fulbond

福 邦 控 股

Fulbond Holdings Limited

福邦控股有限公司*

(Stock Code: 1041)

2009

ANNUAL REPORT

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen *(Managing Director)*
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Lee Sun Man

Independent Non-executive Directors:
Mr. Hong Po Kui, Martin
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

BOARD COMMITTEES

Audit Committee
Ms. Ma Yin Fan *(Chairlady)*
Mr. Hong Po Kui, Martin
Mr. Leung Hoi Ying
Mr. Yu Pan

Remuneration Committee
Mr. Hong Po Kui, Martin *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan
Mr. Zhang Xi

COMPANY SECRETARY

Mr. Ho Yee Kee, Ricky

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER

Messrs. Tung & Co.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2807, 28th Floor
The Center
99 Queen's Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1041

WEBSITE

www.fulbond.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to you to present the financial results of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for the financial year ended 31 December 2009.

FINANCIAL RESULTS

For the year ended 31 December 2009, the Group's revenue from continuing and discontinued operations increased to approximately US$53,661,000 from approximately US$36,308,000 last year, representing an increase of approximately 47.79%.

The Group's gross profit from continuing and discontinued operations for the year decreased to approximately US$4,139,000 from approximately US$7,076,000 last year, representing a drop of approximately 41.51%. Accordingly, the gross profit margin dropped to approximately 7.71% for the year from approximately 19.49% in 2008.

The Group loss for the year attributable to owners of the Company increased to approximately US$53,877,000 from approximately US$29,174,000 last year, representing an increase of approximately 84.67%. Basic loss per share from continuing and discontinued operations of the Group was significantly increased from US0.29 cent for the year ended 31 December 2008 to US0.41 cent for the year ended 31 December 2009. Meanwhile diluted loss per share was US0.41 cent for the year ended 31 December 2009 and diluted loss per share was US0.29 cent for the last year.

BUSINESS REVIEW

The Company reviewed the existing businesses of the Group and considered to consolidate certain of its operations. Restructuring of certain of its existing businesses and disposal of under-performing operations of the Group are under consideration.

Timber Business

During the year, timber business resumed to be the core business of the Group. The turnover of the timber business decreased to approximately US$15,605,000 from approximately US$21,883,000 last year, representing a drop of approximately 28.69%. The segment result of the timber business had suffered from loss of approximately US$948,000 as compared to approximately US$8,062,000 in 2008. To weather the abrupt market environment, the Group has always attributed promptly adjustment of its product mix market structures, the Group managed to seize the opportunities arising from arising demand in emerging markets, and hence, steadily broadened its market share and bettered its market position.

Food Processing and Distribution Business

During the year, the segment result of the food processing and distribution business had suffered a loss of approximately US$130,000 from a profit of approximately US$1,904,000 last year. The performance of this segment falls short of the expectation of the Group as a result of the impact of the recent unstable global financial economy on the segment's major trading markets, namely, the United States of America ("USA") and Canada. In December 2009, the Company has entered into an agreement with a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Ltd ("Prowealth") and its subsidiaries, which carried out all of the Group's food processing and distribution business. The disposal was subsequently approved by its shareholders on 18 January 2010 and completed on 19 January 2010.

CHAIRMAN'S STATEMENT

The Company's management continued to make efforts to restructure the business of the Group in order to improve the Group's overall competitiveness and profitability. The Group has been making losses since 1999, but managed to maintain a healthy cash position of approximately US$30,633,000 as at 31 December 2009. The segment's performance continue to be adversely impacted by the deteriorated demand in the USA, the Group is at risk of depleting its healthy cash position. Furthermore, turnover of this segment has been diminishing since the acquisition by the Group and the results has shifted from profit making prior to the acquisition to loss making thereafter. Taking into account the expected continuation of the deterioration of this segment's profitability due to weakened demand in the USA market and the purchase and processing costs of the food business remaining to be high in the People's Republic of China ("PRC"), the Company views that the disposal may avoid further deterioration of the commercial value of this segment to be borne by the Group and may limit the potential adverse impact of this segment to the Group's overall financial position.

Notwithstanding that the Company would suffer a loss on disposal, the Company was of the view that the disposal is conducted in the ordinary and usual course of the Group's business and in the interests of both the Company and the shareholders as a whole in that respect.

FUTURE PLANS AND PROSPECTS

Looking to 2010, economic and financial market indicators appeared to be supporting the general view that the worst of this economic crisis may be over and recovery is now on the way. With the recovery of the international economy, timber business is expected to showcase an astounding growth again. The Group will act a perspective of considerable uncertainty in the international financial markets, as major economies fall short of significant growth momentum after initial recovery amid a generally stabilized international marketplace. The Group will continue to penetrate timber products to overseas emerging markets in global in anticipation of the steady recovery from the global economic downturn. While the timber business segment mainly sources its revenue from USA currently, we are planning to expand its revenue source in Asia. However, we remain cautious of the uncertainties exist to various extent in the world economy this year. In longer term, we have open-minded corporate culture, rich experience in business operations team to seize opportunities, facing various challenges, and achieve growth by leaps and bounds. Looking ahead, we will proactively foster our corporate development strategies, and create new value for shareholders. When the right time comes, further acquisitions and ongoing effective expansion will deliver excellent growth opportunity for enhancing shareholders' value in the foreseeable future.

APPRECIATION

On behalf of the Board, my sincere thank to our loyal shareholders, suppliers and customers for their continuous support to the Group. I would also extend my gratitude and appreciation to our management and all staff for their hard works and dedication throughout the year.

Zhang Xi
Chairman
Hong Kong, 20 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the year ended 31 December 2009, the Group's revenue from continuing and discontinued operations increased to approximately US$53,661,000 from approximately US$36,308,000 last year, representing an increase of approximately 47.79%.

SEGMENTAL RESULTS

The turnover of the timber business for the year decreased to approximately US$15,605,000 from US$21,883,000 last year, representing a drop of approximately 28.69%. The segment result of the timber business had suffered a loss of US$948,000 from loss of US$8,062,000 in 2008, representing an improvement of approximately 88.24%.

The turnover of food processing and distribution business for the year increased to approximately US$38,056,000 from US$14,425,000 since acquisition in 2008, representing an increase of approximately 163.82%. The segment result of the food processing and distribution business had suffered a loss of approximately US$130,000 from profit of approximately US$1,904,000 in 2008, as a result of deteriorating performance in the food processing and distribution business in 2009.

COST OF SALES

The Group's cost of sales from continuing and discontinued operations for the year increased to approximately US$49,522,000 from approximately US$29,232,000 last year, representing an increase of approximately 69.41%.

GROSS PROFIT

The Group's gross profit from continuing and discontinued operations for the year decreased to approximately US$4,139,000 from approximately US$7,076,000 last year, representing a drop of approximately 41.51%. Accordingly, the gross profit margin dropped to approximately 7.71% for the year from approximately 19.49% in 2008.

OTHER INCOME

The Group's other income from continuing and discontinued operations for the year increased to approximately US$2,580,000 from approximately US$1,757,000 of last year, representing an increase of approximately 46.84%. The increase was primarily due to the government grants of approximately US$971,000 which have been received in 2009 for expenditures incurred in relation to energy saving and waste reduction and other subsidies granted for the Group's food processing and distribution business.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER GAINS AND LOSSES

Other losses of the Group amounted to approximately US$42,026,000 for the year while the Group recorded a gain of approximately US$3,094,000 last year. The significant loss was mainly due to the net losses in fair values of derivative financial instruments and warrants of approximately US$47,035,000 which comprised loss on initial recognition of convertible notes of approximately US$16,086,000 (2008: gain on initial recognition approximately US$182,000), net losses in fair value of embedded conversion option and early redemption option of convertible notes of approximately US$16,770,000 (2008: gain in fair value of approximately US$1,906,000) and net losses on fair value of warrants of approximately US$14,179,000 (2008: gain on fair value of approximately US$177,000).

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs from continuing and discontinued operations for the year slightly increased to approximately US$2,389,000 from approximately US$2,230,000 last year, representing an increase of approximately 7.13%.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses from continuing and discontinued operations for the year increased to approximately US$7,686,000 from approximately US$5,341,000 last year, representing an increase of approximately 43.91%.

IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTANGIBLE ASSETS

During the year ended 31 December 2009, impairment losses of approximately US$1,956,000 and approximately US$53,000, have been recognised in respect of customer relationship and license, respectively, which are attributable to the food processing and distribution segment.

FINANCE COSTS

The Group's finance cost from continuing and discontinued operations for the year raised to approximately US$7,604,000 from approximately US$3,425,000 last year, representing an increase of approximately 122.01%. The significant increase was mainly due to the increase of interest expenses on the convertible notes.

LOSS FOR THE YEAR AND LOSS PER SHARE

The Group loss for the year attributable to owners of the Company increased to approximately US$53,877,000 from approximately US$29,174,000 last year, representing an increase of approximately 84.67%. Basic loss per share from continuing and discontinued operations of the Group was significantly increased from approximately US0.29 cent for the year ended 31 December 2008 to approximately US0.41 cent for the year ended 31 December 2009. Meanwhile diluted loss per share was approximated US0.41 cent for the year ended 31 December 2009 and diluted loss per share was US0.29 cent for the last year. The computation of diluted loss per share for the year ended 31 December 2009 and 31 December 2008 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years. It does not assume the exercise of the Company's outstanding warrants and conversion of all convertible notes for the year ended 31 December 2009 since their exercise and conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding warrants and conversion of certain convertible notes for year ended 31 December 2008 since their exercise and conversion would result in a decrease in the loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December, 2009, the Group's cash and bank balances amounted to approximately US$30,633,000 (as at 31 December 2008: approximately US$8,882,000), representing an increase of approximately US$21,751,000. As at 31 December 2009, the bank and other borrowing amounted to approximately US$23,083,000 (as at 31 December 2008: approximately US$22,498,000).

During the year, net cash from operating activities was approximately US$2,003,000. The net cash from investing activities was approximately US$14,160,000, which was mainly due to deposits received from the proposed disposal of subsidiaries amounted approximately US$15,742,000. The net cash from financing activities was approximately US$5,677,000, which was mainly due to proceed from exercise of warrants amounted to US$3,552,000 and net proceeds from the issue of convertible notes of approximately US$25,290,000. As a result, the net increase in cash and cash equivalents during the year was US$21,840,000.

Exercise of warrants

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 with effect from 6 August 2009 as a result of the proposed placing of the Fulbond Convertible Notes and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. The aggregate fair value of warrants exercised at the dates immediately before the exercise was approximately US$3,767,000.

Redemption of convertible notes

On 10 December 2009, Sun Boom and Wise Virtue transferred the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note to a private investment institution independent to the Group.

On 29 December 2009, the conversion price of the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note was adjusted from HK$0.086 to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holders of the April Convertible Note, May SPA Convertible Note and Sun Boom Convertible Note have exercised their options to require the Company to redeem the convertible note at the principle amount of US$3,700,000, approximately US$15,613,000 and approximately US$3,954,000, respectively. An aggregate gain on early redemption of these convertible notes of approximately US$5,083,000 was recognised in profit or loss.

Issue of Fulbond Convertible Notes

On 6 August 2009, the Company announced that a Placing Agreement was entered between the Company and the Placing Agent, whereby the Placing Agent has conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (the "Fulbond Convertible Notes") which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. Pursuant to the Placing Agreement, the Company and the Placing Agent agreed that the placing can be completed partially by a maximum of 8 tranches provided that the aggregate principal amount of the convertible notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in multiple of HK$5,000,000.

On 28 September 2009, the Company issued a circular in connection with the placing, whose proceeds will provide additional funding to the Group and redemption of existing convertible notes issued by the Company. The placing shall proceed in two tranches namely, the First Tranche Fulbond Convertible Notes and the Second Tranche Fulbond Convertible Notes. Both the First Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing subject to and upon the terms and conditions under the Placing Agreement. On 22 December 2009, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 20,000,000,000 conversion shares in an aggregate sum of HK$200,000,000 at the initial conversion price of HK$0.01 per share.

The partial completion of the placing of the First Fulbond Convertible Notes in the aggregate principal amount of HK$200,000,000 took place on 29 December 2009. The placing of the remaining First Tranche Fulbond Convertible Notes in an aggregate principal amount of HK$250,000,000 was completed on 14 January 2010.

In view of its strong liquidity and financial position, we will have sufficient resources to fund the daily operations and capital expenditure commitments and potential investment.

MATERIAL DISPOSAL OF SUBSIDIARIES

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth and its subsidiaries, which carried out all of the Group's food processing and distribution operations. Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue Holdings Limited ("Wise Virtue"). Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The Disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010.

The net proceeds from the disposal is expected to be less than the net carrying amount of the relevant assets and liabilities. Accordingly an impairment loss of intangible assets of approximately US$2,009,000 has been charged to profit or loss in the consolidated statement of comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2009.

CAPITAL STRUCTURE

As at 31 December 2009, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$106,613,000 (as at 31 December 2008: approximately US$61,567,000) and total assets of approximately US$80,190,000 (as at 31 December 2008: approximately US$66,063,000), was approximately 57.1% (as at 31 December 2008: approximately 48.2%).

Subsequent to the price adjustments from HK$0.074 to HK$0.026 on 6 August 2009, registered holders of 1,058,769,221 warrants in November and December exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. As at 31 December 2009, the number of the Company's issued shares was enlarged to 14,013,388,976 shares.

PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of approximately US$10,588,000 (2008: approximately US$11,284,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group's assets, borrowings and major transactions are primarily denominated in Hong Kong ("HK") dollars, Renminbi ("RMB") or US dollars. It mainly settles business expenses in the PRC with RMB remittance and income in RMB and US dollars. The Group does not hedged against foreign exchange risk associated with the US dollars, as the management believes that the HK dollars will remain pegged to the US dollars in the foreseeable future. It either has not used any financial instruments to hedge against bank borrowings in RMB. The management will from time to time manage and monitor closely to ensure measures are taken against any adverse impacts on the exchange risk associated with the appreciating RMB.

HUMAN RESOURCES

The Group highly values its human resources and aims to attract, retain and develop high caliber individual committed to attaining our objectives. As at 31 December 2009, the Group had approximately 2,200 employees in HK and PRC. Employees of the Group are remunerated according to their qualifications, experience, job nature, performance and with reference to market conditions. Apart from discretionary performance bonus, the Group also provides other benefits such as medical insurance. The Company also operates a share option scheme for granting of options to eligible employees and Directors.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF DIRECTORSHIP

On 27 July 2009, Mr. Yeung Kwok Yu was appointed as executive director of the Company.

On 27 July 2009, Mr. Lee Sun Man was appointed as executive director of the Company.

On 31 July 2009, Mr. Chiu Sui Keung was resigned as non-executive director of the Company.

On 5 August 2009, Mr. Yu Pan was appointed as independent non-executive director of the Company.

On 5 August 2009, Mr. Wong Man Hin, Raymond was resigned as independent non-executive director of the Company.

On 7 August 2009, Mr. Yam Tak Fai, Ronald was resigned as independent non-executive director of the Company.

On 10 August 2009, Mr. Leung Hoi Ying was appointed as independent non-executive director of the Company.

On 10 August 2009, Ms. Ma Yin Fan was appointed as independent non-executive director of the Company.

On 2 November 2009, Mr. Kwan Kam Hung, Jimmy was appointed as executive director of the Company.

On 2 November 2009, Mr. Wah Wang Kei, Jackie was appointed as executive director of the Company.

On 4 December 2009, Mr. Cheng Wyman, Paul was resigned as executive director of the Company.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the Directors are set out as follows:

DIRECTORS

Executive Directors

Mr. Zhang Xi ("Mr. Zhang"), aged 41, is the Group's chairman and a member of the remuneration committee of the Company. Mr. Zhang joined us in December 2006. He obtained a bachelor degree in economics from the University of Xiamen, PRC in 1990. He has extensive experience in private equity investments in the PRC. Mr. Zhang set up Great Time Holdings Limited in Hong Kong in 1999, the principal business of which includes investments in a mechanical electrical engineering company in Fuzhou, China, which is engaged in manufacturing of power machine equipment, electrical equipment, food processing equipment, the design and process of the relevant components and after-sale services and in a high technology company in Beijing, which is engaged in research, development and manufacturing of smart construction materials.

Ms. Catherine Chen ("Ms. Chen"), aged 50, is the managing director of the Group and the executive Director. Ms. Chen joined us in December 2006. She has extensive experience in project investment, marketing research and the provision of consultancy services in relation to businesses of foreign enterprises in the PRC. She obtained a master of business administration (marketing) degree from The University of Liverpool in 2001.

Mr. Yeung Kwok Yu ("Mr. Yeung"), aged 58, is an executive director. Mr. Yeung joined us in July 2009. He had held management positions in trading companies which were based in PRC and Hong Kong. He was also engaged as senior management in various listed companies in Hong Kong. Mr. Yeung has extensive experience in general trading, strategic investment planning and business development. Mr. Yeung is currently an executive director of China Sci-Tech Holdings Limited ("China Sci-Tech") which shares are listed on the main board of the Stock Exchange.

Mr. Kwan Kam Hung, Jimmy ("Mr. Kwan"), aged 48, is an executive director. Mr. Kwan joined us in November 2009. He has been engaged as a senior manager with various listed companies in Hong Kong. He has over 15 years of experience in the fields of finance and accounting and corporate management. Mr. Kwan is currently an executive director of China Sci-Tech and G-Resources Group Limited ("G-Resources"). Shares of the such two companies are listed on the main board of the Stock Exchange.

Mr. Wah Wang Kei, Jackie ("Mr. Wah"), aged 43, is an executive director. Mr. Wah joined us in November 2009. He graduated from The University of Hong Kong in 1990. He is a practising solicitor in Hong Kong and was qualified as a solicitor in 1992. Mr. Wah was a partner of Vivien Chan and Company, a law firm in Hong Kong, until 1997 and is a consultant of Messrs. Beiten Burkhardt, an international law firm. Mr. Wah is currently an executive director of G-Resources, which shares are listed on the main board of the Stock Exchange.

Mr. Lee Sun Man ("Mr. Lee"), aged 58, is an executive director. Mr. Lee joined us in July 2009. He graduated from the Law Department of Shenzhen University. He has experience in management in general trading in the PRC and property related business for more than 15 years. Mr. Lee is currently an executive director of China Strategic Holdings Limited ("China Strategic") which shares are listed on the main board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hong Po Kui, Martin ("Mr. Hong"), aged 60, is an independent non-executive director. Mr. Hong joined us in December 2006. He has been practicing as a solicitor of the High Court of the Hong Kong Special Administrative Region for over 33 years and is a notary public in Hong Kong. Mr. Hong is now the senior partner of Messrs. Lau Chan Ko, Solicitors & Notaries. Mr. Hong is also an independent non-executive director of each of Sau San Tong Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, Simsen International Corporation Limited, Moden Beauty Salon Holdings Limited and Victory Group Limited, companies listed on the Stock Exchange.

Ms. Ma Yin Fan ("Ms. Ma"), aged 46, is an independent non-executive director. Ms. Ma joined us in August 2009. She obtained a bachelor's degree with honours in accountancy at Middlesex University in the United Kingdom. She also hold an MBA and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and Hong Kong Polytechnic University, respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation for more than 20 years. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is the fellow of the Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong, Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. She is also a member of the Institute of Chartered Accountant in the England and Wales. Ms Ma is currently an independent non-executive director of China Strategic and G-Resources. Shares of such two companies are listed in the main board of the Stock Exchange.

Mr. Leung Hoi Ying ("Mr. Leung"), aged 59, is an independent non-executive director. Mr. Leung joined us in August 2009. He graduated from Guangdong Foreign Trade School in PRC. He has over 30 years of experience in the international trading and business development. Mr. Leung is currently an independent non-executive director of China Strategic and G-Resources. Shares of such two companies are listed in the main board of the Stock Exchange.

Mr. Yu Pan ("Mr. Yu"), aged 55, is an independent non-executive director of the Company. Mr. Yu joined us in August 2009. He has over 20 years of experience in management positions of multinational trading companies in a Hong Kong and the Mainland China. Mr. Yu is currently an independent non-executive director of China Sci-Tech and an was independent non-executive director of G-Resources for the period from 31 January 2009 to 22 July 2009. Shares of such two companies are listed on the main board of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is crucial to safeguard the interests of the Shareholders and enhancing the performance of the Group. The Board and management of the Company are committed to enhancing corporate governance standard, in compliance with the principles set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has, throughout the year, complied with the relevant provisions of the Code, save for the deviation disclosed below.

This report summarises the Company's corporate governance practices and structures that were in place during the financial year.

1. THE BOARD

The Directors, individually and collectively, are committed to act in good faith in the best interests of the Company and its shareholders. As at the date of this report, the Board comprised six executive Directors and four independent non-executive Directors.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholders value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual and interim reports, and of other price-sensitive announcements and accounting policies, and reports to regulators any information required to be disclosed pursuant to the relevant statutory requirements.

The Board has fiduciary duty and statutory responsibility towards the Company and the Group. Other responsibilities include, formulation of the Group's overall strategy and policies, setting of corporate and management targets and key operational initiatives, monitoring and control of operational and financial performance, and approval of budgets and major capital expenditures, major investments, material acquisitions and disposals of assets, corporate or financial restructuring, significant operational, financial and management matters.

The Board delegates day-to-day management of the business of the Group to the management of the relevant principal subsidiaries and certain specific responsibilities to audit committee and remuneration committee. The composition and functions of each committee are described below. These committees have specific functions and authority to examine issues and report to the Board with their recommendations (if appropriate). The final decision rests with the Board, unless otherwise provided for in the terms of reference of the relevant committee.

CORPORATE GOVERNANCE REPORT

1. THE BOARD *(CONTINUED)*

The company secretary of the Company ("Company Secretary") provides the Directors with updates on developments regarding the Listing Rules and other applicable regulatory requirements. Any Director may request the Company Secretary to organise independent professional advice at the expense of the Company to assist the Directors to effectively discharge their duties to the Company.

The independent non-executive Directors of the Company serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the independent non-executive Directors provides an annual confirmation of his independence to the Company. The Board considers that each of the independent non-executive Directors is independent in character and judgment and that they all meet the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

All Directors have access to the advice and services of the Company Secretary in respect of compliance with board procedures, and all applicable rules and regulations. All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent advice where necessary at the expense of the Company in discharging of their duties to the Company.

The Board meets at least four times each year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Additional meetings may be convened to approve any discloseable or major transaction and shares issuance. Notice of at least fourteen days is served for regular board meetings. Reasonable notice would be given for all other special board meetings which are not held regularly. The Chairman is primarily responsible for drawing up and approving the agenda for each board meetings in consultation with all Directors and ensure that all Directors are properly briefed on issues arising at board meetings. Agenda and accompanying board papers in respect of board meetings are sent out in full to all Directors within a reasonable time before the date of every board meetings to allow them to review these documents in advance. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee are kept by the Company Secretary and the Directors may inspect these minutes at any time during office hours upon giving reasonable notice. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee, have recorded in sufficient detail the matters considered by the Board and the board committees, including any concerns raised by Directors or dissenting view expresses. Draft and final versions of these are sent to all Directors for their comment and records respectively, normally within 10 days after the relevant meeting was held.

1. THE BOARD *(CONTINUED)*

The following is an attendance record of the Board meetings held by the Board during the year:

Name of Board member	Number of meetings attended	Attendance Rate
Executive Directors		
Mr. Zhang Xi	9/9	100%
Ms. Catherine Chen	9/9	100%
Mr. Yeung Kwok Yu (appointed on 27 July 2009)	7/7	100%
Mr. Lee Sun Man (appointed on 27 July 2009)	7/7	100%
Mr. Kwan Kam Hung, Jimmy (appointed on 2 November 2009)	4/4	100%
Mr. Wah Wang Kei, Jackie (appointed on 2 November 2009)	0/4	0%
Mr. Cheng Wyman, Paul (resigned on 4 December 2009)	3/6	50%
Non-executive Director		
Mr. Chiu Sui Keung (resigned on 31 July 2009)	3/6	50%
Independent Non-executive Directors		
Mr. Hong Po Kui, Martin	9/9	100%
Mr. Yu Pan (appointed on 5 August 2009)	7/7	100%
Ms. Ma Yin Fan (appointed on 10 August 2009)	7/7	100%
Mr. Leung Hoi Ying (appointed on 10 August 2009)	7/7	100%
Mr. Wong Man Hin, Raymond (resigned on 5 August 2009)	1/1	100%
Mr. Yam Tak Fai, Ronald (resigned on 7 August 2009)	1/1	100%

The Directors acknowledge that they are responsible for preparing accounts for each financial period on a going concern basis, with supporting assumptions or qualification as necessary.

2. CHAIRMAN AND MANAGING DIRECTOR

Mr. Zhang Xi is the Chairman of the Company ("Chairman") and Ms. Catherine Chen is the managing director of the Company ("Managing Director"). Under Code Provision A.2.1., the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. However, the Company does not name any officer with the title of "Chief Executive Officer" at present. Nevertheless, Ms. Catherine Chen assumed the position of "Chief Executive Officer" and is responsible for managing and smoothing the business operations of the Group while the Chairman is responsible for leading the Board in the overall strategic development of the Group. The Chairman and the Managing Director are two separate individuals with segregated roles and have no relationship with each other. The Board believes that there is an effective segregation of duties between the Chairman and the Managing Director.

CORPORATE GOVERNANCE REPORT

3. BOARD COMPOSITION

The Board currently comprises the following six executive Directors and four independent non-executive Directors:

Executive Directors

Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen *(Managing Director)*
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Lee Sun Man

Independent Non-executive Directors

Mr. Hong Po Kui, Martin
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

All independent non-executive Directors are expressly identified as such in all of the Company's corporate communications that disclose the names of Directors.

4. APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws, any new Director appointed by the Board, whether to fill a casual vacancy or as an addition to the existing Board, is subject to retirement and re-election by shareholders at the next following general meeting of the Company following his appointment. At every annual general meeting of the Company, one-third of the Directors for the time being shall retire from office and being eligible for re-election.

Under Code Provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Mr. Yeung Kwok Yu, Mr. Kwan Kam Hung, Jimmy, Mr. Wah Wang Kei, Jackie, Mr. Lee Sun Man, Ms. Ma Yin Fan, Mr. Leung Hoi Ying and Mr. Yu Pan were appointed Directors of the Company during the year of 2009. They did not subject to election by shareholders at the next following general meeting of the Company after their respective appointments. At the forthcoming annual general meeting of the Company, resolutions will be put forth to approve their re-election.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. All of the independent non-executive Directors, except Mr. Hong Po Kui, Martin, are not appointed for a specific term. However, all Directors are subject to the retirement and rotation once every three years in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

4. APPOINTMENT AND RE-ELECTION OF DIRECTORS *(CONTINUED)*

All Directors retire from office by rotation and are subject to re-election at an annual general meeting of the Company at least once every three years. Details of the re-election of Directors have been set out in the circular of the Company dated 28 April 2010 (the "Circular").

5. NOMINATION OF DIRECTORS

The Company does not have a nomination committee.

The Board regularly reviews its structure, size and composition. The Company follows a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of a new Director is a collective decision of the Board, taking into consideration the expertise, experience, integrity and commitment of that appointee to the Company and the Group.

6. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following committees which are all chaired by independent non-executive Directors with defined terms of reference.

6.1 Audit Committee

The Board considers that each audit committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the audit committee. The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted in 1998 with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The written terms of reference of the audit committee have included the duties as set out in Code Provisions.

The members met twice during the year to review the reporting of financial and other information to shareholders, the systems of internal control, risk management and the effectiveness and objectivity of the audit process. The audit committee also provides an important link between the Board and the Company's auditor in matters coming within the scope of its terms of reference and keeps the independence and objectivity of the auditor under review.

The following is an attendance record of the audit committee meeting for the year ended 31 December 2009:–

Name of audit committee member	Number of meetings attended	Attendance Rate
Ms. Ma Yin Fan *(Chairlady)* (appointed on 10 August 2009)	1/1	100%
Mr. Hong Po Kui, Martin	2/2	100%
Mr. Yu Pan (appointed on 5 August 2009)	1/1	100%
Mr. Leung Hoi Ying (appointed on 10 August 2009)	1/1	100%
Mr. Wong Man Hin, Raymond (resigned on 5 August 2009)	1/1	100%
Mr. Yam Tak Fai, Ronald (resigned on 7 August 2009)	1/1	100%

6. BOARD COMMITTEES *(CONTINUED)*

6.1 Audit Committee *(continued)*

The audit committee oversees the financial reporting process. In this process, management is responsible for the preparation of the Group's financial statements. External auditor are responsible for auditing the Group's financial statements. The members of the audit committee assist the Board in fulfilling its responsibilities by providing an independent review of the financial statements, supervising the system of financial reporting and satisfying themselves as to the effectiveness of the Group's internal controls. Audit committee presents a report to the Board on its findings after each audit committee meeting.

The audit committee reviewed and discussed with the management and external auditor the 2009 consolidated financial statements included in the 2009 Annual Report. In this regard, the audit committee held discussions with management with regard to new or changes in accounting policies that had been applied, and significant judgments of the management which affected the Group's financial statements. The audit committee received reports and met with the external auditor to discuss the general scope of their audit work, including the impact of new or changes in accounting policies that had been applied and their assessment of the Group's internal controls. Based on these review and discussions, and the report of the external auditor, the audit committee recommended the Board to approve the consolidated financial statements for the year ended 31 December 2009 and the Auditor's Report.

During the year, the audit committee reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2009 and recommended the Board to approve the unaudited condensed consolidated financial statements.

The members of the audit committee considered the appointment of external auditor, their audit fees and recommended the Board to seek shareholders' approval for the re-appointment of Messrs. Deloitte Touche Tohmatsu as the Group's external auditor for 2009.

6.2 Remuneration Committee

The Company has established a remuneration committee to deal with matters of remuneration and compensation arrangement of Directors and senior management. The remuneration committee comprises chairman of the Company and four independent non-executive Directors, namely Mr. Hong Po Kui, Martin, Ms. Ma Yin Fan, Mr. Leung Hoi Ying, Mr. Yu Pan and Mr. Zhang Xi.

The written terms of reference of the remuneration committee have included the duties as set out in the Code Provisions.

6. BOARD COMMITTEES *(CONTINUED)*

6.2 Remuneration Committee *(continued)*

The principal role and function of the remuneration committee includes:

- give recommendations on the establishment of the Company's policy and structure for all remuneration of all Directors, senior management and employees;
- review and determine the remuneration packages and compensation arrangements for loss of office of all executive Directors and senior management; and
- review of performance-based remuneration policy of the Group.

The remuneration committee meets once during the year.

The following is an attendance record of the remuneration committee meeting for the year ended 31 December 2009:–

Name of remuneration committee member	Number of meetings attended	Attendance Rate
Mr. Hong Po Kui, Martin *(Chairman)*	1/1	100%
Mr. Yu Pan (appointed on 5 August 2009)	N/A	N/A
Ms. Ma Yin Fan (appointed on 10 August 2009)	N/A	N/A
Mr. Leung Hoi Ying (appointed on 10 August 2009)	N/A	N/A
Mr. Zhang Xi	0/1	0%
Mr. Wong Man Hin, Raymond (resigned on 5 August 2009)	1/1	100%
Mr. Yam Tak Fai, Ronald (resigned on 7 August 2009)	1/1	100%

Details of Directors' emoluments and share options are set out in notes 14 and 35 to the consolidated financial statements respectively.

The Directors' fees are subject to shareholders' approval at general meeting. In determining the emolument payable to Directors, the remuneration committee takes into consideration factors such as their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration. No Director is involved in determining his/her own remuneration.

The remuneration package for each employee is structured to attract, retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. The remuneration package contains a combination or modifications of some or all of the three main components: basic salary, performance bonus and share options.

CORPORATE GOVERNANCE REPORT

7. INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Group's internal control systems comprise an established organizational structure and comprehensive policies and standards. Procedures have been designed to safeguard assets against unauthorized use or disposition, to maintain proper accounting records, for the reliability of financial information used within the business or for publication, and to ensure compliance with applicable laws and regulations. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material statement or loss and manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Group's internal control system includes following major components:

(1) Review an organizational and governance structure with defined responsibility and delegated authority;

(2) Set up stringent policies and procedures for the appraisal, review and approval of major capital and recurrent expenditures; and

(3) Review report of operations results against budgets to the Board regularly.

8. EXTERNAL AUDITOR

It is the external auditor's responsibility to form an independent opinion, based on their audit, on the consolidated financial statements and to report their opinion solely to the shareholders of the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the content of the auditor's report.

For the year ended 31 December 2009, Messrs. Deloitte Touche Tohmatsu is appointed as the external auditor of the Group and provided annual audit services to the Group for the remuneration of approximately HK$1,800,000 and non-audit services to the Group for the remuneration of approximately HK$2,100,000. The Board has accepted the recommendation from the audit committee on re-appointing Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The responsibilities of the Directors are to prepare the financial accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors also acknowledge that the publication of the financial statements should be distributed to the Shareholders of the Company in a timely manner. In preparing the accounts for the year ended 31 December 2009, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent, fair and reasonable and prepared accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

10. MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out by the Stock Exchange in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, all Directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct during the review year.

11. INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is responsible for ensuring that shareholders' rights are protected. In order to fulfill this responsibility, the Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors with the relevant information on its business in a timely and accurate manner, subject to the relevant regulatory requirements. In order to ensure effective, clear and accurate communication with investors, all corporate communications are arranged and handled by the executive Directors and designated senior executives according to established practices and procedures of the Company.

The Board uses annual general meetings and other general meetings as the principal channel to meet and communicate with the shareholders. Registered shareholders are notified by post for these general meetings, and the notice of meeting contains the agenda and the proposed resolutions. Any registered shareholder is entitled to attend the annual and special general meetings, provided that their shares have been recorded in the register of shareholders. The Board also encourages shareholders to participate in these general meetings to maintain an on-going dialogue with the shareholders.

Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and other interested parties. The Company's news releases, announcements and publications are circulated to all major news media in a timely and accurate manner.

Separate resolutions will be proposed by the chairman of the Board in respect of each substantially separate issue at the Company's forthcoming annual general meeting. The chairman of the Board, and the chairperson of the audit committee and remuneration committee will attend the forthcoming annual general meeting to answer questions of Shareholders.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its associates and principal subsidiaries are set out in notes 20 and 45 to the consolidated financial statements respectively.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income.

The financial position as of 31 December 2009 of the Group are set out in the consolidated statement of financial position.

The cash flows of the Group during the year is set out in the consolidated statement of cash flows.

SHARE CAPITAL AND WARRANTS

Details of the movements during the year in the share capital and warrants of the Company are set out in notes 34 and 31 to the consolidated financial statements respectively.

During the year, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for ordinary shares of the Company. At the end of the reporting period, the Company had outstanding 3,210,461,548 warrants. Exercise in full of such warrants would result in the issue of 3,210,461,548 additional ordinary shares of the Company.

DIVIDEND

The Board does not recommend payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2009.

EMOLUMENT POLICY

The remuneration policy of the employees of the Group is formulated on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided, with regard to their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration.

The Company and its subsidiaries have adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in note 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors	
Mr. Zhang Xi *(Chairman)*	
Ms. Catherine Chen *(Managing Director)*	
Mr. Lee Sun Man	(appointed on 27 July 2009)
Mr. Yeung Kwok Yu	(appointed on 27 July 2009)
Mr. Kwan Kam Hung, Jimmy	(appointed on 2 November 2009)
Mr. Wah Wang Kei, Jackie	(appointed on 2 November 2009)
Mr. Cheng Wyman, Paul	(resigned on 4 December 2009)
Non-executive Director	
Mr. Chiu Sui Keung	(resigned on 31 July 2009)
Independent Non-executive Directors	
Mr. Hong Po Kui, Martin	
Mr. Yu Pan	(appointed on 5 August 2009)
Ms. Ma Yin Fan	(appointed on 10 August 2009)
Mr. Leung Hoi Ying	(appointed on 10 August 2009)
Mr. Wong Man Hin, Raymond	(resigned on 5 August 2009)
Mr. Yam Tak Fai, Ronald	(resigned on 7 August 2009)

In accordance with Bye-law 86(2) of the Company's Bye-laws, all directors, being appointed as executive directors and non-executive directors during the year, hold such office until the next following general meeting and, being eligible, offer themselves for re-election.

In accordance with the Bye-laws of the Company, all Directors (except Mr. Hong Po Kui, Martin) will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interest of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in the Shares and Underlying Shares

Ordinary shares of US$0.001 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares in respect of the options granted under the share option scheme (Note 1)	Approximated Percentage of the issued share capital of the Company (Note 2)
Mr. Zhang Xi	Beneficial owner	1,592,826,000	91,617,000	12.02%
Ms. Catherine Chen	Beneficial owner	–	91,617,000	0.65%

Note 1: Details of the options granted by the Company are set out below:

Note 2: The percentages were calculated based on the Company's issued share capital of 14,013,388,976 shares as at 31 December 2009.

	Date of grant	Exercise period	Exercise price HK$	Number of share options At 1 January 2009 and 31 December 2009
Directors				
Mr. Zhang Xi	14 July 2008	14 July 2008 – 13 July 2011	0.041 (Note)	91,617,000
Ms. Catherine Chen	14 July 2008	14 July 2008 – 13 July 2011	0.041 (Note)	91,617,000
Sub-total				183,234,000
Executives and employees				
	14 July 2008	14 July 2008 – 13 July 2011	0.041 (Note)	64,132,000
Grand total				247,366,000

Note: The average closing price of the Company's shares immediately before 14 July 2008, the date of grant of the above options, was HK$ 0.037.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Long Positions in the Shares and Underlying Shares *(continued)*

Ordinary shares of US$0.001 each of the Company *(continued)*

Other than as disclosed above, none of the Directors nor the chief executive of the Company has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2009.

SHARE OPTIONS

Share options to subscribe Company's shares

Pursuant to the Company's share option scheme adopted on 19 November 2001, the Directors may, at their discretion, grant options to any Directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the Company's share option scheme are set out in note 35 to the consolidated financial statements.

During the year, there is no movement in the number of options outstanding which have been granted, exercised, cancelled or lapsed by the Company to the Directors, executives and employees of the Company under the Company's share option scheme.

Apart from the options granted to Mr. Zhang Xi and Ms. Catherine Chen as set out in the section headed "Directors' Interest in Shares and Underlying Shares" above, as at 31 December 2009, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' SERVICE CONTRACTS

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2009, the register of the substantial shareholders other than a Director or chief executive of the Company maintained under section 336 of the SFO shows that the Company had been notified of the following shareholder's interests or short positions, being 5% or more of the issued shares and underlying shares of the Company:

Long positions in the Underlying Shares

Name of shareholder	Capacity	Number of Underlying Shares interested	Approximate percentage of the issued Share capital of the Company (Note 4)
Chau Lai Him (Note 1)	Beneficial owner	6,000,000,000	42.82%
Ng Leung Ho (Note 1)	Beneficial owner	6,000,000,000	42.82%
Integrated Asset Management (Asia) Limited (Notes 1 and 2)	Beneficial owner	2,000,000,000	14.27%
Yam Tak Cheung (Notes 1 and 2)	Interest of controlled corporation	2,000,000,000	14.27%
Lee Yu Leung (Note 1)	Beneficial owner	2,000,000,000	14.27%
Tang Ching Ho (Note 1)	Beneficial owner	2,000,000,000	14.27%
Chan Shuk King (Note 1)	Beneficial owner	1,000,000,000	7.14%
Wong Chun Loong (Note 1)	Beneficial owner	1,000,000,000	7.14%
Mega Lucky Finance Limited (Note 3)	Beneficial owner	933,316,976	6.66%
Lintel Securities Limited (Note 3)	Interest of controlled corporation	933,316,976	6.66%
Tse Young Lai (Note 3)	Interest of controlled corporation	933,316,976	6.66%

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(CONTINUED)*

Long positions in the Underlying Shares *(continued)*

Note:

(1) All these underlying shares can be converted into an aggregate of 20,000,000,000 ordinary shares of the Company upon exercise of the conversion rights under the convertible notes in the aggregate principal amount of HK$200,000,000 at a conversion price of HK$0.01 per share.

(2) Integrated Asset Management (Asia) Limited is a company wholly and beneficially owned by Mr. Yam Tak Cheung. Mr. Yam Tak Cheung was deemed to be interested in these 2,000,000,000 underlying shares.

(3) These underlying shares can be converted into 933,316,976 ordinary shares of the Company upon exercise of the conversion rights under the convertible note in the principal amount of HK$80,265,260 at a conversion price of HK$0.086 per share. The conversion price was subsequently adjusted to HK$0.047 on 29 December 2009. Upon exercise of the conversion rights under the convertible note at a conversion price of HK$0.047, an aggregate of 1,707,771,489 ordinary shares of the Company would be issued. The convertible note has been redeemed by the Company on 4 March 2010.

(4) The percentages were calculated based on the Company's issued share capital of 14,013,388,976 shares as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, the Company has not been notified by any persons (other than Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major suppliers and customers during the year are set out below:

During the year, the aggregate amount of turnover attributable to the Group's five largest customers represented 45.5% (2008: 35.4%) of the Group's total turnover. In 2009, our largest customer accounted for 11.1% (2008: 10.3%) of the Group's total turnover.

During the year, the aggregate amount of purchases received attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

Save as disclosed above, none of the Directors, their associates or any shareholders which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had a beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 44 to the consolidated financial statements.

DIRECTORS' REPORT

SUBSIDIARIES

Details of the principal subsidiaries of the Company as of 31 December 2009 are set out in note 45 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Other than the warrants, convertible notes and share options as set out in notes 31, 32 and 35 to the consolidated financial statements respectively, the Company had no outstanding convertible securities, options or other similar rights as at 31 December 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company strived to maintain high corporate governance standard and complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. Further information of the corporate governance practice of the Company is set out from page 13 to page 21 in the Corporate Governance Report.

CONFIRMATION OF INDEPENDENT STATUS

The Company received the letters of confirmation of independency issued by all the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board of Directors was satisfied with the independent status of all the independent non-executive Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

ZHANG XI
Chairman

Hong Kong, 20 April 2010

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FULBOND HOLDINGS LIMITED
福邦控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 111, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2009 and of the loss and cash flows of the Group 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.

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a loss of US$54,108,000 during the year ended 31 December 2009 and, as of that date, the Group had net current liabilities of US$14,611,000 and net liabilities of US$59,511,000. These conditions, along with other matters set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
20 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	2009 US$'000	2008 US$'000 (Restated)
Continuing operations			
Turnover	8	**15,605**	21,883
Cost of sales		**(13,773)**	(17,577)
Gross profit		**1,832**	4,306
Other income	9	**835**	1,436
Other gains and losses	10	**(42,026)**	3,094
Selling and distribution costs		**(1,283)**	(1,961)
Administrative expenses		**(4,208)**	(4,311)
Other operating expenses		**–**	(524)
Impairment loss recognised in respect of property, plant and equipment and prepaid lease payments		**–**	(10,619)
Finance costs	11	**(6,803)**	(3,255)
Loss before taxation		**(51,653)**	(11,834)
Taxation	12	**(84)**	(273)
Loss for the year from continuing operations		**(51,737)**	(12,107)
Discontinued operation			
Loss for the year from discontinued operation	13	**(2,371)**	(20,147)
Loss for the year	14	**(54,108)**	(32,254)
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**(557)**	581
Exchange differences released upon disposal of a subsidiary		**–**	292
Other comprehensive income for the year		**(557)**	873
Total comprehensive income for the year		**(54,665)**	(31,381)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTE	2009 US$'000	2008 US$'000 (Restated)
Loss for the year attributable to:			
Owners of the Company		**(53,877)**	(29,174)
Minority interests		**(231)**	(3,080)
		(54,108)	(32,254)
Total comprehensive income attributable to:			
Owners of the Company		**(54,434)**	(29,104)
Minority interests		**(231)**	(2,277)
		(54,665)	(31,381)
Loss per share	15		
From continuing and discontinued operations			
– Basic		**US(0.41) cent**	US(0.29) cent
– Diluted		**US(0.41) cent**	US(0.29) cent
From continuing operations			
– Basic		**US(0.40) cent**	US(0.09) cent
– Diluted		**US(0.40) cent**	US(0.11) cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	2009 US$'000	2008 US$'000
Non-current assets			
Property, plant and equipment	16	**857**	11,133
Intangible assets	17	**–**	2,539
Prepaid lease payments	18	**636**	3,046
Other advances		**–**	439
Goodwill	19	**–**	–
Interests in associates	20	**–**	–
Other investments	21	**–**	–
Club debenture	22	**–**	–
Deferred tax asset	23	**–**	350
		1,493	17,507
Current assets			
Inventories	24	**5,876**	16,685
Trade and other receivables	25	**2,982**	18,263
Deposits and prepayments		**1,585**	3,705
Prepaid lease payments	18	**–**	70
Amount due from a director of a subsidiary	26	**–**	951
Bank balances and cash	27	**29,183**	8,882
		39,626	48,556
Assets classified as held for sale	13	**39,071**	–
		78,697	48,556
Current liabilities			
Trade and other payables	28	**27,631**	14,170
Amounts due to associates	26	**76**	76
Amount due to a shareholder	29	**–**	162
Amounts due to directors of subsidiaries	26	**473**	189
Taxation payable		**319**	775
Obligation under finance lease	30	**10**	–
Warrants	31	**10,430**	15
Convertible notes	32	**26,727**	39,054
Bank and other borrowings – amount due within one year	33	**10,364**	22,043
		76,030	76,484
Liabilities associated with assets classified as held for sale	13	**17,278**	–
		93,308	76,484
Net current liabilities		**(14,611)**	(27,928)
Total assets less current liabilities		**(13,118)**	(10,421)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	2009 US$'000	2008 US$'000
Non-current liabilities			
Convertible notes	32	**46,373**	–
Bank and other borrowings – amount due after one year	33	**–**	455
Deferred tax liability	23	**–**	803
Obligation under finance lease	30	**20**	–
		46,393	1,258
		(59,511)	(11,679)
Capital and reserves			
Share capital	34	**14,013**	12,954
Reserves		**(74,005)**	(25,831)
Equity attributable to owners of the Company		**(59,992)**	(12,877)
Minority interests		**481**	1,198
		(59,511)	(11,679)

The consolidated financial statements on pages 31 to 111 were approved and authorised for issue by the Board of Directors on 20 April 2010 and are signed on its behalf by:

ZHANG XI
CHAIRMAN

CATHERINE CHEN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to owners of the Company										
	Share capital US$'000	**Share premium** US$'000	**Capital reserve** US$'000 (Note a)	**General reserve** US$'000 (Note b)	**Exchange translation reserve** US$'000	**Share option reserve** US$'000	**Capital redemption reserve** US$'000	**Accumulated losses** US$'000	**Sub-total** US$'000	**Minority interests** US$'000	**Total** US$'000
Balance at 1 January 2008	9,197	47,640	923	1,969	2,581	4,003	4	(59,809)	6,508	3,475	9,983
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	–	304	–	–	–	304	277	581
Loss for the year	–	–	–	–	–	–	–	(29,174)	(29,174)	(3,080)	(32,254)
Reserves released upon disposal of a subsidiary	–	–	(372)	(723)	(234)	–	–	1,095	(234)	526	292
Total comprehensive income for the year	–	–	(372)	(723)	70	–	–	(28,079)	(29,104)	(2,277)	(31,381)
Issue of shares	3,757	5,438	–	–	–	–	–	–	9,195	–	9,195
Transfer of share option reserve on cancellation of share options	–	–	–	–	–	(4,003)	–	4,003	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	524	–	–	524	–	524
Transfer	–	–	–	424	–	–	–	(424)	–	–	–
Balance at 31 December 2008 and 1 January 2009	12,954	53,078	551	1,670	2,651	524	4	(84,309)	(12,877)	1,198	(11,679)
Exchange differences arising on translation of functional currency to presentation currency	**–**	**–**	**–**	**–**	**(557)**	**–**	**–**	**–**	**(557)**	**–**	**(557)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(53,877)**	**(53,877)**	**(231)**	**(54,108)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(557)**	**–**	**–**	**(53,877)**	**(54,434)**	**(231)**	**(54,665)**
Exercise of warrants	**1,059**	**6,260**	**–**	**–**	**–**	**–**	**–**	**–**	**7,319**	**–**	**7,319**
Dividend paid to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(486)**	**(486)**
Transfer	**–**	**–**	**–**	**270**	**–**	**–**	**–**	**(270)**	**–**	**–**	**–**
Balance at 31 December 2009	**14,013**	**59,338**	**551**	**1,940**	**2,094**	**524**	**4**	**(138,456)**	**(59,992)**	**481**	**(59,511)**

Notes:

(a) Capital reserve represents the reserve arising from the group restructuring which took place in 1996.

(b) General reserve comprises Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in the People's Republic of China (the "PRC") in accordance with the memorandum and articles of association of those subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	2009 US$'000	2008 US$'000
Operating activities			
Loss before taxation from continuing and discontinued operations	14	**(54,995)**	(31,552)
Adjustments for:			
Amortisation of prepaid lease payments		**52**	106
Amortisation of intangible assets		**530**	110
Net losses (gains) of derivative financial instruments and warrants		**47,035**	(2,265)
Depreciation of property, plant and equipment		**2,347**	2,070
Interest income		**(100)**	(102)
Finance costs		**7,604**	3,425
Recognition of share-based payments		**–**	524
(Gain) loss on disposal of property, plant and equipment		**(4)**	212
Gain on disposal of a subsidiary	38	**–**	(1,051)
Gain on early redemption of convertible notes		**(5,083)**	–
Allowance for bad and doubtful debts		**85**	–
Impairment loss recognised in respect of intangible assets		**2,009**	–
Impairment loss recognised in respect of goodwill		**–**	21,340
Impairment loss recognised in respect of property, plant and equipment and prepaid lease payments		**–**	10,619
Operating cash flows before movements in working capital		**(520)**	3,436
Decrease (increase) in inventories		**1,256**	(3,393)
Decrease (increase) in trade and other receivables		**6,034**	(5,731)
(Increase) decrease in deposits and prepayments		**(4,042)**	5,513
(Decrease) increase in trade and other payables		**(641)**	116
Cash generated from (used in) operations		**2,087**	(59)
PRC Enterprise Income Tax paid		**(84)**	(401)
Net cash generated from (used in) operating activities		**2,003**	(460)
Investing activities			
Interest received		**100**	102
Deposit received from proposed disposal of subsidiaries		**15,742**	–
Purchases of property, plant and equipment		**(1,690)**	(1,502)
Proceeds from disposal of property, plant and equipment		**8**	1,133
Acquisition of assets and subsidiaries	36 & 37	**–**	1,579
Disposal of a subsidiary	38	**–**	95
Net cash from investing activities		**14,160**	1,407

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	US$'000	US$'000
Financing activities		
Interest paid	**(1,379)**	(941)
Repayment to former ultimate holding company	**–**	(588)
Repayment from a director of a subsidiary	**–**	66
Advance from directors of subsidiaries	**1,600**	189
New bank loans raised	**16,805**	14,902
Repayments of bank loans	**(16,227)**	(16,034)
Repayment to associates	**(49)**	(22)
Redemption of convertible notes	**(23,267)**	–
Dividends paid to minority shareholders of a subsidiary	**(486)**	–
Repayment to a shareholder	**(162)**	(540)
Proceed from issue of convertible notes	**25,290**	3,700
Proceed from exercise of warrants	**3,552**	–
Proceed from issue of warrants	**–**	192
Net cash from financing activities	**5,677**	924
Net increase in cash and cash equivalents	**21,840**	1,871
Cash and cash equivalents at 1 January	**8,882**	6,888
Effect of changes in foreign exchange rates	**(89)**	123
Cash and cash equivalents at 31 December, represented by bank balances and cash	**30,633**	8,882

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at 31 December 2009, the Company did not have immediate and ultimate holding company. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in United States dollar while the functional currency of the Company and its operating subsidiaries are Renminbi. The directors consider this presentation currency is more useful for its current and potential investors.

The Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 December 2009 are the manufacturing and sale of timber products and food processing and distribution.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss of US$54,108,000 during the year ended 31 December 2009 and as of that date, the Group had net current liabilities of US$14,611,000 and net liabilities of US$59,511,000. In addition, there is uncertainty as to whether the Group can refinance its bank borrowings and obtain additional funding through issuance of the remaining Fulbond Convertible Notes (see note 32). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The Group has obtained undertaking from a shareholder and Chairman of the Company, Mr. Zhang Xi ("Mr. Zhang"), that Mr. Zhang will provide the Group with financial support in meeting the Group's financial obligations as they fall due in the foreseeable future.

Given the conditions as described above and provided that the Group can continue to successfully refinance its bank borrowings and complete the issuance of the remaining Fulbond Convertible Notes, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC*)-Int 9 & HKAS 39 (Amendments)	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
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

* IFRIC represents the International Financial Reporting Interpretations Committee

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and has resulted in a number of changes in presentation and disclosures in the consolidated financial statements.

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

New and revised HKFRSs affecting presentation and disclosure only *(continued)*

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 8).

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset.

The adoption of HKAS 23 (Revised 2007) has had no effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no adjustment is required.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of right issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendments)	Group cash-settled share-based payments transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]

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

HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners[1]
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instrument[5]

[1] Effective for annual periods beginning on or after 1 July 2009.
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2010.
[4] Effective for annual periods beginning on or after 1 February 2010.
[5] Effective for annual periods beginning on or after 1 July 2010.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations

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

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

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

Goodwill

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

Capitalised goodwill arising on an acquisition of business is presented separately in the consolidated statement of financial position.

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

On subsequent disposal of the business, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Interests in associates

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

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

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

Revenue recognition

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

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

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment *(continued)*

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

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

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

Borrowing costs

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a director of a subsidiary and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 102 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities include convertible loan notes, warrants and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instrument are set out below.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to associates/shareholders/directors of subsidiaries, bank and other borrowings and the liability component of convertible notes) are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes that contains liability component, conversion option derivative and early redemption option derivatives

Convertible loan notes issued by the Group that contain host liability and embedded derivatives (conversion option and early redemption option which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. At the date of issue, the liability and embedded derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and embedded derivatives in proportion to the allocation of the proceeds. Transaction costs relating to the embedded derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity ***(continued)***

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. At the end of the reporting period, such embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Equity instruments

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

Derecognition

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

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

Share-based payment transactions

Share options granted to directors and employees of the Company

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange translation reserve).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange translation reserve.

Retirement benefits

Payments to Mandatory Provident Fund ("MPF") scheme are charged as an expense when employees have rendered services entitling them to the contribution. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are 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 amount of assets and liabilities within the next financial year.

Estimated impairment of property, plant and equipment and prepaid lease payments

Property, plant and equipment and prepaid lease payments are stated at cost less subsequent accumulated depreciation/amortisation and accumulated impairment losses. Property, plant and equipment and prepaid lease payments are assessed for impairment when there is an indication of impairment. This process requires management's estimation of the future cash flows generated by each asset or group of assets. If the recoverable amounts are less than the carrying amounts of the property, plant and equipment and prepaid lease payments, the relevant asset's carrying amount is written down to the recoverable amount. If the management's expectation is different, it will impact on the carrying value and write downs of property, plant and equipment and prepaid lease payments in the periods in which such estimate is changed. At 31 December 2009, the carrying amount of property, plant and equipment and prepaid lease payments are US$857,000 (2008: US$11,133,000) and US$636,000 (2008: US$3,116,000) respectively, net of total accumulated impairment loss of US$10,619,000 (2008: US$10,619,000).

Fair value of embedded conversion option and early redemption option of convertible notes and warrants

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of embedded conversion option and early redemption option of the convertible notes and warrants which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial liabilities are determined at the end of each reporting period with movement in fair value recognised in profit or loss. In estimating the fair value of these derivative financial liabilities, the Group uses independent valuation which is based on various inputs and estimates based on quoted market rates and adjusted for specific features of the instrument (see notes 31 and 32). If the inputs and estimates applied in the model is different, the carrying amount of these derivative financial liabilities will change. The carrying value of the embedded conversion option and early redemption option of convertible notes and warrants at 31 December 2009 were US$45,591,000 (2008: US$11,457,000) and US$10,430,000 (2008: US$15,000) respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible notes, bank balances and cash as disclosed in respective notes and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annually basis. As part of this review, the directors consider the cost of capital and will balance its overall capital structure through the new shares issues as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 **US$'000**	2008 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**43,220**	28,096
Financial liabilities		
Amortised cost	**66,420**	63,682
Derivative financial liabilities	**56,021**	11,472
	122,441	75,154

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, amounts due from (to) associates/shareholders/directors of subsidiaries, warrants, convertible notes, bank and other borrowings and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and certain trade receivables and borrowings (see notes 25 and 33 respectively) are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	US$'000	**US$'000**	US$'000	US$'000
United States Dollars	**7,183**	**420**	4,824	3,641
Hong Kong Dollars	**19,240**	**28,620**	184	25,079
	26,423	**29,040**	5,008	28,720

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of United States Dollars and Hong Kong Dollars. The following table details the Group's sensitivity to a 5% (2008: 10%) increase in RMB against the relevant foreign currency while all other variables are held constant. 5% (2008: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% (2008: 10%) change in foreign currency rates.

The sensitivity analysis includes monetary items where the denomination of the balances is in a currency other than the functional currency of the respective group entities. A positive number below indicates an increase in loss for the year where RMB strengthen 5% (2008: 10%) against the relevant currency while a negative number represents a decrease in loss for the year. For a 5% (2008: 10%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the result for the year.

	2009	2008
	US$'000	US$'000
United States Dollars	**338**	118
Hong Kong Dollars	**(1,905)**	(2,490)

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, convertible notes and a three year loan note. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fixed-rate short-term bank deposits is subject to cash flow interest rate risk as the fixed deposits are renewed every one to three months.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. It is the Group's policy to keep its borrowings at fixed rate of interests so as to minimise the cash flow interest rate risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits at the end of the reporting period. For short-term bank deposits, the analysis is prepared assuming the amount of deposits at the end of the reporting period was existing for the whole year. A 50 (2008: 50) basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 50 (2008: 50) basis points higher and all other variables were held constant, the Group's loss for the year ended 31 December 2009 would decrease by US$153,000 (2008: US$43,000). There would be an equal and opposite impact on the result for the year where there had been 50 (2008: 50) basis points lower.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Market risk *(continued)*

(iii) Other price risk

The Group was exposed to equity price risk arising from the conversion option derivative and early redemption option (derivative components) of the convertible notes and warrants. The fair values of the conversion option derivative and early redemption option were calculated using the Black-Scholes Option Pricing Model and the binomial option pricing model, and the fair value of the warrants were calculated using the Black-Scholes Option Pricing Model. Details of these derivative financial instruments are set out in notes 31 and 32.

If the input of share price to the valuation model of the derivative components of the convertible notes and warrants had been 5% higher/lower while all other variables were held constant, the loss for the year would increase/(decrease) as follows:

	2009 **US$'000**	2008 US$'000
Higher by 5%		
– Derivative components	**3,000**	124
– Warrants	**919**	20
	3,919	144
Lower by 5%		
– Derivative components	**(2,954)**	(120)
– Warrants	**(906)**	(19)
	(3,860)	(139)

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers.

Credit risk on amount due from a director of a subsidiary is concentrated from a single party and the maximum exposure to credit risk in respect of such concentration is the carrying amount as stated on the consolidated statement of financial position. Management considers based on good repayment history and financial creditability of the individual, there is no significant credit risk.

The credit risk on bank deposits and bank balances is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the board of directors of the Company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its short and long term liquidity requirements.

The Group had net current liabilities of US$14,611,000 and net liabilities of US$59,511,000 as at 31 December 2009. As outlined in note 2, the Group has obtained undertaking from a shareholder and Chairman of the Company to provide the Group with financial support in meeting the Group's financial obligations as they fall due in the foreseeable future. In addition, provided that the Group can continue to successfully refinance its bank borrowings and complete the issuance of the remaining Fulbond Convertible Notes, the directors of the Company consider that the Group's liquidity risk is significantly reduced.

The following table details the Group's contractual maturity of its major financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Liquidity risk *(continued)*

	Weighted average interest rate	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flow	Carrying amount
	%	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2009								
Trade and other payables	**–**	**10,138**	**4,777**	**–**	**–**	**–**	**14,915**	**14,915**
Amount due to associates	**–**	**76**	**–**	**–**	**–**	**–**	**76**	**76**
Amount due to directors of subsidiaries	**–**	**837**	**–**	**–**	**–**	**–**	**837**	**837**
Obligation under finance lease	**8.8**	**–**	**3**	**3**	**6**	**22**	**34**	**30**
Convertible notes	**–**	**16,808**	**–**	**–**	**–**	**25,807**	**42,615**	**30,546**
Bank and other borrowings	**3.6**	**–**	**2,382**	**5,333**	**16,199**	**–**	**23,914**	**23,083**
		27,859	**7,162**	**5,336**	**16,205**	**25,829**	**82,391**	**69,487**
At 31 December 2008								
Trade and other payables	–	9,170	3,990	–	–	–	13,160	13,160
Amount due to associates	–	76	–	–	–	–	76	76
Amount due to a shareholder	–	162	–	–	–	–	162	162
Amount due to directors of subsidiaries	–	189	–	–	–	–	189	189
Convertible notes	–	40,029	–	–	–	–	40,029	38,835
Bank and other borrowings	7.3	–	1,991	1,541	19,197	519	23,248	22,498
		49,626	5,981	1,541	19,197	519	76,864	74,920

Fair value

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

- the fair value of financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input; and

- the fair value of the warrants and the embedded conversion option and early redemption option of the convertible notes are estimated using option models and discounted cash flow analysis and the inputs into the models are disclosed in notes 31 and 32.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Fair value *(continued)*

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

Fair value measurements recognised in the consolidated statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 and 2 based on the degree to which the fair value is determined based on observable inputs.

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

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

The Group's warrants, embedded conversion option and early redemption option of the convertible notes in aggregate amount of US$56,021,000 at 31 December 2009 are classified into level 2.

8. TURNOVER AND SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segment (business and geographical) using a risks and returns approach. In the past, segment information reported externally was analysed on the basis of the types of goods supplied by the Group's principal operating divisions (i.e. blockboard and particle board, door skin and other wooden products). However, since the acquisition of the new food processing and distribution business and the downsizing of the timber related business in 2008, information reported to the Group's Chairman for the purpose of resource allocation and assessment of performance has changed and focuses on only two operating segments. The Group's operating segments under HKFRS 8 are therefore as follows:

- Timber – manufacture and trading of wooden products including blockboard and particle board, door skin and other wooden products; and

- Food processing and distribution – processing and distribution of frozen seafood products.

8. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Segment turnover and results

The following is an analysis of the Group's turnover and results by operating segment.

For the year ended 31 December 2009

	Continuing operations Timber US$'000	Discontinued operation Food processing and distribution US$'000	Consolidated US$'000
TURNOVER			
External sales	15,605	38,056	53,661
RESULT			
Segment result	(948)	(130)	(1,078)
Unallocated corporate income	94	6	100
Unallocated corporate expenses	(1,970)	(57)	(2,027)
Other gains and losses	(42,026)	(351)	(42,377)
Finance costs	(6,803)	(801)	(7,604)
Impairment loss recognised in respect of intangible assets	–	(2,009)	(2,009)
Loss before taxation	(51,653)	(3,342)	(54,995)
Taxation	(84)	971	887
Loss for the year	(51,737)	(2,371)	(54,108)

8. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Segment turnover and results *(continued)*

For the year ended 31 December 2008

	Continuing operations	Discontinued operation	
	Timber	Food processing and distribution	Consolidated
	US$'000	US$'000	US$'000
TURNOVER			
External sales	21,883	14,425	36,308
RESULT			
Segment result	(8,062)	1,904	(6,158)
Unallocated corporate income	99	3	102
Unallocated corporate expenses	(3,710)	(115)	(3,825)
Other gains and losses	3,094	–	3,094
Finance costs	(3,255)	(170)	(3,425)
Impairment loss recognised in respect of goodwill	–	(21,340)	(21,340)
Loss before taxation	(11,834)	(19,718)	(31,552)
Taxation	(273)	(429)	(702)
Loss for the year	(12,107)	(20,147)	(32,254)

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in note 4. Segment result represents the loss from each segment without allocation of interest income, central administration costs, directors' emoluments, other gains and losses, finance costs and impairment losses recognised in respect of intangible assets and goodwill. This is the measure reported to the Chairman for the purposes of resource allocation and performance assessment.

8. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

As at 31 December 2009

	Continuing operations Timber US$'000	Discontinued operation Food processing and distribution US$'000	Consolidated US$'000
ASSETS			
Segment assets	9,348	36,864	46,212
Unallocated corporate assets	31,771	2,207	33,978
Consolidated total assets	41,119	39,071	80,190
LIABILITIES			
Segment liabilities	3,119	3,792	6,911
Unallocated corporate liabilities	119,304	13,486	132,790
Consolidated total liabilities	122,423	17,278	139,701

As at 31 December 2008

	Continuing operations Timber US$'000	Discontinued operation Food processing and distribution US$'000	Consolidated US$'000
ASSETS			
Segment assets	13,929	39,599	53,528
Unallocated corporate assets	9,593	2,942	12,535
Consolidated total assets	23,522	42,541	66,063
LIABILITIES			
Segment liabilities	3,185	4,733	7,918
Unallocated corporate liabilities	56,234	13,590	69,824
Consolidated total liabilities	59,419	18,323	77,742

The Group's unallocated corporate assets at the end of each reporting period mainly consist of other investments, club debentures, amount due from a director of a subsidiary, bank balances and cash and certain other receivables and prepayments. The Group's unallocated corporate liabilities at the end of each reporting period mainly consist of amounts due to related parties/directors of subsidiaries, warrants, convertible notes, bank and other borrowings and certain other creditors and accrued charges.

8. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(c) Other segment information

For the year ended 31 December 2009

	Continuing operations			Discontinued operation	
	Timber US$'000	Unallocated US$'000	Total US$'000	Food processing and distribution US$'000	Consolidated US$'000
Information included in segment results/segment assets:					
Additions to property, plant and equipment	**536**	**178**	**714**	**1,006**	**1,720**
Amortisation of prepaid lease payments	**30**	**–**	**30**	**22**	**52**
Depreciation of property, plant and equipment	**1,415**	**46**	**1,461**	**886**	**2,347**
Gain on disposal of property, plant and equipment	**–**	**4**	**4**	**–**	**4**
Impairment loss recognised in respect of intangible assets	**–**	**–**	**–**	**2,009**	**2,009**

For the year ended 31 December 2008

	Continuing operations			Discontinued operation	
	Timber US$'000	Unallocated US$'000	Total US$'000	Food processing and distribution US$'000	Consolidated US$'000
Information included in segment results/segment assets:					
Additions to property, plant and equipment	883	101	984	518	1,502
Amortisation of prepaid lease payments	64	–	64	42	106
Depreciation of property, plant and equipment	1,865	39	1,904	166	2,070
Loss (gain) on disposal of property, plant and equipment	310	(98)	212	–	212
Impairment loss recognised in respect of goodwill	–	–	–	21,340	21,340
Impairment loss recognised in respect of property, plant and equipment and prepaid lease payments	10,619	–	10,619	–	10,619
Share-based payments	–	524	524	–	524

All of the Group's operations are located in the People's Republic of China (the "PRC") (country of domicile).

8. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(c) Other segment information *(continued)*

The Group's turnover from continuing operations from external customers based on the geographical location of customers are detailed below:

	Turnover from external customers	
	2009	2008
	US$'000	US$'000
PRC (country of domicile)	**8,800**	12,135
Middle East	**5,434**	7,825
Asia excluding the PRC	**1,001**	1,404
Others	**370**	519
	15,605	21,883

Substantially all of the Group's non-current assets are located in the PRC (place of domicile of the group entities that hold such assets).

(d) Information about major customers

Turnover from customers of the corresponding years contributing 10% of the total sales of the Group are as follows:

	2009	2008
	US$'000	US$'000
Customer A[1]	**5,938**	N/A[3]
Customer B[1]	**5,323**	N/A[3]
Customer C[2]	**N/A[3]**	3,741

1 Turnover from the food processing and distribution segment
2 Turnover from the timber segment
3 The corresponding turnover does not contribute over 10% of the total sales of the Group in the current year.

9. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Value added tax refund (note a)	**117**	875	**–**	–	**117**	875
Interest income	**94**	99	**6**	3	**100**	102
Sales of scrap materials	**–**	–	**802**	313	**802**	313
Sub-contracting income	**212**	114	**–**	–	**212**	114
Government grants (note b)	**261**	–	**710**	–	**971**	–
Others	**151**	348	**227**	5	**378**	353
	835	1,436	**1,745**	321	**2,580**	1,757

Notes:

(a) Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT"), such subsidiaries were entitled to a VAT refund totalling US$117,000 (2008: US$875,000) for the year ended 31 December 2009.

(b) Government grants represents compensation received in the current year for expenditures incurred in relation to energy saving and waste reduction and other subsidies granted for the Group's food processing and distribution business. There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants as income upon receipts.

10. OTHER GAINS AND LOSSES

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Allowance for bad and doubtful debts	**(85)**	–	**–**	–	**(85)**	–
Gain (loss) on disposal of property, plant and equipment	**4**	(212)	**–**	–	**4**	(212)
Gain on disposal of other investments	**–**	3	**–**	–	**–**	3
Net (losses) gains of derivative financial instruments and warrants (notes 31 and 32)	**(47,035)**	2,265	**–**	–	**(47,035)**	2,265
Gain on early redemption of convertible notes (notes 31 and 32)	**5,083**	–	**–**	–	**5,083**	–
Gain on disposal of a subsidiary (note 38)	**–**	1,051	**–**	–	**–**	1,051
Net exchange gain (loss)	**7**	(13)	**(351)**	(214)	**(344)**	(227)
	(42,026)	3,094	**(351)**	(214)	**(42,377)**	2,880

11. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Interest on:						
– borrowings from banks and other financial institutions wholly repayable within five years	**546**	698	**801**	170	**1,347**	868
– three-year loan notes	**–**	73	**–**	–	**–**	73
– other borrowings	**32**	–	**–**	–	**32**	–
Effective interest expense on convertible notes wholly repayable within five years	**6,225**	2,484	**–**	–	**6,225**	2,484
	6,803	3,255	**801**	170	**7,604**	3,425

12. TAXATION

Tax charge (credit) comprises:

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
PRC Enterprise Income Tax	**–**	273	**171**	454	**171**	727
Under(over)provision in prior years	**35**	–	**(689)**	–	**(654)**	–
	35	273	**(518)**	454	**(483)**	727
Withholding tax on distributed profit	**49**	–	**–**	–	**49**	–
Deferred taxation (note 23)	**–**	–	**(453)**	(25)	**(453)**	(25)
	84	273	**(971)**	429	**(887)**	702

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both years.

PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of subsidiaries.

12. TAXATION *(CONTINUED)*

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of PRC subsidiaries is 25% from 1 January 2008 onwards. Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC.

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2009 **US$'000**	2008 US$'000
Loss before taxation (from continuing operations)	**(51,653)**	(11,834)
Tax at the domestic income tax rate of 25% (2008: 25%) (note)	**(12,913)**	(2,959)
Tax effect of expenses not deductible for tax purpose	**11,970**	1,236
Tax effect of income not taxable for tax purpose	**(1,750)**	(615)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**99**	360
Income tax on concessionary rate	**–**	(340)
Tax effect of deductible temporary differences not recognised	**–**	2,578
Tax effect of tax losses not recognised	**2,594**	13
Under provision in prior years	**35**	–
Withholding tax on distributed profit	**49**	–
Taxation for the year (relating to continuing operations)	**84**	273

Note: The domestic income tax rate of 25% (2008: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

13. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries (the "Disposal Group"), which carried out all of the Group's food processing and distribution operations (the "Disposal"). Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue Holdings Limited ("Wise Virtue"). Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The Disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010. The assets and liabilities attributable to the Disposal Group have been classified as disposal group held for sale and are presented separately in the consolidated statement of financial position.

The major classes of assets and liabilities of the Disposal Group as at 31 December 2009 are as follows:

	US$'000
Property, plant and equipment	9,649
Prepaid lease payments	2,429
Inventories	9,557
Trade and other receivables	15,986
Bank balances and cash	1,450
Total assets classified as held for sale	39,071
Trade and other payables	1,825
Other creditors and accrued charges	1,908
Amounts due to directors	364
Bank loan	12,719
Others	462
Total liabilities classified as held for sale	17,278

The net proceeds from the Disposal is expected to be less than the net carrying amount of the relevant assets and liabilities. Accordingly an impairment loss on intangible assets of US$2,009,000 has been charged to profit or loss in the consolidated statement of comprehensive income.

13. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE *(CONTINUED)*

The results of the Disposal Group for the year ended 31 December 2009 and 31 December 2008, which have been included in the consolidated statement of comprehensive income and presented as discontinued operation were as follows:

	2009	2008
	US$'000	US$'000
Turnover	**38,056**	14,425
Cost of sales	**(35,749)**	(11,655)
Gross profit	**2,307**	2,770
Other income	**1,745**	321
Selling and distribution costs	**(1,106)**	(269)
Administrative expenses	**(3,478)**	(1,030)
Impairment loss recognised in respect of intangible assets	**(2,009)**	–
Impairment loss recognised in respect of goodwill	**–**	(21,340)
Finance costs	**(801)**	(170)
Loss before taxation	**(3,342)**	(19,718)
Taxation	**971**	(429)
Loss for the year	**(2,371)**	(20,147)

During the year, the Disposal Group contributed US$590,000 (2008: US$527,000) to the Group's net operating cash flows, paid US$821,000 (2008: US$1,373,000) in respect of investing activities and contributed US$1,727,000 (2008: US$392,000) in respect of financing activities.

Certain comparative figures of the consolidated statement of comprehensive income were restated so as to reflect the results for the discontinued operation.

14. LOSS FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Loss before taxation	**(51,653)**	(11,834)	**(3,342)**	(19,718)	**(54,995)**	(31,552)
Loss for the year has been arrived at after charging:						
Directors' remuneration (note a)						
– Fees	**548**	567	**–**	–	**548**	567
– Share-based payments for directors (included in other operating expenses)	**–**	388	**–**	–	**–**	388
– Other emoluments	**6**	7	**–**	–	**6**	7
	554	962	**–**	–	**554**	962
Employees' salaries and benefits expenses	**1,437**	2,108	**1,411**	664	**2,848**	2,772
Share-based payments for employees (included in other operating expenses)	**–**	136	**–**	–	**–**	136
Retirement benefits scheme contributions for staff other than directors (note b)	**272**	257	**18**	14	**290**	271
Total employees' benefits expenses	**2,263**	3,463	**1,429**	678	**3,692**	4,141
Amortisation of prepaid lease payments	**30**	64	**22**	42	**52**	106
Amortisation of intangible assets	**–**	–	**530**	110	**530**	110
Auditor's remuneration	**232**	279	**–**	–	**232**	279
Cost of inventories recognised as expense	**13,773**	17,577	**35,749**	11,655	**49,522**	29,232
Depreciation of property, plant and equipment	**1,461**	1,904	**886**	166	**2,347**	2,070
Impairment loss recognised in respect of intangible assets	**–**	–	**2,009**	–	**2,009**	–
Impairment loss recognised in respect of goodwill	**–**	–	**–**	21,340	**–**	21,340
Minimum lease payments under operating leases in respect of rented premises	**238**	240	**–**	–	**238**	240

14. LOSS FOR THE YEAR *(CONTINUED)*

Notes:

(a) Emoluments of directors and highest paid employees

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

	Zhang Xi US$'000	Catherine Chen US$'000	Chen Wyman, Paul US$'000	Hong Po Kui, Martin US$'000	Yam Tak Fai, Ronald US$'000	Wong Man Hin, Raymond US$'000	Chiu Sui Keung US$'000	Leung Hoi Ying US$'000	Yu Pan US$'000	Ma Yin Fan US$'000	Total US$'000
For the year ended 31 December 2009											
Fees	77	313	44	31	19	18	27	5	5	9	548
Share-based payments	–	–	–	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	2	2	2	-	-	-	-	-	-	-	6
	79	315	46	31	19	18	27	5	5	9	554

	Zhang Xi US$'000	Zhang Huafang US$'000	Cai Duanhong US$'000	Catherine Chen US$'000	Chen Wyman, Paul US$'000	Hong Po Kui, Martin US$'000	Yam Tak Fai, Ronald US$'000	Wong Man Hin, Raymond US$'000	Chiu Sui Keung US$'000	Total US$'000
For the year ended 31 December 2008										
Fees	77	77	46	261	1	31	31	31	12	567
Share-based payments	194	–	–	194	–	–	–	–	–	388
Retirement benefits scheme contributions	2	2	1	2	–	–	–	–	–	7
	273	79	47	457	1	31	31	31	12	962

14. LOSS FOR THE YEAR *(CONTINUED)*

Notes: *(continued)*

(a) Emoluments of directors and highest paid employees (Continued)

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

	2009 **US$'000**	2008 US$'000
Salaries and other benefits	**422**	1,141
Retirement benefit scheme contributions	**4**	5
	426	1,146

Their emoluments were within the following band:

	2009 **Number** **of individuals**	2008 Number of individuals
Not exceeding HK$1,000,000 (equivalent to US$128,816)	–	1
HK$1,000,001-HK$1,500,000 (equivalent to US$129,032 to US$193,548)	**1**	–
HK$2,000,001-HK$2,500,000 (equivalent to US$258,065 to US$322,581)	**1**	1
HK$5,000,000-HK$5,500,000 (equivalent to US$645,161 to US$709,677)	–	1
	2	3

(b) Retirement benefits schemes

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

In addition, pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the basic staff wages to certain retirement benefit schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contribution.

15. LOSS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2009 US$'000	2008 US$'000
Loss:		
Loss for the purpose of basic loss per share	**(53,877)**	(29,174)
Effect of dilutive potential ordinary shares:		
– Interest on convertible notes	**–**	984
– Change in fair value of embedded conversion option and early redemption option	**–**	(3,565)
– Exchange realignment of convertible notes	**–**	102
Loss for the purpose of diluted loss per share	**(53,877)**	(31,653)

Number of shares:

	2009	2008
Weighted average number of ordinary shares for purposes of calculation of basic loss per share	**13,011,979,501**	9,977,888,607
Effect of dilutive potential ordinary shares:		
– Convertible notes	**–**	826,502,732
Weighted average number of ordinary shares for the purpose of calculation of diluted loss per share	**13,011,979,501**	10,804,391,339

15. LOSS PER SHARE *(CONTINUED)*

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	2009	2008
	US$'000	US$'000
Loss for the year attributable to owners of the Company	**(53,877)**	(29,174)
Less: Loss for the year from discontinued operation	**(2,371)**	(20,147)
Loss for the purpose of basic loss per share from continuing operations	**(51,506)**	(9,027)
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	**–**	984
– Change in fair value of embedded conversion option and early redemption option	**–**	(3,565)
– Exchange realignment of convertible notes	**–**	102
Loss for the purpose of diluted loss per share from continuing operations	**(51,506)**	(11,506)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operation

Basic loss per share for the discontinued operation is US0.02 cent per share (2008: US0.20 cent per share), based on the loss for the year from the discontinued operation of US$2,371,000 (2008: US$20,147,000) and the denominator is detailed above for basic loss per share. Diluted loss per share for the discontinued operation is US0.02 cent (2008: US0.19 cent) and the denominator is detailed above for diluted loss per share.

The computation of diluted loss per share for the years ended 31 December 2009 and 31 December 2008 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years. It does not assume the exercise of the Company's outstanding warrants and conversion of all convertible notes for the year ended 31 December 2009 since their exercise and conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding warrants and conversion of certain convertible notes for year ended 31 December 2008 since their exercise and conversion would result in a decrease in the loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvement	Plant and equipment	Furniture and fittings	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST							
At 1 January 2008	11,289	37	38,922	56	1,199	1,091	52,594
Currency realignment	693	–	2,237	1	64	56	3,051
Acquisition of subsidiaries (notes 36 and 37)	5,013	–	3,488	70	188	378	9,137
Additions	35	91	569	11	280	516	1,502
Reclassification	114	–	–	–	–	(114)	
Disposals	(1,640)	(46)	(1,055)	(26)	(43)	(283)	(3,093)
Disposal of a subsidiary (note 38)	(408)	–	(437)	–	(382)	–	(1,227)
At 31 December 2008	15,096	82	43,724	112	1,306	1,644	61,964
Currency realignment	6	-	16	-	-	-	22
Additions	2	–	1,042	37	53	586	1,720
Reclassification	1,675	–	555	–	–	(2,230)	–
Reclassified as held-for-sale	(6,329)	–	(4,397)	(104)	(414)	–	(11,244)
Disposals	(13)	–	–	–	–	–	(13)
At 31 December 2009	**10,437**	**82**	**40,940**	**45**	**945**	**–**	**52,449**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2008	5,178	7	33,010	34	1,122	276	39,627
Currency realignment	325	–	1,968	–	51	–	2,344
Provided for the year	654	32	1,354	17	13	–	2,070
Impairment loss recognised	5,429	–	4,288	–	48	–	9,765
Eliminated on disposal	(602)	(27)	(805)	(23)	(15)	(276)	(1,748)
Eliminated on disposal of a subsidiary	(408)	–	(437)	–	(382)	–	(1,227)
At 31 December 2008	10,576	12	39,378	28	837	–	50,831
Currency realignment	3	–	15	–	–	–	18
Provided for the year	616	27	1,597	39	68	–	2,347
Eliminated on disposal	(9)	–	–	–	–	–	(9)
Reclassified as held-for-sale	(913)	–	(575)	(31)	(76)	–	(1,595)
At 31 December 2009	**10,273**	**39**	**40,415**	**36**	**829**	**–**	**51,592**
CARRYING VALUES							
At 31 December 2009	**164**	**43**	**525**	**9**	**116**	**–**	**857**
At 31 December 2008	4,520	70	4,346	84	469	1,644	11,133

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

During the year ended 31 December 2008, impairment losses of US$9,765,000 were recognised in respect of plant and equipment and other assets, which are used in the Group's timber segment. The recoverable amounts of the relevant assets have been determined based on their value in use. The discount rates used in determining the amounts of the value in use was 22% in relation to those assets. During the year ended 31 December 2009, the directors conducted a review of the Group's property, plant and equipment (excluding those that have been included in assets classified as held for sale) and determined that no impairment is required as the recoverable amounts of these property, plant and equipment approximate to the carrying values.

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

	Rate per annum (%)
Buildings on land held under short term leases outside Hong Kong	5 to 10
Plant and equipment and furniture and fittings	10 to 33
Motor vehicles	20

The carrying value of the Group's leasehold land and buildings are held under short term leases in the PRC.

17. INTANGIBLE ASSETS

	Customer relationship	**License**	**Total**
	US$'000	US$'000	US$'000
COST			
Acquired on acquisition of subsidiaries (note 37) and at 31 December 2008 and 31 December 2009	2,579	70	2,649
AMORTISATION AND IMPAIRMENT			
At 1 January 2008	–	–	–
Charge for the year	107	3	110
At 31 December 2008	107	3	110
Charge for the year	516	14	530
Impairment loss recognised	1,956	53	2,009
At 31 December 2009	2,579	70	2,649
CARRYING VALUES			
At 31 December 2009	–	–	–
At 31 December 2008	2,472	67	2,539

17. INTANGIBLE ASSETS *(CONTINUED)*

The intangible assets were purchased as part of a business combination during the year ended 31 December 2008, have definite useful lives and are amortised on straight-line basis over the estimated useful life of five years.

During the year ended 31 December 2009, impairment losses of US$1,956,000 and US$53,000, have been recognised to write down fully the carrying amount of customer relationship and license, respectively, which are attributable to the food processing and distribution segment.

18. PREPAID LEASE PAYMENTS

	2009	2008
	US$'000	US$'000
The Group's prepaid lease payments comprise:		
Short term lease in the PRC	**636**	3,116
Less: Current portion shown under current assets	**–**	(70)
	636	3,046

The prepaid lease payments are amortised over the term of the leases.

During the year ended 31 December 2008, as a result of the sustained losses in the CGU for timber segment, impairment loss was identified for prepaid lease payments of this CGU based on their recoverable amounts. Accordingly, an impairment loss of US$854,000 has been recognised in respect of prepaid lease payments, which are used in the Group's timber segment.

19. GOODWILL

	US$'000
At 1 January 2008	–
Arising on acquisition of subsidiaries (note 37)	21,340
Impairment loss recognised	(21,340)
At 31 December 2008 and 31 December 2009	–

During the year 31 December 2008, the Group acquired 100% of the issued share capital in Prowealth, the subsidiaries of which are engaged in the processing and distribution of frozen seafood products business. The goodwill was attributable to the CGU of food processing and distribution segment.

At 31 December 2008, the directors of the Company had conducted a review of the carrying value of goodwill. As a result of the significant downturn in the global economy after the completion of the acquisition, the actual results of the CGU did not meet the management's expectations and the recoverable amount of this CGU is determined to be approximately US$21 million lower than the carrying amount of the CGU. As a result, the goodwill arising from the acquisition was identified to be fully impaired and the corresponding impairment loss was recognised in the consolidated statement of comprehensive income.

The recoverable amount of the food processing and distribution CGU was determined based on the value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a 5 year period, and a discount rate of 20%. The cash flows beyond the 5 year period were extrapolated using a steady growth rate of 2%. This growth rate was based on the industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations related to the estimation of cash inflow/outflows which include budgeted sales and expected gross margin, such estimation was based on the unit's past performance and management's expectations for the market development.

20. INTERESTS IN ASSOCIATES

	US$'000
Cost of unlisted investments	2,000
Share of reserves	463
Share of post-acquisition losses	(2,463)
At 31 December 2008 and 31 December 2009	–

Particulars of the Group's associates at 31 December 2009 and 2008 are as follows:

Name of associate	Place of registration/ operation	Percentage of issued share capital/registered capital held by the Group 2009 %	2008 %	Issued share capital/ registered capital	Principal activities
瀋陽福陽人造板有限公司 Shenyang Fuyang Wood-Basal Panel Ltd. (Note)	PRC	**40.0**	40.0	US$5,000,000	Manufacture and sale of wooden products and inactive since 2007
天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. (Note)	PRC	**49.5**	49.5	US$17,453,021	Manufacture and sale of wooden products and inactive since 2007

Note: Such companies are Sino-foreign equity joint ventures.

20. INTERESTS IN ASSOCIATES *(CONTINUED)*

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

	2009 US$'000	2008 US$'000
Total assets	**1,118**	1,118
Total liabilities	**(1,028)**	(907)
Net assets	**90**	211
Group's share of net assets	**–**	–
Revenue	**–**	–
Result for the year	**–**	–
Group's share of result for the year	**–**	–

21. OTHER INVESTMENTS

The investments are classified as available-for-sale investments as at 31 December 2008 and 2009 comprise:

	US$'000
Equity securities	
Costs of investments	1,142
Less: Impairment loss recognised	(1,142)
At 1 January 2008, 31 December 2008 and 31 December 2009	–

The balance represents investments in unlisted equity securities issued by private entities incorporated in Taiwan and the PRC. It is measured at cost less impairment at the end of the reporting period because the directors of the Company are of the opinion that their fair values cannot be measured reliably as there is no active market information available.

On 31 July 2008, the Group disposed of its entire interest in a private entity incorporated in Taiwan at a consideration of NT100,000 (equivalent to US$3,000) giving rise to gain on disposal of US$3,000, which is included in other gains and losses.

22. CLUB DEBENTURE

	US$'000
Cost	37
Less: Impairment loss recognised	(37)
At 1 January 2008, 31 December 2008 and 31 December 2009	–

The fair value of the Group's club debenture as at 31 December 2008 and 2009 was nil. The valuation was determined by reference to recent market prices for similar debentures.

23. DEFERRED TAXATION

The following are the major deferred tax (asset) liability recognised and movements thereon during the year:

	Difference in depreciation	**Intangible assets**	**Total**
	US$'000	US$'000	US$'000
At 1 January 2008	–	–	–
Acquired on acquisition of subsidiaries (note 37)	(184)	662	478
Charge for the year	2	(27)	(25)
At 31 December 2008	(182)	635	453
Charge for the year	182	(635)	(453)
At 31 December 2009	–	–	–

23. DEFERRED TAXATION *(CONTINUED)*

For the purpose of presentation in consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2009 **US$'000**	2008 US$'000
Deferred tax asset	–	(350)
Deferred tax liability	–	803
	–	453

At the end of the reporting period, the Group had unused tax losses of US$27,122,000 (2008: US$16,746,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$3,178,000 (2008: US$3,106,000) that will expire before 2012. Other losses can be carried forward indefinitely.

In addition, the Group has unrecognised deductible temporary differences of US$33,200,000 (2008: US$33,178,000) arising from allowance for bad and doubtful debts and slow moving inventories, as well as the difference between the tax written down value and carrying value of property, plant and equipment and prepaid lease payments for certain PRC subsidiaries at the end of the reporting period. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit for these subsidiaries will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of the PRC, a withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits amounting to US$2,320,000 (2008: US$4,525,000) of the PRC subsidiaries for the year ended 31 December 2009 as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. INVENTORIES

	2009 US$'000	2008 US$'000
Raw materials	**2,209**	2,805
Work in progress	**–**	2,792
Finished goods	**3,667**	11,088
	5,876	16,685

25. TRADE AND OTHER RECEIVABLES

	2009 US$'000	2008 US$'000
Trade receivables, net of allowance	**1,159**	13,621
Other receivables	**1,823**	4,642
	2,982	18,263

Payment terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days after issuance.

The following is an aged analysis of trade receivables based on invoice date at the end of the reporting period:

	2009 US$'000	2008 US$'000
0-90 days	**1,088**	11,480
91-180 days	**71**	2,141
	1,159	13,621

Before accepting any new customers, the Group reviews the financial ability and assess the potential customers' credit quality and the board of directors has delegated the management to be responsible for determination of the credit limits and credit approvals for any customers. Limits granted to each customers are reviewed every year.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$60,000 (2008: US$224,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the management considered these debts are of good quality and good repayment history. The Group does not hold any collateral over these balances. The average age of these receivables is 102 days (2008: 132 days).

25. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	2009 US$'000	2008 US$'000
91-180 days	**60**	224

The Group has provided fully for all receivables that are past due beyond 1 year because historical experience is such that these receivables are generally not recoverable. Allowance on trade receivables over 270 days are fully provided by reference to past default experience and objective evidences of impairment.

In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period. The directors of the Company considered that the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Movement in the allowance for doubtful debts

	2009 US$'000	2008 US$'000
Balance at beginning of the year	**1,274**	2,236
Impairment losses recognised	**85**	–
Written off during the year	**–**	(962)
Balance at end of the year	**1,359**	1,274

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of US$1,359,000 (2008: US$1,274,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

The Group's trade and other receivables denominated in currencies other than the functional currency of the relevant entities, are set out below:

	2009 US$'000	2008 US$'000
United States Dollars	**–**	4,519
Hong Kong Dollars	**–**	85

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

26. AMOUNTS DUE FROM (TO) ASSOCIATES/DIRECTORS OF SUBSIDIARES

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

27. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term bank deposits with original maturity of three months or less, and carry interest ranging from 0.01% to 2.25% (2008: 0.01% to 2.1%) per annum.

At 31 December 2008 and 2009, the Group had bank balances and cash that were in RMB, which is not freely convertible into other currencies or were subject to exchange controls in the PRC amounting to approximately US$9,643,000 and US$8,621,000, respectively.

Included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2009 **US$'000**	2008 US$'000
United States Dollars	**300**	305
Hong Kong Dollars	**19,240**	99

28. TRADE AND OTHER PAYABLES

	2009 **US$'000**	2008 US$'000
Trade payables	**2,949**	5,000
Amounts due to minority shareholders of subsidiaries	**896**	1,415
Deposit received from proposed disposal of Prowealth (note 13)	**15,742**	–
Other payables	**8,044**	7,755
	27,631	14,170

The amounts due to minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

28. TRADE AND OTHER PAYABLES *(CONTINUED)*

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

	2009 **US$'000**	2008 US$'000
0-90 days	**1,527**	3,559
91-180 days	**–**	19
More than 180 days	**1,422**	1,422
	2,949	5,000

Included in the trade and other payables are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2009 **US$'000**	2008 US$'000
United States Dollars	**–**	320
Hong Kong Dollars	**630**	37

29. AMOUNT DUE TO A SHAREHOLDER

The amount was secured, interest free and fully repaid during the year.

30. OBLIGATION UNDER FINANCE LEASE

	2009 **US$'000**	2008 US$'000
Analysed for reporting purposes as:		
Current liability	**10**	–
Non-current liability	**20**	–
	30	–

During the year ended 31 December 2009, the Group has leased certain of its motor vehicle under finance leases. The lease term is 3 years. Interest rates obligation under finance leases is fixed at 8.84% per annum.

30. OBLIGATION UNDER FINANCE LEASE *(CONTINUED)*

	Minimum lease payments 2009 US$'000	Present value of minimum lease payments 2009 US$'000
Amounts payable under finance lease		
Within one year	**12**	10
In more than one year but not more than two years	**22**	20
	34	30
Less: Future finance charges	**(4)**	–
Present value of lease obligations	**30**	30
Less: Amount due for settlement with 12 months (shown under current liabilities)		(10)
Amount due for settlement after 12 months		20

The Group's obligation under finance leases are secured by the lessor's charge over the leased assets.

Financial lease obligation that are denominated in currencies other than the functional currencies of the relevant group entities is set out below:

	2009 US$'000
Hong Kong Dollars	**30**

31. WARRANTS

On 28 January 2008, the Company issued 1,500,000,000 unlisted warrants at price of HK$0.001 per warrant to six placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of US$0.001 each of the Company ("Subscription Share") at the initial subscription price of HK$0.074 per Subscription Share at any time during the period of 30 months commencing from the date of issue of the warrants. The proceed from the issue amounts to HK$1,500,000 (equivalent to US$192,000) represented the fair value of the warrants at the date of issue.

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 with effect from 6 August 2009 as a result of the proposed placing of the Fulbond Convertible Notes (see note 32) and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. The aggregate fair value of warrants exercised at the dates immediately before the exercise was approximately US$3,767,000.

At 31 December 2009, the Company had outstanding 3,210,461,548 warrants to be exercised at any time on or before 28 July 2010, exercise in full of such warrants would result in the issue of approximately 3,210,461,548 additional ordinary shares of US$0.001 each.

At 31 December 2008 and 2009, the fair value of the outstanding warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follows:

	31.12.2009	31.12.2008
Exercise price	**HK$0.026**	HK$0.074
Share price	**HK$0.044**	HK$0.016
Expected volatility	**90.36%**	53.17%
Remaining life	**7 months**	1.5 years
Risk free rate	**0.167%**	0.388%

During the year ended 31 December 2009, an aggregate fair value loss of US$14,179,000 (including the fair value loss as a result of the above change in the terms of warrants) has been recognised in profit or loss (2008: gain on fair value change of US$177,000).

32. CONVERTIBLE NOTES

(i) *April Convertible Note*

On 9 April 2008, the Company issued a 6% convertible note at par with principal amount of US$3,700,000 to Sun Boom Limited ("Sun Boom"), an independent third party to the Group ("April Convertible Note") with coupon interest payable semi-annually. The April Convertible Note is denominated in United States dollars with a conversion period of 24 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The April Convertible Note matures on 8 April 2010 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

The April Convertible Note contains three components, the liability component, conversion option derivative and early redemption option. The effective interest rate of the liability component is 22.6%. The conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. As the holder of the convertible note has the right to require the issuer to redeem the note at par any time before maturity, it is classified as a current liability.

The fair value of the liability component upon issuance of the note was calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 22.6% represents the cost of debt applicable to the Group at the issue date. The embedded conversion option represents holders' option to convert the April Convertible Note into ordinary shares of the Company, but the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

On 10 December 2009, Sun Boom transferred the April Convertible Note to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the April Convertible Note was adjusted to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holder of the April Convertible Note has exercised the option to require the Company to redeem the April Convertible Note at the principal amount of US$3,700,000.

32. CONVERTIBLE NOTES *(CONTINUED)*

(i) *April Convertible Note (continued)*

The fair values of the embedded conversion option and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	(Date of redemption) 30.12.2009	31.12.2008
Conversion price	**HK$0.047**	HK$0.086
Share price	**HK$0.044**	HK$0.016
Expected volatility	**87.86%**	56.13%
Remaining life	**–**	1.27 years
Risk-free rate	**0.193%**	0.388%

During the year ended 31 December 2009, net loss of US$641,000 in relation to the conversion option derivative and early redemption option (including losses arising from the changes in terms of the note) was recognised in profit or loss prior to the date of redemption. The carrying value of the liability component and fair value of the conversion option derivative and early redemption option of the April Convertible Note in aggregate at the date of redemption is approximately US$4,165,000, giving rise to a gain on early redemption of US$465,000 recognised in profit or loss.

(ii) *May SPA Convertible Note*

Pursuant to a sale and purchase agreement ("SPA") dated 22 February 2008, a supplemental deed dated 27 February 2008 and a second supplemental agreement date 30 April 2008 entered into between the Company and Sun Boom, to purchase 20% of the issued share capital of Prowealth at a consideration of HK$121,000,000 (equivalent to US$15,513,000) satisfied by issue of SPA convertible note.

On 30 May 2008, the Company issued a 6% convertible note with principal amount of HK$121,000,000 (equivalent to US$15,513,000) with coupon interest payable semi-annually to Sun Boom for acquisition of 20% equity interest in Prowealth ("May SPA Convertible Note"). The May SPA Convertible Note is denominated in Hong Kong dollars with a conversion period of 24 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The May SPA Convertible Note matures on 29 May 2010 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

32. CONVERTIBLE NOTES *(CONTINUED)*

(ii) *May SPA Convertible Note (continued)*

The May SPA Convertible Note contains three components, the liability component, conversion option derivative and early redemption option. The effective interest rate of the liability component is 20.9%. The conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. As the holder of the convertible note has the right to require the issuer to redeem the note at par any time before maturity, it is classified as a current liability.

The fair value of the liability component upon issuance of the note was calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 20.9% represents the cost of debt applicable to the Group at the issue date. The embedded conversion option represents the holders' option to convert the May SPA Convertible Note into ordinary shares of the Company, but the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

On 10 December 2009, Sun Boom transferred the May SPA Convertible Note to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the May SPA Convertible Note was adjusted to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holder of the May SPA Convertible Note exercised the option to require the Company to redeem the May SPA Convertible Note at the principle amount of HK$121,000,000 (equivalent to US$15,613,000).

The fair values of the embedded conversion option and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	(Date of redemption) 30.12.2009	31.12.2008
Conversion price	**HK$0.047**	HK$0.086
Share price	**HK$0.044**	HK$0.016
Expected volatility	**87.86%**	55.51%
Remaining life	**–**	1.41 years
Risk-free rate	**0.134%**	0.388%

During the year ended 31 December 2009, net loss of US$3,568,000 in relation to the conversion option derivative and early redemption option (including losses arising from the changes in terms of the note) was recognised in profit or loss prior to the date of redemption. The carrying value of the liability component and fair value of the conversion option derivative and early redemption option of the May SPA Convertible Note in aggregate at the date of redemption is approximately US$18,249,000, giving rise to a gain on early redemption of US$2,636,000 recognised in profit or loss.

32. CONVERTIBLE NOTES *(CONTINUED)*

(iii) Pursuant to a sales and purchase agreement on 17 October 2008 (the "Agreement") between the Company, Sun Boom and Wise Virtue to purchase 80% of the issued share capital of Prowealth at a consideration of HK$484,000,000 (equivalent to US$62,347,000) satisfied by the issue of 3,756,840,000 ordinary shares of the Company at HK$0.086 per share ("Consideration shares"), issue of HK$80,646,500 (equivalent to US$10,389,000) convertible note to Sun Boom ("Sun Boom Convertible Note") and HK$80,265,260 (equivalent to US$10,339,000) convertible note to Wise Virtue ("Wise Virtue Convertible Note"). The Consideration Shares were subsequently issued on 17 October 2008 at market price of HK$0.019 per share and the fair value of the Consideration Share amounted to HK$71,380,000 or US$9,195,000. Upon completion of the terms and condition set out in the Agreement, on 17 October 2008, the Group obtained 100% of the issued share capital of Prowealth and Prowealth become a subsidiary of the Company (also see Note 37). The directors of the Company consider these transactions, together with the previous acquisition of 20% interest in Prowealth as mentioned in note 32(ii), were a series of linked transactions to acquire 100% interest in Prowealth.

Sun Boom Convertible Note

On 17 October 2008, the Company issued the Sun Boom Convertible Note with the principal amount of HK$80,646,500 (equivalent to US$10,389,000) which bears coupon interest at 6% per annum payable semi-annually. The Sun Boom Convertible Note is denominated in Hong Kong dollars with a conversion period of 60 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The Sun Boom Convertible Note matures on 16 October 2013 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

The Sun Boom Convertible Note contains three components, the liability component, conversion option derivative and early redemption option. The effective interest rate of the liability component is 21.4%. The conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. As the holder of the convertible note has the right to require the issuer to redeem the note at par any time before maturity, it is classified as a current liability.

The fair value of the liability component upon the issuance of the note was calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 21.4% represents the cost of debt applicable to the Group at the issue date. The embedded conversion option represents the fair value of the noteholders' option to convert the Sun Boom Convertible Note into ordinary shares of the Company, but the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

32. CONVERTIBLE NOTES *(CONTINUED)*

(iii) *(continued)*

Sun Boom Convertible Note (continued)

On 10 December 2009, Sun Boom transferred the Sun Boom Convertible Note to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the Sun Boom Convertible Note was adjusted to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holder of the Sun Boom Convertible Note has exercised the option to require the Company to redeem part of the Sun Boom Convertible Note at the principal amount of HK$30,646,500 (equivalent to US$3,954,000).

The fair values of the embedded conversion option and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	31.12.2009	**(Date of redemption) 30.12.2009**	31.12.2008
Conversion price	**HK$0.047**	**HK$0.047**	HK$0.086
Share price	**HK$0.049**	**HK$0.044**	HK$0.016
Expected volatility	**98.47%**	**98.40%**	47.60%
Remaining life	**3.8 years**	**–**	4.8 years
Risk-free rate	**1.459%**	**1.481%**	1.194%

During the year ended 31 December 2009, net loss of US$3,883,000 was recognised in profit or loss in relation to the redeemed portion of the Sun Boom Convertible Note prior to date of redemption and remaining portion of the Sun Boom Convertible Note during the year (including losses arising from the changes in terms of the note). The carrying value of the liability component and fair value of the conversion option derivative and early redemption option of the redeemed portion of the Sun Boom Convertible Note in aggregate at the date of redemption is approximately US$5,936,000, giving rise to a gain on early redemption of US$1,982,000 recognised in profit or loss.

Wise Virtue Convertible Note

On 17 October 2008, the Company issued the Wise Virtue Convertible Note with the principal amount of HK$80,265,260 (equivalent to US$10,339,000) which bears coupon interest at 6% per annum payable semi-annually. The Wise Virtue Convertible Note is denominated in Hong Kong dollars with a conversion period of 60 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The Wise Virtue Convertible Note matures on 16 October 2013 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

32. CONVERTIBLE NOTES *(CONTINUED)*

(iii) *(continued)*

Wise Virtue Convertible Note (continued)

The Wise Virtue Convertible Note contains three components, the liability component, conversion option derivative and early redemption option. The effective interest rate of the liability component is 21.4%. The conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. As the holder of the convertible note has the right to require the issuer to redeem the note at par any time before maturity, it is classified as a current liability.

The fair value of the liability component upon the issuance of the note was calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 21.4% represents the cost of debt applicable to the Group at the issue date. The embedded conversion option represents the holders' option to convert the May SPA Convertible Note into ordinary shares of the Company, but the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

On 10 December 2009, Wise Virtue transferred the Wise Virtue Convertible Note to a private investment institution independent to the Group. On 29 December 2009, the conversion price of the Wise Virtue Convertible Note was adjusted to HK$0.047 per share.

The fair values of the embedded conversion option and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	31.12.2009	31.12.2008
Conversion price	**HK$0.047**	HK$0.086
Share price	**HK$0.049**	HK$0.016
Expected volatility	**98.47%**	47.60%
Remaining life	**3.8 years**	4.8 years
Risk-free rate	**1.459%**	1.194%

During the year ended 31 December 2009, net loss of US$4,215,000 in relation to the conversion option derivative and early redemption option (including losses arising from the changes in terms of the note) was recognised in profit or loss.

32. CONVERTIBLE NOTES *(CONTINUED)*

(iv) *Fulbond Convertible Note*

On 6 August 2009, the Company announced that a placing agreement (the "Placing Agreement") was entered between the Company and a placing agent (the "Placing Agent"), whereby the Placing Agent has conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (equivalent to approximately US$103,226,000) (the "Fulbond Convertible Notes") which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. Pursuant to the Placing Agreement, the Company and the Placing Agent agreed that the placing can be completed partially by a maximum of 8 tranches provided that the aggregate principal amount of the convertible notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in multiple of HK$5,000,000.

On 28 September 2009, the Company issued a circular in connection with the placing, whose proceeds will provide additional funding to the Group and redemption of existing convertible notes issued by the Company. The placing shall proceed in two tranches namely, the First Tranche Fulbond Convertible Notes and the Second Tranche Fulbond Convertible Notes. Both the First Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing subject to and upon the terms and conditions under the Placing Agreement. On 22 December 2009, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 20,000,000,000 conversion shares in an aggregate sum of HK$200,000,000 at the initial conversion price of HK$0.01 per share. On 29 December 2009, the Company has partially issued the First Tranche Fulbond Convertible Notes with the principal amount of HK$200,000,000 (equivalent to US$25,806,000) to an independent third party to the Group.

The First Tranche Fulbond Convertible Notes are denominated in Hong Kong dollars with a conversion period of 36 months from the issue date and can be converted into ordinary shares of the Company at HK$0.01 per share, and may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or grant of options or warrants to subscribe for new shares at a price which is less than 60% of the market price, issue for cash of securities which are convertible into or exchangeable for or carry rights of subscription for new shares or modification of rights of conversion or exchange or subscription attached to such securities such that the total effective consideration per share initially receivable for such securities is less than 80% of the market price, issue shares for cash at a price per share which is less than 80% of the market price, issue shares for the acquisition of assets at a total effective consideration per share which is less than 80% of the market price, and will in any event not be adjusted below the par value of the share. The First Tranche Fulbond Convertible Notes will mature on 28 December 2012 and can be redeemed at par at discretion of the issuer in whole or in part anytime before the maturity date.

32. CONVERTIBLE NOTES *(CONTINUED)*

(iv) *Fulbond Convertible Note (continued)*

The First Tranche Fulbond Convertible Notes contain three components, the liability component, conversion option derivative and issuer's early redemption option. The effective interest rate of the liability component is 15.24%. The conversion option derivative and issuer's early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

The fair values of the liability component upon the issuance of the note was calculated at the present value of the principal amount. The discount rate used in the calculation is 15.24% represents the cost of debt applicable to the Group at the issue date. The embedded conversion option represents the fair value of the noteholders' option to convert the First Tranche Fulbond Convertible Notes into ordinary shares of the Company, but the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

The fair values of the embedded conversion option and the issuer's early redemption option were determined using Black-Scholes Option Pricing Model and Black-Scholes Barrier Model, respectively, and the inputs into the model at each respective date were as follows:

	31.12.2009	29.12.2009
Conversion price	**HK$0.01**	HK$0.01
Share price	**HK$0.049**	HK$0.044
Expected volatility	**62.01%**	62.01%
Remaining life	**2.99 years**	3 years
Risk-free rate	**1.117%**	1.136%

The total fair value of the First Tranche Fulbond Convertible Notes at 29 December 2009 is approximately US$41,892,000, representing a loss on initial recognition of US$16,086,000 recognised in profit or loss. During the year ended 31 December 2009, a fair value loss of US$4,463,000 in relation to the conversion option derivative and issuer's early redemption option was recognised in profit or loss.

32. CONVERTIBLE NOTES *(CONTINUED)*

The movements of the components of the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note, Wise Virtue Convertible Note and First Tranche Fulbond convertible Notes during the year is set out below:

	Liability component US$'000	Embedded conversion option US$'000	Early redemption option US$'000	Total US$'000
At 1 January 2008	–	–	–	–
Issued during the year	26,163	4,718	8,606	39,487
Gain on initial recognition	(182)	–	–	(182)
Change in fair value	–	(4,525)	2,619	(1,906)
Interest charged (net of interest paid)	1,519	–	–	1,519
Exchange realignment	97	26	13	136
At 31 December 2008 and 1 January 2009	27,597	219	11,238	39,054
Issued during the year	16,876	26,213	(1,197)	41,892
Change in fair value	–	21,975	(5,205)	16,770
Interest charged (net of interest paid)	3,729	–	–	3,729
Redeemed during the year	(20,693)	(5,859)	(1,798)	(28,350)
Exchange realignment	–	6	(1)	5
At 31 December 2009	27,509	42,554	3,037	73,100

Analysed for reporting purpose as:

	2009 US$'000	2008 US$'000
Current liabilities	26,727	39,054
Non–current liabilities	46,373	–
	73,100	39,054

33. BANK AND OTHER BORROWINGS

	2009 US$'000	2008 US$'000
Secured loans from banks and other financial institutions (Note a)	**9,913**	22,043
Unsecured three-year loan notes (Note b)	**451**	455
	10,364	22,498
Carrying amount repayable:		
Within one year	**10,364**	22,043
Between one to two years	**–**	455
	10,364	22,498
Less: Amount due within one year shown under current liabilities	**(10,364)**	(22,043)
Amount due after one year	**–**	455

Notes:

(a) The loans from banks and other financial institutions carry interests at fixed rates ranging from 3.2% to 8.0% per annum (2008: 6.66% to 7.47% per annum).

(b) According to the corporate restructuring of the Company and its subsidiaries which was completed on 30 March 2001, the creditors of the Group received three-year loan notes from the Company with an aggregate face value of US$4,400,000 which carry fixed interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual instalments. The repayment of the remaining outstanding installment of the loan notes amounted to US$451,000 has been extended to March 2010.

The Group's borrowings, which are denominated in currencies other than the functional currency of the relevant entities, are set out below:

	2009 US$'000	2008 US$'000
Hong Kong Dollars	**451**	455

34. SHARE CAPITAL

	Number of shares		Share capital	
	31.12.2009	31.12.2008	**31.12.2009**	31.12.2008
			US$'000	US$'000
Ordinary share of US$0.001 each				
Authorised:				
At 1 January 2008, 31 December 2008 and 31 December 2009	**100,000,000,000**	100,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**12,954,619,755**	9,197,779,755	**12,954**	9,197
Issued in consideration for the acquisition of the issued share capital of Prowealth	**–**	3,756,840,000	**–**	3,757
Exercise of warrant subscription rights	**1,058,769,221**	–	**1,059**	–
At end of the year	**14,013,388,976**	12,954,619,755	**14,013**	12,954

The new shares issued during the year rank pari passu in all respects with the existing shares in issue.

35. SHARE OPTION SCHEMES

A share option scheme was adopted by the Company on 19 November 2001 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

(i) The closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the options;

(ii) The average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) The nominal value of the shares of the Company on the date of grant.

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 247,366,000 (31 December 2008: 247,366,000), representing 1.76% (31 December 2008: 2.69%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 14 days of that date of grant, upon payment of HK$1 in aggregate as consideration for the options granted. Vesting periods are determined by the board of directors on each grant date. Options are lapsed if the employee leaves the Group before the option vest.

35. SHARE OPTION SCHEMES *(CONTINUED)*

Details of the movements of the share options granted under the Share Option Scheme during the year are as follows:

Date of grant	Vesting period	Exercise price HK$	Exercise period	Number of share options: Outstanding at 1 January 2008	Cancelled during the year (Note 2)	Granted during the year	Outstanding at 31 December 2008 and 31 December 2009
Directors							
13 July 2007	–	0.153	13 July 2007- 12 July 2010	123,970,000	(123,970,000)	–	–
14 July 2008	– (Note 1)	0.041	14 July 2008- 13 July 2011	–	–	183,234,000	183,234,000
Sub-total				123,970,000	(123,970,000)	183,234,000	183,234,000
Executives and employees							
13 July 2007	–	0.153	13 July 2007- 12 July 2010	203,234,000	(203,234,000)	–	–
5 October 2007	–	0.095	5 October 2007- 4 October 2010	137,606,000	(137,606,000)	–	–
14 July 2008	– (Note 1)	0.041	14 July 2008- 13 July 2011	–	–	64,132,000	64,132,000
Sub-total				340,840,000	(340,840,000)	64,132,000	64,132,000
Grand Total				464,810,000	(464,810,000)	247,366,000	247,366,000

Notes:

1. The share options are exercisable immediately after the grant.

2. The Company cancelled the share options granted to them during the year 2008.

35. SHARE OPTION SCHEMES *(CONTINUED)*

No additional option was granted during the year ended 31 December 2009. During the year ended 31 December 2008, options were granted on 14 July 2008 ("July 2008 Option") with estimated fair values of each option granted on that date of HK$0.016. The fair values were calculated using the Black-Scholes Option Pricing Model. The inputs into the model were as follows:

	July 2007 Option	October 2007 Option	July 2008 Option
Stock price	HK$0.157	HK$0.093	HK$0.046
Exercise price	HK$0.153	HK$0.095	HK$0.041
Risk free rate	4.204%	3.781%	2.897%
Expected life	1.5 years	1.5 years	3 years
Expected volatility	99.84%	102.51%	43.43%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

During the year ended 31 December 2008, the Group recognised the total share-based payments expense of US$524,000 (2009: nil) in relation to the share options granted by the Company to its directors and employees. The share-based payments expense was included in other operating expenses.

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

36. ACQUISITION OF ASSETS

On 5 June 2008, the Group acquired certain assets through acquisition of 100% equity interest in Maoming Jiaxing Foods Co., Limited from an independent third party, for a cash consideration of RMB4,800,000 (equivalent to US$700,000). The transaction have been reflected as purchases of assets as the subsidiary acquired primarily holds a land use right in the PRC.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination and fair value US$'000
Net assets acquired	
Property, plant and equipment	20
Prepaid lease payment	665
Other receivables	15
	700
Net cash outflow arising on acquisition:	
Cash consideration paid	(700)

The results of the subsidiary acquired had no significant impact on the Group's consolidated turnover or loss for the year ended 31 December 2008.

37. ACQUISITION OF SUBSIDIARIES

As disclosed in note 32, on 17 October 2008, the Group acquired the remaining 80% issued share capital of Prowealth at total consideration of HK$231,223,000 (equivalent to US$29,785,000). The consideration for the previous acquisition on 28 May 2008 of 20% interest in Prowealth amounted to HK$118,553,000 (equivalent to US$15,197,000). The directors consider these series of transactions were linked to acquire 100% interest in Prowealth, hence the acquisition has been accounted for a single acquisition on 17 October 2008. Prowealth is an investment holding company and its subsidiaries are engaged in the food processing and distribution business. This transaction has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was US$21,340,000.

37. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

The net assets acquired in the transaction and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	US$'000	US$'000	US$'000
Net assets acquired:			
Property, plant and equipment	9,690	(573)	9,117
Intangible assets	–	2,649	2,649
Prepaid lease payments	3,317	(833)	2,484
Other deposit	438	–	438
Deferred tax assets	–	352	352
Inventories	6,829	–	6,829
Trade and other receivables	10,075	–	10,075
Deposits and prepayments	7,512	–	7,512
Amount due from a director of a subsidiary	1,015	–	1,015
Bank and cash balances	2,279	–	2,279
Trade and other payables	(5,528)	–	(5,528)
Taxation payable	(186)	–	(186)
Bank borrowings	(12,564)	–	(12,564)
Deferred tax liabilities	(168)	(662)	(830)
	22,709	933	23,642
Goodwill			21,340
			44,982
Total consideration satisfied by:			
Issue of shares (Note)			9,195
Issue of convertible notes			35,787
			44,982
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			2,279

Note: As part of the consideration for the acquisition of Prowealth, 3,756,840,000 ordinary shares of the Company with par value of US$0.001 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of acquisition, amounted to HK$71,380,000 at HK$0.019 per share (equivalent to US$9,195,000).

37. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

The goodwill arising on the acquisition is attributable to its anticipated potential profitability and historical industry growth in relation to the business at the time of which the transaction was negotiated. However, during the time of which the transaction was due to be completed, the market sentiment had significantly deteriorated and the directors are of the opinion that their previous expectation on the performance and profitability of the acquired business cannot be met. As a result, the goodwill was fully impaired at 31 December 2008 (see note 19 for impairment assessment of goodwill).

Prowealth contributed US$14,425,000 to the Group's turnover and profit of US$1,270,000 for the year between the date of acquisition and 31 December 2008.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year ended 31 December 2008 would have been US$77,805,000, and loss for the year ended 31 December 2008 would have been US$25,919,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

38. DISPOSAL OF A SUBSIDIARY

On 5 June 2008, the Group disposed of its entire interest in Jilin Province Fuchun Timber Co., Ltd. ("Jilin Fuchun"), a 55% subsidiary of the Group, to the PRC minority shareholder at a consideration of RMB1,000,000 (equivalent to US$145,000), giving rise to a gain on disposal of US$1,051,000 which was arrived at after accounting for exchange translation reserve of US$234,000 released on disposal.

The net liabilities of Jilin Fuchun at the date of disposal were as follows:

	US$'000
Net liabilities disposed of:	
Inventories	538
Other receivables	15
Bank balances and cash	50
Trade and other payables	(1,496)
Bank borrowings	(305)
	(1,198)
Minority interest	526
	(672)
Gain on disposal	1,051
Release of exchange translation reserve upon disposal	(234)
Total cash consideration	145
Net cash inflow arising on disposal:	
Cash consideration received	145
Cash and cash equivalents disposed of	(50)
	95

39. CAPITAL COMMITMENTS

At the end of each reporting period, the Group had outstanding capital commitments as follows:

	2009	2008
	US$'000	US$'000
Capital expenditure in respect of acquisition of property, plant and equipment		
– contracted but not provided for	–	43

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, the Group acquired Prowealth and its subsidiaries (detailed in note 37) for a total consideration HK$348,611,000 (equivalent to US$44,982,000). The consideration was settled in form of shares issued by the Company and issue of convertible notes.

41. LEASING ARRANGEMENTS

The Group as lessee

At the end of the reporting period, the Group had outstanding commitment of future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2009	2008
	US$'000	US$'000
Within one year	47	188
In the second to fifth year inclusive	–	47
	47	235

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease term of 2 years.

42. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of US$10,588,000 (2008: US$11,284,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

43. RELATED PARTY TRANSACTIONS

The key management personnel are the directors of the Company. The details of their remunerations are set out in note 14.

During the year, the Group has received management service income of nil (2008: US$36,000) from a company controlled by the director of the Company, Mr. Zhang Xi.

The Group also had balances with related parties at the end of the reporting period which are set out in other notes to the consolidated financial statements.

44. EVENT AFTER THE REPORTING PERIOD

(i) On 4 December 2009, the Group has entered into an agreement to dispose all of its entire interests in the Disposal Group, which carried out all of the Group's food processing and distribution operations. The Disposal was subsequently approved by its shareholders at the special general meeting on 18 January 2010 and the Disposal was completed on 19 January 2010.

(ii) On 12 January 2010, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 25,000,000,000 conversion shares in an aggregate sum of HK$250,000,000 at the initial conversion price of HK$0.01 per share. On 14 January 2010, the Company has further issued the remaining First Trache Fulbond Convertible Notes in an aggregate principal amount of HK$250,000,000. The management intends to use the proceeds from the issuance to redeem the existing convertible notes issued by the Company and to strengthen the cash position of the Group.

(iii) On 12 January 2010, certain holders of the First Tranche Fulbond Convertible Notes in an aggregate principal amount of HK$100,000,000 issued on 29 December 2009 have given notices to the Company to exercise the option to convert the First Tranche Fulbond Convertible Notes at the conversion price of HK$0.01 per share (the "Conversion"). As a result of the Conversion, a total of 10,000,000,000 ordinary shares of US$0.001 each, representing approximately 71.36% of the issued share capital of the Company prior to the Conversion and approximately 41.64% of the issued share capital of the Company as enlarged by the issue of the 10,000,000,000 ordinary shares, have been allotted and issued.

(iv) On 14 January 2010, pursuant to the terms and conditions of Wise Virtue Convertible Note and Sun Boom Convertible Note, the conversion price of the outstanding Wise Virtue Convertible Note and Sun Boom Convertible Note has been adjusted from HK$0.047 to HK$0.044, as a result of the completion of the further placing of the First Tranche Fulbond Convertible Notes. Save for the above adjustment, all other terms and conditions of Wise Virtue Convertible Note and Sun Boom Convertible Note remain unchanged.

(v) On 4 March 2010, the holders of the Sun Boom Convertible Note and Wise Virtue Convertible Note have exercised their option to require the Company to redeem the remaining Sun Boom Convertible Note of principal amount of HK$50,000,000 and Wise Virtue Convertible Note of principal amount of HK$80,265,260.

(vi) Subsequent to the end of reporting period, a total of 1,229,538,456 registered holders of warrants exercised their rights to subscribe for ordinary shares at HK$0.026 per share, which resulted an increase of 1,229,538,456 number of ordinary shares.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2009 and 31 December 2008 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held 2009 %	2008 %	Issued and fully paid capital/ registered capital	Principal activities
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	**100**	100	US$10,000	Investment holding
Wood Art International Corporation	British Virgin Islands	Hong Kong	**100**	100	US$10,000	Investment holding
Fulbond Business Services Limited	Hong Kong	Hong Kong	**100**	100	HK$2	Provision of management services
Fulbond Digital Systems Limited	Hong Kong	Hong Kong	**100**	100	HK$2	Trading of electronic products
Ta Fu Timber Company Limited	Hong Kong	Hong Kong	**100**	100	Ordinary HK$200 and deferred * HK$5,000,000	Investment holding
Ta Fu Flooring Company Limited	Hong Kong	Hong Kong	**100**	100	Ordinary HK$200 and deferred * HK$1,000,000	Investment holding
Ta Fu Furniture Co., Limited	Hong Kong	Hong Kong	**100**	100	Ordinary HK$20 and deferred * HK$20	Investment holding
Senbond Building Materials Limited	Hong Kong	Hong Kong	**100**	100	Ordinary HK$200 and deferred * HK$10,000	Provision of management services
Ta Fu Properties Co., Limited	Hong Kong	Hong Kong	**100**	100	Ordinary HK$20 and deferred * HK$20	Property investment

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held 2009 %	2008 %	Issued and fully paid capital/ registered capital	Principal activities
Fulbond Corporate Management Limited	Hong Kong	Hong Kong	**100**	100	Ordinary HK$10,000	Provision of management services
Fulbond Investments Limited	British Virgin Islands	Hong Kong	**100**	100	US$1	Investment holding
Prowealth Holdings Group Limited	British Virgin Islands	Hong Kong	**100**	100	US$10,000	Investment holding
Yield On International Limited	Hong Kong	Hong Kong	**100**	100	HK$100	Trading of processed seafood products
瀋陽福昇中密度板有限公司 Shenyang Fusheng Wood Clipboard Co., Ltd. (Note 1)	PRC	PRC	**51**	51	US$3,000,000	Manufacture and sale of wooden products
吉林福敦木業有限公司 Jilin Fudun Timber Co., Ltd. (Note 1)	PRC	PRC	**67**	67	RMB223,158,165	Manufacture and sale of wooden products
海南佳德信食品有限公司 Hainan Jiadexin Foodstuff Co., Ltd. (Note 2)	PRC	PRC	**100**	100	RMB5,000,000	Processing and distribution of frozen seafood products

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held		Issued and fully paid capital/ registered capital	Principal activities
			2009	2008		
			%	%		
茂名长兴食品有限公司 Maoming Changxing Foods Co., Ltd. (Note 2)	PRC	PRC	**100**	100	US$5,000,000	Processing and distribution of frozen seafood products
茂名嘉兴食品有限公司 Maoming Jiaxing Foods Co., Ltd. (Note 2)	PRC	PRC	**100**	100	RMB6,487,920	Processing and distribution of frozen seafood products

* The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK$100,000,000,000,000,000.

Notes:

1. The companies are Sino-foreign equity joint ventures.

2. The companies were established in the form of Wholly Foreign-owned Enterprises.

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

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

FINANCIAL SUMMARY

The following tables summarise the Group's consolidated results for the five years ended 31 December 2009 together with the Group's net (liabilities) assets as at 31 December 2008, 2007, 2006 and 2005.

1. RESULTS

	2009	2008	2007	2006	2005
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**53,661**	36,308	24,016	26,308	22,485
Loss before taxation	**(54,995)**	(31,552)	(8,180)	(7,238)	(5,057)
Taxation	**887**	(702)	(586)	(1,059)	(1,040)
Loss for the year	**(54,108)**	(32,254)	(8,766)	(8,297)	(6,097)
Attributable to:					
Owners of the Company	**(53,877)**	(29,174)	(7,455)	(7,017)	(5,068)
Minority interests	**(231)**	(3,080)	(1,311)	(1,280)	(1,029)
	(54,108)	(32,254)	(8,766)	(8,297)	(6,097)

2. ASSETS, LIABILITIES AND MINORITY INTERESTS

	2009	2008	2007	2006	2005
	US$'000	US$'000	US$'000	US$'000	US$'000
Property, plant and equipment	**857**	11,133	12,967	14,944	16,489
Interests in associates	**–**	–	–	349	3,008
Investments in securities	**–**	–	–	–	–
Other non-current assets	**636**	6,374	810	905	1,936
Net current (liabilities) assets	**(14,611)**	(27,928)	(2,719)	(599)	2,397
Non-current liabilities	**(46,393)**	(1,258)	(1,075)	(1,659)	(727)
Net (liabilities) assets	**(59,511)**	(11,679)	9,983	13,940	23,103
Minority interests	**481**	1,198	3,475	4,983	7,944