北方有佳釀 · 一杯競風流

BIO-DYNAMIC GROUP LIMITED
生 物 動 力 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 039

Annual Report 2009

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. LO Peter, *Chairman*
Mr. LI Wentao, *Chief Executive Officer*
Mr. SUN David Lee
Mr. ZHAO Difei
Mr. LI Jian Quan
Mr. LU Gui Pin

NON-EXECUTIVE DIRECTOR

Mr. YEUNG Ting-Lap Derek Emory

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. LOKE Yu *
Dr. LEUNG Kwan-Kwok *
Mr. ZUCHOWSKI Sam *

* *Audit Committee Members*

COMPANY SECRETARY

Mr. CHAN Kwong Leung, Eric

AUDITORS

Ernst & Young

LEGAL ADVISERS

Herbert Smith

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank Corporation, Harbin Branch
China Merchants Bank, Harbin Branch

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2116 Hutchison House
10 Harcourt Road
Hong Kong

REGISTERED OFFICE

PO Box 309GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 705
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

WEBSITE

www.irasia.com/listco/hk/biodynamic/index.htm

Stock Code: 39

CHAIRMAN'S STATEMENT

Dear Shareholders,

Mankind survives on the natural resources, destroying the environments of other living creatures actually reduce the availability of resources and thus limit our future development. Mankind conquers nature may be only a short term victory if it increases the conflicts between mankind and the nature. In most of the times, man may win a battle but ultimately lose the war. Restoring the relationship between mankind and the nature is the only way to acquire dynamic for sustainable development of mankind. This is how Bio-Dynamic Group Limited is named.

Our target is being a leading ethanol specialised group. Ethanol is a natural product made of plants and microorganism. Be a beverage, it brings intoxicating effects; be a fuel, it can replace gasoline and reduce pollution. It is also widely used in medical and industrial fields. In the production of ethanol, there are three areas that require specific attention: feedstock choices, production methods and pollution management. Our Group is working hard to strengthen these three areas in order to improve our competitive edges in costing, to comply with the increasing demand of environmental protection legal laws and regulations and at the same time, to fulfill our social responsibilities.

Changes are painful but necessary. Our Group encountered difficulties when we focus to develop ethanol as our core business as there were an unexpected surge in production and construction costs during 2007 and 2008, then the financial crisis in 2008. The year of 2009 was the time of darkness before dawn to us and, fortunately, we have obtained full supports from our shareholders, the Chinese partner of our subsidiary, and our management team who agreed the pay cut. Our Harbin production facility has started its production of ethanol and animal feeds in mid-December 2009. We are currently developing a multi-brand sales network for liquor. "Beiguochun" brand baijiu have been launched recently.

2010 is the year that we are preparing for take-off. All our business, ethanol, animal feeds and liquor are heading forward and seeking for breakthroughs in both quality and quantity. Thanks again to each of the shareholder, staff and partners, we are able to move forward only because of your support.

LO Peter
Chairman

Hong Kong, 16 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW

The Group's Harbin production facility has commenced production in December 2009 and the Group recorded a turnover of approximately HK$2.2 million for the year ended 31 December 2009 (2008: HK$3.8 million). As the Group's Harbin production facility was still in its initial stage of production, a gross loss of approximately HK$11.5 million (2008: HK$6.1 million) was recorded. Loss attributable to owners of the parent was approximately HK$53.1 million, representing a decrease of 49.4% over last year. Loss per share for the year was HK9.23 cents (2008: HK18.54 cents).

Administrative expenses amounted to approximately HK$39.1 million, representing a decrease of 9.8% over last year. The decrease was due to the net effect of (i) the decrease in recognition of share option expenses of approximately HK$11.4 million, (ii) the increase in depreciation charges following the completion of the construction of the Harbin production facility of approximately HK$7.2 million, (iii) the remuneration cut of all directors of approximately HK$2.1 million, and (iv) the legal and professional fee associated with the very substantial and connected transactions of approximately HK$1.8 million.

Other expenses amounted to approximately HK$10.1 million, representing a decrease of 86.8% over last year. The other expenses for the year represented further impairment loss recognised by the Group in respect to the idle plant and equipment of the Group's Yinchuan production facility.

Finance cost amounted to approximately HK$2.9 million, representing an increase of 233.4% over last year. The increase was mainly due to the increase in bank borrowings.

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

On 25 November 2009, the Company entered into a sale and purchase agreement with China Food and Beverage Group Limited ("China Food"), the Company's fellow subsidiary, for the acquisition of the entire issued share capital of Rightsouth Limited at a consideration of HK$37 million (the "Acquisition"). The consideration was satisfied by the Company through the allotment and issuance of 78,556,263 shares of the Company, at an issue price of HK$0.471 per share. On the same date, the Company and China Food entered into an option agreement pursuant to which China Food granted to the Company an option to purchase all equity interests legally and beneficially held by China Food in Guangzhou Wine & Liquor Franchised Stores Ltd. for a consideration of HK$1.00.

These transactions have been approved by independent shareholders at the Extraordinary General Meeting held on 11 January 2010. The Acquisition was completed on 12 January 2010 and the Company has not yet exercised the option as at the date of this report.

Rightsouth Limited and its subsidiaries (the "Rightsouth Group") are principally engaged in the sale and distribution of wine and liquor in the PRC. The Rightsouth Group operates a chain of wine and liquor specialty stores with a sales network of 18 retail stores and 23 franchised stores in Guangzhou, PRC and an effective distribution network which includes restaurants, hotels and enterprises. Details of these transactions were set out in the Company's Circular dated 24 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group will continue to engage in its core business of production, sale and distribution of consumable ethanol. At the same time, the Group will extend its scope of business to develop wine and liquor business. The directors believe that the Group's ethanol business and wine and liquor business will contribute significant revenue and cash flows to the Group in the coming year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, in order to improve the Group's financial position, immediate liquidity and cash flows, the Group obtained further funding through fund raising and bank borrowings. On 15 December 2009, the Company raised net proceeds of approximately HK$15.0 million by way of a top-up placing of 36,000,000 shares at HK$0.43 each. The net proceeds have been and will be used for the Group's general working capital purposes. As at 31 December 2009, the Group's total borrowings amounted to approximately HK$113.6 million, representing a rise of 43.9% when compared to last year.

Due to the top-up placing and the exercise of share options by a director, the issued share capital of the Company increased by 40,500,000 shares to 613,507,000 shares during the year. Apart from options to subscribe for shares in the Company, there were no other capital instruments in issue.

As at 31 December 2009, the Group has equity attributable to owners of the parent of approximately HK$184.9 million (2008: HK$215.7 million). Non-current assets and net current liabilities of the Group as at 31 December 2009 amounted to approximately HK$442.7 million (2008: HK$468.0 million) and approximately HK$185.0 million (2008: HK$169.7 million), respectively.

As at 31 December 2009, the Group's cash and cash equivalents amounted to approximately HK$10.3 million (2008: HK$3.7 million), which were denominated in Hong Kong dollars and Renminbi. The Group's borrowings included bank loans of approximately HK$52.7 million (2008: HK$18.6 million), other borrowings of approximately HK$26.8 million (2008: HK$26.2 million) and an amount due to a minority shareholder of a subsidiary of approximately HK$34.1 million (2008: HK$34.1 million). All of the borrowings are denominated in Renminbi. The bank loans bear interest rates ranging between 5.31% and 6.37% (2008: 7.47%). Other borrowings bear interest rates ranging between 0% and 9.72% (2008: 9.72%). The amount due to a minority shareholder of a subsidiary is interest-free. The gearing ratio of the Group as at 31 December 2009, calculated as net debt divided by equity attributable to owners of the parent plus net debt, was 52% (2008: 45%).

The Group did not use financial instruments for financial hedging purposes during the year.

Subsequent to the end of the reporting period, on 25 January 2010, the Company further raised net proceeds of approximately HK$40.4 million by way of a top-up placing of 103,000,000 shares at HK$0.40 each. The net proceeds have been and will be used for the Group's general working capital purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Having considered the capital raised during the year and subsequent to the end of the reporting period, the current bank and other borrowings, the commencement of the production of the Group's Harbin production facility and the financial support from the ultimate holding company, the directors are satisfied that the Group will have sufficient capital to meet its financial obligations in full as they fall due in the foreseeable future.

The Group's business transactions, assets and liabilities are principally denominated in Renminbi and Hong Kong dollars. Fluctuations in Renminbi may impact the Group's results and net asset value as the Company's consolidated financial statements are presented in Hong Kong dollars. The Group's treasury policy is to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2009, certain of the Group's bank loans were secured by charges over certain of the Group's plant and machinery with net book value of approximately HK$39.0 million (2008: Nil) and a guarantee of a third party holding a pledged deposit of approximately HK$11.4 million (2008: Nil) from the Group.

As at 31 December 2009, the Group had no material contingent liabilities (2008: Nil).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had approximately 293 (2008: 228) employees in Hong Kong and the PRC with total staff costs amounted to approximately HK$14.7 million (2008: HK$28.6 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications. The Company has adopted a share option scheme and the purpose of which is to provide incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

CORPORATE GOVERNANCE REPORT

The Company has always recognised the importance of shareholders' transparency and accountability. It is the belief of the board that shareholders can maximise their benefits from good corporate governance.

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

The board of the Company is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Daily operations and execution are delegated to management. All directors give sufficient time and attention to the Group's affairs. The board believes that the balance between executive and non-executive directors is reasonable and adequate to provide checks and balances that safeguard the interests of shareholders and the Group.

At 31 December 2009, the board comprised six executive directors, namely, Mr. Lo Peter, Mr. Li Wentao, Mr. Sun David Lee, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Lu Gui Pin; one non-executive director, namely, Mr. Yeung Ting-Lap Derek Emory; and three independent non-executive directors, namely, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam.

The non-executive director provides the Group with a wide range of expertise and experience. His participation in board meetings brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account. The independent non-executive directors ensure that the board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received annual confirmation of independence from the three independent non-executive directors and as at the date of this report still considers them to be independent.

The board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the board and has around one-third in number of its members comprising independent non-executive directors.

BOARD MEETINGS

For the year ended 31 December 2009, there were four full board meetings held by the Company to discuss the Group's development strategies, investment projects and the operational and financial performance of the Group. The attendance of the directors at the board meetings is as follows:

	Number of attendance
Executive directors	
Mr. Lo Peter	4/4
Mr. Li Wentao	1/4
Mr. Sun David Lee	3/4
Mr. Zhao Difei	1/4
Mr. Li Jian Quan	1/4
Mr. Lu Gui Pin	1/4

	Number of attendance
Non-executive director	
Mr. Yeung Ting-Lap Derek Emory	4/4
Independent non-executive directors	
Dr. Loke Yu	3/4
Dr. Leung Kwan-Kwok	4/4
Mr. Zuchowski Sam	4/4

The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. The Company Secretary also keeps detailed minutes of each meeting, which are available to all directors. A draft of the minutes is circulated to all directors for comment and approval as soon as practicable after the meetings.

All directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and service of the Company Secretary, who is responsible for providing directors with board papers and related materials and ensuring that board procedures are followed.

Should a potential conflict of interest involving a substantial shareholder or director arise, the matter is discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent non-executive directors with no conflict of interest are present at meetings dealing with conflict issues. Board committees, including the Audit, Remuneration and Nomination Committees, all follow the applicable practices and procedures used in board meetings for committee meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer are held by separate individuals so as to maintain an effective segregation of duties. Mr. Lo Peter is the Chairman of the Company and provides leadership to the board to ensure that the board works effectively and all important issues are discussed in a timely manner. Mr. Li Wentao is the Chief Executive Officer of the Company and is responsible for supervising the implementation of the Group's strategic plans.

DIRECTORS' TERMS OF APPOINTMENTS AND RE-ELECTION

In accordance with article 116 of the Company's articles of association, one-third of the directors, including the non-executive directors, shall retire from office by rotation at each annual general meeting. The non-executive directors and independent non-executive directors are appointed for a period of three years.

Article 99 of the Company's articles of association provides that directors appointed either to fill a casual vacancy or as an addition to the board shall hold office only until the next following general meeting after their appointment, and shall be subject to re-election by the shareholders.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code on ethics and securities transactions, which incorporates a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with the code. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the code on ethics and securities transactions throughout the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The board is responsible for presenting a clear, balanced assessment of the Group's performance and prospects. It is also responsible for preparing accounts that give a true and fair view of the Group's financial position on a going-concern basis and other price-sensitive announcements and financial disclosures. Management provides the board with the relevant information it needs to discharge these responsibilities.

The responsibilities of the auditors to the shareholders are set out in the Independent Auditors' Report on pages 22 and 23.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for formulating and recommending remuneration policy to the board and determining the remuneration of executive directors and members of senior management. Meetings of the Remuneration Committee shall be held at least once a year. At 31 December 2009, the Remuneration Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. For the year ended 31 December 2009, one meeting was held by Remuneration Committee and all members had attended the meeting.

NOMINATION COMMITTEE

The Nomination Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for making recommendations to the board on nominations, appointment of directors and board succession. The Nomination Committee selects candidates for directorship with reference to the candidate's professional knowledge, industry experience, personal ethics and integrity, and time commitments. During the selection process, the Committee may consider referrals or engage external recruitment professionals when necessary. Meetings of the Nomination Committee are held as and when required. At 31 December 2009, the Nomination Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. For the year ended 31 December 2009, there was no meeting held by Nomination Committee as there was no board vacancies.

AUDIT COMMITTEE

The Company has had an Audit Committee since 2001. The Audit Committee is responsible for reviewing the Group's financial reporting, internal controls and making recommendations to the board. At 31 December 2009, the Audit Committee comprised three independent non-executive directors, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam. Dr. Loke Yu is the chairman of the committee.

For the year ended 31 December 2009, there were three meetings held by the Audit Committee to (i) review with external auditors the external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance; (ii) discuss auditing and financial reporting matters for the annual report for 2008 and interim report for 2009 before recommending them to the board for approval; and (iii) review the Group's internal control system. The attendance is as follows:

	Number of attendance
Dr. Loke Yu	2/3
Dr. Leung Kwan-Kwok	3/3
Mr. Zuchowski Sam	3/3

AUDITORS' REMUNERATION

During the year, the remuneration paid/payable to the Company's auditors, amounted to HK$640,000 for audit services and HK$10,000 for tax services.

INTERNAL CONTROL

The board has overall responsibility for maintaining sound and effective internal controls to safeguard the Group's assets and shareholders' interests. The board conducts regular reviews of the Group's internal control system. The board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and both internal and external auditors. The board believes that the present internal control system is adequate and effective.

The internal audit department follows a risk-and-control based approach. The department performs regular financial and operational reviews of the Group and its subsidiaries, as well as other reviews as required. Summaries of major audit findings and control weaknesses, if any, are reviewed by the Audit Committee. The internal audit department monitors the follow-up actions agreed upon in response to the Audit Committee's recommendations.

COMMUNICATION WITH SHAREHOLDERS

The Group follows a policy of disclosing relevant information to shareholders in a timely manner. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting ("AGM") provides a forum for shareholders to exchange views directly with the board. The Company regards the AGM as an important event and all directors, senior management and external auditors make an effort to attend the AGM of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 20 clear business days' notice of the date and venue of the AGM of the Company. The Company supports the Code's principle to encourage shareholders' participation. The Company has also complied with the requirements concerning voting by poll under the Listing Rules. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in circulars to shareholders despatched by the Company where applicable.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The directors and senior management of the Company as at the date of this report are as follows:

DIRECTORS

Mr. LO Peter, aged 54, was appointed an executive director and the chairman of the Company in May 2005. He is responsible for the overall strategic development of the Group. Mr. Lo is currently a director of China Enterprise Capital Limited, an independent non-executive director of Ajisen (China) Holdings Limited and Uni-President China Holdings Ltd., companies currently listed on the Main Board of the Stock Exchange. Mr. Lo was the independent non-executive director of Lonking Holdings Limited from February 2005 to May 2008. He was the chief executive officer and executive director of Harbin Brewery Group Limited, a company formerly listed on the Main Board of the Stock Exchange, from 1998 to 2004. He held senior management positions in the Hong Kong offices of several international companies and has more than 20 years' experience in doing business in the PRC. Mr. Lo received a Bachelor of Science (Economics) Degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science in 1982. He received the "Directors of the Year 2004" award from The Hong Kong Institute of Directors. Mr. Lo is a member of the People's Consultative Conference of Harbin City.

Mr. LI Wentao, aged 54, was appointed an executive director of the Company in May 2006 and the chief executive officer in September 2007. He is currently responsible for supervising the implementation of the Group's strategic plans. Mr. Li joined the Group as a non-executive director in September 2005. Prior to joining the Group, Mr. Li was a director and the chairman of Harbin Brewery Group Limited ("HB Group"). Mr. Li graduated from the Light Industrial Institute of Tianjin majoring in machine and facilities for light industry. Following his graduation in 1982, he joined Harbin Brewery Factory ("HBF") in 1982, and HB Group in 1995. He was appointed as the general manager of Harbin Brewing Company Limited in 1996. He is a senior engineer with more than 20 years' experience in the brewery industry gained from working for HBF and HB Group. He has been awarded a series of awards including the National Light Industrial Labourer Model, one of the Ten Most Outstanding Young Persons in Heilongjiang Province, one of the Ten Best Enterprise Operators in Harbin City and the National "First of May" Labour Medal. He was also one of the representatives of the 11th Harbin City People's Congress.

Mr. SUN David Lee, aged 44, was appointed an executive director of the Company in May 2005. He has served as the chief executive officer of the Company from May 2005 to September 2007. Mr. Sun is currently responsible for the international affairs of the Company. He is a director of CEC Management Limited and an executive director of Asia Coal Limited, a company currently listed on the Main Board of the Stock Exchange. Prior to helping form CEC Management Limited, he was the Managing Director and General Counsel of Pacific Alliance Group Limited. Mr. Sun was the Director for Strategy and Business Development Asia at InBev. Prior to his position at InBev, he was a consultant in the Corporate Finance and Strategy Practice of McKinsey & Company, Inc. in Hong Kong. Prior to his position at McKinsey, Mr. Sun practised law as an associate in the corporate group at Linklaters. Mr. Sun holds a Juris Doctor from the University of Illinois College of Law and a Bachelor of Art degree from Cornell University.

Mr. ZHAO Difei, aged 47, was appointed an executive director of the Company in July 2007. He was the technology controller of Harbin Brewery Group Limited, in charge of the brewing technology department and quality control department. He graduated from the Light Industrial Institute of Dalian majoring in industrial fermentation and holds a Master Degree in food engineering. Mr. Zhao has more than 20 years' experience in the brewing industry.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. LI Jian Quan, aged 51, was appointed an executive director of the Company in July 2007. He has over 10 years' experience in human resources management and has devoted to scientific research since 1994. Mr. Li graduated from the University of International Business and Economics in Beijing, majoring in International Business.

Mr. LU Gui Pin, aged 54, was appointed an executive director of the Company in July 2007. He was the general manager of Ningxia Western Bright Industrial Base Company Limited from 2002 to 2006 and was the general manager of Shenzhen Securities Times Huaiyuan Advertisement Company from 1997 to 2002. Mr. Lu graduated from the Jilin University majoring in Chinese Studies.

Mr. YEUNG Ting-Lap Derek Emory, aged 37, was appointed a non-executive director of the Company in May 2005. He is currently the chief executive officer and co-founder of She Communications Limited ("she.com"), a leading Hong Kong based women's lifestyle communications company. Mr. Yeung is also a non-executive director of Asia Coal Limited, a company currently listed on the Main Board of the Stock Exchange. Prior to founding she.com, Mr. Yeung was an associate with Telecom Venture Group Limited and a consultant with Arthur Andersen & Company both in Boston and Hong Kong. Mr. Yeung holds a Bachelor Degree in Applied Mathematics and Economics from Brown University and a Master Degree in Business Administration and Accounting from Northeastern University, both in the United States of America. Mr. Yeung is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Dr. LOKE Yu alias LOKE Hoi Lam, aged 60, was appointed an independent non-executive director of the Company in June 2005. Dr. Loke has over 35 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. He is also an associate member of The Hong Kong Institute of Chartered Secretaries and a member of Malaysian Institute of Accountants. He is the Chairman of MHL Consulting Limited and serves as an independent non-executive director of Vodone Limited, Matrix Holdings Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, Scud Group Limited, and Zhong An Real Estate Limited, companies currently listed on the Main Board of the Stock Exchange.

Dr. LEUNG Kwan-Kwok, aged 58, was appointed an independent non-executive director of the Company in May 2005. He is the Director of the Social Capital and Impact Assessment Research Unit and the Associate Professor of Department of Applied Social Studies in the City University of Hong Kong. Since 1991, he has been offering consultancy/professional services to the government, public utilities, voluntary agencies, media, and private enterprises in Hong Kong.

Mr. ZUCHOWSKI Sam, aged 62, was appointed an independent non-executive director of the Company in May 2005. He has considerable experience in investment banking and other direct investments where he has held positions with Merrill Lynch International, Inc., First Pacific U.S. Securities (Aust.) Ltd and Capitalcorp Ltd. He was a director of a number of companies listed on the Main Board of the Stock Exchange. Mr. Zuchowski obtained a Bachelor Degree in Law from the University of Melbourne, Australia.

SENIOR MANAGEMENT

Mr. FU Hui, aged 47, is the chief operating officer of the Company. He was appointed a director of the Company in July 2006 and resigned in July 2007. Mr. Fu is responsible for monitoring the daily operations of the Group. He was a director and the chief operation officer of Harbin Brewery Group Limited. Mr. Fu joined Harbin Brewery Factory in 1983. He graduated from the Light Industrial Institute of Dalian in 1983 majoring in industrial fermentation and holds a Master Degree in Management Science and Engineering from the Polytechnic University of Harbin in 1983. He was appointed as the manager of the brewing technology, research and development department of Harbin Brewery Factory in 1993. Mr. Fu was a brewing engineer of Harbin Brewery Group Limited and a senior fermentation engineer with more than 20 years' experience in the brewery industry gained from working for Harbin Brewery Factory and Harbin Brewery Group Limited.

Mr. WANG Ming Yan, aged 49, is the regional controller of the Group. He joined the Group in July 2007. He was the general manager of Harbin Brewing Company Limited. Mr. Wang is a senior engineer with more than 20 years' experience in the brewery industry. Mr. Wang graduated from the Light Industrial Institute of Harbin.

Ms. CHAN So Fong, aged 36, is the chief financial officer of the Company. She joined the Group in August 2005. Ms. Chan has extensive experience in auditing and financial management. She had worked in Ernst & Young. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan holds a Bachelor Degree in Business Administration with major in Professional Accountancy from The Chinese University of Hong Kong.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 75.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 76. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution amounted to approximately HK$207,736,000, representing the share premium account of the Company of approximately HK$386,276,000 less the accumulated losses as at 31 December 2009 of approximately HK$178,540,000. Under the Companies Law, Cap. 22 (as amended) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 90.3% of the total sales for the year and sales to the largest customer included therein amounted to 53.1%. Purchases from the Group's five largest suppliers accounted for 87.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to 45.9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors
Mr. Lo Peter
Mr. Li Wentao
Mr. Sun David Lee
Mr. Zhao Difei
Mr. Li Jian Quan
Mr. Lu Gui Pin

Non-executive director
Mr. Yeung Ting-Lap Derek Emory

Independent non-executive directors
Dr. Loke Yu
Dr. Leung Kwan-Kwok
Mr. Zuchowski Sam

In accordance with article 116 of the Company's articles of association, Mr. Lo Peter, Mr. Li Wentao, Mr. Yeung Ting-Lap Derek Emory and Mr. Zuchowski Sam will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive director and independent non-executive directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest			
Name of director	**Directly beneficially owned**	**Through spouse**	**Total**	**Percentage of the Company's issued share capital**
Mr. Lo Peter	3,160,000	–	3,160,000	0.52
Mr. Li Wentao	950,000	–	950,000	0.15
Mr. Sun David Lee	–	230,000	230,000	0.04
Mr. Zhao Difei	2,220,000	–	2,220,000	0.36
Mr. Li Jian Quan	5,296,000	–	5,296,000	0.86
Mr. Lu Gui Pin	6,432,000	–	6,432,000	1.05
	18,058,000	230,000	18,288,000	2.98

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr. Lo Peter	3,320,000
Mr. Li Wentao	4,050,000
Mr. Sun David Lee	3,320,000
Mr. Zhao Difei	3,000,000
Mr. Lu Gui Pin	2,400,000
Mr. Yeung Ting-Lap Derek Emory	200,000
Dr. Loke Yu	200,000
Mr. Zuchowski Sam	200,000
	16,690,000

Save as disclosed above, as at 31 December 2009, none of the directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
China Enterprise Capital Limited *(note 2)*	Interest of controlled corporations	402,516,263	65.6
Orientelite Investments Limited *(note 3)*	Beneficial owner	195,000,000	31.8
	Interest of a controlled corporation	128,960,000	21.0
CEC Agricapital Group Limited	Beneficial owner	128,960,000	21.0
China Food and Beverage Group Limited *(note 4)*	Beneficial owner	78,556,263	12.8
CEC F&B Limited *(note 5)*	Interest of a controlled corporation	78,556,263	12.8

Notes:

(1) The calculation of the percentage figures is based on the relevant number of shares as a percentage of the number of shares of the Company in issue as at 31 December 2009.

(2) China Enterprise Capital Limited owns 100% Orientelite Investments Limited, which in turn owns 100% of CEC Agricapital Group Limited. China Enterprise Capital Limited also indirectly holds approximately 88.6% of the issued share capital of China Food and Beverage Group Limited. Accordingly, China Enterprise Capital Limited is taken under the SFO to be interested in the shares in which Orientelite Investments Limited, CEC Agricapital Group Limited and China Food and Beverage Group Limited have an interest.

(3) Orientelite Investments Limited owns 100% of CEC Agricapital Group Limited. Accordingly, Orientelite Investments Limited is taken under the SFO to be interested in the shares which Orientelite Investments Limited and CEC Agricapital Group Limited have an interest.

(4) These 78,556,263 shares were the consideration shares to be allotted to China Food and Beverage Group Limited pursuant to the sale and purchase agreement between the Company and China Food and Beverage Group Limited dated 25 November 2009. Subsequent to the end of the reporting period, the 78,556,263 shares were allotted to China Food and Beverage Group Limited on 12 January 2010.

(5) CEC F&B Limited owns 88.6% of the issued share capital of China Food and Beverage Group Limited. Accordingly, CEC F&B Limited is taken under the SFO to be interested in the shares in which China Food and Beverage Group Limited has an interest.

Save as disclosed above, as at 31 December 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to, and continuing efforts to promote the interests of, the Group. Further details of the Scheme are disclosed in note 29 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options At 1 January 2009	Granted during the year	Exercised during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Directors							
Mr. Lo Peter	1,660,000	–	–	1,660,000	31-10-08	31-10-08 to 30-10-11	0.288
	1,660,000	–	–	1,660,000	31-10-08	31-10-09 to 30-10-12	0.288
	3,320,000	–	–	3,320,000			
Mr. Li Wentao	1,550,000	–	–	1,550,000	31-10-08	31-10-08 to 30-10-11	0.288
	2,500,000	–	–	2,500,000	31-10-08	31-10-09 to 30-10-12	0.288
	4,050,000	–	–	4,050,000			
Mr. Sun David Lee	1,660,000	–	–	1,660,000	31-10-08	31-10-08 to 30-10-11	0.288
	1,660,000	–	–	1,660,000	31-10-08	31-10-09 to 30-10-12	0.288
	3,320,000	–	–	3,320,000			
Mr. Zhao Difei	750,000	–	–	750,000	31-10-08	31-10-08 to 30-10-11	0.288
	2,250,000	–	–	2,250,000	31-10-08	31-10-09 to 30-10-12	0.288
	3,000,000	–	–	3,000,000			
Mr. Li Jian Quan	2,250,000	–	(2,250,000)	–	31-10-08	31-10-08 to 30-10-11	0.288
	2,250,000	–	(2,250,000)	–	31-10-08	31-10-09 to 30-10-12	0.288
	4,500,000	–	(4,500,000)	–			
Mr. Lu Gui Pin	600,000	–	–	600,000	31-10-08	31-10-08 to 30-10-11	0.288
	1,800,000	–	–	1,800,000	31-10-08	31-10-09 to 30-10-12	0.288
	2,400,000	–	–	2,400,000			
Mr. Yeung Ting-Lap	–	100,000	–	100,000	11-2-09	11-2-09 to 10-2-12	0.19
Derek Emory	–	100,000	–	100,000	11-2-09	11-2-10 to 10-2-13	0.19
	–	200,000	–	200,000			

Name or category of participant	Number of share options At 1 January 2009	Granted during the year	Exercised during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Directors							
Dr. Loke Yu	–	100,000	–	100,000	11-2-09	11-2-09 to 10-2-12	0.19
	–	100,000	–	100,000	11-2-09	11-2-10 to 10-2-13	0.19
	–	200,000	–	200,000			
Mr. Zuchowski Sam	–	100,000	–	100,000	11-2-09	11-2-09 to 10-2-12	0.19
	–	100,000	–	100,000	11-2-09	11-2-10 to 10-2-13	0.19
	–	200,000	–	200,000			
	20,590,000	600,000	(4,500,000)	16,690,000			
Other employees							
In aggregate	4,088,000	–	–	4,088,000	31-10-08	31-10-08 to 30-10-11	0.288
	7,445,000	–	–	7,445,000	31-10-08	31-10-09 to 30-10-12	0.288
	11,533,000	–	–	11,533,000			
	32,123,000	600,000	(4,500,000)	28,223,000			

Notes to the table of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$0.59. The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK$0.187.

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK$
Mr. Yeung Ting-Lap Derek Emory	200,000	19,000
Dr. Loke Yu	200,000	19,000
Mr. Zuchowski Sam	200,000	19,000
	600,000	57,000

The binomial option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options are set out in note 29 to the financial statements. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 36 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LO Peter
Chairman

Hong Kong, 16 April 2010

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of BIO-DYNAMIC GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of BIO-DYNAMIC GROUP LIMITED set out on pages 24 to 75, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2.1 in the financial statements which indicates that the Group incurred a consolidated net loss of HK$61,907,000 during the year ended 31 December 2009, and, as at that date, the Group's consolidated current liabilities exceeded its consolidated current assets by HK$185,002,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young
Certified Public Accountants

16 April 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**2,214**	3,780
Cost of sales		**(13,670)**	(9,923)
Gross loss		**(11,456)**	(6,143)
Other income	5	**1,144**	1,265
Selling and distribution costs		**–**	(52)
Administrative expenses		**(39,071)**	(43,300)
Other expenses		**(10,126)**	(76,581)
Finance costs	7	**(2,941)**	(882)
LOSS BEFORE TAX	6	**(62,450)**	(125,693)
Income tax credit	10	**543**	8,138
LOSS FOR THE YEAR		**(61,907)**	(117,555)
Attributable to:			
Owners of the parent	11	**(53,134)**	(104,916)
Minority interests		**(8,773)**	(12,639)
		(61,907)	(117,555)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**HK(9.23) cents**	HK(18.54) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
LOSS FOR THE YEAR		**(61,907)**	(117,555)
Exchange differences on translation of foreign operations		**(2)**	16,210
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(2)**	16,210
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(61,909)**	(101,345)
Attributable to:			
Owners of the parent	11	**(53,136)**	(93,396)
Minority interests		**(8,773)**	(7,949)
		(61,909)	(101,345)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**333,714**	355,440
Prepaid land lease payments	15	**32,370**	33,173
Other intangible assets	17	**75,203**	77,939
Prepayments for acquisition of property, plant and equipment	21	**1,442**	1,487
Total non-current assets		**442,729**	468,039
CURRENT ASSETS			
Inventories	19	**5,854**	461
Trade receivables	20	**48**	–
Prepayments, deposits and other receivables	21	**15,245**	3,969
Due from the immediate holding company	33	**–**	17
Due from fellow subsidiaries	33	**263**	560
Cash and cash equivalents	22	**10,308**	3,724
Total current assets		**31,718**	8,731
CURRENT LIABILITIES			
Trade payables	23	**2,969**	–
Other payables and accruals	24	**99,562**	99,240
Interest-bearing bank and other borrowings	25	**79,502**	44,864
Due to a fellow subsidiary	33	**615**	286
Due to a minority shareholder of a subsidiary	33	**34,072**	34,074
Total current liabilities		**216,720**	178,464
NET CURRENT LIABILITIES		**(185,002)**	(169,733)
TOTAL ASSETS LESS CURRENT LIABILITIES		**257,727**	298,306
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**14,917**	15,460
Deferred income	27	**12,426**	12,887
Total non-current liabilities		**27,343**	28,347
Net assets		**230,384**	269,959
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**61,351**	57,301
Reserves	30(a)	**123,510**	158,362
		184,861	215,663
Minority interests		**45,523**	54,296
Total equity		**230,384**	269,959

LO Peter
Director

SUN David Lee
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

		Attributable to owners of the parent								
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Merger reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		56,600	359,437	15,308	2,150	7,636	(151,537)	289,594	62,245	351,839
Total comprehensive loss for the year		–	–	–	–	11,520	(104,916)	(93,396)	(7,949)	(101,345)
Issue of shares	28	701	9,795	(8,478)	–	–	–	2,018	–	2,018
Equity-settled share option arrangements	29	–	–	17,447	–	–	–	17,447	–	17,447
At 31 December 2008		57,301	369,232	24,277	2,150	19,156	(256,453)	215,663	54,296	269,959
At 1 January 2009		57,301	369,232	24,277	2,150	19,156	(256,453)	215,663	54,296	269,959
Total comprehensive loss for the year		–	–	–	–	(2)	(53,134)	(53,136)	(8,773)	(61,909)
Issue of shares	28	4,050	17,521	(4,795)	–	–	–	16,776	–	16,776
Share issue expenses	28	–	(477)	–	–	–	–	(477)	–	(477)
Equity-settled share option arrangements	29	–	–	6,035	–	–	–	6,035	–	6,035
At 31 December 2009		61,351	386,276*	25,517*	2,150*	19,154*	(309,587)*	184,861	45,523	230,384

* These reserve accounts comprise the consolidated reserves of HK$123,510,000 (2008: HK$158,362,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(62,450)**	(125,693)
Adjustments for:			
Finance costs	7	**2,941**	882
Interest income	5	**(9)**	(56)
Loss on disposal of items of property, plant and equipment	6	**96**	–
Depreciation	14	**10,669**	3,420
Amortisation of prepaid land lease payments	15	**999**	1,034
Amortisation of other intangible assets	17	**2,735**	5,474
Amortisation of deferred income	27	**(460)**	(454)
Impairment of property, plant and equipment	14	**10,126**	9,662
Impairment of other intangible assets	17	**–**	64,591
Impairment of goodwill	16	**–**	2,328
Write-down of inventories to net realisable value	19	**8,724**	–
Equity-settled share option expense	29	**6,035**	17,447
		(20,594)	(21,365)
Decrease/(increase) in inventories		**(14,117)**	2,155
Increase in trade receivables		**(48)**	–
Increase in prepayments, deposits and other receivables		**(11,474)**	(261)
Increase in trade payables		**2,969**	–
Increase in other payables and accruals		**4,871**	14,330
Decrease/(increase) in an amount due from the immediate holding company		**17**	(17)
Decrease/(increase) in an amount due from fellow subsidiaries		**297**	(125)
Increase in an amount due to a fellow subsidiary		**329**	286
Cash generated used in operations		**(37,750)**	(4,997)
Interest paid		**–**	–
Tax paid		**–**	–
Net cash flows used in operating activities		**(37,750)**	(4,997)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows used in operating activities		**(37,750)**	(4,997)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**9**	56
Purchase of items of property, plant and equipment		**(6,631)**	(76,181)
Proceeds from disposal of items of property, plant and equipment		**2,709**	–
Disposal of subsidiaries		**–**	1,560
Net cash flows used in investing activities		**(3,913)**	(74,565)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	**16,776**	2,018
Share issue expenses	28	**(477)**	–
New bank and other borrowings		**57,810**	44,864
Repayment of bank and other borrowings		**(23,170)**	–
Interest paid		**(2,706)**	(576)
Net cash flows from financing activities		**48,233**	46,306
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**6,570**	(33,256)
Cash and cash equivalents at beginning of year		**3,724**	32,854
Effect of foreign exchange rate changes, net		**14**	4,126
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,308**	3,724
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**10,308**	3,724

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**10**	25
Investments in subsidiaries	18	**209,517**	209,517
Total non-current assets		**209,527**	209,542
CURRENT ASSETS			
Prepayments and deposits	21	**281**	262
Due from subsidiaries	18	**86,296**	74,329
Due from the immediate holding company	33	**–**	17
Cash and cash equivalents		**1,919**	3,373
Total current assets		**88,496**	77,981
CURRENT LIABILITIES			
Other payables and accruals	24	**3,419**	964
Total current liabilities		**3,419**	964
NET CURRENT ASSETS		**85,077**	77,017
Net assets		**294,604**	286,559
EQUITY			
Issued capital	28	**61,351**	57,301
Reserves	30(b)	**233,253**	229,258
Total equity		**294,604**	286,559

LO Peter
Director

SUN David Lee
Director

1. CORPORATE INFORMATION

BIO-DYNAMIC GROUP LIMITED is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 2116 Hutchison House, 10 Harcourt Road, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

In the opinion of the directors, Orientelite Investments Limited, a company incorporated in the British Virgin Islands, is the immediate holding company of the Company and China Enterprise Capital Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

2.1 BASIS OF PRESENTATION

At 31 December 2009, the Group had net current liabilities of HK$185,002,000, inclusive of bank and other borrowings of HK$79,502,000 which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated loss of HK$61,907,000 for the year ended 31 December 2009.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the ultimate holding company has agreed to provide continuous financial support to the Group. In addition, in late August 2009, one of the Company's subsidiaries started its trial-runs of operation. Up to the date of approval of these financial statements, the Company had completed certain application procedures for the manufacturing permit. The Company expects to obtain the manufacturing permit from the government authority in the year 2010.

In light of the financial support mentioned above and that the Company further raised net proceeds of approximately HK$40,429,000 by way of placing 103,000,000 new shares at HK$0.40 each on 25 January 2010 (note 36(b)), the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the financial statements.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF PREPARATION (CONT'D)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONT'D)

Other than as further explained below regarding the impact of HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill (Cont'd)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

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 a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%-4%
Plant and machinery	7%-20%
Leasehold improvements, furniture and fixtures	20%
Motor vehicles	10%-14%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation. Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing cost on relevant borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology

Purchased technology is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 30 years.

Trademark

Trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 30 years.

Customer base

Customer base is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 20 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets (Cont'd)

Initial recognition and measurement (Cont'd)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables and loans receivable.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to a fellow subsidiary, an amount due to a minority shareholder of a subsidiary and interest-bearing loans and borrowings.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is created to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalment.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of subsidiaries in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING ESTIMATES (CONT'D)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17 to the financial statements.

Useful lives of other intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets other than goodwill. This estimate is based on the expected pattern of consumption of the future economic benefits embodied in the asset or the contractual or other legal rights associated with the assets. The Group will revise the amortisation period and the amortisation method for an intangible asset where the useful life is different to that previously estimated.

Equity-settled share option expense

The Company operates a share option scheme under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility, dividend yield and the risk-free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was nil (2008: Nil) as the goodwill was fully impaired during the year ended 31 December 2008.

4. OPERATING SEGMENT INFORMATION

During the years ended 31 December 2009 and 2008, over 90% of the Group's operations related to the manufacture and sale of ethanol products and over 90% of the Group's products were sold to customers located in Mainland China. Accordingly, no segment information has been disclosed.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	2009	2008
	HK$'000	HK$'000
Revenue		
Sale of goods	**2,214**	3,780
Other income		
Government grants*	**675**	672
Amortisation of deferred income (note 27)	**460**	454
Bank interest income	**9**	56
Others	**–**	83
	1,144	1,265

* The government grants have been received by the Group from the local government for the transformation of new pattern of industrialisation. There are no unfulfilled conditions or contingencies relating to these grants.

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold		**4,946**	9,069
Depreciation	14	**10,669**	3,420
Amortisation of prepaid land lease payments	15	**999**	1,034
Amortisation of other intangible assets	17	**2,735**	5,474
Minimum lease payments under operating leases in respect of land and buildings		**360**	360
Auditors' remuneration		**640**	720
Employee benefit expense (including directors' remuneration) (note 8):			
Wages and salaries		**7,836**	9,864
Equity-settled share option expense		**6,035**	17,447
Pension scheme contributions		**868**	1,307
		14,739	28,618
Foreign exchange differences, net		**–**	33
Write-down of inventories to net realisable value	19	**8,724**	–
Other expenses:			
Impairment of property, plant and equipment	14	**10,126**	9,662
Impairment of other intangible assets	17	**–**	64,591
Impairment of goodwill	16	**–**	2,328
		10,126	76,581
Bank interest income	5	**(9)**	(56)
Loss on disposal of items of property, plant and equipment		**96**	–

7. FINANCE COSTS

	Group 2009 HK$'000	2008 HK$'000
Interest on bank loans and other loans wholly repayable within five years	**4,834**	2,337
Less: Interest capitalised	**(1,893)**	(1,455)
	2,941	882

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Fees	**1,000**	1,500
Other emoluments:		
Salaries, allowances and benefits in kind	**1,120**	2,700
Equity-settled share option expense	**3,801**	11,133
Pension scheme contributions	**10**	16
	4,931	13,849
	5,931	15,349

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

		2009			2008	
	Fees	**Equity-settled share option expense**	**Total**	Fees	Equity-settled share option expense	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Dr. Loke Yu	**100**	**18**	**118**	150	–	150
Dr. Leung Kwan-Kwok	**100**	**–**	**100**	150	–	150
Mr. Zuchowski Sam	**100**	**18**	**118**	150	–	150
	300	**36**	**336**	450	–	450

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. DIRECTORS' REMUNERATION (CONT'D)

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009					
Executive directors:					
Mr. Lo Peter	**100**	**–**	**472**	**5**	**577**
Mr. Sun David Lee	**100**	**–**	**472**	**5**	**577**
Mr. Li Wentao	**100**	**500**	**576**	**–**	**1,176**
Mr. Zhao Difei	**100**	**300**	**804**	**–**	**1,204**
Mr. Lu Gui Pin	**100**	**20**	**619**	**–**	**739**
Mr. Li Jian Quan	**100**	**300**	**804**	**–**	**1,204**
	600	**1,120**	**3,747**	**10**	**5,477**
Non-executive director:					
Mr. Yeung Ting-Lap Derek Emory	**100**	**–**	**18**	**–**	**118**
	700	**1,120**	**3,765**	**10**	**5,595**
2008					
Executive directors:					
Mr. Lo Peter	150	–	1,746	8	1,904
Mr. Sun David Lee	150	–	1,746	8	1,904
Mr. Li Wentao	150	1,050	1,874	–	3,074
Mr. Zhao Difei	150	650	2,089	–	2,889
Mr. Lu Gui Pin	150	350	1,589	–	2,089
Mr. Li Jian Quan	150	650	2,089	–	2,889
	900	2,700	11,133	16	14,749
Non-executive director:					
Mr. Yeung Ting-Lap Derek Emory	150	–	–	–	150
	1,050	2,700	11,133	16	14,899

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include four (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**690**	540
Equity-settled share option expense	**407**	1,469
Pension scheme contributions	**12**	12
	1,109	2,021

10. INCOME TAX

During the year, no Hong Kong profits tax has been provided as there was no assessable profit arising from Hong Kong and no tax on profits assessable elsewhere has been provided.

	2009	2008
	HK$'000	HK$'000
Group:		
Deferred tax credit for the year (note 26)	**(543)**	(8,138)

A reconciliation of the tax credit applicable to loss before tax at the statutory rate for Hong Kong in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	2009		2008	
	HK$'000	**%**	HK$'000	%
Loss before tax	**(62,450)**		(125,693)	
Tax at the statutory tax rate	**(10,304)**	**16.50**	(20,739)	16.50
Expenses not deductible for tax	**2,532**	**(4.05)**	3,263	(2.60)
Tax losses not recognised	**8,862**	**(14.19)**	12,105	(9.63)
Effect of different tax rates of subsidiaries	**(1,633)**	**2.61**	(2,767)	2.20
Tax credit at the Group's effective rate	**(543)**	**0.87**	(8,138)	6.47

10. INCOME TAX (CONT'D)

Under the new corporate income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. One of the Group's subsidiaries is exempted from PRC corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. Although this subsidiary has no assessable profit since its date of registration, based on the State Council Circular on the Implementation of Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), this subsidiary should be subject to the first year exemption in 2008 whether or not it has assessable profit.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2009 includes a loss of approximately HK$14,289,000 (2008: HK$25,703,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDENDS

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

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 575,801,521 (2008: 566,019,197) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	84,434	24,767	161	125	260,552	370,039
Accumulated depreciation and impairment	(3,309)	(10,590)	(83)	(53)	(564)	(14,599)
Net carrying amount	81,125	14,177	78	72	259,988	355,440
At 1 January 2009, net of accumulated depreciation and impairment	81,125	14,177	78	72	259,988	355,440
Additions	–	–	–	–	1,893	1,893
Impairment	–	(8,059)	(29)	(63)	(1,975)	(10,126)
Disposals	–	(96)	–	–	(2,709)	(2,805)
Depreciation provided during the year	(3,095)	(7,468)	(31)	(75)	–	(10,669)
Transfers	–	251,290	–	5,612	(256,902)	–
Exchange realignment	(4)	(2)	–	–	(13)	(19)
At 31 December 2009, net of accumulated depreciation and impairment	78,026	249,842	18	5,546	282	333,714
At 31 December 2009:						
Cost	84,430	275,695	166	5,750	2,821	368,862
Accumulated depreciation and impairment	(6,404)	(25,853)	(148)	(204)	(2,539)	(35,148)
Net carrying amount	78,026	249,842	18	5,546	282	333,714

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	10,483	22,283	155	118	117,928	150,967
Accumulated depreciation	(173)	(1,033)	(40)	(19)	–	(1,265)
Net carrying amount	10,310	21,250	115	99	117,928	149,702
At 1 January 2008, net of accumulated depreciation	10,310	21,250	115	99	117,928	149,702
Additions	–	521	–	–	208,941	209,462
Impairment	(2,025)	(7,043)	(15)	(22)	(557)	(9,662)
Depreciation provided during the year	(1,059)	(2,324)	(27)	(10)	–	(3,420)
Transfers	73,282	545	–	–	(73,827)	–
Exchange realignment	617	1,228	5	5	7,503	9,358
At 31 December 2008, net of accumulated depreciation and impairment	81,125	14,177	78	72	259,988	355,440
At 31 December 2008:						
Cost	84,434	24,767	161	125	260,552	370,039
Accumulated depreciation and impairment	(3,309)	(10,590)	(83)	(53)	(564)	(14,599)
Net carrying amount	81,125	14,177	78	72	259,988	355,440

An impairment loss of HK$10,126,000 (2008: HK$9,662,000) was recognised for property, plant and equipment held by the Group because the respective carrying amounts were lower than the recoverable amounts of these assets estimated by the directors of the Company.

At 31 December 2009, certain of the Group's plant and machinery with a net book value of approximately HK$39,047,000 (2008: Nil) were pledged to secure bank loans of the Group (note 25).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**34,370**	33,297
Recognised during the year	**(999)**	(1,034)
Exchange realignment	**(2)**	2,107
Carrying amount at 31 December	**33,369**	34,370
Current portion included in prepayments and other receivables	**(999)**	(1,197)
Non-current portion	**32,370**	33,173

The leasehold land is held under medium term leases and is situated in Mainland China.

16. GOODWILL

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January:		
Cost	**2,328**	2,328
Accumulated impairment	**(2,328)**	–
Net carrying amount	**–**	2,328
Cost at 1 January, net of accumulated impairment	**–**	2,328
Impairment during the year	**–**	(2,328)
At 31 December	**–**	–

17. OTHER INTANGIBLE ASSETS

Group	Technology	Trademark	Customer base	Total
	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2009				
Cost at 1 January 2009, net of accumulated amortisation and impairment	**61,839**	**16,100**	**–**	**77,939**
Amortisation provided during the year	**(2,170)**	**(565)**	**–**	**(2,735)**
Exchange realignments	**–**	**(1)**	**–**	**(1)**
At 31 December 2009	**59,669**	**15,534**	**–**	**75,203**
At 31 December 2009:				
Cost	**95,888**	**27,633**	**27,742**	**151,263**
Accumulated amortisation and impairment	**(36,219)**	**(12,099)**	**(27,742)**	**(76,060)**
Net carrying amount	**59,669**	**15,534**	**–**	**75,203**
31 December 2008				
Cost at 1 January 2008, net of accumulated amortisation	94,290	25,546	25,429	145,265
Amortisation provided during the year	(3,196)	(909)	(1,369)	(5,474)
Impairment during the year	(29,255)	(10,017)	(25,319)	(64,591)
Exchange realignments	–	1,480	1,259	2,739
At 31 December 2008	61,839	16,100	–	77,939
At 31 December 2008:				
Cost	95,888	27,633	27,742	151,263
Accumulated amortisation and impairment	(34,049)	(11,533)	(27,742)	(73,324)
Net carrying amount	61,839	16,100	–	77,939

No impairment loss (2008: HK$64,591,000) was recognised for other intangible assets due to the fact that the recoverable amounts of these intangible assets were estimated to be the carrying amounts.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**209,517**	209,517
Due from subsidiaries	**86,296**	74,329
	295,813	283,846

The amounts due from subsidiaries included in the Company's current assets of HK$86,296,000 (2008: HK$74,329,000) are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
CEC Ethanol (Northeast) Limited	British Virgin Islands (the "BVI")/ Hong Kong	US$12,750,315	100	–	Investment holding
哈爾濱中國釀酒有限公司 Harbin China Distillery Co., Ltd. ("Harbin China Distillery") [(a)(c)]	People's Republic of China/ Mainland China	RMB230,000,441	–	72.7	Manufacture and sale of ethanol
BAPP Ethanol Holdings Limited	BVI/Hong Kong	US$4,450,682	100	–	Investment holding
BAPP (Northwest) Limited	BVI/Hong Kong	US$1	–	100	Investment holding
寧夏西部光彩新能源高新技術有限公司 Ningxia West Bright New Resource Technology Co., Ltd. [(a)(b)]	People's Republic of China/ Mainland China	RMB45,010,558	–	100	Dormant

18. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Skymax International Investment Enterprise Limited	Hong Kong	HK$1	–	100	Inactive
Bio-Dynamic China Limited	Hong Kong	HK$1	100	–	Inactive
Mutual Zone Limited	Hong Kong	HK$1	100	--	Inactive

(a) For identification purposes only.
(b) The company is registered as a wholly-foreign-owned enterprise under the PRC law.
(c) The company is registered as a sino-foreign equity joint venture under the PRC law.

19. INVENTORIES

	Group 2009 HK$'000	2008 HK$'000
Raw materials	**2,643**	461
Work in progress	**9,661**	–
Finished goods	**2,274**	–
	14,578	461
Write-down of inventories to net realisable value	**(8,724)**	–
	5,854	461

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to two months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

None of the above trade receivables is either past due or impaired. The age of the trade receivables as at the end of the reporting period is within one month.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current:				
Prepayments	**1,281**	1,461	**218**	199
Deposits and other receivables	**12,635**	1,274	**63**	63
Tax recoverable	**1,329**	1,234	**–**	–
	15,245	3,969	**281**	262
Non-current:				
Prepayments	**1,442**	1,487	**–**	–

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$3,234,000 (2008: HK$184,000). The RMB is not freely convertible into other currencies, however, under Mainland China'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 banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

23. TRADE PAYABLES

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 month	**1,032**	–
1 to 2 months	**1,583**	–
2 to 3 months	**–**	–
Over 3 months	**354**	–
	2,969	–

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables*	**89,650**	96,920	**–**	–
Accruals	**9,912**	2,320	**3,419**	964
	99,562	99,240	**3,419**	964

* The directors believe that the Group will be able to negotiate for the deferral of repayment when they fall due.

Other payables are non-interest-bearing and have an average term of three months.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2009			2008		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loan – secured	**6.37**	**2010**	**34,072**	–	–	–
Bank loan – unsecured	**5.31**	**2010**	**18,626**	7.47	2009	18,627
Other loans – unsecured	**0-9.72**	**2010**	**26,804**	9.72	2009	26,237
			79,502			44,864

	Group 2009 HK$'000	2008 HK$'000
Analysed into:		
Bank loans and other borrowings:		
Within one year	**79,502**	44,864

Notes:

(a) The Group's bank and other borrowings are denominated in RMB and bear interest at fixed interest rates.

(b) The Group's bank loan of HK$18,626,000 (2008: HK$18,627,000) are guaranteed by the pledged deposit of US$2,680,793 held by a fellow subsidiary of the Group.

(c) The Group's bank loan of HK$34,072,000 (2008: Nil) is secured by:
   (i) mortgages over the Group's plant and machinery, which had an aggregate carrying value at the end of the reporting period of approximately HK$39,047,000 (2008: Nil) (note 14);
   (ii) a guarantee of a third party holding a pledged deposit of approximately HK$11,357,000 (2008: Nil) from the Group; and
   (iii) a personal guarantee of Mr. Wang Ming Yan, a director of Harbin China Distillery.

The directors believe that the Group will be able to negotiate for the renewal of the bank loans when they fall due.

The carrying amounts of the Group's borrowings approximate to their fair values.

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	2009 **HK$'000**	2008 HK$'000
At 1 January	**–**	505
Deferred tax charged to the income statement during the year (note 10)	**–**	(505)
Gross deferred tax assets at 31 December	**–**	–

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of subsidiaries	
	2009 **HK$'000**	2008 HK$'000
At 1 January	**15,460**	24,103
Deferred tax credited to the income statement during the year (note 10)	**(543)**	(8,643)
Gross deferred tax liabilities at 31 December	**14,917**	15,460

The Group has accumulated tax losses arising in Mainland China of HK$68,782,000 (2008: HK$32,146,000) that will expire in the next five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

27. DEFERRED INCOME

The table below presents the movements in deferred income:

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**12,887**	12,548
Amortised during the year (note 5)	**(460)**	(454)
Exchange realignment	**(1)**	793
	12,426	12,887

The balance represents the government grant for the construction of certain of the Group's production plants and has been accounted for as deferred income under non-current liabilities on the consolidated statement of financial position. Such deferred income is amortised on the straight-line basis to the consolidated income statement over the expected useful lives of the relevant assets acquired.

28. SHARE CAPITAL

	2009	2008
	HK$'000	HK$'000
Authorised:		
1,000,000,000 (2008: 1,000,000,000) ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
613,507,000 (2008: 573,007,000) ordinary shares of HK$0.1 each	**61,351**	57,301

During 2008 and 2009, the movements in share capital were as follows:

(a) During the year ended 31 December 2008, the subscription rights attaching to 7,007,000 share options were exercised at the subscription price of HK$0.288 per share (note 29), resulting in the issue of 7,007,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$2,018,000.

(b) During the year ended 31 December 2009, the subscription rights attaching to 4,500,000 share options were exercised at the subscription price of HK$0.288 per share (note 29), resulting in the issue of 4,500,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$1,296,000.

28. SHARE CAPITAL (CONT'D)

(c) On 15 December 2009, 36,000,000 new shares of HK$0.1 each were issued at HK$0.43 per share to the immediate holding company of the Company pursuant to a placing and subscription agreement. These shares rank pari passu in all aspects with the existing shares. The net proceeds amounted to approximately HK$15,003,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital	Share premium account	Total
		HK$'000	HK$'000	HK$'000
At 1 January 2008	566,000,000	56,600	359,437	416,037
Share options exercised (a)	7,007,000	701	9,795	10,496
At 31 December 2008 and 1 January 2009	573,007,000	57,301	369,232	426,533
Share options exercised (b)	4,500,000	450	5,641	6,091
Issue of shares (c)	36,000,000	3,600	11,880	15,480
Share issue expenses	–	–	(477)	(477)
At 31 December 2009	613,507,000	61,351	386,276	447,627

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 23 May 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

29. SHARE OPTION SCHEME (CONT'D)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer, and (iii) the nominal value of the Company's shares on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2009		2008	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.288**	**32,123**	2.21	29,600
Granted during the year	**0.19**	**600**	0.288	39,130
Exercised during the year	**0.288**	**(4,500)**	0.288	(7,007)
Cancelled during the year	**–**	**–**	2.21	(29,600)
At 31 December	**0.286**	**28,223**	0.288	32,123

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.59 per share (2008: HK$0.22).

29. SHARE OPTION SCHEME (CONT'D)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	Exercise price* HK$ per share	Exercise period
10,308	**0.288**	**31-10-2008 to 30-10-2011**
17,315	**0.288**	**31-10-2009 to 30-10-2012**
300	**0.19**	**11-02-2009 to 10-02-2012**
300	**0.19**	**11-02-2010 to 10-02-2013**
28,223		

2008

Number of options '000	Exercise price* HK$ per share	Exercise period
12,558	0.288	31-10-2008 to 30-10-2011
19,565	0.288	31-10-2009 to 30-10-2012
32,123		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK$57,000 (HK$0.10 each) (2008: HK$5,393,000, HK$0.14 each) of which the Group recognised a share option expense of HK$6,035,000 (2008: HK$17,447,000) during the year ended 31 December 2009.

29. SHARE OPTION SCHEME (CONT'D)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2009		2008	
		Grant dates		
	11-02-2009	**11-02-2009**	31-10-2008	31-10-2008
Dividend yield (%)	**–**	**–**	–	–
Expected volatility (%)	**104.44**	**98.22**	105.84	96.78
Historical volatility (%)	**104.44**	**98.22**	105.84	96.78
Risk-free interest rate (%)	**0.922**	**1.209**	1.221	1.804
Expected life of options (year)	**3**	**4**	3	4
Weighted average share price (HK$ per share)	**0.19**	**0.19**	0.288	0.288

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 4,500,000 share options exercised during the year resulted in the issue of 4,500,000 ordinary shares of the Company and new share capital of HK$450,000 and share premium of HK$5,641,000 (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 28,223,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 28,223,000 additional ordinary shares of the Company and additional share capital of HK$2,822,000 and share premium of HK$5,247,000 (before issue expenses).

Subsequent to the end of the reporting period, the subscription rights attaching to 1,520,000 share options were exercised at the subscription price of HK$0.19 per share and HK$0.288 per share, resulting in the issue of 1,520,000 shares of HK$0.1 each for a total cash consideration, before share expenses, of HK$418,000.

At the date of approval of these financial statements, the Company had 26,703,000 share options outstanding under the Scheme, which represented approximately 3.4% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

The merger reserve of the Group represents the difference between the nominal value of the shares issued and the nominal value of shares of the subsidiaries acquired at the time of the group reorganisation on 29 December 2000.

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2.5 to the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2008		359,437	15,308	(138,548)	236,197
Share options exercised		9,795	(8,478)	–	1,317
Equity-settled share option expense	29	–	17,447	–	17,447
Loss for the year		–	–	(25,703)	(25,703)
At 31 December 2008		369,232	24,277	(164,251)	229,258
Issue of shares	28	11,880	–	–	11,880
Share issue expenses	28	(477)	–	–	(477)
Share options exercised	28	5,641	(4,795)	–	846
Equity-settled share option expense	29	–	6,035	–	6,035
Loss for the year		–	–	(14,289)	(14,289)
At 31 December 2009		386,276	25,517	(178,540)	233,253

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

30. RESERVES

(b) Company (Cont'd)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

31. OPERATING LEASE ARRANGEMENTS

The Group and the Company leases certain of its office properties under operating lease arrangement. Lease for properties is negotiated for terms of two years.

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**270**	360	**270**	360
In the second year	**–**	270	**–**	270
	270	630	**270**	630

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for:		
Acquisition of trademarks	**2,272**	–
Acquisition of an additional interest in a non-wholly-owned subsidiary*	**–**	68,148
	2,272	68,148

* On 23 April 2009, the board of directors of the Company resolved to terminate a sale and purchase agreement, which was entered into on 9 November 2007, in connection with the intended acquisition of an additional interest in a non-wholly-owned subsidiary.

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with a related party during the year:

	2009 HK$'000	2008 HK$'000
Related company:		
Rental paid to a related company *	**360**	360

* The rental expense was charged at a rate of HK$30,000 per month.

(b) Outstanding balances with related parties:

	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Due from related parties				
Due from the immediate holding company	**–**	17	**–**	17
Due from fellow subsidiaries	**263**	560	**–**	–
	263	577	**–**	17
Due to related parties				
Due to a fellow subsidiary	**615**	286	**–**	–
Due to a minority shareholder of a subsidiary*	**34,072**	34,074	**–**	–
	34,687	34,360	**–**	–

* The directors believe that the Group will be able to negotiate for the deferral of repayment when they fall due.

These balances are unsecured, interest-free, have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

33. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

(c) Compensation of key management personnel of the Group

	2009 **HK$'000**	2008 HK$'000
Short term employee benefits	**2,120**	4,200
Post-employment benefits	**10**	16
Equity-settled share option expense	**3,801**	11,133
Total compensation paid to key management personnel	**5,931**	15,349

Further details of directors' emoluments are included in note 8 to the financial statements.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Group		**Company**	
	2009 **Loans and receivables** **HK$'000**	2008 Loans and receivables HK$'000	**2009** **Loans and receivables** **HK$'000**	2008 Loans and receivables HK$'000
Trade receivables	**48**	–	**–**	–
Financial assets included in prepayments, deposits and other receivables	**12,635**	1,274	**63**	63
Due from subsidiaries	**–**	–	**86,296**	74,329
Due from the immediate holding company	**–**	17	**–**	17
Due from fellow subsidiaries	**263**	560	**–**	–
Cash and cash equivalents	**10,308**	3,724	**1,919**	3,373
	23,254	5,575	**88,278**	77,782

34. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

Financial liabilities

	Group	
	2009	2008
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Trade payables	**2,969**	–
Financial liabilities included in other payables and accruals	**89,650**	99,240
Interest-bearing bank and other borrowings	**79,502**	44,864
Due to a fellow subsidiary	**615**	286
Due to a minority shareholder of a subsidiary	**34,072**	34,074
	206,808	178,464

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from/to related parties, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to short term borrowings with fixed rates. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain bank balances denominated in Hong Kong dollars and United States dollars. The Group has not hedged its foreign exchange rate risk.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Foreign currency risk (Cont'd)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity due to changes in the fair value of monetary assets and liabilities.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in equity***
	%	HK$'000
2009		
If HK$ weakens against RMB	5	9,379
If HK$ strengthens against RMB	(5)	(9,379)
2008		
If HK$ weakens against RMB	5	7,799
If HK$ strengthens against RMB	(5)	(7,799)

* Excluding accumulated losses

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from fellow subsidiaries and the immediate holding company, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are analysed by counterparty by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 20 and note 21 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	**2009**		2008	
	Within 1 year HK$'000	**Total HK$'000**	Within 1 year HK$'000	Total HK$'000
Trade payables	**2,969**	**2,969**	–	–
Financial liabilities included in other payables and accruals	**89,650**	**89,650**	99,240	99,240
Interest-bearing bank and other borrowings	**79,502**	**79,502**	44,864	44,864
Due to a fellow subsidiary	**615**	**615**	286	286
Due to a minority shareholder of a subsidiary	**34,072**	**34,072**	34,074	34,074
	206,808	**206,808**	178,464	178,464

Company	**2009**		2008	
	Within 1 year HK$'000	**Total HK$'000**	Within 1 year HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	**–**	**–**	964	964

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Capital management (Cont'd)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain an optimal capital structure which reduces cost of capital. Net debt includes other payables, interest-bearing bank and other borrowings, amounts due to a fellow subsidiary and a minority shareholder of a subsidiary. Capital includes equity attributable to owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

Group

	2009	2008
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**79,502**	44,864
Trade payables	**2,969**	–
Other payables and accruals	**89,650**	99,240
Due to a fellow subsidiary	**615**	286
Due to a minority shareholder of a subsidiary	**34,072**	34,074
Less: Cash and cash equivalents	**(10,308)**	(3,724)
Net debt	**196,500**	174,740
Capital	**184,861**	215,663
Capital and net debt	**381,361**	390,403
Gearing ratio	**52%**	45%

36. EVENTS AFTER THE REPORTING PERIOD

(a) On 12 January 2010, the Group acquired a 100% interest in Rightsouth Limited, which is engaged in the wholesale and retail sales of wine and liquor, from China Food and Beverage Group Limited. The purchase consideration of HK$37,000,000 for the acquisition was satisfied through the allotment and issuance of 78,556,263 shares of the Company at an issue price of HK$0.471 each. The acquisition is considered as a business combination under common control because both China Food and Beverage Group Limited and the Company are ultimately controlled by China Enterprise Capital Limited before and after the business combination.

(b) On 25 January 2010, 103,000,000 new shares of HK$0.1 each were issued at HK$0.40 per share to the immediate holding company of the Company pursuant to a placing and subscription agreement. These shares rank pari passu in all aspects with the existing shares. The net proceeds amounted to approximately HK$40,429,000.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2010.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue					
Continuing operations	**2,214**	3,780	65,815	–	–
Discontinued operations	**–**	–	98,641	167,420	115,786
	2,214	3,780	164,456	167,420	115,786
Loss before tax	**(62,450)**	(125,693)	(34,194)	(6,053)	(10,388)
Income tax credit	**543**	8,138	127	–	–
Loss for the year					
Continuing operations	**(61,907)**	(117,555)	(34,067)	(6,053)	(10,388)
Discontinued operations	**–**	–	(5,271)	(25,880)	(17,544)
	(61,907)	(117,555)	(39,338)	(31,933)	(27,932)
Attributable to:					
Owners of the parent	**(53,134)**	(104,916)	(34,757)	(25,986)	(27,303)
Minority interests	**(8,773)**	(12,639)	(4,581)	(5,947)	(629)
	(61,907)	(117,555)	(39,338)	(31,933)	(27,932)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**474,447**	476,770	437,093	142,094	144,578
TOTAL LIABILITIES	**(244,063)**	(206,811)	(85,254)	(127,275)	(115,429)
MINORITY INTERESTS	**(45,523)**	(54,296)	(62,245)	(11,771)	(17,464)
	184,861	215,663	289,594	3,048	11,685