Bio Cassava

# China Bio Cassava Holdings Limited
# 中國生物資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8129)

## 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 than other 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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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Kwan Kin Chung *(Managing Director)*
Mr. Tam Kam Biu William
Mr. Wan Xiaolin
Mr. Chen Man Lung

## NON-EXECUTIVE DIRECTORS

Mr. Leung Lap Yan *(Chairman)*
Mr. Leung Lap Fu Warren

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Shiu Kwok Keung

## COMPLIANCE OFFICER

Mr. Tam Kam Biu William

## AUDIT COMMITTEE

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Shiu Kwok Keung

## REMUNERATION COMMITTEE

Mr. Tam Kam Biu William
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

## AUTHORISED REPRESENTATIVES

Mr. Kwan Kin Chung
Mr. Tam Kam Biu William

## COMPANY SECRETARY

Ms. Chan Pui Chi

## QUALIFIED ACCOUNTANT

Mr. Tam Kam Biu William

## AUDITORS

ZHONGLEI (HK) CPA Company Limited
Suites 216-218, 2/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

## REGISTERED OFFICE

P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands
British West Indies

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6/F, Culturecom Centre
47 Hung To Road
Kwun Tong
Kowloon
Hong Kong

# Corporate Information

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18/F.
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

## LEGAL ADVISERS

*as to Hong Kong law*
S.H. Leung & Co.
Room 502
5th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

*as to Cayman Islands law*
Maples and Calder
53rd Floor The Center
99 Queen's Road Central
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
673 Nathan Road
Mongkok, Kowloon
Hong Kong

Citibank (Hong Kong) Limited
8/F, Dorset House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

## STOCK CODE

8129

## WARRANT CODE

8187

## WEBSITE ADDRESS

www.bio-cassava.com

# Management's Discussion and Analysis

## HIGHLIGHTS OF THE YEAR

The Group recorded turnover of approximately HK$5,808,000 for the year ended 31 December 2010, representing an increase of 2.4% from the previous year.

The Group recorded approximately HK$590,000 of OEM licensing revenue in 2010, representing a decrease of 19.2% from 2009 of approximately HK$730,000. OEM licensing revenue in 2010 represents approximately 10.2% of revenue for the year, as compared to that of approximately 12.9% in 2009. Q9 CIS and Qcode CIS package sales and software licensing revenue from institution customers was approximately HK$4,689,000 in 2010, representing an increase of 17.4% from 2009 of approximately HK$3,995,000. Sales of third party products was approximately HK$529,000 in 2010, representing a decrease of 44.2% from 2009 of approximately HK$948,000.

The Group recorded a loss attributable to owners of the Company for the year 2010 of approximately HK$5,425,000 (2009: HK$13,581,000). The Group's total operating expenses in 2010 were decreased by approximately HK$7,587,000 or 39.5% from 2009.

## RESULTS

The consolidated revenue of the Company and its subsidiaries for the year ended 31 December 2010 was amounted to approximately HK$5,808,000, representing an increase of 2.4% from the previous year. Loss attributable to owners of the Company was approximately HK$5,425,000 in 2010 as compared to the loss of approximately HK$13,581,000 in 2009. The loss per share in 2010 was HK0.07 cent (2009: HK0.17 cent).

## REVIEW OF OPERATIONS

During the year, the Group increased its selling and distribution expenses and research and development expenses by 0.4% and 32.7% respectively. On the other hand, the Group reduced its general and administrative expenses and other operating expenses by 38.6% and 84.8% respectively. As a result, the total operating expenses in 2010 were decreased by approximately HK$7,587,000 or 39.5% from 2009.

## OTHER MAJOR EVENT

On 16 September 2010, the Company entered into a non-binding letter of intent (the "Letter of Intent") with Mr. Li Gaohua (the "Vendor") as proposed vendor and Chengdu Chenming Electric Vehicles Manufacturing Co., Ltd. (成都晨明電動車輛製造有限公司) ("Chengdu Chenming") in relation to the possible acquisition of the entire share capital of Asia World Capital Investment Holdings Limited (the "Target") ("Possible Acquisition"). It is expected that the Target, through its wholly owned subsidiary, will enter into a sino-equity joint venture with Chengdu Chenming for production and manufacturing of electric vehicles in the People's Republic of China. On 18 January 2011, the Company entered into a letter of confirmation with the Vendor and Chengdu Chenming where, it was agreed, among other things, that the validity of the Letter of Intent was extended to 16 April 2011. As at the date of this annual report, the terms and conditions of the Possible Acquisition have not yet been finalised and no agreement has been signed by the parties.

The details are set out in the announcements of the Company dated 21 September 2010, 17 December 2010 and 18 January 2011.

# Management's Discussion and Analysis

## EVENT AFTER THE REPORTING PERIOD

### Private placing of listed warrants

In February 2011, the Company issued 800,000,000 listed warrants by the way of private placing at the issue price of HK$0.01 each conferring the rights to subscribe for one new share of the Company at the subscription price of HK$0.059 up to an aggregate amount of HK$47,200,000 during the period from 18 February 2011 to 17 February 2013 (both days inclusive).

The details are set out in the announcements of the Company dated 29 December 2010 and 16 February 2011 and the listing documents dated 24 January 2011.

## PROSPECTS

The focus of the Group's efforts for the year 2011 will continue to explore new business opportunities to derive new sources of revenue, and continue its marketing effort in promoting Q9 CIS to OEM customers and the end user markets with minimum resources.

## COMMITMENTS

The Group has no credit facilities and no borrowing outstanding as at 31 December 2010 (2009: Nil).

### (a) Capital commitments

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **–** | 2,738 |

### (b) Commitments under operating leases

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,112** | 928 |
| In the second to the fifth year inclusive | **803** | 17 |
| | **1,915** | 945 |

**(c) Other commitment**

At 31 December 2010, the Group had no other commitment (2009: Nil).

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has no interest bearing debt. The Group relies on its internal resources, the net proceeds from its IPO and the subsequent issue of warrants and rights issue as the sources of funding. The Group keeps most of its cash in Hong Kong dollars in the bank accounts and a minimum amount of cash in Renminbi in the bank account of its subsidiary in the PRC as working capital of the Group.

There was no charge on the Group's assets as at 31 December 2010 (2009: Nil).

The Group had no debt as at 31 December 2010 (2009: Nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil as at 31 December 2010 (2009: Nil).

## ORDER BOOK

Due to the nature of the Group's business, the Group does not maintain an order book (prospects for new business was discussed in the Management's Discussion and Analysis section).

## INVESTMENT

There was no significant investment made during the year.

## DISPOSAL OF A SUBSIDIARY

On 28 January 2010, Q9-Tech Energy Development Limited, a wholly owned subsidiary of the Company, as vendor, Deng Jiankun, Xie Yueyuan and Deng Jing, collectively as purchasers, and 羅定市豐智發展有限公司 (Luoding Fengzhi Development Company Limited)* as guarantor entered into a sale and purchase agreement regarding discloseable transaction. Pursuant to the sale and purchase agreement, the purchasers agreed to purchase and the vendor agreed to sell the entire equity interest in 雲浮市九方農業科技發展有限公司 (Yunfu City Jiufang Agriculture Science and Technology Development Company Limited)*, a wholly owned subsidiary of the Company, at a cash consideration of RMB2,000,000 (approximately HK$2,298,851). The details are set out in the Company's announcement dated 28 January 2010.

Save as disclosed above, the Group did not have any other material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31 December 2010.

## HUMAN RESOURCES

### Staff number

As at 31 December 2010, the Group employed 30 staff (2009: 29). Total staff costs, including directors' emoluments were approximately HK$4.8 million for the year ended 31 December 2010 as compared with those of approximately HK$5.8 million in 2009.

### Remuneration policies

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share options may be granted to the eligible staff by reference to the Group's performance as well as individual's performance.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the year, other than the aforesaid Possible Acquisition, the Group does not have any present plan for material investments or capital assets. The Group will focus its efforts in promoting existing products, Q9 CIS Chinese and English version, to OEM customers in the Greater China region.

The Group will continue to look for new business opportunities to diversify the scope of business, which requires minimum investment in capital assets.

* English name for identification purposes only

## HEDGING POLICY

The Group does not have any material exposure to fluctuations in exchange or interest rates. Therefore, no hedging measures have been taken at present.

## CONTINGENT LIABILITIES

The Group does not have any contingent liabilities as at 31 December 2010 (2009: Nil).

## CREDIT POLICY

The credit terms given to customers are generally based on the financial strengths of individual customers. The Group generally allows an average credit term of 30 – 90 days to its trade customers.

## SEGMENTAL INFORMATION

Details of the segmental information are set out in Note 5 to the consolidated financial statements.

# Chairman's Statement

Dear Shareholders,

During the past year, the Group attempted to diversify into other business areas to derive new and steady source of income to the Group, and entered into the Letter of Intent with a third party to acquire the entire share capital of Asia World Capital Investment Holdings Limited at the proposed consideration of HK$40,000,000 which was announced on 21 September 2010.

We continue to negotiate the terms of the acquisition with the third party, and make an announcement regarding the outcome of the negotiation.

The Group will continue to use its best efforts in the promotion of Q9 CIS with existing resources, and continue to look for new business opportunities related to renewable energy to diversify the business scope of the Group.

With the above measures, we strive to create positive values for the shareholders with our best efforts and existing resources.

**Leung Lap Yan**
*Chairman*

Hong Kong, 21 March 2011

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules ("Code") takes effect from 1 January 2005. The Company is committed to maintain a high standard of corporate governance. To maintain a good and solid framework of corporate governance will ensure the Company to run its business in the best interests of the shareholders. The Company has complied with the Code throughout the year.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## BOARD OF DIRECTORS

The Board comprises of nine members, including four executive directors (namely Messrs. Kwan Kin Chung, Tam Kam Biu William, Wan Xiaolin and Chen Man Lung), two non-executive directors (namely Messrs. Leung Lap Yan and Leung Lap Fu Warren) and three independent non-executive directors (namely Messrs. Ip Chi Wai, Tse Wang Cheung Angus and Shiu Kwok Keung). The directors' biographical details are set out on pages 14 to 16 of this annual report.

The Board of directors is accountable to shareholders for the activities and performance of the Group and for the preparation of financial statements which give a true and fair view. It oversees the Group's overall strategic plans, reviews the financial performance, supervises the management of the business and affairs and approves the strategic plans. The Board delegates the corporate matters to Management of the Group, including preparation of annual, interim and quarterly accounts, execution of the business strategies and adopted by the Board, implementation of internal controls system and compliance with relevant statutory requirement and other rules and regulations. Management is required to present an annual budget and proposals for major investment, addition of capital assets, and changes in business strategies for the Board's approval.

During the year, the Board held four meetings to exercise its duties including discussing and making decisions on the Group's business strategic development, finance matters, material operational matters and other matters as required.

Currently, at every annual general meeting of the Company, all directors including the independent non-executive directors shall retire from office by rotation. A retiring director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat.

All three independent non-executive directors ("INDs") come from professional backgrounds and one of them possess the appropriate accounting and financial management expertise. The INDs render their valuable expertise and experience for safeguarding the best interests of the Group. The Company has received from each of the INDs the annual confirmation of his independent pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the INDs are independent.

# Corporate Governance Report

The INDs and the non-executive directors of the Company are not appointed for a specific terms but are subject to retirement by rotation and re-election at every annual meeting of the Company.

The Board conducted four regular Board meetings approximately at each quarter of the year in addition to other Board meetings to review the performance and finance matters of the Groups, and for statutory purpose.

The Board has established committees, namely Audit Committee and Remuneration Committee to oversee other particular aspects of the Company's affairs.

Statistics of director's attendance at the regular Board Meeting:

| Name of director | Title | Attendance at Board Meetings/No. of Board Meeting held |
|---|---|---|
| Mr. Leung Lap Yan | Chairman and Non-executive Director | 4/4 |
| Mr. Kwan Kin Chung | Managing Director | 4/4 |
| Mr. Tam Kam Biu William | Executive Director | 4/4 |
| Mr. Wan Xiaolin | Executive Director | 0/4 |
| Mr. Chen Man Lung | Executive Director | 4/4 |
| Mr. Leung Lap Fu Warren | Non-executive Director | 4/4 |
| Mr. Ip Chi Wai | Independent Non-executive Director | 3/4 |
| Mr. Tse Wang Cheung Angus | Independent Non-executive Director | 4/4 |
| Mr. Shiu Kwok Keung | Independent Non-executive Director | 4/4 |

## REMUNERATION COMMITTEE

The Remuneration Committee was established in March 2005 with defined terms of reference. It's role is to review and determine the policy for the remunerations of the directors and other senior management members. Currently, it comprises an executive director, Tam Kam Biu William and two INDs, Mr. Ip Chi Wai and Mr. Tse Wang Cheung Angus and is headed by the chairman, Mr. Tam Kam Biu William.

The Committee held one meeting during the year to discuss the policy and structure of the remuneration of the directors and other senior management members.

The Remuneration Committee is mainly responsible for:

(a) Making recommendations to the Board on the Group's policy and structure for all remunerations of directors and senior management member and acting as the establishment of a formal and transparent procedures for developing policy as such remunerations.

(b) Determining the specific remuneration packages of an executive directors and senior management members and making recommendations to the Board of the remunerations of the non-executive directors.

(c) Reviewing and approving the performance-based remunerations.

(d) Reviewing and approving the compensation payable to executive directors and senior management members in connection with any loss or termination of office or appointment.

(e) Reviewing and approving compensation arrangements relating to the dismissal or removal of misconduct directors.

Statistics of Remuneration Committee members' attendance at the Remuneration Committee Meeting:

| **Name of member** | **Attendance at Remuneration Committee Meetings/ No. of Remuneration Committee Meeting held** |
|---|---|
| Mr. Tam Kam Biu William *(Chairman)* | 1/1 |
| Mr. Ip Chi Wai | 1/1 |
| Mr. Tse Wang Cheung Angus | 1/1 |

## NOMINATION OF DIRECTORS

In considering the nomination of a new director, the Board takes into account the qualification, competence, working experience, and professional ethics of the candidates. Currently the Board is responsible for selection of the candidates and approval of the appointment as an executive director to the Board. The Board will arrange the meeting for the nomination of the director when need. During the year, no new director was appointed and accordingly no meeting for nomination of director was held.

## AUDIT COMMITTEE

The Audit Committee has been established since the listing of the Company on the GEM Board. Currently, it comprises three INDs, namely Mr. Ip Chi Wai (as the Chairman of the Committee), Mr. Tse Wang Cheung Angus and Mr. Shiu Kwok Keung. The term of reference describing the authorities and duties of the Audit Committee were adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountant and the Code Provision published by the Stock Exchange of Hong Kong Limited.

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders.

Statistics of Audit Committee members' attendance at the Audit Committee Meeting:

| **Name of member** | **Attendance at Audit Committee Meetings/No. of Audit Committee Meeting held** |
|---|---|
| Mr. Ip Chi Wai *(Chairman)* | 3/4 |
| Mr. Tse Wang Cheung Angus | 4/4 |
| Mr. Shiu Kwok Keung | 4/4 |

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that an adequate system of internal controls is maintained in place within the Group, and for reviewing its effectiveness together with the Audit Committee.

The internal control system of the Group comprises of a well defined management structure with specified limits of authority and control procedures, designed to achieve the following objectives: (a) ensure proper maintenance of account records; (b) ensure the completeness and accuracy of accounting transactions recorded in the accounting system, and timely reporting of actual financial results of the Group with comparison against budgets; (c) safeguard the Group's assets and management acts within its limits of authorities; and (d) ensure compliance with relevant legislation, regulations and listing rules, including but not limited to the present a balanced, clear and understandable assessment and regular review of the Group's financial reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group. All material financial results and internal control system of the Group have been discussed and reviewed.

Management maintains and monitors the system of internal controls on an ongoing basis. Based on the evaluations made by the Board and external auditors, the Audit Committee is satisfied that the Group has fully complied with the Code Provisions on internal controls during the year as set forth in the Code; except that an internal audit function has not been set up within the Group. Nevertheless, nothing has come to the Board's attention to cause the Audit Committee to believe that the existing system of internal control is inadequate or ineffective.

## EXTERNAL AUDITORS

During the year, the external auditors, ZHONGLEI (HK) CPA Company Limited, provided its annual audit services, review of the interim results and taxation advisory service to the Group. The Audit Committee is responsible for considering the appointment of the external auditors and reviewing the non-audit functions, if any, performed by the external auditors. In particular, the Audit Committee also considers, before they are contracted for such service, whether such non-audit service could lead to any potential material conflict of interest. Nothing has come to the Board's attention to cause the Audit Committee to believe that the non-audit services provided by the external auditors affect their independence, objectivity and effectiveness in the audit processes in accordance with applicable standards.

The remuneration in respect of services provided by ZHONGLEI (HK) CPA Company Limited for the year ended 31 December 2010 are as follow:

| | **2010**<br>**HK$** |
|---|---|
| Annual audit services, review of interim results and taxation advisory service | **270,000** |

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

Mr. Kwan Kin Chung, aged 41, joined the Group in February 2001 and was appointed as an executive director of the Company. He was appointed as the managing director of the Company in January 2007 and responsible for the restructuring of the group businesses and corporate investments. He is also a director of a number of subsidiaries of the Company. Mr. Kwan held the position as a vice president of Culturecom Holdings Limited (a substantial shareholder of the Company) ("Culturecom") from 1998 to 2002. He is currently the managing director of Culturecom. He holds a Bachelor of Arts in Economics from Zhongshan University, Guangzhou, the PRC.

Mr. Tam Kam Biu, William, aged 54, joined the Group in January 2000 as a non-executive director of the Company. In August 2000, Mr. Tam became the chief financial officer and in September 2000 as an executive director of the Company. He was appointed as the chairman of remuneration committee of the Company in September 2006. Mr. Tam held the position as the company secretary of the Company from September 2006 to April 2010. He is also a director of a number of subsidiaries of the Company. Immediately before he joined the Group on a full time basis, Mr. Tam was the chief financial officer, company secretary and executive director of ViaGOLD Capital Limited, a company whose shares are listed on the Australian Stock Exchange. Mr. Tam has remained a non-executive director of ViaGOLD Capital Limited. He is also an independent non-executive director of Soluteck Holdings Limited (a company whose shares are listed on the Growth Enterprises Market of the Stock Exchange) and China Solar Energy Holdings Limited (a company whose shares are listed on the Main Board of the Stock Exchange). Mr. Tam has over 20 years of experience in financial management and corporate finance, gained with a number of Hong Kong listed companies and international groups. Mr. Tam obtained a degree in Master of Business Administration in 1981 from York University in Toronto, Canada and became an associate member of the Hong Kong Institute of Certified Public Accountants in September 1987 and an associate of the Association of Chartered Certified Accountants in May 1988.

Mr. Wan Xiaolin, aged 53, was appointed as executive director of the Company in September 2003. He is executive director of Culturecom and is responsible for its administration, human resources and training, accounts and finance and information technology related management activities. He holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC.

Mr. Chen Man Lung, aged 45, was appointed as an executive director of the Company in May 2007. He is currently an executive director of Culturecom. Mr. Chen is an independent non-executive director of Opes Asia Development Limited, a company whose shares are listed on the Main Board of the Stock Exchange, and the chief financial officer of ViaGOLD Capital Limited, a company whose shares are listed on Australian Stock Exchange. He also acts as a director of the Hong Kong Comics & Animation Federation Limited and academic advisor to Academy of Visual Arts and Humanities Programme of Hong Kong Baptist University. Mr. Chen obtained the Degree of Bachelor of Arts in Sociology and the Degree of Master of Arts in Chinese Studies from the Hong Kong Baptist University and The Hong Kong University of Science and Technology respectively. He has over 17 years of experience in investment industry.

# Biographical Details of Directors

## NON-EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 62, was appointed as the chairman and an executive director of the Company in 2001. Mr. Leung has been re-designated as a non-executive director of the Company in May 2007 and remains as the chairman of the Company after the re-designation. He is also a director of a number of subsidiaries of the Company. Apart from being an inventor, Mr. Leung is a well known script writer, having written such dramas as New Justice Pao, Dynasty and The Pride of Chao Zhou. From 1978 to 1980, Mr. Leung was employed as the manager of programme planning of Rediffusion Television and from 1986 to 1989 as the assistant to the controller of production of Television Broadcasts Limited. During the period 1983 to 1986, he was the director (drama) of the Singapore Broadcasting Corporation. In 1993, he moved to Taiwan where he developed the first version of QCode, a character input system. A year later he worked together with Mr. Lau Man Kin to upgrade QCode and founded the Group. He is a brother of Mr. Leung Lap Fu Warren (a non-executive director of the Company).

Mr. Leung Lap Fu Warren, aged 60, was appointed as an executive director of the Company in 2001. He has been re-designated as a non-executive director of the Company in May 2007. He is also a director of a number of subsidiaries of the Company. For most of the 1970's, Mr. Leung worked for multinational companies, Wallem Ship Management Company Limited and C.N. Company, a member of the Swire Group, as a marine engineer specialising in automatic control systems projects. Between 1979 and 1981, he was a business manager with a subsidiary of the Kowloon Development Group. Thereafter he worked as a plant superintendent first with HSBC Property (Asia) Limited, then as senior engineer with the Macau Jockey Club and lastly with the Lee Garden Hotel Management Group. He has a number of engineering and technical qualifications, including being a high-tension electrical engineering worker registered by Electrical & Mechanical Services Department of Hong Kong Government. He is a brother of Mr. Leung Lap Yan (a non-executive director of the Company).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 43, graduated from the University of Hong Kong with a bachelor's degree in law. He is a solicitor admitted in Hong Kong and has over 10 years of experience in the legal profession. He was appointed as an independent non-executive director of the Company in September 2000. He is the chairman of the audit committee and a member of remuneration committee of the Company. Mr. Ip is also an independent non-executive director, a member of audit committee and remuneration committee of Asia Standard Hotel Group Limited.

Mr. Tse Wang Cheung Angus, aged 45, is a partner in the law firm of Tse Yuen Ting Wong. He was appointed as an independent non-executive director of the Company in September 2000 and is member of audit committee and remuneration committee of the Company.

Mr. Shiu Kwok Keung, aged 43, is an executive director of Opes Asia Development Limited, a company whose shares are listed on the Main Board of the Stock Exchange. During 2006, he was the senior vice president of China Solar Energy Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange. Prior to that, he has extensive experience in finance, accounting and corporate development. Mr. Shiu holds a Master of Science degree in Finance from the National University of Ireland, Dublin, a Master of Professional Accounting degree from the Southern Cross University in Australia and a Bachelor of Social Sciences degree in China Studies (Economics) from the Hong Kong Baptist University. He is a Chartered Financial Analyst charterholder and a Certified Practicing Accountant of CPA Australia. Mr. Shiu was appointed as an independent non-executive director and a member of the audit committee member of the Company in September 2006.

# Directors' Report

The directors of the Company present their report and the audited consolidated financial statements for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in Note 36 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 and the state of its affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 29 to 90.

The directors of the Company do not recommend the payment of a dividend.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on page 34 and Note 35 to the consolidated financial statements respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in Note 13 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 26 to the consolidated financial statements.

## FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for last five financial years is set out on page 91.

## DISTRIBUTABLE RESERVES

In accordance with the Companies Law of the Cayman Islands, the Company has no reserves available for distribution to the shareholders as at 31 December 2010 (2009: Nil). The payment of dividends and distribution out of the share premium account is however subject to a solvency test of the Company and the provisions of the Articles of Association of the Company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or the Company's Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

## DIRECTORS

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

**Executive Directors:**
Mr. Kwan Kin Chung
Mr. Tam Kam Biu William
Mr. Wan Xiaolin
Mr. Chen Man Lung

**Non-Executive Directors:**
Mr. Leung Lap Yan
Mr. Leung Lap Fu Warren

**Independent non-executive directors:**
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Shiu Kwok Keung

In accordance with Article 116 of the Company's Articles of Association, all the directors of the Company retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors of the Company are set out on pages 14 to 16.

## DIRECTORS' SERVICE CONTRACTS

Mr. Tam Kam Biu William has entered into a service contract with the Group whereby he was employed as the chief financial officer of the Group.

None of directors of the Company has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

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

As at 31 December 2010, save for the interest of the directors in share options as below, neither of the directors nor the chief executive of the Company had interests and or short positions in the shares of the Company ("Shares"), underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)("SFO") which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

## LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

### Share Option

As at 31 December 2010, there were a total of 92,000,000 outstanding share options of the Company granted to the directors of the Company, details of which are summarised in the following table:

| | | | Options to subscribe for shares of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Director | Date of grant | Outstanding as at 1 January 2010 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 31 December 2010 | Option exercise period | Exercise price per share | Approximate percentage of shareholding |
| Kwan Kin Chung | 29/5/2007 | 16,000,000 | – | – | – | **16,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.195% |
| Tam Kam Biu William | 29/5/2007 | 20,000,000 | – | – | – | **20,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.244% |
| Wan Xiaolin | 29/5/2007 | 12,000,000 | – | – | – | **12,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.146% |
| Chen Man Lung | 29/5/2007 | 16,000,000 | – | – | – | **16,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.195% |
| Leung Lap Yan | 29/5/2007 | 8,000,000 | – | – | – | **8,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.098% |
| Leung Lap Fu Warren | 29/5/2007 | 8,000,000 | – | – | – | **8,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.098% |
| Ip Chi Wai | 29/5/2007 | 4,000,000 | – | – | – | **4,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.049% |
| Tse Wang Cheung Angus | 29/5/2007 | 4,000,000 | – | – | – | **4,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.049% |
| Shiu Kwok Keung | 29/5/2007 | 4,000,000 | – | – | – | **4,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 | 0.049% |
| Total | | 92,000,000 | – | – | – | **92,000,000** | | | |

*Note:*

The option exercise period is commenced from the date of grant for ten years. The options may be exercised at any time within the option period provided that the options have been vested. As at 31 December 2010, all options have been vested.

The above share options were granted pursuant to the Company's share option scheme adopted on 27 April 2007.

Save as disclosed above, none of the directors or the chief executives of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2010.

## SHARE OPTION SCHEMES

On 27 April 2007, a new share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company and the share option scheme adopted by the Company on 30 April 2002 (the "Old Share Option Scheme") was terminated accordingly on the same date. No share option was outstanding under the Old Share Option Scheme. A summary of the New Share Option Scheme is as follows:

**1. Purpose**

The purpose of the New Share Option Scheme is to enable the Board to grant options to eligible participants as incentives and/or rewards in recognition or acknowledgement of the contributions that eligible participants have made and/or will make to the Group.

The New Share Option Scheme will provide the eligible participants with an opportunity to have a personal stake in the Company and the directors of the Company believe this will motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group and will attract and retain or otherwise maintain an on-going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Company.

**2. Eligible participants**

The eligible participants of the New Share Option Scheme may include:

(a) any director (whether executive, non-executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or advisers of or contractor to the Group or any Invested Entity;

(b) any discretionary trust whose discretionary objects include any director (whether executive, non-executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and

(c) any company beneficially owned by any director (whether executive, non-executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity.

**3. Total number of shares available for issue**

The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme must not in aggregate exceed 1,522,060,000 Shares, representing about 18.6% of the shares in issue at the date of this report.

**4. Maximum entitlement of each eligible participant**

Unless approved by the shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each eligible participants (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the shares in issue. Where any further grant of options to an eligible participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by the shareholders in general meeting with such eligible participant and his associates abstaining from voting. The Company must send a circular to the shareholders and the circular must disclose the identity of the eligible participant, the number and terms of the options to be granted (and options previously granted to such eligible participant).

**5. Time of exercise of option**

An option shall be exercisable at any time during an option period to be notified by the Board to each grantee, provided that no option shall be exercisable later than ten years after its date of grant.

**6. Minimum period for which any option must be held**

Unless otherwise determined by the Board at its sole discretion, there is no minimum period for which an option must be held before such an option can be exercised under the terms of the New Share Option Scheme.

**7. Amount payable upon acceptance of option**

HK$1.00 is payable by each eligible participant to the Company on acceptance of an offer of an option, which shall be paid on or before the last day by which the offer must be accepted.

**8. Basis of determining the exercise price**

The exercise price shall be at the discretion of the Board, but it must be at least the highest of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day; and (b) the average of the closing prices of the shares as shown on the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

### 9. The remaining life of the New Share Option Scheme

The New Share Option Scheme shall commence on the date on which the New Share Option Scheme is approved by a resolution of shareholders at a general meeting of the Company and shall continue in force until and including the date immediately preceding the tenth anniversary of the date of commencement.

As at 31 December 2010, options to subscribe for up to an aggregate of 756,760,000 shares of HK$0.0025 each had been granted by the Company under the New Share Option Scheme. Details of the share options which had been granted under the Share Option Scheme are as follows:

| | | Options to subscribe for shares of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Category of participant | Date of grant | Outstanding as at 1 January 2010 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 31 December 2010 | Option exercise period | Exercise price per share |
| Directors of the Company | 29/5/2007 | 92,000,000 | – | – | – | **92,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 |
| Employees other than the directors of the Company | 29/5/2007 | 12,000,000 | – | – | – | **12,000,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 |
| Consultants | 29/5/2007 | 652,760,000 | – | – | – | **652,760,000** | 29/5/2007 to 28/5/2017 | HK$0.1125 |
| Total | | 756,760,000 | – | – | – | **756,760,000** | | |

*Notes:*

(i) The option exercise period is commenced from the date of grant for ten years. The options may be exercised at any time within the option period provided that the options have been vested. As at 31 December 2010, all options have been vested.

(ii) During the period, there were no options being exercised, cancelled or lapsed.

Details of options granted to directors of the Company under the Share Option Scheme are set out in the sub-section headed "Long Positions in Underlying Shares of the Company" under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the directors and chief executives) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

**Long positions in shares of the Company**

| Name of shareholder | Number of shares | Approximate percentage holding |
|---|---|---|
| Step Up Co., Ltd. | 486,630,000 | 5.93% |
| Mr. Kuan Sio Kai *(Note (i))* | 486,630,000 | 5.93% |
| Winway H.K. Investments Limited | 2,098,490,000 | 25.58% |
| Culturecom Holdings Limited *(Note (ii))* | 2,098,490,000 | 25.58% |
| L & W Holding Limited | 479,430,000 | 5.84% |
| Ms. Chow Lai Wah Livia *(Note (iii))* | 669,700,000 | 8.16% |
| Mr. Basilio Dizon *(Note (iv))* | 669,700,000 | 8.16% |

*Notes:*

(i) Mr. Kuan Sio Kai is deemed to be interested in 486,630,000 shares through his controlling interest (100%) in Step Up Co., Ltd.

(i) Winway H.K. Investments Limited is a wholly-owned subsidiary of Culturecom Investments Limited, which is, in turn, a wholly-owned subsidiary of Culturecom Holding (BVI) Limited. Culturecom Holding (BVI) Limited is a wholly-owned subsidiary of Culturecom Holdings Limited. Each of Culturecom Investments Limited, Culturecom Holding (BVI) Limited and Culturecom Holdings Limited is deemed to be interested in 2,098,490,000 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

(iii) Ms. Chow Lai Wah Livia ("Ms Chow") is beneficially interested in 162,690,000 shares in the Company. Ms. Chow is a wife of Mr. Basilio Dizon ("Mr. Dizon") and has controlling interests (65%) in L & W Holding Limited {"L & W"}. Accordingly, she is deemed to be interested in 507,010,000 shares in the Company under SFO.

(iv) Mr. Dizon is a husband of Mr. Chow and has controlling interests 35% and 90.77% in L & W and Harvest Smart Overseas Limited ("Harvest Smart") respectively. Harvest Smart is beneficially interested in 27,580,000 shares in the Company. Accordingly, he is deemed to be interested in 669,700,000 shares in the Company under SFO.

Save as disclosed above, as at 31 December 2010, the directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

| | |
|---|---|
| Purchases | |
| – the largest supplier | 37.0% |
| – five largest suppliers combined | 89.1% |
| | |
| Sales | |
| – the largest customer | 15.7% |
| – five largest customers combined | 36.4% |

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the independent non-executive directors of the Company and the Company considers all existing independent non-executive directors to be independent.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on page 10 to 13 of the annual report.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Ip Chi Wai, Mr. Tse Wang Cheung Angus and Mr. Shiu Kwok Keung, with written terms of reference in compliance with code provision C.3.3 of the Code as set out in Appendix 15 of the GEM Listing Rules. Mr. Ip Chi Wai is the chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. The Group's audited annual report has been reviewed by the audit committee together with management, which was of the opinion that the preparation of such results were complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## AUDITORS

Messrs. Grant Thornton resigned as auditors of the Company on 15 December 2009 and ZHONGLEI (HK) CPA Company Limited have been appointed as auditors of the Company to fill the casual vacancy so arising. A resolution for re-appointment of ZHONGLEI (HK) CPA Company Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Leung Lap Yan**
*Chairman*

Hong Kong, 21 March 2011

# Independent Auditor's Report

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

## TO THE MEMBERS OF
## CHINA BIO CASSAVA HOLDINGS LIMITED
## 中國生物資源控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Bio Cassava Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 90, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ZHONGLEI (HK) CPA Company Limited**
*Certified Public Accountants (Practising)*
**Chan Chi Kei, Ronald**
Practising Certificate Number: P04255

Suites 216-218, 2/F., Shui On Centre,
6-8 Harbour Road,
Wan Chai,
Hong Kong

21 March 2011

# Consolidated Income Statement

For the year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **5,808** | 5,673 |
| Cost of sales | | **(600)** | (891) |
| **Gross profit** | | **5,208** | 4,782 |
| Other revenue | 6 | **981** | 838 |
| Selling and distribution expenses | | **(2,966)** | (2,955) |
| Research and development expenses | | **(2,973)** | (2,240) |
| General and administrative expenses | | **(4,713)** | (7,674) |
| Other operating expenses | | **(962)** | (6,332) |
| **Operating loss** | | **(5,425)** | (13,581) |
| Finance costs | | **–** | – |
| **Loss before income tax** | | **(5,425)** | (13,581) |
| Income tax expense | 8 | **–** | – |
| **Loss for the year** | 7 | **(5,425)** | (13,581) |
| **Loss per share** | 9 | | |
| **– Basic** | | **(HK0.07 cent)** | (HK0.17 cent) |
| **– Diluted** | | **N/A** | N/A |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Loss for the year** | | **(5,425)** | (13,581) |
| **Other comprehensive expense** | | | |
| Exchange differences arising on translation of foreign operations | | **–** | (9) |
| Reclassification adjustment for translation reserve released upon disposal of a subsidiary | 30 | **(436)** | – |
| **Total comprehensive expense for the year** | | **(5,861)** | (13,590) |
| **Total comprehensive expense attributable to:** | | | |
| – Owners of the Company | | **(5,861)** | (13,590) |

# Consolidated Statement of Financial Position

At 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **524** | 1,342 |
| Prepaid lease payments | 14 | **–** | 2,097 |
| Intangible asset | 15 | **–** | – |
| Available-for-sales investment | 16 | **–** | 7 |
| Deposits paid for construction of property, plant and equipment | 17 | **–** | – |
| Other receivable | 18 | **–** | – |
| | | **524** | 3,446 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **101** | 161 |
| Financial assets at fair value through profit or loss | 20 | **1,195** | 1,222 |
| Trade receivables | 21 | **438** | 333 |
| Prepayments, deposits and other receivables | | **3,076** | 757 |
| Amount due from a shareholder | 22 | **136** | 384 |
| Bank balances and cash | 23 | **9,527** | 15,087 |
| | | **14,473** | 17,944 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 24 | **31** | 87 |
| Other payables and accrued expenses | | **1,710** | 2,254 |
| Amount due to a related company | 25 | **2** | 2 |
| Amount due to a director | 25 | **91** | 23 |
| | | **1,834** | 2,366 |
| **NET CURRENT ASSETS** | | **12,639** | 15,578 |
| **NET ASSETS** | | **13,163** | 19,024 |
| **CAPITAL AND RESERVES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 26 | **20,508** | 20,508 |
| Reserves | | **(7,345)** | (1,484) |
| **TOTAL EQUITY** | | **13,163** | 19,024 |

The consolidated financial statements on pages 29 to 90 were approved and authorised for issue by the Board of Directors on 21 March 2011 and are signed on its behalf by:

| | |
|---|---|
| **Kwan Kin Chung** | **Tam Kam Biu, William** |
| *Director* | *Director* |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before income tax | | **(5,425)** | (13,581) |
| Adjustments for: | | | |
| Interest income | | **(1)** | (97) |
| Depreciation of property, plant and equipment | | **226** | 264 |
| Gain on disposal of a subsidiary | | **(930)** | – |
| Net fair value loss (gain) on financial assets at fair value through profit or loss | | **27** | (741) |
| Write off of prepaid lease payments | | **285** | – |
| Write off of property, plant and equipment | | **610** | – |
| Write-down of inventories to net realisable value | | **33** | 28 |
| Impairment loss of property, plant and equipment | | **–** | 231 |
| Impairment loss of intangible asset | | **–** | 1,700 |
| Impairment loss of prepayments, deposits and other receivables | | **–** | 51 |
| Impairment loss of deposits paid for construction of property, plant and equipment | | **–** | 3,038 |
| Impairment loss of other receivable | | **–** | 1,200 |
| Operating cash flows before movements in working capital | | **(5,175)** | (7,907) |
| Decrease in inventories | | **27** | 83 |
| Increase in financial assets at fair value through profit or loss | | **–** | (65) |
| (Increase) decrease in trade receivables, prepayments, deposits and other receivables | | **(1,125)** | 164 |
| Decrease (increase) in amount due from a shareholder | | **248** | (384) |
| Decrease in trade and other payables and accrued expenses | | **(600)** | (1,374) |
| Decrease in amount due to a related company | | **–** | (32) |
| Increase in amount due to a director | | **68** | 23 |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(6,557)** | (9,492) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **1** | 97 |
| Purchases of property, plant and equipment | | **(10)** | (190) |
| Net cash inflow from disposal of a subsidiary | 30 | **1,000** | – |
| Purchase of available-for-sales investment | | **–** | (7) |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | | **991** | (100) |
| **FINANCING ACTIVITY** | | | |
| Proceeds from exercise of warrants | | **–** | 7,585 |
| **NET CASH FROM FINANCING ACTIVITY** | | **–** | 7,585 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(5,566)** | (2,007) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **15,087** | 17,105 |
| Effect of foreign exchange rate changes, net | | **6** | (11) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER,** represented by bank balances and cash | | **9,527** | 15,087 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Share capital HK$'000 | Share premium HK$'000 | Share options reserve HK$'000 | Capital redemption reserve HK$'000 (Note a) | Warrant reserve HK$'000 (Note b) | Reorganisation reserve HK$'000 (Note c) | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 19,510 | 111,686 | 33,514 | 37 | 9,774 | 3,000 | 300 | (152,792) | 25,029 |
| Loss for the year | – | – | – | – | – | – | – | (13,581) | (13,581) |
| Other comprehensive expense for the year | – | – | – | – | – | – | (9) | – | (9) |
| Total comprehensive expense for the year | – | – | – | – | – | – | (9) | (13,581) | (13,590) |
| Exercise of warrants *(Note 26)* | 998 | 8,684 | – | – | (2,097) | – | – | – | 7,585 |
| Lapsed of warrants *(Note 26)* | – | – | – | – | (7,677) | – | – | 7,677 | – |
| At 31 December 2009 and 1 January 2010 | 20,508 | 120,370* | 33,514* | 37* | –* | 3,000* | 291* | (158,696)* | 19,024 |
| Loss for the year | – | – | – | – | – | – | – | (5,425) | (5,425) |
| Reclassification adjustment for translation reserve released upon disposal of a subsidiary *(Note 30)* | – | – | – | – | – | – | (436) | – | (436) |
| Total comprehensive expense for the year | – | – | – | – | – | – | (436) | (5,425) | (5,861) |
| **At 31 December 2010** | **20,508** | **120,370*** | **33,514*** | **37*** | **–*** | **3,000*** | **(145)*** | **(164,121)*** | **13,163** |

*Notes:*

(a) Capital redemption reserve of the Group represents repurchased 3,650,000 of its own shares at an aggregate consideration of HK$174,000 during the year 2002. All the shares repurchased were subsequently cancelled.

(b) Warrant reserve represents the proceeds from the placing of 249,200,000 warrants ("Warrants") completed on 19 January 2007 as detailed in Note 26. The subscription period of the Warrants was expired on 23 January 2009, the outstanding Warrants were lapsed.

(c) The reorganisation reserve of the Group represent the difference between the nominal value of the shares of the subsidiaries acquired plus the HK$7,500,000 loan capitalised and the nominal value of the shares issued by the Company as the consideration thereof.

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 1. GENERAL

China Bio Cassava Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report. The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in computer software and embedded systems development, sales and licensing of the software and systems, and development of biotech and renewable energy. There were no significant changes in the Group's operations during the year. Details of the principal activities of its subsidiaries are set out in Note 36 to the consolidated financial statements.

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| Hong Kong Accounting Standard (''HKAS'') 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| HKFRS 1 (Amendments) | Additional Exemptions from First-time Adopters |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK-Interpretation (''Int'') 5 | Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |
| HK(IFRIC)-Int 17 | Distributions of Non-Cash Assets to Owners |

Except as described below, the adoption of the New and Revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

### HKFRS 3 (Revised 2008) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Result of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1] |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5] |
| HKFRS 7 (Amendments) | Disclosures-Transfers of Financial Assets[5] |
| HKFRS 9 | Financial Instruments[7] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[6] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendments) | Classification of Rights Issues[2] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

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

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

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

HKAS 24 Related Party Disclosures (as revised in 2009) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The Group is in the process of making an assessment of the potential impact of these new / revised HKFRSs and the directors so far concluded that the application of these new / revised HKFRSs will have no material impact on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies set out below.

### 3.1 Basis of consolidation

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.2 Revenue recognition

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

Revenue from sale of goods is recognised when all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from licensing is recognised when the rights to receive payment are established in accordance with the underlying licensing agreement, which is normally when the licensees used the licensing services.

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.3 Leasing

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

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3.4 Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.5 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

From 1 January 2010 onwards, on the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.6 Retirement benefit costs and short-term employee benefits

(a) *Retirement benefit costs*

Payments to the Mandatory Provident Fund Scheme (''MPF'') and state-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

(b) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liabilities for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 3.7 Share-based payment transactions

*Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

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

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

*Share options granted to consultants*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.8 Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.9 Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost less recognised impairment losses. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

### 3.10 Intangible assets

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.10 Intangible assets *(Continued)*

*Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.11 Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

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

### 3.12 Inventories

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

### 3.13 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

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

*Effective interest method*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Financial assets at FVTPL*

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

A financial asset is classified as held for trading if:

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Available-for-sale financial assets*

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, amount due from a shareholder, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

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

– significant financial difficulty of the issuer or counterparty; or

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

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

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

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

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

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

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

**Financial liabilities and equity instruments**

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

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

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial instruments *(Continued)*

**Financial liabilities and equity instruments** *(Continued)*

*Other financial liabilities*

Other financial liabilities including trade payables, other payables and accrued expenses, amount to a related company and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

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

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the asset expire or, the financial asset are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

### 3.15 Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.16 Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Key sources of estimation uncertainty**

*i.* *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could be changed significantly as a result of competitors' actions in response to changes in market condition. Management reassesses these estimates at the end of the reporting period.

*ii.* *Estimated provision for impairment of receivables*

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the collateral security. If the financial conditions of the borrowers of the Group deteriorate, resulting in impairment of their ability to make repayments, additional provision may be required. If the financial conditions of the borrowers of the Group, on whose account provision for impairment has been made, are improved and no impairment of their ability to make payments were noted, reversal of provision for impairment may be required.

## 5. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the total invoiced value of goods sold, and licensing income. Revenue recognised during the year is as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Sale of goods | **5,218** | 4,943 |
| Licensing income | **590** | 730 |
| | **5,808** | 5,673 |

The Group's operation segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

Specially, the Group's reportable segments under HKFRS 8 are as follows:

(a) Sales and licensing of software and embedded systems.

(b) Development of biotech renewable energy.

In addition, the chief operating decision maker further evaluates the result on a geographical basis (Hong Kong, Mainland China and Macau).

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (a) Business segments

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

| | Sales and licensing of software and embedded systems | | Development of biotech renewable energy | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenue** | | | | | | |
| Sales to external customers | **5,808** | 5,673 | **–** | – | **5,808** | 5,673 |
| **Segment results** | **(128)** | (510) | **(1,694)** | (6,240) | **(1,822)** | (6,750) |
| Bank interest income | | | | | **1** | 97 |
| Gain on disposal of a subsidiary | | | | | **930** | – |
| Sundry income | | | | | **50** | – |
| Net fair value (loss) gain on financial assets at fair value through profit or loss | | | | | **(27)** | 741 |
| Unallocated expenses | | | | | **(4,557)** | (7,669) |
| Operating loss | | | | | **(5,425)** | (13,581) |
| Finance costs | | | | | **–** | – |
| **Loss for the year** | | | | | **(5,425)** | (13,581) |
| **Segment assets** | **1,957** | 1,935 | **3,098** | 6,173 | **5,055** | 8,108 |
| Unallocated assets | | | | | **9,942** | 13,282 |
| Total assets | | | | | **14,997** | 21,390 |
| **Segment liabilities** | **(1,434)** | (1,405) | **(197)** | (163) | **(1,631)** | (1,568) |
| Unallocated liabilities | | | | | **(203)** | (798) |
| Total liabilities | | | | | **(1,834)** | (2,366) |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | **42** | 47 | **39** | 115 | **81** | 162 |
| Unallocated depreciation | | | | | **145** | 102 |
| Total depreciation and amortisation | | | | | **226** | 264 |
| Capital expenditure | **10** | 21 | **–** | 169 | **10** | 190 |
| Write-down of inventories to net realisable value | **33** | 28 | **–** | – | **33** | 28 |
| Impairment loss of property, plant and equipment | **–** | – | **–** | 231 | **–** | 231 |
| Impairment loss of intangible asset | **–** | – | **–** | 1,700 | **–** | 1,700 |
| Impairment loss of deposits paid for construction of property, plant and equipment | **–** | – | **–** | 3,038 | **–** | 3,038 |
| Unallocated write off of prepaid lease payments | | | | | **285** | – |
| Unallocated write off of property, plant and equipment | | | | | **610** | – |

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (a) Business segments *(Continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment loss represents the loss from each segment without allocation of central administration costs and directors' salaries. This is the measure report to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

### (b) Geographical information

The following table presents revenue, assets and expenditure information for the Group's geographical information for the years ended 31 December 2010 and 2009:

| | Hong Kong | | Mainland China | | Macau | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Revenue** | | | | | | | | |
| Sales to external customers | **5,805** | 5,670 | **3** | 3 | **–** | – | **5,808** | 5,673 |
| **Segment assets** | **3,625** | 2,106 | **30** | 3,551 | **1,903** | 1,737 | **5,558** | 7,394 |
| Unallocated assets | | | | | | | **9,439** | 13,996 |
| **Total assets** | | | | | | | **14,997** | 21,390 |
| Capital expenditure | **10** | 21 | **–** | 40 | **–** | 129 | **10** | 190 |

Sales are based on the country in which the Group's customers are located and segment assets and capital expenditure are where the assets are located.

### (c) Information about major customers

Revenue from customer of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

| Customer | Details | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|---|
| A | Sales and licensing of software and embedded systems | **909** | 612 |

## 6. OTHER REVENUE

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Interest income on financial assets stated at amortised cost | 1 | 97 |
| Gain on disposal of a subsidiary *(Note 30)* | 930 | – |
| Net fair value gain on financial assets at fair value through profit or loss | – | 741 |
| Sundry income | 50 | – |
| | 981 | 838 |

## 7. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting):

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Cost of inventories recognised as expenses, including | 600 | 891 |
| – Write-down of inventories to net realisable value | 33 | 28 |
| Auditor's remuneration | | |
| – current year | 270 | 270 |
| – underprovision in prior year | – | 9 |
| Depreciation of property, plant and equipment | 226 | 264 |
| Staff costs (including directors' remuneration) *(Note 10)* | 4,830 | 5,821 |
| Net fair value loss (gain) on financial assets at fair value through profit or loss | 27 | (741) |
| Operating lease charges in respect of land and buildings *(Note 28)* | 1,568 | 1,691 |
| Write off of prepaid lease payments* | 285 | – |
| Write off of property, plant and equipment* | 610 | – |
| Write off of obsolete inventories* | 8 | – |
| Write off of non-refundable rental deposit* | – | 30 |
| Impairment loss of property, plant and equipment* | – | 231 |
| Impairment loss of intangible asset* | – | 1,700 |
| Impairment loss of prepayments, deposits and other receivables* | – | 51 |
| Impairment loss of deposits paid for construction of property, plant and equipment* | – | 3,038 |
| Impairment loss of other receivable* | – | 1,200 |
| Research and development costs recognised as an expense | 2,973 | 2,240 |
| Net foreign exchange loss | 1 | 3 |

* included in other operating expenses

## 8. INCOME TAX EXPENSE

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Current tax: | | |
| – Hong Kong | **–** | – |
| – PRC Enterprise Income Tax | **–** | – |
| | **–** | – |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong profits tax has been provided in both years as the Group did not generate any assessable profits arising in Hong Kong for the years ended 31 December 2010 and 2009.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

No profits taxes have been provided for the subsidiaries which are operating outside Hong Kong as these subsidiaries have not generated any assessable profits in the respective jurisdictions.

The income tax expense for the year can be reconciled to the loss before income tax per the consolidated income statement as follows:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| **Loss before income tax** | **(5,425)** | (13,581) |
| Tax calculated at the rates applicable to the tax jurisdiction concerned | **(620)** | (2,132) |
| Tax effect of expenses not deductible for tax purpose | **754** | 1,333 |
| Tax effect of income not taxable for tax purpose | **(155)** | (107) |
| Tax effect of temporary differences not recognised | **4** | 3 |
| Tax effect of tax losses not recognised | **40** | 905 |
| Utilisation of tax losses previously not recognised | **(23)** | (2) |
| **Income tax expense for the year** | **–** | – |

## 8. INCOME TAX EXPENSE *(Continued)*

At 31 December 2010, the Group has deferred tax assets mainly arising from tax losses of the subsidiaries operating in Hong Kong and in the PRC of approximately HK$5,254,000 and HK$1,159,000 (2009: HK$5,221,000 and HK$1,112,000) respectively. However, deferred tax assets have not been recognised as it is uncertain whether sufficient future taxable profits will be available for utilising the accumulated tax losses. The tax losses of the subsidiary which is operating in the PRC can be carried forward for five years and tax losses of the companies within the Group which are operating in Hong Kong will not be expired under the current tax legislation.

## 9. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the consolidated loss for the year attributable to the owners of the Company of approximately HK$5,425,000 (2009: HK$13,581,000) and the weighted average of 8,203,300,000 (2009: 8,178,432,055) ordinary shares of the Company in issue during the year.

Diluted loss per share for the years ended 31 December 2010 and 31 December 2009 are not presented as the computation does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for both 2010 and 2009.

## 10. EMPLOYEES' EMOLUMENTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Wages and salaries | **4,655** | 5,727 |
| Pension costs – defined contribution plans | **175** | 94 |
| | **4,830** | 5,821 |

## 11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

### (a) Directors' emoluments

The emoluments paid or payable to each of nine (2009: nine) directors were as follow:

| 2010 | Fees HK$'000 | Salaries and allowances HK$'000 | Discretionary bonuses* HK$'000 | Contributions to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Tam Kam Biu, William | – | 480 | 60 | 12 | 552 |
| Mr. Kwan Kin Chung | – | – | 49 | – | 49 |
| Mr. Wan Xiaolin | – | – | – | – | – |
| Mr. Chen Man Lung | – | – | – | – | – |
| Sub-total | – | 480 | 109 | 12 | 601 |
| **Non-executive directors** | | | | | |
| Mr. Leung Lap Yan | 120 | 180 | – | – | 300 |
| Mr. Leung Lap Fu, Warren | 60 | 60 | – | – | 120 |
| Sub-total | 180 | 240 | – | – | 420 |
| **Independent non-executive directors** | | | | | |
| Mr. Ip Chi Wai | 60 | – | – | – | 60 |
| Mr. Shiu Kwok Keung | 60 | – | – | – | 60 |
| Mr. Tse Wang Cheung, Angus | 60 | – | – | – | 60 |
| Sub-total | 180 | – | – | – | 180 |
| **Total** | 360 | 720 | 109 | 12 | 1,201 |

* Discretionary bonuses payment was determined based on the performance of the directors during the year.

## 11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT *(Continued)*

### (a) Directors' emoluments *(Continued)*

| 2009 | Fees HK$'000 | Salaries and allowances HK$'000 | Discretionary bonuses* HK$'000 | Contributions to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Tam Kam Biu, William | – | 716 | – | 12 | 728 |
| Mr. Kwan Kin Chung | – | 617 | – | 9 | 626 |
| Mr. Wan Xiaolin | – | – | – | – | – |
| Mr. Chen Man Lung | – | 150 | – | 6 | 156 |
| Sub-total | – | 1,483 | – | 27 | 1,510 |
| **Non-executive directors** | | | | | |
| Mr. Leung Lap Yan | 120 | 180 | – | – | 300 |
| Mr. Leung Lap Fu, Warren | 60 | 60 | 96 | – | 216 |
| Sub-total | 180 | 240 | 96 | – | 516 |
| **Independent non-executive directors** | | | | | |
| Mr. Ip Chi Wai | 60 | – | – | – | 60 |
| Mr. Shiu Kwok Keung | 60 | – | – | – | 60 |
| Mr. Tse Wang Cheung, Angus | 60 | – | – | – | 60 |
| Sub-total | 180 | – | – | – | 180 |
| **Total** | 360 | 1,723 | 96 | 27 | 2,206 |

* Discretionary bonuses payment was determined based on the performance of the directors during the year.

## 11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT *(Continued)*

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2009: three) were directors of the Company whose emoluments are included in the disclosures in Note 11(a) above. The emoluments of the remaining three (2009: two) individuals were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Basic salaries, allowances and other benefits in kind | **982** | 681 |
| Discretionary bonuses | **–** | 5 |
| Contributions to pension scheme | **34** | 24 |
| | **1,016** | 710 |

Their emoluments were within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2010** | 2009 |
| Nil to HK$1,000,000 | **3** | 2 |

During the year, no emoluments were paid by the Group to the Company's directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during each of the two years ended 31 December 2010 and 2009.

## 12. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Machinery HK$'000 | Motor vehicle HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2009** | | | | | | |
| Cost | 1,676 | 501 | 505 | 451 | – | 3,133 |
| Accumulated depreciation and impairment | (1,073) | (189) | (181) | (44) | – | (1,487) |
| **Carrying values** | 603 | 312 | 324 | 407 | – | 1,646 |
| **Year ended 31 December 2009** | | | | | | |
| Opening carrying values | 603 | 312 | 324 | 407 | – | 1,646 |
| Additions | – | 6 | 57 | – | 127 | 190 |
| Depreciation | – | (93) | (91) | (78) | (2) | (264) |
| Impairment made | – | – | – | (231) | – | (231) |
| Exchange difference | – | – | – | 1 | – | 1 |
| **Closing carrying values** | 603 | 225 | 290 | 99 | 125 | 1,342 |
| **At 31 December 2009** | | | | | | |
| Cost | 1,676 | 507 | 562 | 451 | 127 | 3,323 |
| Accumulated depreciation and impairment | (1,073) | (282) | (272) | (352) | (2) | (1,981) |
| **Carrying values** | 603 | 225 | 290 | 99 | 125 | 1,342 |
| **Year ended 31 December 2010** | | | | | | |
| Opening carrying values | **603** | **225** | **290** | **99** | **125** | **1,342** |
| Additions | **–** | **–** | **10** | **–** | **–** | **10** |
| Depreciation | **–** | **(88)** | **(94)** | **(19)** | **(25)** | **(226)** |
| Write off for the year | **(610)** | **–** | **–** | **–** | **–** | **(610)** |
| Exchange difference | **7** | **–** | **1** | **–** | **–** | **8** |
| **Closing carrying values** | **–** | **137** | **207** | **80** | **100** | **524** |
| **At 31 December 2010** | | | | | | |
| Cost | **–** | **507** | **572** | **451** | **127** | **1,657** |
| Accumulated depreciation and impairment | **–** | **(370)** | **(365)** | **(371)** | **(27)** | **(1,133)** |
| **Carrying values** | **–** | **137** | **207** | **80** | **100** | **524** |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | 18% – 20% |
| Furniture, fixtures and office equipment | 18% – 20% |
| Machinery | 10% – 20% |
| Motor vehicle | 18% – 20% |

## 14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Land in the PRC | **–** | 2,097 |

Analysed for reporting purpose as:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Non-current asset | **–** | 2,097 |

The Group was in the process of obtaining the land use right certificate and the lease term had not confirmed by the local authorities as at 31 December 2009. The land has been disposed through the disposal of a subsidiary during the year ended 31 December 2010.

## 15. INTANGIBLE ASSET

| | Technical know-how HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2009, 31 December 2009 and 2010 | 2,000 |
| **AMORTISATION AND IMPAIRMENT** | |
| At 1 January 2009 | 300 |
| Impairment loss recognised in the year | 1,700 |
| At 31 December 2009 and 31 December 2010 | 2,000 |
| **CARRYING VALUE** | |
| **At 31 December 2010** | – |
| At 31 December 2009 | – |

The technical know-how related to a production line of Bio-Cassava Energy System and a full rights, title and interest in Luoding Rhodobacteriineae ("羅定紅菌") which was acquired by the Company from an independent third party for HK$2,000,000 on 27 June 2007. The estimated useful life of the technical know-how is 10 years. The purposes of the acquisition of the technical know-how are to perform research and development of biotechnology and manufacturing technology to convert cassava into ethanol, which could be used as a renewable source of energy ("Biotech Project").

As the Biotech Project has not generated revenue to the Group since its acquisition, the directors of the Company suspended the Biotech Project and full impairment was recognised in the consolidated income statement during the year ended 31 December 2009.

## 16. AVAILABLE-FOR-SALES INVESTMENT

| | Note | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| Non-current | | | |
| Unlisted equity investment in the PRC, at cost | 30 | **–** | 7 |

The available-for-sales investment has been disposed through the disposal of a subsidiary during the year ended 31 December 2010.

## 17. DEPOSITS PAID FOR CONSTRUCTION OF PROPERTY, PLANT AND EQUIPMENT

In year 2008, the deposits paid for the acquisition of building production facilities for its biotech renewable energy operations on the leasehold land in the PRC. As stated in Note 15, the directors of the Company suspended the Biotech Project in year 2009 and the directors of the Company are of the opinion that the deposits of approximately HK$3,038,000 were no longer recoverable and therefore those costs were fully written off during the year ended 31 December 2009.

## 18. OTHER RECEIVABLE

Pursuant to an agreement which was entered into with an independent third party on 15 December 2008, the Group paid a deposit of HK$1,200,000 to a third party for the purpose of seeking bio cassava investment opportunities for the Group in the PRC. Under the agreement, in the circumstance when investment opportunity is identified, the deposit paid will be used as the initial capital contribution to the investment project. To the contrary, when no investment opportunity could be successfully identified by 31 December 2009, such deposit would be refunded by the third party on or before 31 January 2010.

Since no investment opportunity was identified up to 31 December 2009 and that independent third party was deregistered during the year 2009, the directors of the Company considered that such deposit was unable to recover and full impairment has been recognised in the consolidated income statement during the year ended 31 December 2009.

## 19. INVENTORIES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Merchandise | **58** | 122 |
| Finished goods | **43** | 39 |
| | **101** | 161 |

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Listed equity securities in Hong Kong | **801** | 925 |
| Listed unit trusts in Hong Kong | **394** | 297 |
| | **1,195** | 1,222 |

The carrying amounts of the above financial assets, all of which are held for trading, represent their market value.

## 21. TRADE RECEIVABLES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Trade receivables | **438** | 333 |
| Less: Allowance for doubtful debts | **–** | – |
| | **438** | 333 |

Impairment loss on trade receivables is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific provision for impairment was recognised. The Group does not hold any collateral over these balances.

The directors of the Company consider that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

## 21. TRADE RECEIVABLES *(Continued)*

The Group generally allows an average credit period of 30 – 90 days to its customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **285** | 100 |
| 31 – 90 days | **111** | 208 |
| 91 – 180 days | **42** | 25 |
| | **438** | 333 |

Aged analysis of trade receivables which are not impaired is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **280** | 98 |
| Past due but not impaired | **158** | 235 |
| | **438** | 333 |

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a customer with long business relationship and the trade receivables were aged within half a year. Based on past experience, management believes that no additional provision for impairment is necessary as there is no significant change in credit quality and the balances are considered to be fully recoverable.

## 22. AMOUNT DUE FROM A SHAREHOLDER

Details of amount due from a shareholder pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

| Name | Maximum amount outstanding during the year HK$'000 | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Culturecom Holdings Limited | **384** | **136** | 384 |

The amount due from a shareholder is unsecured, interest free and repayable on demand.

## 23. BANK BALANCES AND CASH

Bank balances and cash are denominated in the following currencies:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Hong Kong dollars | **9,402** | 14,620 |
| United States dollars | **10** | 262 |
| Renminbi | **17** | 180 |
| Macau Pataca (MOP) | **98** | 25 |
| | **9,527** | 15,087 |

Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances and cash of the Group are HK$17,000 (2009: HK$180,000) of bank balances denominated in Renminbi ("RMB") placed with the banks in the PRC. RMB is not a freely convertible currency. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business.

## 24. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| 0 – 30 days | **13** | 47 |
| 31 – 90 days | **7** | 32 |
| 91 – 180 days | **2** | 2 |
| Over 180 days | **9** | 6 |
| | **31** | 87 |

The average credit period on purchases of goods is 30 days (2009: 30 days). The Group has financial risk management policies in place to ensure that all trade payables would be settled within the credit timeframe.

## 25. AMOUNT DUE TO A RELATED COMPANY/A DIRECTOR

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

## 26. SHARE CAPITAL

The share capital of the Company consists only of ordinary shares. All shares are equally eligible to receive dividends and the repayment of capital.

| | | Number of shares of HK$0.0025 each | | Share capital | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| | | **'000** | '000 | **HK$'000** | HK$'000 |
| Authorised: | | | | | |
| Ordinary shares at beginning and end of year | | **200,000,000** | 200,000,000 | **500,000** | 500,000 |
| Issued and fully paid: | | | | | |
| Ordinary shares at beginning of year | | **8,203,300** | 7,804,100 | **20,508** | 19,510 |
| Exercise of warrants | (a) | **–** | 399,200 | **–** | 998 |
| **Ordinary shares at end of year** | | **8,203,300** | 8,203,300 | **20,508** | 20,508 |

*Note:*

**(a) Exercise of warrants**

On 13 December 2006, the Company entered into the placing agreement with the placing agent in connection with the placing, on a fully underwritten basis, to place up to 249,200,000 warrants conferring rights to subscribe up to 249,200,000 shares at an initial subscription price of HK$0.076 per share. The warrants are placed at an issue price of HK$0.025 per warrant. Each warrant entitles the holder thereto to subscribe for 1 share of HK$0.01 each at an initial subscription price of HK$0.076 per share, subject to adjustment, during the two-year period commencing from the date of listing of the warrants. The placing was completed on 19 January 2007 and 249,200,000 warrants were fully placed. Dealings in the warrants on the Hong Kong Stock Exchange commenced on 29 January 2007.

Pursuant to an ordinary resolution passed on 29 June 2007, with effective from 3 July 2007, 1 share of HK$0.01 each in the issued and unissued share capital of the Company were subdivided into 4 shares of HK$0.0025 each (the "Share Subdivision").

During the year ended 31 December 2009, warrant subscription amounting to HK$7,584,800 was received, representing 399,200,000 warrants convertible into 399,200,000 shares of HK$0.0025 each with the subscription price of HK$0.019 per share.

The remaining 271,600,000 warrants for subscribing 271,600,000 shares were expired on 23 January 2009.

## 27. SHARE-BASED EMPLOYEE COMPENSATION

On 27 April 2007, the Post-IPO Share Option Scheme was terminated and was replaced on the same date by the new share option scheme (the "New Share Option Scheme") which remained in force as at 31 December 2010.

Under the Post-IPO Share Option Schemes and the New Share Option Scheme, options may be granted to any directors, employees, consultants, customers, suppliers, agents, partners or advisers of or contractor to the Group ("Eligible participants") or any entity in which any member of the Group holds any interest; any discretionary trust whose discretionary objects include any Eligible participants; and a company beneficially owned by any Eligible participants; and those person or company whom or which the board has resolved is qualified to be an eligible participant must remain eligible during the period when any option granted to him or it remains outstanding.

The share options vest upon the commencement of the exercise period, which is determined by the directors at the date of grant.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options. There were no share options granted and cancelled during the year. There is no movement for the share options during the years ended 31 December 2009 and 2010.

| | **2010 Number** | **2010 Weighted average exercise price HK$** | 2009 Number | 2009 Weighted average exercise price HK$ |
|---|---|---|---|---|
| At 1 January 2009, 31 December 2009 and 2010 | **756,760,000** | **0.1125** | 756,760,000 | 0.1125 |

## 27. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

All share options as at 31 December 2009 and 31 December 2010 are accounted for under HKFRS 2 "Share-based Payment". The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 6.4 years (2009: 7.4 years). The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| | **2010** | **2010** | 2009 | 2009 |
|---|---|---|---|---|
| | | **Weighted average exercise price** | | Weighted average exercise price |
| | **Number** | **HK$** | Number | HK$ |
| Exercisable period: | | | | |
| 29-5-2007 to 28-5-2017 | **756,760,000** | **0.1125** | 756,760,000 | 0.1125 |

The options may be exercised at any time of the option period provided that the options have been vested. The options were vested upon commencement of exercise period.

At the end of the reporting period, the Company had 756,760,000 (2009: 756,760,000) share options outstanding under the New Share Option Scheme. The exercise in full of the remaining share options would under the present capital structure of the Company, resulting in issue of 756,760,000 (2009: 756,760,000) additional ordinary shares of the Company and additional share capital of HK$1,891,900 (2009: HK$1,891,900) and share premium of HK$83,243,600 (2009: HK$83,243,600) (before the issue expenses).

The fair value of options granted on 29 May 2007 of HK$33,514,000, in which HK$4,461,000 was granted to directors and employees and HK$29,053,000 was granted to consultants, were determined by an independent third party valuer using the Binomial Model, with modification to reflect the exit rate and exercise pattern on the option value.

The fair value of services received from consultants was measured, indirectly, by reference to the fair value of the options granted as the fair value of the services received could not be estimated reliably by the Company.

## 27. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Key assumptions used in the valuation of the options granted on 29 May 2007 include: (i) an expected nil dividend yield per annum, (ii) volatility of share price of about 105% per annum (estimation of volatility for underlying stock price has considered the history price movement of the Company, and it is projected on a constant annualised standard deviation on the price movement of 105% to be applied throughout the option's life), (iii) a risk free rate of 4.47%, by reference to the yield of 10-year of Exchange Fund Notes, (iv) that the directors, employees and consultants will exercise their share options if the share price is above the exercise price by 2 times, 1.5 times and 1.5 times respectively and (v) exit rate for directors, employees and consultants of 27%, 43% and 0% per annum respectively.

A total of HK$33,514,000 of share-based compensation expenses was included in the consolidated income statement for the year ended 31 December 2007 which gave rise to share option reserve. No liabilities were recognised due to share-based payment transactions.

## 28. OPERATING LEASES

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year | | |
| – Land and buildings | **1,568** | 1,691 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Within one year | **1,112** | 928 |
| In the second to the fifth year inclusive | **803** | 17 |
| | **1,915** | 945 |

The Group leases premises under an operating lease. The lease runs for an initial period of one to two years, with an option to renew the lease at the expiry date or at dates mutually agreed between the Group and the landlord. The lease does not include contingent rental.

## 29. CAPITAL COMMITMENTS/CONTINGENT LIABILITIES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | – | 2,738 |

The Group does not have any significant contingent liabilities as at 31 December 2010 and 2009.

## 30. DISPOSAL OF A SUBSIDIARY

On 28 January 2010, the Group entered into a sale and purchase agreement for the disposal of the entire equity interest of 雲浮市九方農業科技發展有限公司 (Yunfu City Jiufang Agriculture Science and Technology Development Company Limited) ("Yunfu") at a consideration of RMB2,000,000. The net assets of Yunfu at the date of disposal were as follows:

| | 2010 HK$'000 |
|---|---|
| Net assets disposed of: | |
| Prepaid lease payments | 1,798 |
| Available-for-sales investment | 7 |
| Release of translation reserve | (436) |
| | 1,369 |
| Gain on disposal of a subsidiary | 930 |
| Total consideration | 2,299 |
| Satisfied by: | |
| Other receivables | 1,299 |
| Cash | 1,000 |
| | 2,299 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 1,000 |

## 31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed as follows:

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Office rental expenses | | | |
| – Culturecom Centre Limited | (i) | **378** | 378 |
| – Winway H.K. Investments Limited | (ii) | **400** | 552 |
| | | **778** | 930 |
| Consultancy fees | | | |
| – Ms. Heidi Leung | (iii) | **360** | 360 |

*Notes:*

(i) Office rental agreements with fixed monthly rental in Kwun Tong were entered into with Culturecom Centre Limited, a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company.

(ii) Office rental agreements with fixed monthly rental in Cyberport and Kwun Tong were entered into with Winway H.K. Investments Limited, a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company.

(iii) The Group paid monthly consultancy fee of HK$30,000 to Ms. Heidi Leung in providing marketing and public relationship services. Ms. Heidi Leung is a daughter of Mr. Leung Lap Yan, one of the non-executive directors of the Company.

## 31. MATERIAL RELATED PARTY TRANSACTIONS

(b) Compensation of key management personnel

The remuneration of directors and key executives during the year were as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Short-term employee benefits | **720** | 1,723 |
| Discretionary bonuses | **109** | 96 |
| Post-employment benefits | **12** | 27 |
| | **841** | 1,846 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 32. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are:

(a) To ensure the Group's ability to continue as a going concern, so that it provides returns and benefits for its stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity of HK$13,163,000 (2009: HK$19,024,000) as capital, for capital management purpose.

The directors of the Company also endeavour to ensure the steady and reliable cash flow from the normal business operation. For both years, the Group did not raise any debts.

## 33. FINANCIAL INSTRUMENTS

### Categories of financial instrument

*(i) Financial assets*

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Current assets** | | |
| Bank balances and cash | **9,527** | 15,087 |
| Financial assets at fair value through profit or loss | **1,195** | 1,222 |
| Amount due from a shareholder | **136** | 384 |
| Loans and receivables: | | |
| – Trade receivables | **438** | 333 |
| – Other receivables | **2,816** | 350 |
| | **14,112** | 17,376 |

*(ii) Financial liabilities*

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Current liabilities** | | |
| Amount due to a related company | **2** | 2 |
| Amount due to a director | **91** | 23 |
| Financial liabilities at amortised cost: | | |
| – Trade payables | **31** | 87 |
| – Other payables and accrued expenses | **1,658** | 2,198 |
| | **1,782** | 2,310 |

### Credit derivatives over loans or receivables at fair value

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Opening fair value | **1,222** | 416 |
| Realised during the year | **–** | (104) |
| Additions during the year | **–** | 169 |
| Change in fair value | **(27)** | 741 |
| Closing fair value | **1,195** | 1,222 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments including financial assets at fair value through profit or loss, trade receivables, other receivables, amount due from a shareholder, bank balances and cash, trade payables, other payables and accrued expenses, amount due to a related company and amount due to a director. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

### 34.1 Currency risk

The Group operates in Hong Kong with most of the transactions denominated and settled in Hong Kong dollars ("HK$"). The Group's foreign currencies are mainly Renminbi ("RMB") and United States dollars ("USD"). The Group has bank balances and cash denominated in RMB and USD while there are certain purchase transactions denominated in USD.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amounts of the Group's foreign currencies which denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Net financial assets (liabilities)** | | |
| Hong Kong dollars | **12,036** | 14,223 |
| Renminbi | **17** | 556 |
| United States dollars | **181** | 262 |
| MOP | **98** | 25 |
| EUR | **(2)** | – |
| | **12,330** | 15,066 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 34.1 Currency risk *(Continued)*

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group is mainly exposed to RMB and USD. The following table details the Group's sensitivity analysis, the analysis assumes a 5% increase and decrease in RMB and USD against the HK$, with all other variable held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates until the next reporting period. The sensitivity analysis includes only outstanding items denominated in foreign currencies other than the functional currencies of the group entities and adjusts their translation at the year end for a 5% change in foreign currency rates.

| | **RMB Impact** | | **USD Impact** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Loss before income tax | **1** | 28 | **9** | 13 |

As HK$ is linked to United States dollar, the Group does not have material currency risk on USD.

### 34.2 Interest rate risk

The Group has no borrowing. The Group's exposure to market risk for changes in interest rates relates primarily to bank balances and cash which bears floating interest rates. The Group currently does not have any interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The directors are of the opinion that the sensitivity of the Group's loss for the year to the reasonably possible change in HK$ interest rate in the next twelve months is low.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 34.3 Other price risk

The Group is exposed to equity price risk arising from its investments in listed equity securities and listed unit trusts which are classified as financial assets at fair value through profit or loss. The directors manage the exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise. The Group is not exposed to commodity price risk.

At 31 December 2010, it is estimated that there is a reasonably possible change of 50% (2009: 50%) in stock price and unit trust price in the next twelve months. If equity price and unit trust price had increased/decreased by 50% and all other variables were held constant, loss for the year and accumulated losses would decrease/increase by approximately HK$598,000 (2009: HK$611,000). This sensitivity analysis has been determined assuming that the price change had occurred at the end of the reporting period and had been applied to the Group's investments on that date.

### 34.4 Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. The carrying amounts of financial assets at fair value through profit or loss, trade receivables, other receivables, amount due from a shareholder and bank balances and cash represent the Group's maximum exposure to credit risk in relation to financial assets. The carrying amounts of these financial assets presented in the consolidated statement of financial position are net of impairment losses, if any. The Group monitors trade receivables, other receivables and amount due from a shareholder on an ongoing basis and only trades and deals with creditworthy third parties. Accordingly, the Group's exposure to bad debt is not significant. In addition, all the Group's bank balances and cash are deposited with major banks located in Hong Kong and the Mainland China. Accordingly, the Group has no significant concentrations of credit risk.

The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a decisive level.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from financial assets at fair value through profit or loss, trade receivables and amount due from a shareholder are set out in Notes 20, 21 and 22 respectively.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 34.5 Liquidity risk

As at 31 December 2010, the Group had net current assets of approximately HK$12,639,000 (2009: HK$15,578,000) and net assets of approximately HK$13,163,000 (2009: HK$19,024,000). Management considers the liquidity risk is minimal.

The Group manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due to day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified on a monthly basis.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs would be considered when a potential investment opportunity is identified.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and based on the earliest date on which the Group would be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 34.5 Liquidity risk *(Continued)*

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Within one year HK$'000 |
|---|---|---|---|---|
| **2010** | | | | |
| Trade payables | **31** | **31** | **13** | **18** |
| Other payables and accrued expenses | **1,658** | **1,658** | **830** | **828** |
| Amount due to a related company | **2** | **2** | **2** | **–** |
| Amount due to a director | **91** | **91** | **91** | **–** |
| | **1,782** | **1,782** | **936** | **846** |
| 2009 | | | | |
| Trade payables | 87 | 87 | 47 | 40 |
| Other payables and accrued expenses | 2,198 | 2,198 | 1,458 | 740 |
| Amount due to a related company | 2 | 2 | 2 | – |
| Amount due to a director | 23 | 23 | 23 | – |
| | 2,310 | 2,310 | 1,530 | 780 |

### 34.6 Fair value

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

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

– the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 34.7 Fair value measurements recognised in the consolidated statement of financial position

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

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **2010** | | | |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| Listed equity securities | **801** | **–** | **–** | **801** |
| Listed unit trusts | **394** | **–** | **–** | **394** |
| | **1,195** | **–** | **–** | **1,195** |

| | 2009 | | | |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| Listed equity securities | 925 | – | – | 925 |
| Listed unit trust | 297 | – | – | 297 |
| | 1,222 | – | – | 1,222 |

## 35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **232** | 91 |
| Interests in subsidiaries | (a) | **2,500** | 2,500 |
| | | **2,732** | 2,591 |
| **CURRENT ASSETS** | | | |
| Other receivables | | **1,515** | 325 |
| Amounts due from subsidiaries | (b) | **–** | 42 |
| Amount due from a shareholder | | **136** | – |
| Bank balances and cash | | **7,556** | 12,360 |
| | | **9,207** | 12,727 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accrued expenses | | **203** | 702 |
| Amounts due to subsidiaries | (b) | **13,455** | 12,615 |
| | | **13,658** | 13,317 |
| **NET CURRENT LIABILITIES** | | **(4,451)** | (590) |
| **NET (LIABILITIES) ASSETS** | | **(1,719)** | 2,001 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **20,508** | 20,508 |
| Reserves | (c) | **(22,227)** | (18,507) |
| **TOTAL EQUITY** | | **(1,719)** | 2,001 |

## 35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

*Notes:*

(a) Interests in subsidiaries comprise:

| | **2010** HK$'000 | 2009 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **7,502** | 7,502 |
| Less : Provision for impairment | **(5,002)** | (5,002) |
| | **2,500** | 2,500 |

(b) Amounts due from (to) subsidiaries are unsecured, interest free and repayable on demand.

(c) Reserves

| | **Share premium** HK$'000 | **Share options reserve** HK$'000 | **Warrant reserve** HK$'000 (Note a) | **Reorganisation reserve** HK$'000 (Note b) | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 111,686 | 33,514 | 9,774 | 2,501 | (164,590) | (7,115) |
| Total comprehensive expense for the year | – | – | – | – | (17,979) | (17,979) |
| Exercise of warrants (Note 26) | 8,684 | – | (2,097) | – | – | 6,587 |
| Lapsed of warrants (Note 26) | – | – | (7,677) | – | 7,677 | – |
| At 31 December 2009 and 1 January 2010 | 120,370 | 33,514 | – | 2,501 | (174,892) | (18,507) |
| Total comprehensive expense for the year | – | – | – | – | (3,720) | (3,720) |
| **At 31 December 2010** | **120,370** | **33,514** | **–** | **2,501** | **(178,612)** | **(22,227)** |

*Notes:*

(a) Warrant reserve represents the proceeds from the placing of 249,200,000 warrants ("Warrants") completed on 19 January 2007 as detailed in Note 26. The subscription period of the Warrants was expired on 23 January 2009, the outstanding Warrants were lapsed.

(b) Reorganisation reserve represents the difference between the nominal value of the shares of the subsidiaries acquired and the HK$7,500,000 loan capitalised and the nominal value of the shares issued by the Company as the consideration thereof.

## 36. SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2010 are as follows:

| Name of company | Place of incorporation/ registration and kind of legal entity | Particulars of issued and fully paid share capital/ registered capital | Percentage of issued capital held by the Company | | Principal activities and place of operations |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Q9 Technology (BVI) Limited | British Virgin Islands, limited liability company | 100 ordinary shares of US$1 each | 100% | – | Investment holding in Hong Kong |
| Q9-Tech Energy Development Limited | Hong Kong, limited liability company | 100 ordinary shares of HK$1 each | 100% | – | Investment holding of shares in Hong Kong |
| Q9-Tech Energy Development Limited | British Virgin Islands, limited liability company | 100 ordinary shares of US$1 each | 100% | – | Inactive during the year |
| Qcode Chinese Computer Limited | Hong Kong, limited liability company | 600,000 ordinary shares of HK$1 each | – | 100% | Holding patents in Hong Kong |
| Q9 Technology Company Limited | Hong Kong, limited liability company | 1 ordinary share of HK$1 each | – | 100% | Provision of institution and corporate services in Hong Kong |
| Q9 Technology (Retail) Company Limited | Hong Kong, limited liability company | 1 ordinary share of HK$1 each | – | 100% | Sales and licensing of computer software in Hong Kong |

## 36. SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ registration and kind of legal entity | Particulars of issued and fully paid share capital/ registered capital | Percentage of issued capital held by the Company Directly | Indirectly | Principal activities and place of operations |
|---|---|---|---|---|---|
| Q9 Technology (OEM) Company Limited | Hong Kong, limited liability company | 1 ordinary share of HK$1 each | – | 100% | Development and licensing of computer software in Hong Kong |
| Q9 Technology (Shenzhen) Limited | PRC, limited liability company | HK$2,000,000 | – | 100% | Development, sales and licensing of computer software in the PRC |
| Q9 Investments Limited | British Virgin Islands, limited liability company | 100 ordinary shares of US$1 each | – | 100% | Investments holding of shares and funds in Hong Kong |
| New Q9-Tech Equipment Trading Limited | Macau, limited liability company | MOP$25,000 | – | 100% | Research and development for biotechnology in Macau |
| China Bio Cassava Group Limited | Hong Kong, limited liability company | 100 ordinary shares of HK$1 each | – | 100% | Inactive during the year |
| China Bio Cassava Development Limited | Hong Kong, limited liability company | 100 ordinary shares of HK$1 each | – | 100% | Inactive during the year |

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

## 37. EVENTS AFTER THE REPORTING PERIOD

**Private placing of up to 800,000,000 listed warrants**

On 29 December 2010, the Company entered into a placing agreement with Kingston Securities Limited (the "Placing Agent"), pursuant to which, the Placing Agent agreed to place up to 800,000,000 warrants conferring rights to subscribe up to HK$47,200,000 in aggregate in cash for up to 800,000,000 shares at an initial subscription price of HK$0.059 per share. All 800,000,000 warrants have been fully placed at an issue price of HK$0.01 each on 1 February 2011 and completion of the placing has taken place on 16 February 2011.

The details are set out in the announcements of the Company dated 29 December 2010 and 24 January 2011 and the listing documents dated 16 February 2011.

**Extension of Letter of Intent**

On 18 January 2011, the Company entered into a letter of confirmation with Mr. Li Gaohua (the "Vendor") and Chengdu Chenming Electric Vehicles Manufacturing Co., Ltd（成都晨明電動車輛製造有限公司）("Chengdu Chenming").

It was agreed that the validity of the non-binding letter of intent (the "Letter of Intent") entered on 16 September 2010, in relation to the possible acquisition of the entire share capital of Asia World Capital Investment Holdings Limited (the "Target") at the proposed consideration of HK$40,000,000, will be extended to 16 April 2011. It is expected that the Target, through its wholly owned subsidiary, will entered into a sino-equity joint venture with Chengdu Chenming for production and manufacturing of electric vehicles in the People's Republic of China.

The details are set out in the announcements of the Company dated 21 September 2010, 17 December 2010 and 18 January 2011.

# Financial Summary

## FINANCIAL RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| Loss before income tax | **(5,425)** | (13,581) | (12,978) | (41,225) | (7,101) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Property, plant and equipment | **524** | 1,342 | 1,646 | 816 | 157 |
| Intangible assets | **–** | – | 1,700 | 1,900 | – |
| Prepaid lease payments | **–** | 2,097 | 2,092 | 2,025 | – |
| Deposits paid for construction of property, plant and equipment | **–** | – | 3,042 | 1,419 | – |
| Available-for-sales investment | **–** | 7 | – | – | – |
| Long term other receivable | **–** | – | 1,200 | – | – |
| Others assets | **14,473** | 17,944 | 19,098 | 33,365 | 35,615 |
| Total liabilities | **(1,834)** | (2,366) | (3,749) | (2,384) | (1,783) |
| Total equity | **13,163** | 19,024 | 25,029 | 37,141 | 33,989 |