review

The Group's turnover for the year ended 31 December 2009 amounted to approximately HK$343,000, representing a decrease of 99% as compared with the corresponding year in 2008 primarily as a result of the deconsolidation of Sinnowa. For the year ended 31 December 2009, the Group recorded a loss attributable to equity holders of the Company of approximately HK$49,763,000 (2008: profit of HK$68,665,000) due to: (a) deconsolidation of the results of Sinnowa; (b) the absence of one off initial service fee and sub-concession of its forests in Cambodia; and (c) loss provision for the Disposal Group.

Selling, distribution and administrative expenses for the year ended 31 December 2009 decreased by 49% to HK$26,550,000 from HK$51,633,000 as compared with the previous year. The significant decrease was primarily due to deconsolidation of Sinnowa and the Disposal Group.

An impairment loss of HK$2,600,000 was recognised for the telecommunication facilities in Cambodia during the year ended 31 December 2009.

In 2008, a full provision of approximately HK$15.65 million was made for Sinnowa in light of the uncertainties over the ownership dispute.

The basic loss per share for the year ended 31 December 2009 was 2.61 Hong Kong cents (2008: earnings per share of 3.81 Hong Kong cents).

At 31 December 2009, the Group did not have any bank borrowing (2008: HK$13,040,000).

Capital Structure

As at 31 December 2009, the total number of issued ordinary shares and the issued share capital of the Company were 1,905,000,000 (2008: 1,905,000,000) and HK$19,050,000 (2008: HK$19,050,000) respectively.

Capital Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness by the equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

Management Discussion and Analysis

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

The Group's gearing ratio was 0.1% and 13.6% as at 31 December 2009 and 31 December 2008, respectively. The improving gearing ratio in the financial year was due to the deconsolidation of the Medical Equipment Subsidiary as detailed in Note 2 to the financial statements. Bonds issued by the Group as part of the purchase consideration for a forest in Cambodia had been paid down to HK$3,700,000 at 31 December 2009 (2008: HK$70,000,000). Undrawn bank facility as at 31 December 2009 was nil (2008: Nil).

The Board believes the existing gearing ratio of 0.1% is reasonable considering the cost of capital and the risks associated with each class of capital.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2009, the Group had total assets of approximately HK$589,245,000 (2008: HK$755,645,000) which were financed by current liabilities of approximately HK$40,187,000 (2008: HK$81,088,000), total equity of the Company of approximately HK$545,358,000 (2008: HK$604,557,000), and bonds of HK$3,700,000 (2008: HK$70,000,000).

The current assets of the Group amounted to approximately HK$77,984,000 (2008: HK$174,506,000) of which approximately HK$9,436,000 (2008: HK$48,414,000) were cash and bank deposits, and HK$38,881,000 was assets held for sales (2008: Nil). The current liabilities of the Group amounted to approximately HK$13,905,000 (2008: HK$81,088,000) of which approximately HK$13,603,000 (2008: HK$50,427,000) were trade and other payables and HK$302,000 (2008: HK$1,966,000) was provision for income tax. There is no outstanding bank borrowing of the Group as at 31 December 2009 (2008: HK$13,040,000). During the year, the Group did not enter any banking facility or any of the Group's buildings and leasehold land assets was being pledged to the bank (2008: HK$16,173,000).

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on short-term deposits.

The net assets value per share as at 31 December 2009 was HK$0.29 (2008: HK$0.32).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

Following completion of the acquisition of Agri-Industrial Crop Development Company Limited during the year 2008, the Group increased its total concession area in Cambodia to approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group is expected to receive the economic benefit derived from the initial clearing up of the forest area and the subsequent cultivation of rubber tree and jatropha caucas plantations during the 70-year concession period.

There was no disposals of subsidiaries and affiliated companies during the year.

As at 31 December 2009, the Group had outstanding capital commitment of approximately HK$3,922,000 (2008: HK$5,568,000).

Risk Management

Risk management is an integral part of the operation management. The Group has put in place an effective risk management framework to ensure risks undertaken are properly managed. Operating in sales and development of medical drugs and medical equipment as well as forest exploitation business, the Group faces a wide spectrum of risks, the most important types are being credit, liquidity, market and operational risks. The Group's risk management framework includes the establishment of policies and procedures to identify and analyse risks and to set appropriate risk control limits. The risk management policies and major control limits are approved by the board of directors. Risk limits are monitored and controlled continually by internal control department by means of reliable and up-to-date management information systems. The management of various types of risks is well coordinated at the Board level.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from merger and acquisition as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risk from all such activities.

The internal control department function is mandated to provide centralized management of credit risk through:

– formulating credit policies on approval process, post-disbursement monitoring and collection process;

– issuing guidelines on setting of credit payment terms to customers and acceptability of warranty, undertaking or deposit from customers;

– reviewing the repayment of account receivable by aging analysis;

– monitoring the largest exposures by customers;

– providing advice and guidance to business units on various credit-related issues.

The Group undertakes ongoing credit analysis and monitoring at several levels. Special attention is paid to long-outstanding trade receivable. Provision on impairment loss is made semi-annually. Collection and recovery units are established by the Group to provide customers with intensive support in order to maximize recoveries of long-outstanding trade receivable. Management regularly performs an assessment of the adequacy of the established impairment provisions by conducting a detailed review of the aging analysis, comparing performance and past due statistics against historical trends.

Liquidity risk

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is the Group's policy to maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably met.

The Group has established policies and procedures to monitor and control its liquidity position on a monthly basis by adopting a cash flow management approach. The approach seeks to forecast committed cash inflows and outflows of the business and results in a monthly net funding requirement which indicates the financing needs for any period within the scope of the forecast conditions.

Market risk

Market risk is the risk that foreign exchange rates, interest rates, market price, natural, political and regulations and equity, and indices will move and result in profits or losses for the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk.

Foreign exchange risk

The Group exposures to market risk primarily arise from the effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with RMB. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group does not hedge its foreign currency risks with US dollar as the rate of exchange between Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

As at 31 December 2009, the Group had no outstanding hedging instruments (2008: Nil).

Interest rate risk

The Group's interest rate risk arises primarily from bank loans chargeable at variable rates that expose the company to uncertainty on interest expenses and bond chargeable at fixed rate that provide a comfortable zone in controlling the overall interest expenses. The Group's policy is to minimize the borrowings at variable interest rates in the interest rate profile.

Market price risk

Market price risk is the risk arises from the wood product such as sawn timber and wood flooring materials have been volatile and are affected by numerous factors that we cannot control, including demand for wood and wood products, supply from illegal logging, changes in currency exchange rates, economic growth rates, foreign and domestic interest rates, trade policies, and prevailing fuel and transportation costs.

Management Discussion and Analysis

In addition, industry-wide increases in the supply of logs during a favourable price period can also lead to downward pressure on prices through oversupply. Oversupply and lower prices may also result from illegal logging activity or decreased government enforcement of logging restrictions. If market prices for wood products were to decline, it could have a material adverse effect on our business, financial condition and results of operation.

Natural risk

The Group owns forest assets and has cultivated rubber tree, acacia and jatropha curcas plantations. Natural disasters, inclement weather conditions and other acts of God which are beyond the Group's control may adversely affect the growing of the plantations and generally our ability to extract value from owning these assets. The Group's business, operating results and financial condition may be adversely affected if natural disasters, contagious disease, bad weather conditions and other acts of God occur.

Political and government regulations risk

Political risk is the risk that any event of the political instability in Cambodia may have an adverse effect toward the Group's business, operating results and financial investment. The recent history of Cambodia has been characterized by political instability and civil war, with fighting between different factions until as recently as 1997. It is only in the past decade that Cambodia has regained some measure of political stability with Prime Minister Samdech Hun Sen and his Cambodian People's Party rising to political dominance.

The Group exposures to government regulation risk primarily arise from the operations in Cambodia to a wide range of environmental laws and regulations, which regulate, among other things, forestry and plantation activities, including harvesting, land clearing for forests, planting in cleared areas and the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Environmental laws and regulations have generally become more stringent in recent years in Cambodia and could become even more stringent in the future. We may be required to obtain additional licenses before we are permitted to occupy certain premises and/or carry out certain activities.

Any tightening of the requirements prescribed by environmental laws and regulations in Cambodia, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on our liquidity and adversely affect our results of operations.

Management Discussion and Analysis

Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries set out in Note 38 to the financial statements. All equities held are more than 50% with controlling interest and are for long term investment. They are not subject to volatility arises from short term fluctuation.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or form external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

Reference is made to the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership, 65% interest in Sinnowa Medical Science and Technology Co., Ltd. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary").

Employees' information and benefit scheme for the employees

As at 31 December 2009, the Group has 177 (2008: 324) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2009 and 2008 were approximately HK$10,917,000 and HK$18,197,000 respectively.

The Company has granted Share Option of 40,000,000 shares and 36,000,000 shares to employees of the Group on 12 October 2007 and 31 March 2008 at exercise prices of HK$0.45 and HK$0.21 per share respectively for exercise during the 3rd and the 4th year from the date of grant pursuant to the Share Option Scheme of the Company, which was adopted on 14 December 2001. Share Option of 4,000,000 shares granted to a former director and 14,500,000 shares granted to the senior employees have been subsequently cancelled after their resignation. The total share options granted including 34,000,000 shares to two directors, Mr. Leung Sze Yuan, Alan and Mr. Zhang Zhenzhong.

Management Discussion and Analysis

In addition to the Share Option Scheme adopted by the Company on 14 September 2001, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation of PRC.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participates in a defined contribution retirement benefit scheme (the "Scheme") organized by the municipal government whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. The government of the PRC is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefits payment beyond the contributions to the Scheme.

Contingent Liabilities

As at 31 December 2009, the Group and the Company did not have any material outstanding contingent liabilities.

Business Review

Forestry, wood product manufacturing and plantation

The two forests owned by the Group in Cambodia have a total site area of approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group has completed the construction of a self owned and operated sawn timber factory with an annual capacity of 10,000 cubic metres. A sawn timber and wood flooring material factory, owned by subcontractors with a capacity of 15,000 cubic metres, is under construction.

In 2009, we logged and cleared approximately 450 hectares of forest, and planted 270 hectares of rubber trees, acacia trees and jatropha curcas on the cleared land. In November 2009, the Group completed its maiden export shipment of timber products from Cambodia.

Manufacturing and sales of medical equipment

There is a potential dispute over the Company's ownership in the Medical Equipment Subsidiary, which should be a 65% subsidiary of the Company. The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish the Special Investigation Committee for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Group.

Management Discussion and Analysis

Research, development and sales of drugs

The Group has yet to obtain approval from the State Food and Drug Administration ("SFDA") to commence Phase I clinical trial for its anti-cancer drug in the PRC.

Manufacturing and sales of drugs and medicines

The construction of the new pharmaceutical factory in Nanjing was completed in 2009.

Outlook

The Group is focusing its financial and management resources on developing its forestry, wood product manufacturing, and plantation businesses in Cambodia.

In 2010, the Group expects to increase its production of sawn timber and wood flooring material in Cambodia, and to expand its sale network to include both export and domestic sales in Cambodia.

As additional forest land is cleared, the Group intends to expand its rubber tree plantations, which are expected to generate sustainable income for the Group upon maturity.

On 2 March 2010, the Company announced that it has signed conditional agreements to sell its equity interest in two PRC subsidiaries that owned the experimental anti-cancer drug and the new pharmaceutical factory mentioned above. The sale is consistent with the Group's strategy to focus its financial and management resources in developing its businesses in Cambodia.

Directors and Senior Executives

Directors

Executive directors

Mr. Leung Sze Yuan, Alan, aged 41, is an Executive Director and Chairman of the Company, and is responsible for the overall strategic development, financial management and investor relationship of the Group. Mr. Leung is a member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of New South Wales, Australia and a master degree in business administration from the Chinese University of Hong Kong. Before joining the Company in 2007, Mr. Leung was an Associate Director of AIG Investment Corporation responsible for private equity investments in Asia. Mr. Leung was appointed as Director of the Company on 23 May 2008.

Mr. Zhang Zhenzhong, aged 63, is an Executive Director and Chief Executive Officer of the Company, and is responsible for the day-to-day management of the Group's businesses in Cambodia. Mr. Zhang has extensive business experience in Cambodia, including export of timber products from Cambodia and import of equipment and machinery into Cambodia, and together with his management team, have substantial experience in managing forestry business including rubber plantation, timber logging, the transportation and trading of timber products, financial management and business planning, as well as factory management. Mr. Zhang was appointed as Director of the Company on 23 May 2008.

Non-executive directors

Dr. Li Nga Kuk, James, aged 64, is a Non-Executive Director. Dr. Li graduated from 中國上海第二醫學院 in 1970. He was granted medical doctor's licenses in Hong Kong and doctor qualification in US in 1981 and 1987 respectively and worked as a medical doctor in the PRC and Hong Kong during 1975 to 1985. Dr. Li was appointed as Director of the Company on 7 September 2001.

Mr. Li Tai To, Titus, aged 70, is a Non-Executive Director. Mr. Li graduated from 中國上海第一醫學院 and has obtained a medical diploma in Taiwan. He was a surgeon in 浙江嘉興第二醫學院 (Zhenjian Jiaxing No. 2 Hospital). Mr. Li is the elder brother of Dr. Li Nga Kuk, James, a Non-Executive Director of the Company. Mr. Li was appointed as Director of the Company on 7 September 2001.

Independent non-executive directors

Mr. Fan Wan Tat, aged 65, is an Independent Non-Executive Director. Mr. Fan is a medical doctor in Hong Kong. Mr. Fan was appointed on 10 December 2001.

Mr. Tam Wai Leung, Joseph, aged 44, is an Independent Non-Executive Director. Mr. Tam is the President to the Executive Committee of the Hong Kong Institute of Business Management Limited. He holds a Doctor of philosophy degree from Preston University, USA. Mr. Tam was appointed on 30 September 2004.

Directors and Senior Executives

Mr. Chan Kim Chung, Daniel, aged 46, is an Independent Non-Executive Director. Mr. Chan is the General Manager of Royal Media Limited that is specialized in the provision of consultancy services in software testing and quality assessment. He holds a doctor of philosophy degree in computer science from the University of Glasgow, United Kingdom. Mr. Chan was appointed on 16 June 2006.

Senior Management

Mr. Zhang Xiaoguang, aged 55, the Deputy General Manager of (Cambodia) Tong Min, is responsible for the wood flooring manufacturing operations. Mr. Zhang holds a bachelor degree in automation system from Shanghai Second Polytechnic University and a master degree of business administration from Macau Open University. Before joining the company, Mr. Zhang was the Deputy General Manager of Shanghai Nanyang Veneer Company Limited, a subsidiary of the Shanghai Industrial Group. Mr. Zhang joined the Group in October 2007.

Mr. Shu Jianhua, aged 47, the Deputy General Manager of (Cambodia) Tong Min, is responsible for field operations in the forest and the sales and marketing of timber. Mr. Shu graduated from Shanghai Normal University. After graduation, he was a lecturer at the Shanghai Normal University and the East China Normal University. Before joining the company, Mr. Shu held a number of senior management positions in various import and export industries. Mr. Shu was actively engaged in sports management as a senior manager of Shanghai Football Association and the Shanghai Shenhua Football Club. Mr. Shu joined the Group in October 2007.

Ms. Guo Ping, aged 50, is the General Manager of China Best Drug, a subsidiary of the Company. Ms. Guo is a recognized research analyst of medicine in the PRC. She joined the Group in December 2002.

Ms. Lai Tin Yin, Fion (resigned on 22 December 2009), aged 47, joined the Group in September 2007 as the Company Secretary and Qualified Accountant of the Company. Ms. Lai holds a master of business administration degree from the City University of Hong Kong. She is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Chartered Secretaries. She has over 10 years experience in auditing and accounting fields by working for a firm of certified public accountants and several private companies.

Mr. Lam Kam Ming, Simon, aged 35, joined the Group on January 2010 as the Company Secretary, Qualified Accountant and authorised representative of the Company. Mr. Lam holds a Bachelor of Business (Accounting) degree from Australia's Monash University and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam has over 10 years of experience in auditing, accounting and finance fields. Before joining the Company, he worked for several private companies as financial controller.

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

Principal Activities

The principal activity of the Company is investment holding and historically the Group has principally been engaged in the provision of medical equipment services and related accessories, the provision of medical research and development services and the sales of medical equipment in the PRC. Through the acquisition of subsidiaries in the year 2007, the Group expanded into the natural resources business in the Kingdom of Cambodia ("Cambodia"). The Group holds 70-year economic land concessions measuring approximately 19,500 hectares with timber reserve of approximately 5 million cubic metres.

The principal activities and other particulars of its subsidiaries are set out in Note 38 to the financial statements.

Segment Information

The Group only operated in a single business segment, that is, natural resources business in Cambodia, after the deconsolidation of Medical Equipment Subsidiary as disclosed in Note 2 to the financial statements, and the discontinued operations as disclosed in Note 12 to the financial statements. The board of directors of the Company (the "Board") considers that presentation of segment disclosure would not be meaningful in the financial statements and accordingly, no segmental analysis is presented.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106 of the annual report.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	100%	
Five largest customers in aggregate	100%	
The largest supplier		7%
Five largest suppliers in aggregate		23%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Report of the Directors

Financial Statements

The result of the Group for the year ended 31 December 2009 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 36 to 105.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: Nil).

Charitable Donations

During the year, the Group made charitable contributions totalling HK$48,000 (2008: HK$2,351,000).

Property, Plant and Equipment

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

Bonds

Details of the bonds are set out in Note 28 to the financial statements.

Bank Borrowings

The Group did not have any bank borrowings as at 31 December 2009 after the deconsolidation of Medical Equipment subsidiary as set out in Note 2 to the financial statements.

Application of Share Issue Proceeds

During the year ended 31 December 2009, the Company did not issue any new share.

Directors

The directors of the Company during the year and up to date of this report were:

Executive directors

Mr. Leung Sze Yuan, Alan *(Chairman) (appointed on 23 May 2008)*
Mr. Zhang Zhenzhong *(Chief Executive Officer) (appointed on 23 May 2008)*

Non-executive directors

Mr. Li Nga Kuk, James *(re-designation on 25 June 2008)*
Mr. Li Tai To, Titus *(re-designation on 25 June 2008)*

Independent non-executive directors

Mr. Fan Wan Tat *(appointed on 1 December 2001)*
Mr. Tam Wai Leung, Joseph *(appointed on 30 September 2004)*
Mr. Chan Kim Chung, Daniel *(appointed on 16 June 2006)*

Pursuant to the Bye-Laws of the Company, Messrs. Li Nga Kuk, James, Zhang Zhenzhong and Tam Wai Leung, Joseph will retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The biographical details of the directors are set out on pages 15 to 16.

Directors' Service Contracts

On 25 June 2008, two executive directors Messrs. Li Nga Kuk, James and Li Tai To were re-designated as non-executive directors and entered into services contracts, renewable every three years. On 23 May 2008, Messrs. Leung Sze Yuan, Alan and Zhang Zhenzhong were appointed as executive directors and entered into services contracts, renewable every three years. Messrs. Leung Sze Yuan, Alan and Zhang Zhenzhong were subsequently appointed as Chairman and Chief Executive Officer of the Group on 25 June 2008 and 18 June 2008 respectively. The executive directors are committed by the respective service contracts to devote themselves exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of their conduct of business affairs, among other commitments.

The non-executive directors have entered into service contracts with the Company. The service contract of Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel were renewed for a term of one year commencing on 1 December 2009, 30 September 2009 and 16 June 2009, respectively.

Save as aforesaid, no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation, of any director proposed for re-election at the forthcoming Annual General Meeting).

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2009, the interests and short positions of the directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name	Number of ordinary shares of HK$0.01 each in the share capital of the Company held	Nature of interests	Percentage of interest
Mr. Leung Sze Yuan, Alan	39,000,000	Personal	2.94%
	17,000,000	Share Option granted but not yet exercised	
Mr. Zhang Zhenzhong	97,600,000	Personal	6.02%
	17,000,000	Share Option granted but not yet exercised	
Dr. Li Nga Kuk, James	32,800,000	Personal	1.72%
Mr. Li Tai To, Titus	16,400,000	Personal	0.86%

Save as disclosed above, as at 31 December 2009, none of the directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

Report of the Directors

Share Option Scheme

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company had conditionally approved and adopted a share option scheme (the "Share Option Scheme").

The principal terms of the Share Option Scheme are set out in the Company's prospectus dated 19 December 2001.

Pursuant to a resolution passed at a meeting of all independent non-executive directors on 12 October 2007 and 31 March 2008, the Group has granted share option of 40,000,000 and 36,000,000 shares to the directors and employees of the Group at exercise prices of HK$0.45 and HK$0.21 per share respectively for exercise during the 3rd and the 4th year from the date of grant pursuant to the share option scheme of the Company. Subsequently, 4,000,000 shares granted to a former director and 14,500,000 shares granted to the senior employees have been cancelled after their resignation.

Details of movements in share options during the year are set out in Note 33 to the financial statements.

Directors' Rights to Acquire Shares or Debt Securities

On 14 December 2001, the Company had conditionally approved and adopted a Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

Save as disclosed above, as at 31 December 2009, no other directors or the Chief Executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the Chief Executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Interests Discloseable under the SFO and Substantial Shareholders

At 31 December 2009, so far as is known to any of the directors or the Chief Executive of the Company, the following persons (other than a director or the Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of substantial shareholder	Number of shares held	Capacity	Percentage of interest
Li Wo Hing	24,300,000	Personal	1.28%
	193,360,000	Corporate (Note)	10.15%
	217,660,000		11.43%
PMM (Note)	193,360,000	Beneficial owner	10.15%

Note: As at 31 December 2009, PMM owned 193,360,000 shares, representing approximately 10.15% of the issued share capital of the Company. The issued share capital of PMM is owned as to 70.58% by Mr. Li Wo Hing, as to 19.61% by Dr. Li Nga Kuk, James, as to 9.81% by Mr. Li Tai To, Titus. Accordingly, Mr. Li Wo Hing holds indirect interest in the 193,360,000 shares through PMM.

Save as disclosed above, as at 31 December 2009, so far as is known to any of the directors or the Chief Executive of the Company, no other person (other than a director or the Chief Executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted at end of the year or during the year ended 31 December 2009.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Report of the Directors

Competing Interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Pension Schemes

Details of the Group's pension scheme for the year ended 31 December 2009 are set out in Note 32 to the financial statements.

Code on Corporate Governance Practices

The Board is committed to achieving and maintaining high standards of corporate governance in managing the business and affairs of the Group as guided by the principles and best practices as set out in the Hong Kong Code on Corporate Governance (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited and developments of recognized best governance practices. These practices are instilled throughout the Group's operations. Further details are set out in the Corporate Governance Report.

In the opinion of the Board, the Company has complied with the Code and adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the year ended 31 December 2009. Having made specific enquiry of all directors of the Company, the Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the year ended 31 December 2009.

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the latest practicable date prior to the issue of the annual report.

Report of the Directors

Independence Confirmation

The Company has received, from each independent non-executive director, an annual confirmation of independence pursuant to the GEM Listing Rules. The Board considers all the independent non-executive directors are independent.

Audit Committee

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee's primary duties include reviewing Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The Audit Committee comprises the three independent non-executive directors, namely, Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel, and has held 4 meetings during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2009 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Auditor

KLC Kennic Lui & Co. Ltd. were first appointed as auditor of the Company in 2005.

KLC Kennic Lui & Co. Ltd. were engaged to audit the financial statements for the year ended 31 December 2009. KLC Kennic Lui & Co. Ltd. will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KLC Kennic Lui & Co. Ltd. as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Leung Sze Yuan, Alan
Chairman

Hong Kong, 24 March 2010

Corporate Governance Report

The board of directors of the Company (the "Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

The Board believes that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision making processes are made in a proper and prudent manner.

In the opinion of the directors, the Company has complied with the provisions as set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited for the financial year ended 31 December 2009.

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealing in securities of the Company by the directors (the "Code of Conduct"). Having made specific enquiry of all directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2009.

The Board of Directors

Board composition

The Board currently comprises seven directors, of whom two are executive directors, two are non-executive directors and three are independent non-executive directors.

The Board members for the year ended 31 December 2009 and up to the date of this report were:

Executive Directors
Mr. Leung Sze Yuan, Alan *(Chairman) (appointed on 23 May 2008)*
Mr. Zhang Zhenzhong *(Chief Executive Officer) (appointed on 23 May 2008)*

Non-Executive Directors
Mr. Li Nga Kuk, James *(re-designation on 25 June 2008)*
Mr. Li Tai To, Titus *(re-designation on 25 June 2008)*

Independent Non-Executive Directors
Mr. Fan Wan Tat *(appointed on 1 December 2001)*
Mr. Tam Wai Leung, Joseph *(appointed on 30 September 2004)*
Mr. Chan Kim Chung, Daniel *(appointed on 16 June 2006)*

Corporate Governance Report

The directors' biographical information are set out on pages 15 to 16 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. The two non-executive directors, Mr. Li Nga Kuk James and Mr. Li Tai To Titus are brothers, Save as disclosed, there is no family or other material relationship among members of the Board.

Board meetings

The Board meets at least four times each year at approximately quarterly intervals. The directors attended in person or participated through electronic means of communication. At lease 14 days notice of meetings were given to all directors with formal agenda in which a schedule of matters is addressed to the Board. All directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the board meetings. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed.

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing shareholders' value. The Board, led by the Chairman, is responsible for the approval of annual budgets and business plans, evaluation of the Company's performance, formulate the overall strategies of the Group, and decide on other significant matters. Executive of daily operational matters is delegated to management.

During the year, four board meetings were held for the purpose of quarterly, half year and annual result reporting. Details of the attendance of the directors are as follows:

	Members' Attendance
Executive Directors	
Mr. Leung Sze Yuan, Alan	4/4
Mr. Zhang Zhenzhong	4/4
Non-Executive Directors	
Mr. Li Nga Kuk, James	0/4
Mr. Li Tai To, Titus	4/4
Independent Non-Executive Directors	
Mr. Fan Wan Tat	4/4
Mr. Tam Wai Leung, Joseph	4/4
Mr. Chan Kim Chung, Daniel	2/4

Corporate Governance Report

Chairman and Chief Executive Officer

The roles of the Chairman, Mr. Leung Sze Yuan, Alan and the Chief Executive Officer ("CEO"), Mr. Zhang Zhenzhong are segregated. This segregation ensures a clear distinction between the Chairman's and CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There is no financial, business, family or other relationship between the Chairman and the CEO.

Mr. Leung, as the Chairman of the Company, has overall responsibility for providing leadership, vision and direction in the development of the business of the Company. He ensures that:

– the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board in a timely manner;

– the responsibilities for drawing up the agenda for each Board meeting and, where appropriate, taking into account any matters proposed by each director for inclusion in the agenda have been duly delegated to the Company Secretary; and

– good corporate governance practices and procedures are established and encourages all directors to make full and active participation to the affairs of the Group.

Mr. Zhang, as the CEO, is responsible for the day-to-day management of the business of the Group, attends to formulation and implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the executive management team, he ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all directors and keeps them fully informed of all major business developments and issues.

Non-executive directors

The presence of five non-executive directors, of whom three are independent, is considered by the Board to be a reasonable balance between executive and non-executive directors. The Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of shareholders and the Group. The non-executive directors provide to the Group a wide range of expertise and experience and play an important role in the work of the Board, as well as ensure that the interests of all shareholders are taken into account. They contribute significantly to the development of the Group's strategies and policies through their informed comments and criticism. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on Audit, Remuneration and Nomination committees, and scrutinizing the Group's performance and reporting. Through their active participation, they give to the Board the benefit of their skills, expertise and background experience, and the management process can be critically reviewed and controlled.

Corporate Governance Report

In full compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each independent non-executive director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules. No independent non-executive director has served the Group for more than nine years.

All independent non-executive directors are identified as such in all corporate communications containing the names of the directors.

Term of appointment and re-election

The executive and non-executive directors were appointed for a term of three years, while the independent non-executive directors were appointed for a term of one year. All directors' appointment is renewable with the Board's approval. Pursuant to the Bye-Laws of the Company, all directors (except the Chairman or Managing Director of the Company) would retire from office by rotation and are subject to re-election at annual general meeting. The director to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. Messrs. Li Nga Kuk, James, Zhang Zhenzhong, and Tam Wai Leung, Joseph will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Remuneration Committee

The Remuneration Committee was established in 2005 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee is made available on request. The Remuneration Committee comprises three members, the Chairman of the committee is Mr. Fan Wan Tat, an independent non-executive director of the Company, and other members include Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan, the majority also being independent non-executive directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The Committee consults with the Chairman and the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties. The terms of reference of the Remuneration Committee is written in compliance with the GEM Listing Rules.

Corporate Governance Report

The Remuneration Committee held a meeting on 24 March 2010 to review the remuneration package of executive directors, non-executive directors and senior management. Mr. Fan Wan Tat, Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan attended this meeting. The Remuneration Committee proposed to review the existing remuneration package of executive directors, non-executive directors, independent non-executive directors and senior management following the acquisition of forest exploitation business and further expansion of operations in Cambodia. Mr. Leung Sze Yuan, Alan is not counted in the quorum on the review of his own remuneration package.

	Members' Attendance
Executive Director	
Mr. Leung Sze Yuan, Alan	1/1
Independent Non-Executive Directors	
Fan Wan Tat	1/1
Tam Wai Leung, Joseph	1/1

Nomination Committee

The Nomination Committee was established in 2005 with specific terms of reference. The Chairman of the committee is Mr. Tam Wai Leung, Joseph, an independent non-executive director of the Company, and other members include Mr. Fan Wai Tat and Mr. Leung Sze Yuan, Alan, the majority is being independent non-executive directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of directors and board succession. The Committee will also develop selection procedures of candidates for nomination, review the size, structure and composition of the Board, as well as assess the independence of independent non-executive directors. The Committee is provided with sufficient resources enabling it to discharge its duties.

The terms of reference of the Nomination Committee is written in compliance with the GEM Listing Rules.

The Nomination Committee held a meeting on 24 March 2010 to review the structure, size and composition of the Company's Board of Directors. Mr. Tam Wai Leung, Joseph, Mr. Fan Wan Tat and Mr. Leung Sze Yuan, Alan attended this meeting. Given the expansion of business operation in Cambodia, the Nomination Committee recommended new members with expertise in forestry, wood products business and financial management to be appointed in the near term. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications, experience and background of the relevant candidates for determining the suitability to the Group.

	Members' Attendance
Executive Director	
Mr. Leung Sze Yuan, Alan	1/1
Independent Non-Executive Directors	
Mr. Fan Wan Tat	1/1
Mr. Tam Wai Leung, Joseph	1/1

Audit Committee

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, other price-sensitive announcements and other financial disclosures. Management provides all relevant information and record to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures.

In full compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, established in 2002, is currently chaired by Mr. Fan Wan Tat, an independent non-executive director, and the other members are Mr. Tam Wai Leung, Joseph and Chan Kim Chung, Daniel, with all being independent non-executive directors of the Company.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year under review.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the independent auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. Other duties of the Audit Committee are set out in its terms of reference, which is written in compliance with the GEM Listing Rules.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee met four times to review the quarterly and annual results of the Group during the year ended 31 December 2009, which were attended by majority of members. Full minutes of the Audit Committee are kept by the Company Secretary.

	Members' Attendance
Independent Non-Executive Directors	
Mr. Fan Wan Tat	4/4
Mr. Tam Wai Leung, Joseph	4/4
Mr. Chan Kim Chung, Daniel	3/4

Auditors' Remuneration

As at 31 December 2009, the fees payable to the auditors in respect of the audit services are HK$1,161,000.

Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness.

As per the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership, 65% interest in Sinnowa Medical Science and Technology Co., Ltd. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary"). The Company consulted PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and implemented the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish a special investigation committee (the "Special Investigation Committee") (comprising Mr. Leung Sze Yuan, Alan, an executive director, Mr. Tam Wai Leung, Joseph, an independent non-executive director, and Mr. Chan Kim Chung, Daniel, an independent non-executive director) for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Company. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants, legal advisers) to assist in the course of its investigation and internal review, and will report to the Board its findings as soon as practicable. As at the date of this report, the Special Investigation Committee intends to appoint Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control system of all relevant financial, operational, compliance controls and risk management functions.

The Company engaged an independent consultancy company (the "Consultant") to conduct a review on the internal control system of the Group and the report thereof was issued in September 2009. The Board and the Special Investigation Committee of the Company agreed with the recommendations made by the Consultant and appointed the Consultant to oversee the implementation of an internal control enhancement program, and the major recommendations have been implemented.

Delegation by the Board

The Board is responsible for decision in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and executive of the strategic business plans are delegated to management.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have their terms of reference clearly defining the powers and responsibilities of the respective committees. All committees are required to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situation, to seek the Board's approval before taking any actions.

The Board reviews, on yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

Investor Relations and Shareholders' Right

The Company uses a number of channels to communicate to shareholders and investors for the performance of the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging view with the Board; (iii) key information of the Group available on the website of the Company; and (iv) the Company's share registrars in Hong Kong serving the shareholders on all share registration matters.

The Company aims to provide its shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly and annual reports, dispatching circular, notices, and other announcements.

The Company strives to take into consideration its shareholders' views and inputs, and address shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman as well as chairmen of Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, Directors are available to answer shareholders' questions on the Group's business at the meetings. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda for consideration.

Independent Auditor's Report

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co.Ltd.
Certified Public Accountants (Practising)

To the shareholders of
China Asean Resources Limited
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 105, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditor's Report

Basis for disclaimer of opinion

(1) Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd.

As detailed in the independent auditor's report for the year ended 31 December 2008, the Group's 65% equity interest in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary"), which was engaged in the manufacture and sale of medical equipment, was transferred to the non-controlling equity holder of Medical Equipment Subsidiary and an independent third party without the consent and approval of the board of directors of the Company (the "Board"). The Company has consulted its PRC lawyers as to the appropriate action to restore its interest in Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% equity owner of Medical Equipment Subsidiary. In May 2009, with the assistance and advice of its PRC lawyers, the Company formally lodged a request to review (the "Administrative Review") the governmental approval of the transfer of the Group's equity interest in Medical Equipment Subsidiary and the registration of the related sale and purchase agreements. The Administrative Review application was accepted by the Jiangsu Provincial government. In the midst of the Administrative Review, the Company was notified in October 2009 that one of the current registered owners of Medical Equipment Subsidiary filed a civil claim against the Group in the courts of Nanjing, the PRC, so to seek the court's declaration that the transfer of the Group's 65% interest in Medical Equipment Subsidiary is legal and valid. Up to the date of this report, the Administrative Review lodged by the Company and the civil claim against the Company are still in progress and we have been unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the Company could restore its equity interest in Medical Equipment Subsidiary.

(2) Deconsolidation of Medical Equipment Subsidiary

As a result of the aforesaid potential dispute over the ownership in Medical Equipment Subsidiary, the Group has been unable to exercise its rights as a controlling entity either to control the assets and operations or to exercise control over the financial and operating policy decisions of this company. The Group has also been unable to obtain the financial information of Medical Equipment Subsidiary since 31 December 2008. In the opinion of the Board, it is inappropriate to consolidate the financial results of Medical Equipment Subsidiary into the Group and, therefore, Medical Equipment Subsidiary has been deconsolidated as from 1 January 2009. The Group recorded a gain of approximately HK$1,044,000 on deconsolidation of Medical Equipment Subsidiary for the year ended 31 December 2009 based on its financial information as of 31 December 2008 and after taking into account the provision for a potential loss of control of Medical Equipment Subsidiary in an amount of approximately HK$15,655,000 made at 31 December 2008.

Details of the net effect from deconsolidation of Medical Equipment Subsidiary are set out in Note 2 to the financial statements.

Independent Auditor's Report

In view of the circumstances described above, we were unable to satisfy ourselves as to whether the deconsolidation of Medical Equipment Subsidiary for the year ended 31 December 2009 is in accordance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements". There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence in this regard. Accordingly, we have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the state of affairs of the Group and the Company as at 31 December 2009 and the result for the year then ended.

Disclaimer of opinion: Disclaimer on view given by the consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's result and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)
Choy Po Fong
Practising Certificate No. P04688

Hong Kong, 24 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
CONTINUING OPERATIONS			
Turnover	6	**343**	47,895
Cost of sales		**(890)**	(21,781)
Gross profit/(loss)		**(547)**	26,114
Net effect of deconsolidation of a subsidiary	2	**1,044**	–
Provision for a potential loss of control of a subsidiary	2	**–**	(15,655)
Income from forestry exploitation business	8	**–**	129,985
Other income	9	**18**	5,763
Selling and distribution costs		**(104)**	(13,421)
Administrative expenses		**(26,446)**	(38,212)
Impairment loss recognised in respect of:			
Biological assets		**–**	(93)
Construction in progress	18	**(2,600)**	–
Other operating expenses	10	**–**	(3,558)
Finance costs	10	**(1,381)**	(972)
Profit/(loss) before taxation	10	**(30,016)**	89,951
Taxation	11	**–**	(1,500)
Profit/(loss) for the year from continuing operations		**(30,016)**	88,451
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	12(b)	**(19,747)**	(17,456)
PROFIT/(LOSS) FOR THE YEAR		**(49,763)**	70,995
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries		**(424)**	3,974
Other comprehensive income for the year, net of tax		**(424)**	3,974
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(50,187)**	74,969
Profit/(loss) attributable to:			
Equity holders of the Company	15	**(49,763)**	68,665
Non-controlling interests		**–**	2,330
		(49,763)	70,995
Total comprehensive income attributable to:			
Equity holders of the Company		**(50,187)**	72,193
Non-controlling interests		**–**	2,776
		(50,187)	74,969

The notes on pages 44 to 105 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	**2009** **HK Cents**	2008 HK Cents
Basic earnings/(loss) per share	16		
From continuing operations		**(1.58)**	4.78
From discontinued operations		**(1.03)**	(0.97)
		(2.61)	3.81
Diluted earnings/(loss) per share	16		
From continuing operations		**(1.58)**	4.78
From discontinued operations		**(1.03)**	(0.97)
		(2.61)	3.81

The notes on pages 44 to 105 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**22,454**	30,385
Construction in progress	18	**–**	31,950
Prepaid lease payments	20	**–**	2,585
Intangible assets	21		
Forest exploitation rights		**488,807**	498,063
Medical research projects		**–**	17,393
Others		**–**	763
		511,261	581,139
Current assets			
Inventories	23	**1,796**	13,575
Trade and other receivables	24	**27,871**	112,517
Cash at bank and on hand		**9,436**	48,414
		39,103	174,506
Assets of disposal group classified as held for sale	12	**38,881**	–
		77,984	174,506
Current liabilities			
Trade and other payables	26	**13,603**	50,427
Provision for a potential loss of control of a subsidiary	2	**–**	15,655
Bank borrowings		**–**	13,040
Taxation		**302**	1,966
		13,905	81,088
Liabilities of disposal group classified as held for sale	12	**26,282**	–
		40,187	81,088
Net current assets		**37,797**	93,418
Total assets less current liabilities		**549,058**	674,557
Non-current liabilities			
Bonds	28	**3,700**	70,000
NET ASSETS		**545,358**	604,557
CAPITAL AND RESERVES			
Share capital	29	**19,050**	19,050
Reserves		**526,308**	575,856
Total equity attributable to:			
Equity holders of the Company		**545,358**	594,906
Non-controlling interests		**–**	9,651
TOTAL EQUITY		**545,358**	604,557

Approved and authorised for issue by the Board of Directors on 24 March 2010.

Leung Sze Yuan, Alan
Chairman

Zhang Zhenzhong
Director

The notes on pages 44 to 105 form part of these financial statements.

Balance Sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**52**	30
Construction in progress	18	**–**	3,400
Investments in subsidiaries	19	**498,420**	525,289
		498,472	528,719
Current assets			
Trade and other receivables	24	**238**	32
Amounts due from subsidiaries	25	**48,599**	109,904
Cash at bank and on hand		**7,685**	18,331
		56,522	128,267
Current liabilities			
Trade and other payables	26	**10,504**	2,170
Amounts due to subsidiaries	27	**212,392**	131,802
		222,896	133,972
Net current liabilities		**(166,374)**	(5,705)
Total assets less current liabilities		**332,098**	523,014
Non-current liabilities			
Bonds	28	**3,700**	70,000
NET ASSETS		**328,398**	453,014
CAPITAL AND RESERVES			
Share capital	29	**19,050**	19,050
Reserves	30	**309,348**	433,964
TOTAL EQUITY		**328,398**	453,014

Approved and authorised for issue by the Board of Directors on 24 March 2010.

Leung Sze Yuan, Alan	**Zhang Zhenzhong**
Chairman	*Director*

The notes on pages 44 to 105 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2008	17,050	379,783	5,265	1,875	12,277	(17,985)	398,265	6,875	405,140
Transactions with owners									
Issue of shares	2,000	118,000	–	–	–	–	120,000	–	120,000
Recognition of equity–settled share based payments	–	–	–	4,448	–	–	4,448	–	4,448
Lapse of share options	–	–	–	(188)	–	188	–	–	–
Total transactions with owners	2,000	118,000	–	4,260	–	188	124,448	–	124,448
Comprehensive income									
Profit for the year	–	–	–	–	–	68,665	68,665	2,330	70,995
Other comprehensive income for the year	–	–	–	–	3,528	–	3,528	446	3,974
Total comprehensive income	–	–	–	–	3,528	68,665	72,193	2,776	74,969
Balance at 31 December 2008	19,050	497,783	5,265	6,135	15,805	50,868	594,906	9,651	604,557

The notes on pages 44 to 105 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2009	19,050	497,783	5,265	6,135	15,805	50,868	594,906	9,651	604,557
Transactions with owners									
Issue of shares	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	–	3,951	–	–	3,951	–	3,951
Lapse of share options	–	–	–	(889)	–	889	–	–	–
Total transactions with owners	–	–	–	3,062	–	889	3,951	–	3,951
Comprehensive income									
Loss for the year	–	–	–	–	–	(49,763)	(49,763)	–	(49,763)
Other comprehensive income for the year	–	–	–	–	(424)	–	(424)	–	(424)
Total comprehensive income	–	–	–	–	(424)	(49,763)	(50,187)	–	(50,187)
Deconsolidation of a subsidiary	–	–	–	–	(3,312)	–	(3,312)	(9,651)	(12,963)
Balance at 31 December 2009	19,050	497,783	5,265	9,197	12,069	1,994	545,358	–	545,358

The notes on pages 44 to 105 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit/(loss) before taxation including discontinued operations		**(49,763)**	72,495
Adjustments for:			
Depreciation		**834**	1,432
(Profit)/loss on disposal of property, plant and equipment		**(5)**	19
Income from sub-concession of 10% of forest exploitation rights		**–**	(51,985)
Impairment losses recognised in respect of:			
Biological assets		**–**	93
Medical research projects	12(b)	**1,799**	9,600
Construction in progress	12(b) & 18	**20,536**	–
Amortisation of prepaid lease payments		**91**	135
Amortisation of intangible assets:			
Forest exploitation rights		**7,238**	7,332
Others		**–**	398
Share based payments	33	**3,951**	4,448
Bad debts written off		**48**	1,790
Bad debts recovered		**–**	(3,246)
Bank interest income		**(54)**	(611)
Provision for a potential loss of control of a subsidiary	2	**–**	15,655
Finance costs		**1,381**	972
Net effect of deconsolidation of a subsidiary	2	**(1,044)**	–
Write-back of accrued expenses		**–**	(787)
Operating profit/(loss) before changes in working capital		**(14,988)**	57,740
Increase in inventories		**(734)**	(7,184)
(Increase)/decrease in trade and other receivables		**65,319**	(22,507)
Increase/(decrease) in trade and other payables		**7,502**	(23,135)
Cash generated from operations		**57,099**	4,914
Income tax paid outside Hong Kong		**–**	164
Net cash from operating activities		**57,099**	5,078
Cash flows from investing activities			
Capital expenditure:			
Property, plant and equipment		**(8,617)**	(16,903)
Construction in progress		**(3,168)**	(19,755)
Acquisition of a subsidiary	22	**–**	(80,000)
Forest exploitation rights		**–**	(2,207)
Proceed from sub-concession of 10% of forest exploitation rights		**–**	46,800
Interest received		**54**	611
Deconsolidation of a subsidiary	2	**(9,775)**	–
Net cash used in investing activities		**(21,506)**	(71,454)

The notes on pages 44 to 105 form part of these financial statements.

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2009

	Note	**2009** **HK$'000**	2008 HK$'000
Cash flows from financing activities			
Interest paid		**–**	(302)
Redemption of bonds		**(66,300)**	–
Proceeds from new bank borrowings		**–**	13,040
Net cash from/(used in) financing activities		**(66,300)**	12,738
Net decrease in cash and cash equivalents		**(30,707)**	(53,638)
Cash and cash equivalents at beginning of the year		**48,414**	99,400
Effect of foreign exchange rate changes		**(575)**	2,652
Cash and cash equivalents at end of the year		**17,132**	48,414
Analysis of cash and cash equivalents:			
Cash at bank and on hand		**9,436**	48,414
Cash at bank and on hand classified as assets held for sale	12	**7,696**	–
		17,132	48,414

The notes on pages 44 to 105 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2009

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company. The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in Note 38 to the financial statements.

2. Basis of Consolidation of the Financial Statements

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary")

As detailed in the announcement of the Company dated 26 March 2009, Medical Equipment Subsidiary is a 65% equity interest subsidiary of the Company established in September 2002 as a sino-foreign joint venture enterprise in the People's Republic of China (the "PRC"). Medical Equipment Subsidiary engaged in the business of manufacture and sale of medical equipment. The remaining 35% equity interest of Medical Equipment Subsidiary was owned by a PRC company called Innova Science & Technology Co., Ltd. (南京英諾華科技有限公司) (the "Chinese Partner"). During the course of external audit of the financial statements for the year ended 31 December 2008, the Company discovered that the official records of the PRC governmental authorities on the equity ownership of Medical Equipment Subsidiary had been amended without the knowledge of the Company, and that the Company was no longer recorded as an equity owner of the Medical Equipment Subsidiary since 10 December 2007.

Under this circumstance, the board of directors of the Company (the "Board") had, through its PRC lawyers, made enquiries with the Bureau of Administration of Industry and Commerce in Nanjing, Jiangsu Province (江蘇省南京市工商行政管理局) ("Nanjing BAIC") and discovered that two unauthorised sale and purchase agreements (the "Unauthorised Sale and Purchase Agreements"), both dated 10 November 2007, were entered into in the name of the Company and executed by a director, who resigned during the year ended 31 December 2008, pursuant to which the Company agreed to dispose of its entire 65% equity interest in Medical Equipment Subsidiary as to 30% to the Chinese Partner and as to 35% to the first new shareholder, at a consideration of RMB14 million (equivalent to approximately HK$15.88 million) and RMB1 million (equivalent to approximately HK$1.13 million), respectively. The Unauthorised Sale and Purchase Agreements were duly registered with Nanjing BAIC to the effect that Medical Equipment Subsidiary was owned as to 65% by the Chinese Partner and as to the remaining 35% by the first new shareholder. The former director, whose signature was imprinted on the Unauthorised Sale and Purchase Agreements, has confirmed to the Board that he had no knowledge about the Unauthorised Disposal and he had never executed such agreements for and on behalf of the Company.

2. Basis of Consolidation of the Financial Statements *(Continued)*

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary") *(Continued)*

Despite the allegations of the Chinese Partner that the consideration stated in the Unauthorised Sale and Purchase Agreements had been fully settled by means of cash and telegraphic transfer, the Group reported only having received a sum of RMB2,000,000 from the Chinese Partner after checking all prior transactions in its bank accounts and accounting records during the year ended 31 December 2008. Since the Board was not aware of the Unauthorised Sale and Purchase Agreements, the Group recorded the said sum of RMB2,000,000 as a general advance from the Chinese Partner and it is classified as an amount due to non-controlling shareholder in the consolidated balance sheet as at 31 December 2008.

Also, from the official records of the PRC government, the registered capital of the Medical Equipment Subsidiary has been increased to RMB30,000,000 since late 2008, and the equity owners of the Medical Equipment Subsidiary at that time were the Chinese Partner (holding 62% of the equity interest), Great Profit Enterprises Limited, a company incorporated in the British Virgin Islands (holding 25% of the equity interest), and another PRC company (holding 13% of the equity interest).

During the year ended 31 December 2009, the Company has consulted its PRC lawyers as to the appropriate action to restore its interest in Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% equity owner of Medical Equipment Subsidiary. However, the Company was notified in October 2009 that one of the current registered owners of Medical Equipment Subsidiary filed a civil claim against the Group in the courts of Nanjing, PRC so as to seek the court's declaration that the transfer of the Company's 65% equity interest in Medical Equipment Subsidiary is legal and valid. Up to the date of this report, the process of restoring the interest and the re-register of the Company as a 65% equity owner of Medical Equipment Subsidiary as well as the civil claim against the Company are still in progress.

Moreover, the Board has established a special investigation committee (the "Special Investigation Committee") for the purpose of, among others, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary.

In the opinion of the directors of the Company, the transfer of the Group's 65% interest in Medical Equipment Subsidiary should be void under PRC law and the Company should have effective control over Medical Equipment Subsidiary since it became the 65% equity owner of Medical Equipment Subsidiary in 2002 and, therefore, consider that it is appropriate to include the following balances relating to Medical Equipment Subsidiary in the financial statements of the Group for the year ended 31 December 2008.

2. Basis of Consolidation of the Financial Statements *(Continued)*

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary") *(Continued)*

	2008 HK$'000
Income and expenses:	
Turnover	47,692
Cost of sales	(20,925)
Other income	5,283
Selling and distribution expenses	(13,282)
Administrative expenses	(7,752)
Other operating expenses	(2,559)
Finance costs	(302)
Taxation	(1,500)
Non-controlling interests	(2,330)
Profit attributable to the Group	4,325
Assets and liabilities:	
Property, plant and equipment	16,339
Prepaid lease payments	1,132
Intangible assets	763
Inventories	12,452
Trade and other receivables	14,716
Cash at bank and on hand	9,775
Amount due from Chinese Partner	5,840
Trade and other payables	(18,738)
Bank borrowings	(13,040)
Taxation	(1,665)
Non-controlling interests	(9,651)
Net assets attributable to the Group	17,923

Deconsolidation of Medical Equipment Subsidiary

As a result of the aforesaid potential dispute over the ownership in Medical Equipment Subsidiary, the Group has been unable to exercise its rights as a controlling entity either to control the assets and operations or to exercise control over the financial and operating policy decisions of this company. The Group has also been unable to obtain the financial information of Medical Equipment Subsidiary since 31 December 2008. In the opinion of the Board, it is inappropriate to consolidate the financial results of Medical Equipment Subsidiary into the Group thereafter and, therefore, Medical Equipment Subsidiary has been deconsolidated as from 1 January 2009. The Group recorded a gain of approximately HK$1,044,000 on deconsolidation of Medical Equipment Subsidiary for the year ended 31 December 2009 based on its financial information as of 31 December 2008 and after taking into account the provision for a potential loss of control of Medical Equipment Subsidiary in an amount of approximately HK$15,655,000 made at 31 December 2008.

2. Basis of Consolidation of the Financial Statements *(Continued)*

Deconsolidation of Medical Equipment Subsidiary *(Continued)*

Details of the net effect of deconsolidation of Medical Equipment Subsidiary recognised during the year ended 31 December 2009 are as follows:

	HK$'000
Aggregate assets deconsolidated	
Property, plant and equipment	16,339
Prepaid lease payments	1,132
Intangible assets	763
Inventories	12,452
Trade and other receivables	14,716
Cash at bank and on hand	9,775
Amount due from Chinese Partner	5,840
	61,017
Aggregate liabilities, non-controlling interests and reserves deconsolidated	
Trade and other payables	18,738
Bank borrowings	13,040
Taxation	1,665
Non-controlling interests	9,651
Exchange reserve	3,312
	46,406
Net deconsolidated amount	14,611
Write-back of provision for a potential loss of control of Medical Equipment Subsidiary at 31 December 2008	(15,655)
Net effect of deconsolidation of Medical Equipment Subsidiary	(1,044)

As a result of the potential dispute over the ownership in Medical Equipment Subsidiary, the Board is of the opinion that full provision on the net assets value of Medical Equipment Subsidiary attributable to the Group of approximately HK$17,923,000 less the amount of RMB2,000,000 general advance from the Chinese Partner should be made at 31 December 2008.

The net effect of deconsolidation of Medical Equipment Subsidiary represented the accumulative amount of the exchange difference relating to Medical Equipment Subsidiary and reclassified from exchange reserve less the amount of general advance from the Chinese Partner in an amount of approximately HK$2,268,000 (RMB2,000,000).

In the opinion of the directors of the Company, the Group has no material obligations or commitments in Medical Equipment Subsidiary that require either adjustments to or disclosure in the financial statements.

3. Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

(i) Measurement basis, judgements, estimates and assumptions

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries except Medical Equipment Subsidiary as discussed in Note 2.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 3(s)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. Significant Accounting Policies *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

(i) Measurement basis, judgements, estimates and assumptions (continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

(ii) Going concern assumptions

During the financial year ended 31 December 2009, the Group has recorded a loss attributable to equity holders of the Company of approximately HK$49,763,000. Apart from the income from forestry exploitation business during the financial year ended 31 December 2008, the Group has continued recording net losses for five consecutive financial years, the continuation of the Group as a going concern is dependent upon its ability to generate sufficient cash from operating activities in particular from the forestry. Notwithstanding the continuation of recorded net losses, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements on the following bases:

(a) As at 31 December 2009, the Group has net current assets of approximately HK$37,797,000 including cash at bank and on hand of approximately HK$9,436,000.

(b) The Group has minimum exposures to the global credit crisis as the Group's operations are not dependent on borrowings from financial institutions nor is dependent on third parties financing.

3. Significant Accounting Policies *(Continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Where losses applicable to the non-controlling interests exceed their interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling interests has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the non-controlling interests' share of losses previously absorbed by the Group has been recovered.

Loans from holders of non-controlling interests and other contractual obligations towards these holders, if any, are presented as financial liabilities in the consolidated balance sheet in accordance with Note 3(k).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 3(s)).

3. Significant Accounting Policies *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3 (g)):

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	Shorter of 50 years and the remaining terms of the leases
Constructed roads	30 years
Medical equipment	6 years
Motor vehicles	5 years
Plant, machinery and equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 3(r)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 3(g)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(g)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

3. Significant Accounting Policies *(Continued)*

(e) Intangible assets (other than goodwill) *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Forest exploitation rights	70 years
Medical research projects	5 to 10 years
Other intangible assets	5 to 10 years

Both the useful life and method of amortisation are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the shorter of the estimated useful lives and the period of the lease term less impairment losses (see Note 3(g)).

3. Significant Accounting Policies *(Continued)*

(g) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3. Significant Accounting Policies *(Continued)*

(g) Impairment of assets *(Continued)*

(i) Impairment of trade and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets; and

– investments in subsidiaries (except for those classified as held for sale(or included in a disposal group that is classified as held for sale) (see Note 3(s)).

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

3. Significant Accounting Policies *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. Significant Accounting Policies *(Continued)*

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 3(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fess payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

For the year ended 31 December 2009

3. Significant Accounting Policies *(Continued)*

(m) Employee benefits *(Continued)*

(ii) Defined benefit retirement plan obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as employer vest fully with the employees when contributed into the Scheme.

The Group has joined a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to profit or loss as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3. Significant Accounting Policies *(Continued)*

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deducible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

3. Significant Accounting Policies *(Continued)*

(n) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or asserts are expected to settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. Significant Accounting Policies *(Continued)*

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and/or the related risks and rewards of ownership have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service fee income

– *Research and development*

Revenue is recognised when the outcome on a research and development contract can be measured reliably. Revenue from a fixed price research and development contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a research and development contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable will be recoverable.

– *Other service fee income*

Other service income is recognised when services are provided.

3. Significant Accounting Policies *(Continued)*

(p) Revenue recognition *(Continued)*

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3. Significant Accounting Policies *(Continued)*

(s) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries). These assets, even if held for sale, would continue to be measured in accordance with the policies set out in Note 3.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3. Significant Accounting Policies *(Continued)*

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. Changes in Accounting Policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to HKAS 39, Financial instruments – Recognition and measurement
- Amendments to HKAS 32, Financial instruments – Presentation
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations

The amendments to HKAS 23, HKAS 32, HKAS 39 and improvements to HKFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas.

4. Changes in Accounting Policies *(Continued)*

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised statement of changes in equity. All other items of income and expense are presented in the new primary statement, the statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- The Amendment to HKFRS 2 clarifies the definition of vesting conditions and specifies the accounting treatment of cancellations by the counterparty to a share-based payment arrangement. Vesting conditions are either service conditions (which require a counterparty to complete a specified period of service) or performance conditions (which require a counterparty to complete a specified period of service and specified performance targets to be met). All non-vesting conditions and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

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

Revenue recognition

Note 8 describes the services fees income received from the initial services provided in relation to a piece of land of 1,000 hectares (equivalent to approximately 10 million sq.m.) located in Kratie District, Kratie Province, the Kingdom of Cambodia in which the Group had the right to exploit the natural resources on it during the year ended 31 December 2008. The management considered the detailed criteria for the recognition of revenue of rendering of services set out in HKAS 18 Revenue and, in particular, whether the Group had already provided the respective services. In order to earn such income, the Group needed to provide the initial facilities such as transportation, telecommunication, water and electricity facilities and on the date of signing the services agreement, the Group had substantially completed this obligation. There were no subsequent services that the Group needed to provide according to the services agreement, and therefore, in the opinion of the directors, the recognition of the full amount of the initial services fee in the current year was appropriate.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation uncertainty

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

(i) Impairment of intangible assets

In considering the impairment losses that may be required for the Group's intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available.

In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge in future periods.

(ii) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on the directors' regular review and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would have a significant impact in profit and loss.

(iii) Depreciation and amortisation

The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses charge for the year. The management determines that the useful life of the forest exploitation rights located in Cambodia is 70 years based on management's expertise in the forestry industry. It could change significantly as a result of changes in such market. The useful lives of other assets are based on the Group's historical experience with similar assets. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

6. Turnover

An analysis of the Group's turnover for the year is as follows:

	Continuing operations		Discontinued operations		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Sales of wood products	**343**	–	**–**	–	**343**	–
Sales of medical equipment (Note 2)	**–**	47,692	**–**	–	**–**	47,692
Medical equipment service fees and sales of related accessories	**–**	203	**–**	–	**–**	203
Research and development service fees	**–**	–	**3,612**	32	**3,612**	32
	343	47,895	**3,612**	32	**3,955**	47,927

7. Segment Information

The Group only operated in a single business segment, that is, natural resources business in the Kingdom of Cambodia ("Cambodia"), after the deconsolidation of Medical Equipment Subsidiary as disclosed in Note 2 to the financial statements, and the discontinued operations as disclosed in Note 12 to the financial statements. The Board considers that presentation of segment disclosure would not be meaningful in the financial statements and accordingly, no segmental analysis is presented.

8. Income from Forestry Exploitation Business

	Continuing operations		Discontinued operations		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sub-concession of 10% of forest exploitation rights (note (a))	**–**	51,985	**–**	–	**–**	51,985
Initial services fee income (note (b))	**–**	78,000	**–**	–	**–**	78,000
	–	129,985	**–**	–	**–**	129,985

Note:

(a) As detailed in the Company's circular dated 9 May 2008, the Group entered into a cooperation agreement with an independent third party, Qiong Hai Xin Neng Agriculture Development Company Limited ("Qiong Hai Agriculture") on 20 March 2008 and pursuant to which the Group agreed to sub-lease to Qiong Hai Agriculture of approximately 1,000 hectares (equivalent to approximately 10.0 million sq.m.), representing approximately 10% of the total site area of its forest (the "First Forest") located in Kratie District, Kratie Province, Cambodia. The forest exploitation rights were acquired by the Group pursuant to the sale and purchase agreement dated 25 July 2007 in which the Group secured the right to exploit the natural resources of the forest, for a term of approximately 70 years from 24 March 2008 to 11 November 2077, being the expiry date of the exclusive exploitation rights granted to the Group in respect of the First Forest, at a cash consideration of US$10 million (equivalent to approximately HK$78 million).

(b) As detailed in the Company's announcement dated 21 November 2008, the Group entered into a service agreement with an independent third party, Eastwood Link Limited ("Eastwood Link") and pursuant to which, Eastwood Link agreed to pay the Group a consideration of US$10 million (equivalent to approximately HK$78 million) for being appointed as the sole provider of services to the Group in respect of an area of land approximately 1,000 hectares (equivalent to approximately HK$10 million sq.m.) located in Kratie District, Kratie Province, Cambodia for the period from 20 November 2008 to 31 December 2010 acquired by the Group pursuant to the sale and purchase agreement dated 25 July 2007 in which the Group has the right to exploit the natural resources of the forest (the "Designated Land"). Eastwood Link is entitled to receive the operating profits up to an aggregate amount of US$15 million (equivalent to approximately HK$117 million) generated from the sale of wood products manufactured from the trees currently standing on the Designated Land.

9. Other Income

	Continuing operations		Discontinued operations		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Bad debts recovered	**–**	3,246	**–**	–	**–**	3,246
Write back of accrued expenses	**–**	–	**–**	787	**–**	787
Bank interest income	**13**	428	**41**	183	**54**	611
Others	**5**	2,089	**–**	22	**5**	2,111
	18	5,763	**41**	992	**59**	6,755

10. Profit/(Loss) before Taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Finance costs						
Interest on bank borrowing	**–**	302	**–**	–	**–**	302
Interest on bonds	**1,381**	670	**–**	–	**1,381**	670
	1,381	972	**–**	–	**1,381**	972
Other operating expenses						
Research and development costs	**–**	3,282	**2,014**	6,761	**2,014**	10,043
Others	**–**	276	**–**	–	**–**	276
	–	3,558	**2,014**	6,761	**2,014**	10,319
Staff costs (including directors' remuneration disclosed in Note 13)						
Wages and salaries	**6,122**	11,357	**676**	831	**6,798**	12,188
Share based payments	**3,951**	4,448	**–**	–	**3,951**	4,448
Staff retirement benefits	**74**	1,500	**94**	61	**168**	1,561
	10,147	17,305	**770**	892	**10,917**	18,197

10. Profit/(Loss) before Taxation *(Continued)*

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other items						
Cost of inventories (Note 23)	**145**	20,965	**16**	–	**161**	20,965
Depreciation	**751**	1,319	**83**	113	**834**	1,432
(Profit)/loss on disposal of property, plant and equipment equipment	**(5)**	19	**–**	–	**(5)**	19
Bad debts written off	**48**	1,790	**–**	–	**48**	1,790
Auditors' remuneration	**1,153**	1,719	**8**	7	**1,161**	1,726
Operating lease charges in respect of office premises	**458**	504	**41**	55	**499**	559
Amortisation of prepaid lease payments	**–**	45	**91**	90	**91**	135
Amortisation of intangible assets:						
– Forest exploitation rights	**7,238**	7,332	**–**	–	**7,238**	7,332
– Other	**–**	398	**–**	–	**–**	398

11. Taxation

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009 HK$'000	2008 HK$'000
Current tax – PRC Income Tax (Note 2)	–	1,500

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits in Hong Kong during the year.

(ii) PRC Income Tax

No provision for PRC Income Tax has been made as the subsidiaries of the Company did not have any assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) Cambodia Tax on Profits

No provision for Cambodia Tax on Profits has been made for the Company's subsidiaries as they did not have any assessable profits for the year determined in accordance with the relevant tax rules and regulations in Cambodia.

(b) Reconciliation between taxation and profit/(loss) before taxation at applicable tax rates:

	2009 HK$'000	2008 HK$'000
Profit/(loss) before taxation:		
Continuing operations	(30,016)	89,951
Discontinued operations	(19,747)	(17,456)
	(49,763)	72,495
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the countries concerned	(8,914)	(9,741)
Tax effect of non-deductible expenses	8,914	12,740
Tax effect of concession period	–	(1,499)
Taxation for the year	–	1,500

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2008: Nil).

12. Assets of Disposal Group Classified as Held for Sales and Discontinued Operations

Disposal of medical research and development of drugs business

The assets and liabilities related to Medical China Technology Limited, China Best Drugs Research (Nanjing) Ltd. and China Best Pharmaceutical (Nanjing) Co., Ltd. (the "disposal group") have been presented as held for sale following the plan for sale made by of the Group's management during the year ended 31 December 2009 to sell the medical research and development of drugs business. The Company entered into an agreement with an independent third party to dispose of the Group's equity interests in the disposal subsidiaries as disclosed in Note 2 to the financial statements. The transaction is expected to be completed by June 2010.

(a) Assets and liabilities of disposal group classified as held for sale

	2009
	HK$'000
Property, plant and equipment	**224**
Construction in progress	**13,831**
Prepaid lease payments	**1,365**
Intangible assets – medical research projects	**15,597**
Inventories	**84**
Trade and other receivables	**84**
Cash at bank and on hand	**7,696**
Assets classified as held for sale	**38,881**
Trade and other payables	**24,010**
Amount due to Medical Equipment Subsidiary (Note 2)	**2,272**
Liabilities associated with assets classified as held for sale	**26,282**
Net assets classified as held for sale	**12,599**

12. Assets of Disposal Group Classified as Held for Sale and Discontinued Operations *(Continued)*

(b) Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group, is as follows:

	2009	2008
	HK$'000	HK$'000
Revenue	**3,653**	1,024
Expenses	**(3,665)**	(18,480)
Loss before taxation	**(12)**	(17,456)
Taxation	**–**	–
	(12)	(17,456)
Loss on re-measurement to fair value less costs to sell		
– Construction in progress (Note 18)	**(17,936)**	–
– Medical research projects (Note 21)	**(1,799)**	–
Taxation	**–**	–
	(19,735)	–
Loss for the year from discontinued operations	**(19,747)**	(17,456)

(c) Cash flows from discontinued operations:

	2009
	HK$'000
Net cash used in operating activities	**(413)**
Net cash used in investing activities	**(3,177)**
Net cash from financing activities	**–**
	(3,590)

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13. Directors' Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors fees		Salaries, allowances and benefits in kind		Share based payments		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Executive directors								
Leung Sze Yuan, Alan	**–**	–	**455**	245	**1,099**	651	**1,554**	896
Zhang Zhenzhong	**–**	–	**490**	286	**1,099**	651	**1,589**	937
Non-executive directors								
Chen Minshan	**–**	20	**–**	–	**–**	–	**–**	20
Li Nga Kuk, James	**152**	152	**–**	–	**–**	–	**152**	152
Li Tai To, Titus	**152**	152	**–**	–	**–**	–	**152**	152
Independent non-executive directors								
Fan Wan Tat	**120**	120	**–**	–	**–**	–	**120**	120
Tam Wai Leung, Joseph	**120**	120	**–**	–	**–**	–	**120**	120
Chan Kim Chung, Daniel	**120**	120	**–**	–	**–**	–	**120**	120
	664	684	**945**	531	**2,198**	1,302	**3,807**	2,517

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2009.

Directors are appointed for one year terms and renewal terms are agreed by the Remuneration Committee annually.

14. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, two (2008: two) are directors whose emoluments are disclosed in Note 13. The aggregate of the emoluments in respect of the remaining three (2008: three) individuals are as follows:

	2009	2008
	HK$'000	HK$'000
Basic salaries, allowances and other benefits	**1,868**	885
Discretionary bonuses	**80**	14
Share based payments	**3,508**	1,355
Retirement benefit scheme contributions	**24**	12
	5,480	2,266

The emoluments of the remaining three (2008: three) individuals with the highest emoluments are within the following bands:

	2009 Number of Individuals	2008 Number of Individuals
Nil – $1,000,000	**2**	3
$1,000,001 – $1,500,000	**1**	–

15. Profit/(Loss) Attributable to Equity Holders of the Company

The consolidated loss attributable to equity holders of the Company includes a loss of HK$17,231,000 (2008: HK$22,212,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year (Note 30):

	2009	2008
	HK$'000	HK$'000
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	**17,231**	22,212
Impairment loss recognised in respect of subsidiaries		
– Investment in subsidiaries (Note 19)	**26,869**	7,607
– Amounts due from subsidiaries (Note 25)	**84,467**	–
	128,567	29,819

16. Earnings/(Loss) Per Share

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

	2009	2008
	HK$'000	HK$'000
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year attributable to equity holders of the Company)	**(49,763)**	68,665

	2009	2008
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	**1,905,000**	1,801,721

The diluted earnings/(loss) per share are the same as basic earnings/(loss) per share for the years ended 31 December 2008 and 2009 because the exercise prices of the Company's share options were higher than the average market price for shares.

17. Property, Plant and Equipment

(a) The Group

	Buildings	Constructed roads	Medical equipment	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
At 1 January 2008	6,802	–	418	2,596	2,830	12,646
Additions	4,678	6,786	–	842	4,597	16,903
Transfer from construction in progress (Note 18)	7,118	–	–	–	–	7,118
Disposals	–	–	–	(41)	(442)	(483)
Exchange adjustments	422	–	6	102	166	696
At 31 December 2008	19,020	6,786	424	3,499	7,151	36,880
At 1 January 2009	19,020	6,786	424	3,499	7,151	36,880
Additions	2,120	5,763	–	283	451	8,617
Reclassification	–	3,276	–	–	(3,276)	–
Reclassification from intangible assets (Note 21)	848	–	–	–	–	848
Disposals	–	–	–	(803)	–	(803)
Exchange adjustments	–	–	–	2	2	4
Deconsolidation of a subsidiary (Note 2)	(16,429)	–	–	(615)	(2,441)	(19,485)
Transferred to disposal group classified as assets held for sale (Note 12(a))	–	–	–	(510)	(1,036)	(1,546)
At 31 December 2009	**5,559**	**15,825**	**424**	**1,856**	**851**	**24,515**

17. Property, Plant and Equipment *(Continued)*

(a) The Group *(continued)*

	Buildings HK$'000	Constructed roads HK$'000	Medical equipment HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
Aggregate depreciation						
At 1 January 2008	893	–	371	2,044	1,959	5,267
Charge for the year	444	151	7	365	465	1,432
Write-back on disposal	–	–	–	(31)	(433)	(464)
Exchange adjustments	59	–	4	79	118	260
At 31 December 2008	1,396	151	382	2,457	2,109	6,495
At 1 January 2009	1,396	151	382	2,457	2,109	6,495
Charge for the year	159	124	7	362	182	834
Write-back on disposal	–	–	–	(803)	–	(803)
Exchange adjustments	–	–	–	2	1	3
Deconsolidation of a subsidiary (Note 2)	(1,387)	–	–	(616)	(1,143)	(3,146)
Transferred to disposal group classified as assets held for sale (Note 12(a))	–	–	–	(510)	(812)	(1,322)
At 31 December 2009	**168**	**275**	**389**	**892**	**337**	**2,061**
Net book value						
At 31 December 2009	**5,391**	**15,550**	**35**	**964**	**514**	**22,454**
At 31 December 2008	17,624	6,635	42	1,042	5,042	30,385

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17. Property, Plant and Equipment *(Continued)*

(b) The Company

	Motor vehicles HK$'000	**Computer equipment** HK$'000	**Total** HK$'000
Cost			
At 1 January 2008	803	115	918
Additions	–	37	37
At 31 December 2008	803	152	955
At 1 January 2009	803	152	955
Additions	–	37	37
Disposals	(803)	–	(803)
At 31 December 2009	**–**	**189**	**189**
Aggregate depreciation			
At 1 January 2008	803	115	918
Charge for the year	–	7	7
At 31 December 2008	803	122	925
At 1 January 2009	803	122	925
Charge for the year	–	15	15
Write-back on disposal	(803)	–	(803)
At 31 December 2009	**–**	**137**	**137**
Net book value			
At 31 December 2009	**–**	**52**	**52**
At 31 December 2008	–	30	30

During the year ended 31 December 2008, the buildings of Medical Equipment Subsidiary of approximately HK$15,042,000 have been pledged to secure general banking facilities and borrowings granted to the Group. Such amount was deconsolidated for the year ended 31 December 2009 as disclosed in Note 2 to the financial statements.

17. Property, Plant and Equipment *(Continued)*

The buildings of the Group are situated as follows:

	2009 HK$'000	2008 HK$'000
PRC	**41**	15,086
Cambodia	**5,350**	2,538
	5,391	17,624

18. Construction in Progress

	The Group		The Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Balance at beginning of the year	**31,950**	18,189	**3,400**	–
Additions	**3,168**	19,755	**–**	3,400
Transfer to property, plant and equipment (Note 17)	**–**	(7,118)	**–**	–
Exchange adjustments	**49**	1,124	**–**	–
Written off				
– Transferred to consolidated statement of comprehensive income	**(2,600)**	–	**(2,600)**	–
– Transferred to other payables	**(800)**	–	**(800)**	–
Loss on re-measurement to fair value (Note 12(b))	**(17,936)**	–	**–**	–
Transferred to disposal group classified as assets held for sale (Note 12(a))	**(13,831)**	–	**–**	–
Balance at end of the year	**–**	31,950	**–**	3,400

During the year ended 31 December 2008, the Group recognised an addition of HK$3,400,000 in respect of setting up its own telecommunication system in the forest area of Cambodia for the forestry exploitation business and the Group has paid HK$2,600,000 for the project. The balance payment of HK$800,000 was included in other payables.

During the year ended 31 December 2009, the management of the Group decided to cease to set up its own telecommunication system but to use the service of an existing telecommunication operator in Cambodia, who can provide the network to cover the forest area. Accordingly, the whole cost of the project of HK$3,400,000 has been written off and the cash payment of HK$2,600,000 has been recognised as an expense in the consolidated statement of comprehensive income for current year. The remaining payable of HK$800,000 has been written off against other payables.

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19. Investments in Subsidiaries

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost		
At beginning of the year	**540,433**	268,872
Additions	**–**	271,561
At end of the year	**540,433**	540,433
Impairment		
At beginning of the year	**15,144**	7,537
Impairment loss recognised	**26,869**	7,607
At end of the year	**42,013**	15,144
Carrying value	**498,420**	525,289

The principal activities and other particulars of the subsidiaries are set out in Note 38.

20. Prepaid Lease Payments

	2009	2008
	HK$'000	HK$'000
Cost		
At beginning of the year	**3,001**	2,826
Exchange adjustments	**3**	175
Deconsolidation of a subsidiary (Note 2)	**(1,366)**	–
Transferred to disposal group classified as assets held for sale (Note 12(a))	**(1,638)**	–
At end of the year	**–**	3,001
Accumulated amortisation		
At beginning of the year	**416**	263
Charge for the year	**91**	135
Exchange adjustments	**–**	18
Deconsolidation of a subsidiary (Note 2)	**(234)**	–
Transferred to disposal group classified as assets held for sale (Note 12(a))	**(273)**	–
At end of the year	**–**	416
Carrying value	**–**	2,585

During the year ended 31 December 2008, the prepaid lease payments of Medical Equipment Subsidiary of carrying value approximately HK$1,132,000 have been pledged to secure general banking facilities and borrowings granted to the Group. Such amount was deconsolidated for the year ended 31 December 2009 as disclosed in Note 2.

21. Intangible Assets

	Forest exploitation rights HK$'000	Medical research projects HK$'000	Others HK$'000	Total HK$'000
Cost				
At 1 January 2008	262,960	84,152	2,648	349,760
Additions				
– through acquisition of a subsidiary	270,000	–	–	270,000
– by the Group	2,207	–	–	2,207
Disposals	(26,391)	–	–	(26,391)
Exchange adjustments	–	133	162	295
At 31 December 2008 and 1 January 2009	508,776	84,285	2,810	595,871
Exchange adjustments	–	3	–	3
Reclassification to				
– property, plant and equipment (Note 17)	(848)	–	–	(848)
– other receivables	(1,170)	–	–	(1,170)
Deconsolidation of a subsidiary (Note 2)	–	–	(2,810)	(2,810)
Transferred to disposal group classified as assets held for sale (Note 12(a))	–	(84,288)	–	(84,288)
At 31 December 2009	**506,758**	**–**	**–**	**506,758**
Accumulated amortisation				
At 1 January 2008	3,757	57,292	1,550	62,599
Impairment loss recognised	–	9,600	–	9,600
Charge for the year	7,332	–	398	7,730
Write-back on disposal	(376)	–	–	(376)
Exchange adjustments	–	–	99	99
At 31 December 2008 and 1 January 2009	10,713	66,892	2,047	79,652
Loss on re-measurement to fair value (Note 12(b))	–	1,799	–	1,799
Charge for the year	7,238	–	–	7,238
Deconsolidation of a subsidiary (Note 2)	–	–	(2,047)	(2,047)
Transferred to disposal group classified as assets held for sale (Note 12(a))	–	(68,691)	–	(68,691)
At 31 December 2009	**17,951**	**–**	**–**	**17,951**
Carrying value				
At 31 December 2009	**488,807**	**–**	**–**	**488,807**
At 31 December 2008	498,063	17,393	763	516,219

21. Intangible Assets *(Continued)*

Forest exploitation rights

The Group firstly acquired an exclusive right to exploit the forest located in Kratie District, Kratie Province, Cambodia (the "First Forest") for a period of 70 years during the year ended 31 December 2008. The Group further acquired additional exclusive right to exploit the forest located adjacent to the First Forest during the year ended 31 December 2008.

Amortisation of forest exploitation rights are charged to profit or loss on the straight-line basis over the assets' estimated useful lives of 70 years. At 31 December 2009, the directors of the Company reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on the assessment and the valuation report, the directors are of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

22. Acquisition of a Subsidiary

On 8 July 2008, Forest Glen Group Limited, a wholly-owned subsidiary of the Company, acquired the entire equity interest of Agri-Industrial Crop Development Company Limited for a total consideration of HK$270,000,000. The fair values of the net assets acquired were as follows:

	Fair value to the Group
	HK$'000
Intangible assets – Forest exploitation rights	270,000
Satisfied by:	
Cash	80,000
Bonds (Note 28)	70,000
Consideration shares (Note 29)	120,000
Total consideration	270,000

The above acquisition has been accounted for as acquisition of assets.

23. Inventories

	2009 HK$'000	2008 HK$'000
Raw materials	69	3,646
Work in progress	–	2,468
Finished goods	1,811	7,461
Transferred to disposal group classified as assets held for sale (Note 12(a))	(84)	–
	1,796	13,575

An analysis of the amount of inventories recognised as expense is as follows:

	2009 HK$'000	2008 HK$'000
Carrying amount of inventories sold	161	20,965

24. Trade and Other Receivables

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors	**169**	8,940	**–**	–
Less: Allowance for doubtful debts	**(169)**	(4,228)	**–**	–
	–	4,712	**–**	–
Other receivables, deposits and prepayments	**27,823**	101,884	**156**	–
Deposits paid	**132**	81	**82**	32
Amount due from Chinese Partner	**–**	5,840	**–**	–
Transferred to disposal group classified as assets held for sale (Note 12(a))	**(84)**	–	**–**	–
Loans and receivables	**27,871**	112,517	**238**	32

All of the trade receivables are expected to be recovered or recognised as an expense within one year.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as at the balance sheet date:

	2009	2008
	HK$'000	HK$'000
Within 3 months from the date of billing	**–**	4,031
3 to 6 months from the date of billing	**–**	13
6 to 12 months from the date of billing	**–**	668
	–	4,712

24. Trade and Other Receivables *(Continued)*

Ageing of trade receivables which are past due but not impaired:

	2009	2008
	HK$'000	HK$'000
Less than one month overdue	**–**	287
One to three months overdue	**–**	246
Over three months overdue	**–**	4,003
	–	4,536

Movement in the allowance for doubtful debts:

	2009	2008
	HK$'000	HK$'000
Balance at beginning of the year	**4,228**	6,097
Amounts written off as uncollectible during the year	**48**	1,790
Amounts recovered during the year	**–**	(3,246)
Exchange adjustments	**(5)**	(413)
Deconsolidation of a subsidiary	**(4,060)**	–
Transferred to disposal group classified as assets held for sale	**(42)**	–
Balance at end of the year	**169**	4,228

The average credit period on sales of goods is 30 to 90 days.

Receivables neither past due nor impaired relate to a wide range of customers for whom there has been no recent history of default. Receivables that were past due but not impaired relate to several number of independent customers that have a good track record with the Group.

Other receivables of the Group mainly represented the balance of receivables for the sub-concession of 10% forest exploitation right in respect of the First Forest as disclosed in Note 8(a).

25. Amounts due from Subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amount due from Medical China Technology Ltd. of approximately HK$84,467,000 has been impaired for the year pursuant to a waiver agreement signed on 2 March 2010, in respect of the disposals as disclosed in Note 35.

26. Trade and Other Payables

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**–**	8,120	**–**	–
Other payables and accrued liabilities	**9,138**	19,065	**3,004**	2,170
Deposits received	**7,500**	–	**7,500**	–
Amount due to Chinese Partner (Note 2)	**–**	2,267	**–**	–
Amount due to non-controlling shareholder (Note 34)	**20,975**	20,975	**–**	–
Transferred to disposal group classified as liabilities held for sale (Note 12(a))	**(24,010)**	–	**–**	–
Financial liabilities measured at amortised cost	**13,603**	50,427	**10,504**	2,170

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as at the balance sheet date:

	2009	2008
	HK$'000	HK$'000
Due within 3 months or on demand	**–**	6,590
Due after 3 months but within 6 months	**–**	118
Due after 6 months but within 1 year	**–**	1,412
	–	8,120

The amount of deposits received represented the first payment received from the potential buyer for the disposal group as disclosed in Notes 12 and 34.

27. Amounts due to Subsidiaries

The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

28. Bonds

On 8 July 2008, the Company issued HK$70,000,000 bonds as part of the consideration for the acquisition of Agri-Industrial Crop Development Company Limited. The bonds are unsecured, interest bearing at 2% per annum and repayable on 7 July 2010. Subsequent to the balance sheet date, the bonds were fully repaid on 4 January 2010.

29. Share Capital

	2009		2008	
	No. of shares '000	**Amount HK$'000**	No. of shares '000	Amount HK$'000
Shares of HK$0.01 each				
Authorised				
At beginning and end of the year	**5,000,000**	**50,000**	5,000,000	50,000
Issued and fully paid				
At beginning of the year	**1,905,000**	**19,050**	1,705,000	17,050
Issue of shares	**–**	**–**	200,000	2,000
At end of the year	**1,905,000**	**19,050**	1,905,000	19,050

On 8 July 2008, the Company increased its amount of share capital to HK$19,050,000 by issuing of 200,000,000 consideration shares of HK$0.01 each for the acquisition of Agri-Industrial Corp Development Company Limited (Note 22).

30. Reserves

The Company

	Share premium HK$'000	Contributed surplus HK$'000	Share options Reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2008	379,783	5,265	1,875	(45,588)	341,335
Transactions with owners					
Issue of shares	118,000	–	–	–	118,000
Recognition of equity-settled share based payments	–	–	4,448	–	4,448
Lapse of share options	–	–	(188)	188	–
Total transactions with owners	118,000	–	4,260	188	122,448
Comprehensive income					
Loss for the year (Note 15)	-	-	-	(29,819)	(29,819)
At 31 December 2008	497,783	5,265	6,135	(75,219)	433,964
At 1 January 2009	**497,783**	**5,265**	**6,135**	**(75,219)**	**433,964**
Transactions with owners					
Issue of shares	**–**	**–**	**–**	**–**	**–**
Recognition of equity-settled share based payments	**–**	**–**	**3,951**	**–**	**3,951**
Lapse of share options	**–**	**–**	**(889)**	**889**	**–**
Total transactions with owners	**–**	**–**	**3,062**	**889**	**3,951**
Comprehensive income					
Loss for the year (Note 15)	**–**	**–**	**–**	**(128,567)**	**(128,567)**
At 31 December 2009	**497,783**	**5,265**	**9,197**	**(202,897)**	**309,348**

31. Commitments

Capital commitments

Capital commitments outstanding at 31 December 2009 contracted but not provided for in the financial statements were as follows:

	2009 HK$'000	2008 HK$'000
Property, plant and equipment	3,922	5,568
Continuing operations	–	–
Discontinued operations	3,922	5,568
	3,922	5,568

Operating lease commitments

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2009 HK$'000	2008 HK$'000
Within 1 year	250	206
After 1 year but within 5 years	54	48
After 5 years	252	255
	556	509
Continuing operations	535	490
Discontinued operations	21	19
	556	509

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one or two years, with options to renew the lease when all terms are renegotiated. The leases do not include contingent rentals.

32. Employee Retirement Benefits

Defined contribution retirement plan

Hong Kong

The Group operates a defined contributed Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by a defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to profit or loss as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in profit or loss of the Group is disclosed in Note 10 of the financial statements.

33. Share-Based Payment Transactions

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 14 December 2001 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 13 December 2011. Under the Scheme, the Board may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

33. Share-Based Payment Transactions *(Continued)*

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 57,500,000 (2008: 72,000,000), representing 3.02% (2008: 3.78%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant of an option. Options may be exercised on the second anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Date of grant	**Exercise period**	**Exercise price**	**Fair value at grant date**
		HK$	HK$
Directors			
12 October 2007	12 October 2009 to 13 October 2011	0.45	0.23
31 March 2008	31 March 2010 to 31 March 2012	0.21	0.085
Employees			
12 October 2007	12 October 2009 to 13 October 2011	0.45	0.23
31 March 2008	31 March 2010 to 31 March 2012	0.21	0.085

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2007 and 31 December 2008 vested on the second anniversary of the date of grant.

33. Share-Based Payment Transactions *(Continued)*

The fair value of the share options granted during the financial year is approximately HK$3,951,000 (2008: HK$4,448,000) each. Options were priced using a binomial option pricing model ("Binominal model"). Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past two years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

Inputs in the model:

Date of grant	31/3/2008	12/10/2007
Grant date share price	0.206	0.43
Exercise price	0.210	0.45
Expected volatility	18.55%	101.49%
Option life	2 years	2 years
Risk-free interest rate	1.837%	4.17%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years from the date of grant.

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

The following table discloses movements of the Company's share options held by employees and directors during the year.

Date of Grant	Outstanding at 1/1/2008	Granted during the year	Lapsed during the year	Outstanding at 31/12/2008	Lapsed during the year	Outstanding at 31/12/2009
	'000	'000	'000	'000	'000	'000
12/10/2007	40,000	–	(4,000)	36,000	(4,000)	32,000
31/3/2008	–	36,000	–	36,000	(10,500)	25,500
	40,000	36,000	(4,000)	72,000	(14,500)	57,500

34. Material Related Party Transactions

Transactions and balances

The Group had the following significant business transactions and balances with connected parties and related companies which are subject to common control during the year:

	Note	2009 HK$'000	2008 HK$'000
Salary paid to a former director	(i)	**152**	–
Management fee paid to a related company	(i)	**19**	–
Rental paid to a related company	(i)	**156**	–
Amount due from Chinese Partner	(ii)	**–**	5,840
Amount due to Chinese Partner	(ii)	**(2,371)**	(2,267)
Management fee paid to Chinese Partner		**–**	1,709
Amount due to non-controlling shareholder	(iii)	**20,975**	20,975

Note:

(i) The Group paid salary of approximately HK$152,000 to a former director, Mr. Li Wo Hing, who is also a substantial shareholder of the Company, during the year ended 31 December 2009. The Group also paid rental and building management fees to a Company of which Mr. Li Wo Hing is a director and has equity interest, during the year.

(ii) The Group received an amount of approximately HK$2,371,000 from the Chinese Partner of Medical Equipment Subsidiary during the year ended 31 December 2008 as general advance disclosed in Note 2. The amount due from Chinese Partner of approximately HK$5,840,000 has been deconsolidated upon the deconsolidation of Medical Equipment Subsidiary as disclosed in Note 2.

(iii) The Group had a payable to other non-controlling shareholder, namely, Ms. Guo Ping, of approximately HK$20,975,000. Ms. Guo Ping is a non-controlling shareholder of Medical China Technology Ltd..

Apart from the above, there were no other material related party transactions entered into by the Group during the year.

Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 13 and certain of the highest paid employees as disclosed in Note 14, are as follows:

	2009 HK$'000	2008 HK$'000
Short-term employee benefits	**1,609**	1,215
Share based payments	**2,198**	1,302
	3,807	2,517

Total remuneration is included in staff costs (Note 10).

35. Post Balance Sheet Events

- The Company announced on 2 March 2010 that it has entered into conditional agreements to sell its interest in two subsidiaries engaged in research and development of drugs business in the PRC, namely the entire registered capital of CB Pharmaceutical (Nanjing) Co., Ltd. (南京神州佳美製藥有限公司) and 75% of the entire issued capital of Medical China Technology Ltd., for a cash consideration of HK$12,000,000.

- The Company announced on 5 March 2010 that it has approved an open offer of two offer shares for five existing shares held on record date of 24 March 2010. The proposed open offer is for a maximum of 762,000,000 shares at a price of HK$0.02 per share to raise gross proceeds of not more than HK$15,240,000 (before issue expenses). The proposed open offer is not underwritten.

36. Capital Risk Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior year.

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness divided by the equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

The gearing ratio of the Group was 0.1% as at 31 December 2009 (2008: 13.6%). The improving gearing ratio in the financial year was due to the deconsolidation of the Medical Equipment Subsidiary as detailed in Note 2 to the financial statements. Bonds issued by the Group as part of the purchase consideration for a forest in Cambodia had been paid down to HK$3,700,000 at 31 December 2009 (2008: HK$70,000,000).

The Board believes the existing gearing ratio of 0.1% is reasonable considering the cost of capital and the risks associated with each class of capital.

37. Financial Instruments

(a) Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents	**37,307**	160,931
Financial liabilities		
Amortised cost	**13,603**	133,467

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash at bank and on hand, trade and other payables, bank borrowings and bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

Market risk

(a) Foreign exchange risk

The Group exposures to market risk primarily arise from the effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with RMB. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

37. Financial Instruments *(Continued)*

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

Market risk (Continued)

(a) Foreign exchange risk *(Continued)*

The Group does not hedge its foreign currency risks with US dollar as the rate of exchange between Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on the consolidated financial statements.

As at 31 December 2009, the Group had no outstanding hedging instruments (2008: Nil).

(b) Interest rate risk

The Group's explosure to fair value interest rate risk arises primarily from bank loans chargeable at variable rates that expose the company to uncertainty on interest expenses and bond chargeable at fixed rate that provide a comfortable zone in controlling the overall interest expenses. The Group's policy is to minimize the borrowings at variable interest rates in the interest rate profile. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (as defined above) at the balance sheet date:

	2009 Effective interest rate %	**2009** HK$'000	2008 Effective interest rate %	2008 HK$'000
Net fixed rate borrowings:				
Bonds	**2.0%**	**3,700**	2.0%	70,000
Variable rate borrowings:				
Bank borrowings	**7.05%**	**–**	7.05%	13,040
Total net borrowings		**3,700**		83,040

37. Financial Instruments *(Continued)*

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

Market risk (Continued)

(b) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of one per cent in interest rates, with all other variables held constant, would decrease/increase the Group's profit/(loss) and retained profits by approximately Nil (2008: $130,400). Other components of equity would not be affected (2008: Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one per cent increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances. The Group cash flow interest rate is mainly concentrated on the fluctuation of the saving interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

Credit risk

The carrying amount of trade and other receivables included in the consolidated balance sheet represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

37. Financial Instruments *(Continued)*

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

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or form external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

Reference is made to the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership on Medical Equipment Subsidiary.

The Company consulted PRC lawyers as to the appropriate actions to protect its interest in Medical Equipment Subsidiary and implemented the necessary steps to formally re-register the Company as a 65% equity owner of Medical Equipment Subsidiary. Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish a special investigation committee (the "Special Investigation Committee") (comprising Mr. Leung Sze Yuan, Alan, an executive director, Mr. Tam Wai Leung, Joseph, an independent non-executive director, and Mr. Chan Kim Chung, Daniel, an independent non-executive director) for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Company. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants and legal advisers) to assist in the course of its investigation and internal review, and report to the Board its findings. As at the date of this report, the Special Investigation Committee appointed Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control system of all relevant financial, operational, compliance controls and risk management functions.

37. Financial Instruments *(Continued)*

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

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table shows the details of the Group's expected maturity of the financial instruments.

	2009				
	Weighted average effective interest rate %	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Bonds	**2.00**	**3,700**	**–**	**–**	**3,700**
Bank	**–**	**–**	**–**	**–**	**–**
		3,700	**–**	**–**	**3,700**

	2008				
	Weighted average effective interest rate %	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Bonds	2.00	670	72,121	72,791	70,000
Bank	7.05	13,899	–	13,899	13,040
		14,569	72,121	86,690	83,040

Save as disclosed in Note 2 to the financial statements about the potential dispute over the ownership in Medical Equipment Subsidiary, the bank loans of $13,040,000 were deconsolidated from the Group's account. Subsequently, the buildings and leasehold land assets of the Group were not being pledged to the banks as at 31 December 2009.

37. Financial Instruments *(Continued)*

(c) Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

(d) Other risks

The Group's sales, purchases and expense transactions are generally denominated in USD and RMB and a significant portion of the Group's assets and liabilities is denominated in USD and RMB. The USD is pegged and fixed within a range. The RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittances.

Notes to the Financial Statements

For the year ended 31 December 2009

38. Particulars of Principal Subsidiaries of the Company

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital/paid-in capital	Registered capital	Principal activities	Note
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	–	US$20,000	US$50,000	Investment holding	
Tat Lung Medical Treatment Technology Limited	Hong Kong	100%	–	100%	HK$142,900	HK$142,900	Investment holding	
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	–	US$300,000	US$300,000	Development of software for medical equipment	(i)
China Best Drugs Research (Nanjing) Ltd.	PRC	75%	–	100%	US$3,000,000	US$3,000,000	Research and development of medicine and drugs	(ii)
Sinnowa Medical Science and Technology Co. Ltd.	PRC	65%	65%	–	US$1,500,000	US$1,500,000	Manufacture and sale of medical equipment	(iii)
Medical China Technology Ltd.	B.V.I.	75%	75%	–	US$100	US$50,000	Investment holding	
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US$5,000,000	US$5,000,000	Manufacture and sale of medicine and drugs	(iv)
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	–	US$1,000,000	US$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage	(v)
China Cambodia Resources Limited	B.V.I	100%	100%	–	US$1	US$50,000	Investment holding	(vi)
(Cambodia) Tong Min Group Engineering Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	(vii)
Forest Glen Group Ltd.	B.V.I	100%	100%	–	US$1	US$50,000	Investment holding	(viii)
Agri-Industrial Crop Development Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	(ix)

38. Particulars of Principal Subsidiaries of the Company *(Continued)*

Note:

(i) The subsidiary is a wholly foreign-owned enterprise set up to provide medical equipment, medical equipment software and related services.

(ii) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC and was set up to establish a research center for medicine and drugs. Pursuant to a research projects acquisition and reorganisation agreement with Miss Guo Ping ("Miss Guo") dated 6 December 2002, the subsidiary acquired certain medical research projects from Miss Guo. Upon the completion of the reorganisation, the Group retained a 75% shareholding in the subsidiary while the remaining 25% shareholding was held by Miss Guo. The Group decided to dispose of this subsidiary in order to concentrate its resources to the forestry exploitation business.

(iii) The subsidiary is a sino-foreign enterprise set up to establish a medical equipment production line in Nanjing, the PRC. As at 31 December 2009 and 2008, the Company's total investment in this subsidiary amounted to US$975,000. Details of the potential dispute on the ownership of this subsidiary are set out in Note 2.

(iv) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC. During the year ended 31 December 2008, the Company injected US$200,000 as capital contribution. 南京德遠會計師事務所 verified the capital contribution and issued the capital verification report on 10 June 2008. As at 31 December 2009, the Company's total investment in this subsidiary amounted to US$5,000,000. The Group decided to dispose of this subsidiary in order to concentrate its resources to the forestry exploitation business.

(v) The subsidiary is a wholly foreign-owned enterprise established in Guilin, the PRC. As at 31 December 2009, the Company's total investment in this subsidiary amounted to US$1,000,000.

(vi) The subsidiary was incorporated on 26 June 2007 and is the holding company of (Cambodia) Tong Min Group Engineering Co., Ltd

(vii) The subsidiary is a wholly foreign-owned enterprise established in Cambodia. It undertakes logging/timber operations and is in the process of developing the forest areas into rubber plantation for the production of latex products.

(viii) The subsidiary was incorporated on 30 January 2008 and is the holding company of Agri-Industrial Crop Development Co., Ltd.

(ix) The subsidiary is a wholly foreign-owned enterprise established in Cambodia, and was acquired by the Group on 8 July 2008 for an aggregate consideration of HK$270,000,000 (Note 20). It is currently an investment company with no actual operation took place during the years ended 31 December 2009 and 31 December 2008.

Five Years Summary

	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009** **HK$'000**
Results					
Turnover	36,081	34,979	38,443	47,927	**3,955**
Profit/(loss) from operations	(2,000)	(26,472)	(21,630)	89,122	**(48,382)**
Provision for a potential loss of a subsidiary	–	–	–	(15,655)	**–**
Finance costs	(301)	(271)	(244)	(972)	**(1,381)**
Profit/(loss) before taxation	(2,301)	(26,743)	(21,874)	72,495	**(49,763)**
Taxation	–	(211)	(24)	(1,500)	**–**
Profit/(loss) for the year from continuing operation	(2,301)	(26,954)	(21,898)	70,995	**(49,763)**
Attributable to:					
Equity holders of the Company	(2,167)	(29,378)	(21,989)	68,665	**(49,763)**
Non-controlling interests	(134)	2,424	91	2,330	**–**
	(2,301)	(26,954)	(21,898)	70,995	**(49,763)**
Assets and liabilities					
Property, plant and equipment	8,842	7,473	7,379	30,385	**22,678**
Biological assets	–	2,426	88	–	**–**
Construction in progress	760	6,447	18,189	31,950	**13,830**
Prepaid lease payments	2,303	2,509	2,563	2,585	**1,365**
Intangible assets	57,983	28,090	287,161	516,219	**504,404**
Net current assets	54,300	53,814	89,760	93,418	**6,781**
Bonds	–	–	–	(70,000)	**(3,700)**
Net assets	124,188	100,759	405,140	604,557	**545,358**
Share capital	8,350	8,350	17,050	19,050	**19,050**
Reserves	112,104	86,070	381,215	575,856	**526,308**
	120,454	94,420	398,265	594,906	**545,358**
Non-controlling interests	3,734	6,339	6,875	9,651	**–**
Total equity	124,188	100,759	405,140	604,557	**545,358**
Earnings/(loss) per share (in Hong Kong cents)					
Basic	(0.26)	(3.52)	(2.12)	3.81	**(2.61)**
Diluted	(0.26)	(3.52)	(2.12)	3.81	**(2.61)**