2009 ANNUAL REPORT





HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00969)

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. SHIH Chian Fang *(Chairman)*
Mr. LIAW Yuan Chian *(Managing Director)*
Mr. HAN Hong
Mr. XIAO Longlong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. ZHENG Liu
Mr. YU Chi Jui
Ms. LI Xiao Wei

AUDITORS

HLM & Co.
Certified Public Accountants

COMPANY SECRETARY

Mr. WAN Hok Shing, *ACS, ACIS*

REGISTERED OFFICE

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

HEAD OFFICE

Yaxi Industrial Development Zone,
Yaimen Town, Xinhui District
Jiangmen City
Guangdong Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2513A, 25th Floor
113 Argyle Street
Mongkok
Kowloon
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Harbour Trust Co. Ltd.
One Capital Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18/F
Fook Lee Commercial Centre
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Wanchai
Hong Kong

WEBSITE

http://finance.thestandard.com.hk/en/0969hualien

BUSINESS REVIEW

For the year ended 31st December 2009, the Group recorded turnover from continuing operations of approximately HK$154,317,000 (2008: Nil) and turnover from discontinued operations of approximately HK$246,128,000 (2008: HK$537,003,000), a total of approximately HK$400,445,000, a 25.4 percent decrease compared to HK$537,003,000 in 2008. The decrease in turnover was mainly brought about by a significant 54.17 percent drop in revenue from discontinued leather operations due to the prominent shrinkage in demand of leather products in face of the global economic slowdown.

The Group's net loss for the year from continuing operations was approximately HK$77,333,000 (2008: HK$4,416,000) and net loss for the year from discontinued operations was approximately HK$98,734,000 (2008: HK$209,259,000) and the total loss attributable to the equity holders of the Company for the year ended 31st December 2009 (after the fixed distribution to non-controlling interest approximately HK$3,046,000) was approximately HK$179,113,000 compared to net loss attributable to equity holders of approximately HK$217,814,000 in 2008. Basic loss per share from continuing and discontinued operations for the year ended 2009 was HK15.82 cents (2008: HK26.44 cents). The approximately HK$77.3 million net loss from continuing operations was mainly brought by the HK$95.2 million impairment loss of goodwill which arose from acquisition of Sino-Africa Technology & Trading Limited (the "SATT") in February 2009 while the approximately HK$98.7 million net loss from discontinued operations was mainly from the gross trading loss of approximately HK$54 million, which caused mainly by the decline in manufacturing volume reduced the economies of scale leading to an increase in per-unit fixed cost and the persistent high in raw materials, utility and labour costs and the additional approximately HK$29 million for impairment loss on trade and other receivables due to the deterioration of trading environment of discontinued operations lengthened the repayments and thus increased the credit risk from customers of this business segment.

For the segment result, the new business segment of provision of supporting services to sweetener and ethanol business acquired on 27th February 2009 recorded approximately HK$154,317,000 of revenue which accounted for approximately 39% of total revenue of the Group and contributed an operating profit approximately HK$54,029,000 during the year. Those had significantly mitigated the negative impact from discontinued leather operation of approximately HK$290,875,000 reduction in revenue and approximately HK$93,653,000 operating loss.

DIVIDEND

The Directors do not recommend the payment of a dividend for the years ended 31st December 2009 and 2008.

PROSPECTS

The group had disposed the loss-making leather business on 28th February 2010. While, the sales orders of supporting services for sweetener and ethanol business remains satisfactory for first quarter of 2010 and expect it remains robust in second quarter as the Africa's sugar cane industry is benefited by the recently high sugar price. The Board, therefore, expects the profitability and financial position of the Group may significantly improve in 2010.

PROSPECTS (Cont'd)

Furthermore, as announced on 1st February 2010, the Company signed a memorandum of understanding (the "MOU") on 31st January 2010 with China-Africa Development Fund（中非發展基金有限公司）(the "CADFund") and Complant International Sugar Industry Co., Ltd.（中成國際糖業股份有限公司）(the "COMPLANT") in connection with the Possible Transactions as set out in the announcement, the Company will enter into joint ventures with CADFund and COMPLANT for a long term strategic cooperation to develop Ethanol Biofuel Business in various African countries. The Possible Transactions will lay down a strong foundation for our future development in Africa.

Our Group may also engage in other balanced vertical integration in African countries to extend our scale of operation in sweetner and ethanol business in future.

FINANCIAL REVIEW

Liquidity and Financial Resources

Bank deposits and cash balances as at 31st December 2009 amounted to approximately HK$166,041,000 from continuing operations and approximately of HK$6,144,000 from discontinued operations, a total of approximately HK$172,185,000 (2008: HK$46,887,000), mainly denominated in Hong Kong Dollars, Renminbi and US dollars.

Total equity of the Group as at 31st December 2009 amounts to approximately HK$487,086,000 (2008: HK$181,479,000).

The Group financed its operation with cash flow generated internally and banking facilities. As at 31st December 2009, the Group's total borrowings of approximately HK$562.9 million, consisted of the bank borrowings from discontinued operations that were wholly repayable within one year of approximately HK$103 million (2008: HK$124.9 million) and the outstanding five-year zero-coupon Hong Kong-dollar convertible notes from continuing operations of approximately HK$459.9 million (2008: Nil) as at the end of reporting period. All the Group's bank borrowings from discontinued operations are mainly denominated in, Renminbi and US dollars with floating interest rates. The debt to equity ratio of the Group as at 31st December 2009 calculated as a ratio of total borrowings (including convertible notes) to total equity was approximately 115.6% (2008: 68.8%). The increase in the gearing ratio during 2009 resulted primarily from the approximately HK$459.9 million increase in borrowings of convertible notes. These five-year zero-coupon Hong Kong-dollar convertible notes were issued on 27th February 2009 as part of consideration for acquisition of SATT.

Capital Structure

Further to the issue of 300,000,000 consideration shares at HK$0.6 each on 27th February 2009, the Company also entered into a subscription agreement with three independent subscribers on 5th June 2009 in respect of the subscription of total 100,000,000 new shares at a subscription price of HK$0.60 per share. On 22nd June 2009, the subscription was completed and raised net proceeds of approximately HK$58,271,000. Furthermore, a principal amount of HK$15,000,000 convertible notes were converted into 25,000,000 shares on 4th November 2009.

FINANCIAL REVIEW (Cont'd)

Treasury Policies

The Group continues to adhere to prudent treasury policies. The Group's overall financial and funding policies were aimed to control credit risk to lower the risk of credit sales, the liquidity risk to ensure that funds would be recovered on a timely basis to fulfill the requirement of debt repayment and to closely monitor the overall currency and interest rate exposures to minimise risks in their fluctuation. When considered appropriate the Group will hedge against currency exposure as well as interest rate exposure.

The Group did not use any derivative financial instruments to hedge for its risk exposure during the year ended 31st December 2009 and 2008.

Foreign Exchange exposure

The sales and purchases of the Group are mainly denominated in Renminbi and United States dollar. Hence, the Group's exposure to foreign exchange risk arising from sales and purchases is expected to be minimal. The use of financial instruments for hedging purposes is not considered necessary.

Currency exposure arising from net assets of the foreign operations of the Group is managed primarily through borrowings denominated in the relevant foreign currencies. The Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure on net assets during the year ended 31st December 2009 and 2008.

Contingent Liabilities

At the end of reporting period, the Company had not provided any guarantees in favour of any third party nor were there any significant contingent liabilities.

Pledge of Assets

At the end of reporting period, certain of the Group's prepaid lease payments on land use rights, property, plant and machinery of discontinued operation of approximately HK$102,516,000 (2008: HK$112,842,000) were pledged to banks to secure general banking facilities granted to the Group.

On 12th September 2006, Bank of China, Xian Branch (the "Bank of China") which lent USD9.8 million to the Xian Hua Lien Tannery Co. Ltd. ("Xian Hua Lien") obtained a writ from 陝西省高級人民法院 (Shannxi Province Highest People's Court) that granted the bank the legal rights to freeze and sequestrate all the assets of Xian Hua Lien including property, plant and equipment, inventories, trade receivables and bank balances. At the end of reporting period, Bank of China continued to sequestrate the bank accounts, the property, plant and machinery and inventories of Xian Hua Lien as additional security which have no carrying value at the end of reporting period.

Besides, the pledged prepared lease premium and certain of pledged buildings of Jiangmen Hua Lien Tannery Co. Ltd. (" Jiangmen Hua Lien") with carrying value of approximately HK$24.5 million at the end of reporting period continued to sequestrate by Bank of China. The same assets was also sequestrated by Bank of Construction, Jiangmen Branch (the pledgee of those assets) at the end of reporting period.

As the sequestration does not affect the lawful right to use, the encumbrances on pledged assets do not have material influence on present trading operation of Jiangmen Hua Lien.

FINANCIAL REVIEW (Cont’d)

Capital Commitment

As at 31st December 2009, the Group did not have any significant capital commitments.

Significant Investment Held

The Group had not made any significant investment during the year ended 31st December 2009 and 2008.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year, the Group acquired the entire issued share capital of SATT at the total consideration of HK$853,200,000 settled by the issue of the 300,000,000 consideration shares of HK$0.6 each and the issue of two tranches of five-year zero-coupon Hong Kong-dollar convertible notes for an aggregate principal amount of HK$673,200,000. The acquisition constituted a very substantial acquisition and continuing connected transaction under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). It was approved by the shareholders of the Company at a extraordinary general meeting held on 20th February 2009. Details of this very substantial acquisition and continuing connected transaction were set out in the Company’s circular dated 23rd January 2009. The acquisition was duly completed on 27th February 2009.

On the other hand, the Company entered into the agreements (the “Disposal Agreements”) with Sino Commend Limited on 16th October 2009 and 19th October 2009 to dispose of its entire interest in the Hua Lien Group (Holding) Company, Limited (the “Target Group”) for an aggregate cash consideration of HK$101,500,000. Details of the transactions were set out in the Company’s announcement and circular dated 20th October 2009 and 23rd November 2009 respectively. On 1st March 2010, the Board of Directors announced that the conditions precedent under the Disposal Agreement had been fulfilled and was duly completed on 28th February 2010. Upon completion, the Target Group had ceased to be subsidiaries of the Group.

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries, associates or jointly-controlled entities during the period under review.

Future plans for material investments and capital assets

The Company signed the MOU on 31st January 2010 in respect of the Possible Transactions. The Board is currently considering entering into joint ventures with CADFund and COMPLANT for long term strategic cooperation to develop Ethanol Biofuel Business in various African countries. Definitions used in the Announcement on 1st February 2010 are adopted herein unless the context requires otherwise.

The initial phase under consideration would be to incorporate Benin JV and use it as a vehicle to establish a Benin PC in the Republic of Benin, a country in West Africa, for engaging in Ethanol Biofuel Business. In order to finance the possible joint venture, the Company is considering to raise approximately HK$78 million (before deducting related expenses) by way of (i) issue of new Shares for approximately HK$54 million (before deducting related expenses) and (ii) issue of the first batch of Convertible Notes for approximately HK$24 million (before deducting related expenses) to CADFund for funding its share of capital contribution for the incorporation of Benin JV and the operation of Benin PC.

FINANCIAL REVIEW (Cont'd)

Future plans for material investments and capital assets (Cont'd)

Other than Benin JV, the Company is considering incorporating companies with CADFund and COMPLANT under Other JV as holding companies to set up companies in other African countries for developing business in the generation of renewable energy. For the purpose of funding such Other JV, the Company also considers to issue the remaining batch of Convertible Notes to CADFund in the ensuing 3 years to raise approximately HK$312 million (before deducting related expenses). The terms and conditions (including but not limited to the amounts of investments and the forms of cooperation) have not yet been finalised and further negotiations are necessary.

Employees and Remuneration Policy

At 31st December 2009, the Group employed 397 full time management, administrative and production staff in Hong Kong, Taiwan and the PRC, of which 82 belonged to continuing operations and 315 belonged to discontinued operations (2008: 455).

The Group's emolument policies are formulated on the bases of individual performance and the salary trend in the various regions, and are reviewed every year. The Company has set up share options plan and provides staff quarters to staff in the PRC.

Shih Chian Fang
Chairman
Hong Kong, 22nd April 2010

DIRECTORS

Executive Directors

Mr. SHIH Chian Fang, aged 49, was appointed Chairman of the Company in March 2006 and as Executive Director in May 2001. He is also the general manager of the Group and executive vice general manager of Jiangmen Hua Lien Co. Ltd. (the "Jiangmen Hua Lien"). Mr. Shih has over 25 years of experience in the tannery business. He joined the Group in October 1992.

Mr. LIAW Yuan Chian, aged 54, is the managing director of the Company and founder of the Group. He is responsible for the overall planning and development, corporate policy making and management of the Group. Mr. Liaw has over 30 years of experience in the tannery business. He joined the Group in October 1992.

Mr. HAN Hong, aged 47, was appointed as executive director in May 2009. Mr. Han is also the Deputy General Manager and Director of SATT, appointed since December 2007 and March 2009 respectively, a wholly owned subsidiary of the Company and the Director of Sino-Africa Technology & Trading (Hong Kong) Limited, appointed since March 2009, a wholly owned subsidiary of the Company. Mr. Han holds a Bachelor of Engineering from Anhui Institute of Technology majored in Mechanical Technology and Equipment. Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China granted Mr. Han the title of Senior Engineer in International Commercial Project in December 1996. Mr. Han has over 26 years experience in project engineering, investment and general management. Mr. Han began his career at China National Complete Plant Import and Export Corporation (Group) (formerly known as China National Complete Plant Export Corporation) (the "CHINA COMPLANT"), a central-government conglomerate, as a Project Manager in Spare Parts Department in August 1984. Later, Mr. Han promoted as the Deputy Division Chief in CHINA COMPLANT from January 1993 to November 1994. After, Mr. Han seconded to Zina Enterprise (PVT) Ltd in Zimbabwe, a subsidiary of CHINA COMPLANT, as the Managing Director from November 1994 to January 1998. Thereafter, Mr. Han transferred back to CHINA COMPLANT as the General Manager in Investment Management Department from April 1998 to November 2007 and also appointed as the Chairman of Yunnan Yuanjiang Ever Green Biology (Group) Co., Ltd., a subsidiary of CHINA COMPLANT, from March 2000 to January 2004.

Mr. XIAO Longlong, aged 57, was appointed as executive director in January 2010. Mr. Xiao graduated from Ji Lin Financial & Commerce Institute with a bachelor's degree in Economics. He is designated accountant. Mr. Xiao is also general manager of SATT. Mr. Xiao also serves as the vice president of CHINA COMPLANT, a position he has held since November 1998 and appointed on November 2007 as director and general manager of COMPLANT International Sugar Industry Co., Ltd. (the "COMPLANT") which is subsidiary of CHINA COMPLANT and a substantial shareholder of the Company since November 2007. He joined CHINA COMPLANT in 1982 and attained the Chief of Financial Department of CHINA COMPLANT before transferred to Complant California Company Ltd, a subsidiary of CHINA COMPLANT in USA, as the general manager form November 1992 to May 1998 and was promoted as assistant president of CHINA COMPLANT from May 1998 to November 1998 and was appointed as vice president of CHINA COMPLANT on November 1998. Mr. Xiao has over 28 years of experience in finance and management.

DIRECTORS (Cont'd)

Independent non-executive Directors

Dr. ZHENG Liu, aged 35, was appointed as independent non-executive director in July 2007. She received her Ph.D. degree in accounting from University of Southern California in 2003 and her bachelor degree in accounting from Shanghai University of Finance and Economics in 1996. Dr. Zheng is an assistant professor in the School of Business at the University of Hong Kong and a member of American Accounting Association.

Mr. YU Chi Jui, aged 55, has been an independent non-executive director since May 2001. He has over 20 years experience in sales and marketing in Taiwan and the PRC.

Ms. LI Xiao Wei, aged 38, was appointed as independent non-executive director in September 2004. She has over 9 years experience in sales and marketing in the PRC.

SENIOR MANAGEMENT

Mr. WAN Hok Shing, aged 43, is the financial controller and company secretary of the Group. He is responsible for the overall accounting and financial matters of the Group. Mr. Wan holds a bachelor's degree with honours in hospitality management from the Hong Kong Polytechnic University, a diploma of legal studies with distinction from the University of Hong Kong and a diploma of logistics management from the Institute of Supply Chain Management. He has over 17 years of experience in auditing and accounting. Prior to joining the Group in August 1999, he worked for a listed company in Hong Kong and has over four years of working experience in an international accounting firm. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and a member of the Institute of Supply Chain Management.

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2009 are set out in the consolidated statement of comprehensive income on page 27.

The directors do not recommend the payment of any dividend in respect of the year ended 31st December 2009.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 88.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$0.5 million for the purpose of expanding its business. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution consisted of contributed surplus of approximately HK$468,576,000 (2008: HK$468,576,000) that offset the accumulated losses of approximately HK$529,727,000 (2008: HK$397,674,000). There were no net distributable reserves available as at 31st December 2009.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 65% of the Group's total sales and the Group's largest customer accounted for approximately 19% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 94% of the Group's total purchases and the Group's largest supplier accounted for approximately 52% of the Group's total purchases.

At no time during the year did a director, an associate of a director or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Shih Chian Fang
Mr. Liaw Yuan Chian ("Mr. Liaw")
Mr. Han Hong (appointed on 15th May 2009)
Mr. Xiao Longlong (appointed on 7th January 2010)
Ms. Zhou Yan Xia (resigned on 15th May 2009)
Mr. Kuang Yong (resigned on 7th January 2010)

Independent non-executive directors:

Dr. Zheng Liu
Mr. Yu Chi Jui
Ms. Li Xiao Wei

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Xiao Longlong, Mr. Shih Chian Fang and Mr. Yu Chi Jui will be retired from the office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of each of the independent non-executive directors is the period up to his retirement by rotation as required by the Company's Articles of Association.

Mr. Liaw have entered into a service contract with the Company for an initial term of three years commencing from 5th January 2000, which will continue thereafter unless and until terminated by either party by giving to the other party not less than six months' prior written notice.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Profiles of Directors and Senior Management" on pages 8 to 9 of this annual report.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2009, the interests of the directors and their associates in the ordinary shares in the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows;

	Number of ordinary shares held			
Name of director	**Beneficial Owner**	**Held by controlled corporation** (Note)	**Total**	**Approximate % of the issued share capital**
Mr. Liaw	–	363,500,039	363,500,039	29.11%

Note: Mr. Liaw was deemed to be interested in 363,500,039 ordinary shares in the Company, which were held by Joyce Services Limited, a company in which Mr. Liaw has a 58.87% beneficial interest.

As at 31st December 2009, Mr. Liaw held 126,000 non-voting deferred shares in Hua Lien (Hong Kong) Company Limited, the Company's subsidiary. The rights and restrictions of such non-voting deferred shares are set out in note 37 to the financial statements.

Save as disclosed above and other than one nominee ordinary share in Hua Lien (Hong Kong) Company Limited held by Mr. Liaw in trust for Hua Lien Group (Holding) Company, Limited, the Company's subsidiary, none of the directors or their associates had any interests or short positions in any securities of the Company or any of its associated corporation as at 31st December 2009.

SHARE OPTIONS

2000 Share Option Scheme

The Company's 2000 Share Option Scheme was adopted pursuant to a resolution passed on 4th January 2000 and has terminated by a resolution passed by shareholders on 20th September 2007.

During the year ended 31st December 2009, there are no option was granted since adoption under the terminated 2000 share option scheme.

2007 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2007 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 20th September 2007. The purpose of the 2007 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees, directors, consultants and advisers of the Group and to promote the success of the Group. The details of the 2007 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 3rd September 2007.

As at the end of reporting period, no share option has been granted under the 2007 Share Option Scheme since its adoption.

Particulars of the Company's share option schemes are set out in note 34 to the consolidated financial statements,

UNLISTED WARRANTS

On 4th October 2007, the Company issued 164,736,000 unlisted warrants at HK$0.03 each, the gross proceeds of approximately HK$4,942,000 is raised and included in the warrant reserves. Each of the warrant have subscription right to subscribe for one subscription share of the Company at an subscription price of HK$0.6, subject to adjustment, for a exercise period of four years from 4th October 2007 to 3rd October 2011.

None of such warrants were ever exercised since the date of issue. At the end of reporting period, the Company had outstanding 164,736,000 unlisted warrants to be exercised before 3rd October 2011. Exercised in full of such warrants would result in the issue of 164,736,000 additional ordinary shares.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

Apart from the interest of the Directors in shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as disclosed in the section "Directors' interest in Securities", the register kept under section 336 of the SFO shows that as at 31 December 2009 the Company has been notified of the following interest in the shares of the Company.

Long Position

Name	Nature of interests and capacity in which interest are held Beneficial owner (Note 1)	Held by controlled corporation	Total	Approximate % of the issued share capital
COMPLANT (Note 2)	300,000,000	–	300,000,000	24.03

Note 1: In addition to the 300,000,000 shares, COMPLANT holds convertible notes of principal amount HK$533.7 million convertible into 889,500,000 Shares representing 71.23% of the issued capital of the Company.

Note 2. State-owned Assets Supervision and Administration Commission (中國國務院國有資產監督管理委員會) holds 100% of the State Development & Investment Corp.(國家開發投資公司) which holds 100% of CHINA COMPLANT which in turn holds 70% in COMPLANT.

CONTINUING CONNECTED TRANSACTIONS

(a) As disclosed in circular dated 23rd January 2009, SATT, a wholly owned subsidiary of the Company had entered four supply and service agreements dated 15th December 2008 for an initial term of three years with four subsidiaries of COMPLANT. This continuing connected transactions had been approved by independent shareholders of the Company on 20th February 2009. The total amount of transaction with the four subsidiaries of COMPLANT during the year was about HK$154 million which was within the annual cap of about HK$170 million.

(b) As disclosed in circular dated 23rd January 2009, SATT had entered a supply and service agreements dated 15th December 2008 for an initial term of three years with substantial shareholder of COMPLANT. This continuing connected transactions had been approved by independent shareholders of the Company on 20th February 2009. The total amount of transactions with substantial shareholder of COMPLANT during the year was about HK$65 million which was within the annual cap of about HK$102 million.

(c) As disclosed in circular dated 23rd January 2009, SATT had entered a tenancy agreement dated 15th December 2008 for an initial term of three years with substantial shareholder of COMPLANT. This continuing connected transactions had been approved by independent shareholders of the Company on 20th February 2009. The total amount of rental and management fee paid to substantial shareholder of COMPLANT during the year was about HK$0.5 million which was within the annual cap of about HK$0.6 million.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

The Independent Non-Executive Directors of the Company have reviewed and confirmed that the above continuing connected transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms;

3. in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

4. have not exceeded the relevant maximum amount capped in accordance with the annual caps as set out in the relevant public announcements.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported its factual findings for the selected samples based on the agreed procedures to the Board of Directors stating that:

1. the transactions had been approved by the Board of Directors;

2. the selected samples of the transactions had been entered into in accordance with the relevant agreements governing the transactions;

3. with respect to aggregate amounts received and receivable under the transactions as recorded in the accounting records of the Group for the year ended 31st December 2009, the amounts were calculated in accordance with the terms of the transactions; and

4. with respect to aggregate amounts received and receivable under the transactions, the amounts had not exceeded the annual caps as disclosed in the relevant announcements.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

At no time during the year, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December 2009.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

The remuneration committee reviews the Group emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating result, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out as "Share Options" above.

CORPORATE GOVERNANCE

Details of corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

AUDIT COMMITTEE

The audit committee comprises all three independent non-executive Directors. Dr. Zheng Liu is the Chairman of the Committee. Summary of duties and works of the Committee is set out in the "Corporate Governance Report" in this annual report.

REMUNERATION COMMITTEE

Pursuant to the requirement of the CG code, the Board has established the Remuneration Committee on 1st January 2005. The remuneration committee comprises all three independent non-executive Directors. Dr. Zheng Liu is the Chairman of the Committee. Summary of duties and works of the Committee is set out in the "Corporate Governance Report" in this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 39 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

Liaw Yuan Chian
Managing Director

Hong Kong, 22nd April 2010

Corporate Governance Report

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

During the financial year ended 31st December 2009, the Company complied with the Code contained in Appendix 14 of the Listing Rules, except for certain areas of non-compliance that are discussed later in this report.

A. DIRECTORS

A.1 The Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Group by directing and supervising the Company's affairs. The Board sets strategies for the Group and monitors the performance of the management.

During the financial year ended 31st December 2009, the board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

Name of Director	Number of attendance
Mr. Shih Chian Fang	4/4
Mr. Liaw Yuan Chian	4/4
Mr. Han Hong (appointed on 15th May 2009)	3/4
Mr. Xiao Longlong (appointed on 7th January 2010)	–
Ms. Zhou Yan Xia (resigned on 15th May 2009)	1/4
Mr. Kuang Yong (resigned on 7th January 2010)	4/4
Dr. Zheng Liu	4/4
Mr. Yu Chi Jui	4/4
Ms. Li Xiao Wei	4/4

A.2 Chairman and Managing Director

The Company segregates the role of Chairman from the Managing Director. Mr. Shih Chian Fang is the Chairman of the Company and Mr. Liaw Yuan Chian is the Managing Director of Company. The Chairman provides leadership to the Board and is responsible for overall strategic planning and corporate development, whereas the Managing Director is responsible for policy making and corporate management in order to implement the strategies approved by the Board.

A. DIRECTORS (Cont'd)

A.3 Board composition

The Board comprises four Executive Directors, being Mr. Shih Chian Fang (Chairman of the Board), Mr. Liaw Yuan Chian (Managing Director), Mr. Han Hong and Mr. Xiao Longlong, and three Independent Non-Executive Directors, being Dr. Zheng Liu, Mr. Yu Chi Jui and Ms. Li Xiao Wei. The profiles of the Directors, which are set out on pages 8 to 9, demonstrate a balance of skills and experience of the Board.

One independent non-executive director possesses recognised professional qualifications in accounting. The independent non-executive directors bring independent judgment, knowledge and experience to the Board.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent within the definition of the Listing Rules.

A.4 Appointment, re-election and removal

The code provision A.4.1 provides that non-executive director should be appointed for a specific term, subject to re-election. None of the existing independent non-executive directors of the Company is appointed for a specific term. However, all the independent non-executive directors are subject to retirement by rotation at each annual general meeting under the Articles of Association of the Company. As such, the company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG code.

The Company currently does not have a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become Directors when necessary. The Board will consider the experience, qualification and other relevant factors, including the standards set out in rules 3.08 and 3.09 of the listing Rules and rule 3.13 of the Listing Rules in case of Independent Non-executive Directors, of the eligible candidates.

A. DIRECTORS (Cont'd)

A.5 Responsibilities of directors

The newly appointed director have received a comprehensive formal induction on the first occasion of his appointment and the directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive directors participate actively in the Board Meetings. They bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They will lead where potential conflicts of interest arise in connected transaction. They are also members of Audit Committee and Remuneration Committee.

The company has adopted the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

A.6 Supply of and access of information

In respect of regular board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting.

The management has the obligation to supply the Board and the various committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Group's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1. The level and make-up of remuneration and disclosure

The Remuneration Committee of the Company was established in January 2005. The Remuneration Committee comprised the three Independent Non-executive Directors. Dr. Zheng Liu is the Chairman of the Remuneration Committee.

The primary function is to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The Remuneration Committee adopted the Code Provision B.1.3 to be the terms of reference.

During the year, the Remuneration Committee has held one committee meeting. The attendance of the Remuneration Committee members at the Remuneration Committee meeting was as follows:

Name of Member	Number of attendance
Dr. Zheng Liu	1/1
Mr. Yu Chi Jui	1/1
Ms. Li Xiao Wei	1/1

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board after the meeting. For the financial year ended 31st December 2009, the Remuneration Committee has considered and approved the Group's policy for the remuneration of directors and senior management. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 11 to the financial statements.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the consolidated financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the financial statement on a going concern basis.

The responsibility of the external auditors, Messrs. HLM & Co., is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of the Company and for no other purpose.

C.2 Internal Control

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. Through the Audit Committee, the Board has reviewed the effectiveness of the system. No material deficiencies have been identified so far. The Board considered the Group's internal control system effective and that there were no significant areas of concern, which might affect the shareholders of the Company.

C.3 Audit Committee

The Audit Committee comprised the three Independent Non-Executive Directors of the Company. The chairman of the Audit Committee is Dr. Zheng Liu who possesses extensive knowledge in accounting and financial matters.

The Audit Committee is mainly responsible for providing an independent review and supervision of the financial reporting process and the Group's internal control system. The terms of reference are reviewed to include the provisions referred in Code Provision C.3.3.

C. ACCOUNTABILITY AND AUDIT (Cont'd)

C.3 Audit Committee (Cont'd)

During the year, the Audit Committee held two meetings. The attendance of the Audit Committee members at the Audit Committee meetings was as follows:

Name of Member	Number of attendance
Dr. Zheng Liu *(Chairman of the Audit Committee)*	2/2
Mr. Yu Chi Jui	2/2
Ms. Li Xiao Wei	2/2

The following was a summary of the work performed by the Audit Committee in 2009:

1. review the financial statements for the year ended 31st December 2008 and the annual results announcement with a recommendation to the board for approval; and

2. review the financial statements for the six months period ended 30th June 2009 and the interim results announcement with a recommendation to the Board for approval.

At the Audit Committee meeting on 21st April 2010, the Audit Committee reviewed the Company's financial statements for the year ended 31st December 2009 and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommend the re-appointment of Messrs. HLM & Co. as external auditors of the Group for 2010 and that the relevant resolution shall put forth for the consideration of the shareholders of the Company and their approval at the 2010 annual general meeting of the Company.

C.4 Fee paid/payable to Group's auditors

For the financial year ended 31st December 2009, the fee paid/payable to the Group's auditors, HLM & Co. is set out as follows:

	HK$'000
Services rendered	
– audit services	380
– non-audit services	330
	710

D. DELEGATION BY THE BOARD

D.1 Management functions

The board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions.

The Board delegates the day-to-day operations to general managers and department heads who are responsible for the different aspects of the operations of the Group.

D.2. Board committees

The Company has maintained the Audit Committee and the Remuneration Committee throughout the year to oversee particular aspects of the Group's affairs. Each of these committees has terms of reference, which deal clearly with their authority and duties. The chairman of the committees will report the findings and recommendations of the committees to the Board after each meeting. The minutes of all meetings of the committees are circulated to the Board for information.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The annual general meeting enables the shareholders of the Company to exchange views with the Board. The chairman of the Board has attended at the annual general meeting to be available to answer the questions of the shareholders of the Company.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director.

The notice of annual general meeting is sent to the shareholders of the Company at least 20 clear business days before the meeting and at least 10 clear business days before extraordinary general meeting.

The code provision E.1.2 provides that the chairman of the independent board committee should be available to answer questions at any general meeting to approve a connected transaction or other transactions that was subject to independent shareholders' approval. Dr. Zheng Liu, the chairman of the independent board committee, did not attend this extraordinary general meeting held on 20th February 2009 due to other business engagement. Her delegate was present at this extraordinary general meeting to answer the shareholders' questions.

E.2 Voting by poll

The right to demand a poll was set out in the circular to shareholders of the Company will be dispatched in May for 2010 Annual General Meeting held in June 2010.

恒健會計師行
HLM & Co.
Certified Public Accountants

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TO THE MEMBERS OF HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hua Lien International (Holding) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 87, which comprise the consolidated statement of financial position as at 31st 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.

AUDITORS' RESPONSIBILITY

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

AUDITORS' RESPONSIBILITY (Cont'd)

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 auditors' 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 auditors consider 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants
Hong Kong,
22nd April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2009

	Notes	2009 HK$'000	2008 As restated (Note 3) HK$'000
Continuing operations			
Turnover	7	**154,317**	–
Cost of sales		**(67,005)**	–
Gross profit		**87,312**	–
Other operating income		**218**	344
Distribution costs		**(15)**	–
Administrative expenses		**(18,827)**	(4,760)
Other expenses	8	**(112,882)**	–
Loss from operations		**(44,194)**	(4,416)
Finance costs	9	**(33,139)**	–
Loss before tax		**(77,333)**	(4,416)
Income tax expense	13	**–**	–
Loss for the year from continuing operations	10	**(77,333)**	(4,416)
Discontinued operations			
Loss for the year from discontinued operations	14	**(98,734)**	(209,259)
Loss for the year		**(176,067)**	(213,675)
Other comprehensive loss			
Exchange differences on translating foreign operations		**–**	(1,552)
Total comprehensive loss for the year		**(176,067)**	(215,227)
Loss attributable to:			
Owners of the Company		**(179,113)**	(217,814)
Non-controlling interests		**3,046**	4,139
		(176,067)	(213,675)
Total comprehensive loss attributable to:			
Owners of the Company		**(179,113)**	(219,366)
Non-controlling interests		**3,046**	4,139
		(176,067)	(215,227)
Dividend	15	**–**	–
Loss per share	16		
From continuing and discontinued operations			
– Basic (cents per share)		**(15.82)**	(26.44)
– Diluted (cents per share)		**N/A**	N/A
From continuing operations			
– Basic (cents per share)		**(6.83)**	(0.54)
– Diluted (cents per share)		**N/A**	N/A

Consolidated Statement of Financial Position

At 31st December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**149**	114,574
Prepaid lease payments on land use rights	18	**–**	45,992
Goodwill	19	**226,511**	–
Intangible asset	20	**405,375**	–
Deferred tax assets	21	**–**	758
		632,035	161,324
Current assets			
Inventories	22	**–**	101,877
Trade and other receivables	23	**190,409**	80,666
Prepaid lease payments on land use rights	18	**–**	1,138
Bank balances and cash	24	**166,041**	46,887
		356,450	230,568
Assets classified as held for sale	25	**229,330**	–
		585,780	230,568
Current liabilities			
Trade and other payables	26	**109,416**	59,662
Loan from a director	27	**–**	14,438
Tax liabilities		**–**	11,444
Bank borrowings	28	**–**	124,869
		109,416	210,413
Liabilities directly associated with assets classified as held for sale	25	**161,423**	–
		270,839	210,413
Net current assets		**314,941**	20,155
Total assets less current liabilities		**946,976**	181,479
Non-current liability			
Convertible notes	29	**459,890**	–
Net assets		**487,086**	181,479
Capital and reserves			
Share capital	31	**124,868**	82,368
Reserves		**362,218**	99,111
Equity attributable to owners of the Company		**487,086**	181,479
Non-controlling interests		**–**	–
Total equity		**487,086**	181,479

The consolidated financial statements on pages 27 to 87 were approved and authorised for issue by the Board of Directors on 22nd April 2010 and are signed on its behalf by:

Shih Chian Fang
DIRECTOR

Liaw Yuan Chian
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December 2009

	Share capital HK$'000	Share premium HK$'000	Warrant reserve (note iii) HK$'000	Convertible notes equity reserve (note v) HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	Special reserve (note i) HK$'000	PRC statutory reserves (note ii) HK$'000	Accumulated losses HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1st January 2008	82,368	21,229	4,942	–	34,950	(24,509)	238,966	21,910	20,989	400,845	2,096	402,941
Loss for the year	–	–	–	–	–	–	–	–	(217,814)	(217,814)	4,139	(213,675)
Other comprehensive loss for the year	–	–	–	–	(1,552)	–	–	–	–	(1,552)	–	(1,552)
Total comprehensive loss for the year	–	–	–	–	(1,552)	–	–	–	(217,814)	(219,366)	4,139	(215,227)
Pre-determined distribution	–	–	–	–	–	–	–	–	–	–	(6,235)	(6,235)
At 31st December 2008 and 1st January 2009	82,368	21,229	4,942	–	33,398	(24,509)	238,966	21,910	(196,825)	181,479	–	181,479
Loss for the year	–	–	–	–	–	–	–	–	(179,113)	(179,113)	3,046	(176,067)
Other comprehensive loss for the year	–	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	–	–	(179,113)	(179,113)	3,046	(176,067)
Recognition of the equity component of convertible notes	–	–	–	236,105	–	–	–	–	–	236,105	–	236,105
Issue of new shares	40,000	198,271	–	–	–	–	–	–	–	238,271	–	238,271
Issue of shares on exercise of convertible notes	2,500	13,104	–	(5,260)	–	–	–	–	–	10,344	–	10,344
Pre-determined distribution	–	–	–	–	–	–	–	–	–	–	(3,046)	(3,046)
	42,500	211,375	–	230,845	–	–	–	–	–	484,720	(3,046)	481,674
At 31st December 2009	**124,868**	**232,604**	**4,942**	**230,845**	**33,398**	**(24,509)**	**238,966**	**21,910**	**(375,938)**	**487,086**	**–**	**487,086**

Notes:

(i) The special reserve of the Group represents the difference between the nominal amount of the ordinary share capital issued by the Company in exchange for the nominal amount of the share capital of Hua Lien Group (Holding) Company, Limited acquired pursuant to the group reorganisation in 2000.

(ii) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries of the Group are required to provide for three reserve funds, being a statutory surplus reserve fund, an enterprise expansion fund, and a staff welfare and incentive bonus fund. Appropriations to such reserve funds are made out of net profit after tax of the statutory financial statements of the PRC subsidiaries and the amount and allocation basis are decided by their respective board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation. The staff welfare and incentive bonus fund is reserve for future expenditure on staff welfare and incentive bonus.

The appropriations to the statutory surplus reserve fund and enterprise expansion fund are reflected in the consolidated statement of financial position under shareholders' funds as PRC statutory reserves, however, the appropriation to staff welfare and incentive bonus fund is charged to consolidated statement of comprehensive income and the unused portion is recorded as a current liability.

(iii) On 4th October 2007, the Company issued 164,736,000 unlisted warrants at HK$0.03 each. The gross proceeds of approximately HK$4,942,000 was raised and included in the warrant reserve. Each of the warrant has subscription right to subscribe for one subscription share of the Company at a subscription price of HK$0.6, subject to adjustment, for a exercise period of four years from 4th October 2007 to 3rd October 2011. None of such warrants were exercised since the date of issue. At the end of reporting period, the Company had outstanding 164,736,000 unlisted warrants to be exercised before 3rd October 2011. Exercise in full of such warrants would result in the issue of 164,736,000 additional ordinary shares.

(iv) The joint venture partner of Jiangmen Hua Lien Tannery Co., Ltd. is entitled to a pre-determined distribution throughout the entire cooperative joint venture period. Details of those pre-determined distribution are set out in note 33(b).

(v) On 27th February 2009, the Company issued two tranches of five-year zero-coupon Hong Kong-dollar convertible notes at par, due in February, 2014 (the "Notes"), for an aggregate principal amount of HK$673,200,000, which is part of the consideration for the acquisition of Sino-Africa Technology & Trading Limited. The Notes are convertible, at the option of noteholders, into ordinary shares of HK$0.10 each of the Company at an initial conversion price of HK$0.6 per share, at any time from 27th February 2009 up to and including 26th February 2014.

The Notes contain two components, a liability and an equity element. The liability component is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The equity element is presented in equity as "Convertible notes equity reserve".

An amount of HK$15,000,000 notes were converted on 4th November 2009.

Consolidated Statement of Cash Flows

For the year ended 31st December 2009

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
Loss for the year	**(176,067)**	(213,675)
Adjustments for:		
Income tax expense	**261**	10,003
Impairment loss recognised in respect of property, plant and equipment	**–**	70,000
Impairment loss recognised in respect of trade and other receivables	**28,996**	33,869
Impairment loss recognised in respect of goodwill	**95,257**	–
Allowance for inventories	**11,537**	13,833
Depreciation and amortisation of property, plant and equipment	**31,910**	31,220
Amortisation of intangible asset	**17,625**	–
Amortisation of prepaid lease payments on land use rights	**1,138**	1,138
Gain on disposal of property, plant and equipment	**(282)**	(56)
Interest income	**(139)**	(401)
Interest expense	**37,959**	9,093
Operating cash flows before movements in working capital	**48,195**	(44,976)
Decrease in inventories	**46,810**	39,496
(Increase) decrease in trade and other receivables	**(45,331)**	28,177
Increase in trade and other payables	**39,305**	42,073
Decrease in amounts due to minority shareholders of subsidiaries	**–**	(1,880)
Cash generated from operations	**88,979**	62,890
Hong Kong profits tax paid	**(11)**	(5)
PRC enterprise income tax paid	**(1,106)**	(591)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**87,862**	62,294
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(493)**	(584)
Net cash inflow on acquisition of subsidiaries	**23,250**	–
Interest received	**139**	401
Decrease in pledged bank deposits	**–**	1,500
Proceeds from disposal of property, plant and equipment	**282**	102
NET CASH GENERATED FROM INVESTING ACTIVITIES	**23,178**	1,419
FINANCING ACTIVITIES		
Proceeds from issue of equity shares	**58,271**	–
Repayment of bank borrowings	**(37,378)**	(81,064)
Dividends paid to minority shareholders of subsidiaries	**(3,046)**	(6,235)
Interest paid	**(4,820)**	(9,093)
Proceeds from bank borrowings	**15,556**	36,667
Repayment of loan from a director	**(14,325)**	(2,096)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**14,258**	(61,821)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**125,298**	1,892
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**46,887**	52,389
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies	**–**	(7,394)
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**172,185**	46,887
CASH AND CASH EQUIVALENTS REPRESENT		
Bank balances and cash	**172,185**	46,887

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its registered office is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business in Hong Kong is at Unit 2513A, 25th Floor, 113 Argyle Street, Mongkok, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37.

The consolidated financial statements are presented in Hong Kong dollars, which is considered as the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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 on or after 1st July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

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

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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 Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

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)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights 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 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
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 Instruments[5]

1 Effective for annual periods beginning on or after 1st July 2009.
2 Effective for annual periods beginning on or after 1st July 2009 and 1st January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1st January 2010.
4 Effective for annual periods beginning on or after 1st February 2010.
5 Effective for annual periods beginning on or after 1st July 2010.
6 Effective for annual periods beginning on or after 1st January 2011.
7 Effective for annual periods beginning on or after 1st January 2013.

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

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group'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 1st 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 other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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 date of acquisition or up to the effective date of disposal, as appropriate.

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangement are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Change in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Discontinued Operations

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale has been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a major line of business or geographical area of operation. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is presented as if the operation had been discontinued from the start of the comparative period.

The Company entered into agreements (the "Disposal Agreements") with Sino Commend Limited on 16th October 2009 and 19th October 2009 to dispose of its entire interest in Hua Lien Group (Holding) Company, Limited (the "Target Group") and the disposal was completed on 28th February 2010. In accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA, the results of business segment of manufacturing and trading of leather have been presented as discontinued operation in the consolidated statement of comprehensive income for the year ended 31st December 2009, and the 2008 comparatives of this segment have also been reclassified as discontinued operation accordingly.

For details, please refer to Note 14.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current asset (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Turnover

Turnover represents the net amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (Hong Kong 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 period, 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 under the heading of foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1st January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation before 1st January 2005 are treated as non-monetary foreign currency items of the acquirer and reporting using historical cost prevailing at the date of acquisition.

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.

Retirement benefit costs

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("the "MPF Scheme") are charged as expenses when they fall due.

Share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost or fair value at the date of revaluation, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, and accumulated under the heading of properties revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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

Property, plant and equipment under construction are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of land use rights is amortised over the period of the rights using the straight line method. Depreciation is charged so as to write off the cost of other items of property, plant and equipment over their estimated useful life, using the straight line method, at the following rates per annum:

Buildings	2% – 5%
Plant and machinery	10%
Furniture and equipment	20% – 25%
Motor vehicles	20%

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 the disposal or retirement of an item of property, plant and equipment determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

Prepaid lease payments

Prepaid lease payments represent up-front prepayments made for the land use right is expensed in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets acquired in a business combination consist of customer relationship and other recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost), which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful life.

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets other than goodwill

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Financial instruments

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

(1) Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

(1) Financial assets (Cont'd)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near future; or

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

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

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

(1) Financial assets (Cont'd)

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

(1) *Financial assets* (Cont'd)

Impairment of financial assets (Cont'd)

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

(i) significant financial difficulty of the issuer or counterparty; or

(ii) default or delinquency in interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, 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.

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(2) *Financial liabilities and equity instruments*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

(2) Financial liabilities and equity instruments (Cont'd)

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 (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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

(i) it has been incurred principally for the purpose of repurchasing in the near future; or

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

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

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

(2) Financial liabilities and equity instruments (Cont'd)

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade payables and others are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is include in equity (convertible notes equity reserve).

At the end of the reporting period, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option classified as equity will remain in the convertible notes equity reserve until the conversion option is exercised, in which case, the balance stated in the convertible notes equity reserve will be transferred to share premium. Where the conversion option remains unexercised at the maturity date, the balance stated in the convertible notes equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the life of the convertible notes using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

(3) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the consolidated statements of cash flows, bank overdrafts and bank loans, if any, which are repayable on demand and form an integral part of an enterprises' cash managements are also included as component of cash and cash equivalents.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY (Cont'd)

(a) Depreciation

The Group depreciates the property, plant and equipment over their estimated useful life and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(b) Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

(c) Allowance for inventories

The management of the Group reviews its inventories at the end of each reporting period and make allowance for obsolete and slow-moving inventory items identified that is no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices at the end of each reporting period and make allowance for obsolete items.

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

(e) Impairment of intangible assets

The management of the Group reviews its intangible assets at the end of each reporting period for any indication that the intangible assets may be impaired if its carrying amount may be in excess of the greater of its net selling price and its value in use. The value in use means the discounted present value of the future cash flows expected to arise from the continuing use of the intangible assets and from its disposal at the end of its useful life.

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

During 2009, the Group's strategy remained unchanged. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equities.

The analysis below includes those classified as part of a disposal group held for sale for the year and 2008. The Management considers the gearing ratio at the end of each reporting period was as follows:

	2009 **HK$'000**	2008 HK$'000
Total borrowings	**562,937**	124,869
Total equity	**487,086**	181,479
Total debt to total equity ratio	**115.57%**	68.81%

The increase in the gearing ratio during 2009 was resulting primarily from the issue of two tranches of five-year zero-cupon Hong Kong-dollar convertibles notes during the year.

6. FINANCIAL INSTRUMENTS

The analysis below includes those classified as part of a disposal group held for sale for the year ended 2009.

6a. The carrying amounts of each of the categories of financial instruments.

	2009 **HK$'000**	2008 HK$'000
Financial assets		
Trade and other receivables	**240,557**	80,666
Bank balances and cash	**172,185**	46,887
	412,742	127,553
Financial liabilities		
Trade and other payables	**157,341**	59,662
Bank borrowings	**103,047**	124,869
Convertible notes	**459,890**	–
	720,278	184,531

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies

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

Credit risk

Credit risk arises from the failure of a customer or counterparty to meet its settlement obligations. The credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. Credit risk arising therefore is assessed on individual basis. There is an average credit period of 365 days for both external customers and related parties. It arises principally from trading and other activities undertaken by the Group. Given the trade and credit history of the parties who had maintained receivable balances due from customers as at 31st December 2008 and 2009, the directors are of the opinion that the risk of default by these counterparties is not significant.

Liquidity risk

With regard to 2009 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Liquidity risk (Cont'd)

The maturity profile of the Group's financial liabilities as at 31st December 2009 and 2008 are as follows:

	Weighted average effective interest rate %	**Less than 1 year HK$'000**	**1-2 years HK$'000**	**2-5 years HK$'000**	**More than 5 years HK$'000**	**Carrying amount at 31.12.2009 HK$'000**
2009						
Trade and other payables	**N/A**	**157,341**	**–**	**–**	**–**	**157,341**
Bank borrowings	**4.2%**	**103,047**	**–**	**–**	**–**	**103,047**
Convertible notes	**8.6%**	**–**	**–**	**459,890**	**–**	**459,890**
		260,388	**–**	**459,890**	**–**	**720,278**

	Weighted average effective interest rate %	Less than 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Carrying amount at 31.12.2008 HK$'000
2008						
Trade and other payables	N/A	59,662	–	–	–	59,662
Bank borrowings	6.4%	124,869	–	–	–	124,869
		184,531	–	–	–	184,531

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Interest rate risk

The Group's bank balances carry floating-rate of interests and have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates. The Group currently does not have any interest rate hedging policy in relation to interest rate risks. However, the directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risks should the needs arise.

Sensitivity analysis

The Group's exposure to cash flow interest rate risk is mainly attributable to the variable-rate bank borrowings. As at 31st December 2009 and 2008, if interest rate on borrowing has been 5% higher/lower with all other variable held constant, loss for the current year/prior year would decrease/increase by approximately HK$1,898,000 (2008: decrease/increase by approximately HK$455,000).

Other price risk

The Group is not exposed to any equity securities risk or commodity price risk.

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The exposure to fluctuations in exchange rate of HKD is considered to be insignificant. The Group is mainly exposed to fluctuation in exchange rate of USD and RMB against HKD.

	2009 **HK$'000**	2008 HK$'000
Financial assets denominated in foreign currencies	**318,171**	81,198
Financial liabilities denominated in foreign currencies	**209,485**	180,834
The financial assets were denominated in the following foreign currencies:		
RMB	**50,779**	–
USD	**267,392**	81,198
	318,171	81,198
The financial liabilities were denominated in the following foreign currencies:		
RMB	**58,980**	89,309
USD	**150,505**	91,525
	209,485	180,834

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD exchange rate, with other variable held constant, of the Group net loss (due to the change in fair value of the monetary assets and liability).

	Increase /decrease in foreign currency rate	Effect on loss before taxation	
		2009	2008
		HK$'000	HK$'000
RMB	5%	**(410)**	(406)
	-5%	**410**	406
USD	5%	**5,844**	4,576
	-5%	**(5,844)**	(4,576)

6c. Fair Value

(i) Financial instruments carried at fair value

The carrying value of financial instruments measured at fair value at 31st December 2009 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31st December 2009, the Group had not any financial instruments carried at fair value all of which are based on the Level 1 for the fair value hierarchy.

During the year ended 31st December 2009, there were no transfers between financial instruments in Level 1 and 2.

6. FINANCIAL INSTRUMENTS (Cont'd)

6c. Fair Value (Cont'd)

(ii) Fair values of financial instruments carried at other than fair value

At 31st December 2009, the Group did not have any financial instruments with fair value calculated based on Level 3 of the fair value hierarchy.

(iii) The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted active bid prices and ask prices respectively; and

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format by geographical location of the customers. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the reportable segments determined in accordance with HKAS 14 in that manufacturing and trading of leather and the provision of supporting services to sweetener and ethanol business are being identified as an operating segment in the current period. Provision of supporting services to sweetener and ethanol business is the principal business of SATT which newly acquired by the Group during current period. The segment financial information for the year ended 31st December 2008 have been restated to conform to the requirements of HKFRS 8. The Group's reportable segments under HKFRS 8 are as follow:

Manufacturing and trading of leather	This segment is engaged in leather manufacturing, processing and trading
Supporting services to sweetener and ethanol business	This segment is engaged in provision of (i) facilities, raw materials and goods supply services; (ii) management and technical staff; (iii) related consulting services on construction; and (iv) contract manufacturing services; to the sweetener and ethanol business

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments

2009

	Revenue			Operating profit (loss)		
	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Manufacturing and trading of leather	–	246,128	246,128	–	(93,653)	(93,653)
Supporting services to sweetener and ethanol business	154,317	–	154,317	54,029	–	54,029
	154,317	246,128	400,445	54,029	(93,653)	(39,624)
Other non-operating expense				(95,257)	–	(95,257)
Central administration cost				(2,966)	–	(2,966)
Finance costs				(33,139)	(4,820)	(37,959)
Loss before taxation				(77,333)	(98,473)	(175,806)
Income tax expense				–	(261)	(261)
Loss for the year				(77,333)	(98,734)	(176,067)

	Continuing operations HK'000	Discontinued operations HK'000	Total HK'000
Segment assets			
Supporting services to sweetener and ethanol business	672,916	–	672,916
Manufacturing and trading of leather	–	229,330	229,330
Unallocated	315,569	–	315,569
Consolidated assets	988,485	229,330	1,217,815
Segment liabilities			
Supporting services to sweetener and ethanol business	87,456	–	87,456
Manufacturing and trading of leather	–	161,423	161,423
Unallocated	481,850	–	481,850
Consolidated liabilities	569,306	161,423	730,729
Other segments information			
Depreciation and amortisation			
Supporting services to sweetener and ethanol business	17,665	–	17,665
Manufacturing and trading of leather	–	33,008	33,008
	17,665	33,008	50,673
Addition to non-current assets			
Supporting services to sweetener and ethanol business	189	–	189
Manufacturing and trading of leather	–	304	304
	189	304	493

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

2008

	Revenue			Operating profit (loss)		
	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Manufacturing and trading of leather	–	537,003	537,003	–	(190,163)	(190,163)
Supporting services to sweetener and ethanol business	–	–	–	–	–	–
	–	537,003	537,003	–	(190,163)	(190,163)
Other non-operating expense				–	–	–
Central administration cost				(4,416)	–	(4,416)
Finance costs				–	(9,093)	(9,093)
Loss before taxation				(4,416)	(199,256)	(203,672)
Income tax expense				–	(10,003)	(10,003)
Loss for the year				(4,416)	(209,259)	(213,675)

	Continuing operations HK'000	Discontinued operations HK'000	Total HK'000
Segment assets			
Manufacturing and trading of leather	–	355,133	355,133
Unallocated	36,759	–	36,759
Consolidated assets	36,759	355,133	391,892
Segment liabilities			
Manufacturing and trading of leather	–	207,232	207,232
Unallocated	3,181	–	3,181
Consolidated liabilities	3,181	207,232	210,413
Other segments information			
Depreciation and amortisation			
Manufacturing and trading of leather	–	32,358	32,358
	–	32,358	32,358
Addition to non-current assets			
Manufacturing and trading of leather	–	584	584
	–	584	584

8. OTHER EXPENSES

	2009 HK$'000	2008 HK$'000
Continuing operations		
Amortisation of intangible asset	**17,625**	–
Impairment loss of goodwill	**95,257**	–
	112,882	–

9. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Continuing operations		
Effective interest expense on convertible notes wholly repayable within five years	**33,139**	–

10. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2009 **HK$'000**	2008 HK$'000
Loss for the year from continuing operations has been arrived at after charging:		
Directors' remunerations (note 11)	**1,446**	260
Retirement benefits scheme contributions	**1,554**	–
Other staff costs	**14,053**	–
Total employee benefits expenses	**17,053**	260
Depreciation and amortisation of property, plant and equipment	**40**	–
Amortisation of prepaid lease payments on land use rights	**–**	–
Total depreciation and amortisation	**40**	–
Net foreign exchange losses	**–**	330
Cost of inventories recognised as an expenses	**67,005**	–
and after crediting:		
Net foreign exchange gains	**146**	–
Interest income	**73**	344

11. DIRECTORS' REMUNERATIONS

The emoluments paid or payable to each of the eight (2008: seven) directors were as follows:

	Fees	Salaries	Allowances	Performance Bonus Payable	Provident Fund Contributions	2009 Total emoluments	2008 Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors							
Shih Chian Fang	–	100	–	–	–	**100**	100
Liaw Yuan Chian	–	100	–	–	–	**100**	100
Han Hong (Note d)	–	255	61	523	27	**866**	–
Kuang Yong (Note e)	–	100	–	–	–	**100**	100
Zhou Yan Xia (Note f)	–	120	–	–	–	**120**	360
Independent Non-executive Directors							
Zheng Liu	100	–	–	–	–	**100**	100
Yu Chi Jui	30	–	–	–	–	**30**	30
Li Xiao Wei	30	–	–	–	–	**30**	30
	160	675	61	523	27	**1,446**	820

Note:

a. During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

b. The allowances represent the welfare and housing fund contributions.

c. The newly introduced performance bonus is payable to employees of SATT, including Han Hong who is the deputy general manager, the amount payable in 2009 ties to certain performance indictors of that company.

d. Appointed on 15th May 2009.

e. Resigned on 7th January 2010.

f. Resigned on 15th May 2009.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2008: one) was executive director of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining four (2008: four) individuals were as follows:

	2009 HK$'000	2008 HK$'000
Salaries	**1,178**	925
Allowances (Note 11(b))	**173**	–
Performance bonus payable (Note 11(c))	**2,028**	–
Provident fund contributions	**107**	12
	3,486	937

Their emoluments were within the following bands:

	2009 Number of employees	2008 Number of employees
HK$nil to HK$1,000,000	**3**	4
HK$1,000,001 to HK$2,000,000	**1**	–
	4	4

13. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Current tax:		
Hong Kong profits tax calculated at 16.5% (2008: 16.5%) of the estimated assessable profit		
– current year*	**–**	–
– over provision in prior years	**–**	–
	–	–
PRC enterprise income tax		
– current year	**–**	–
Deferred tax (note 21):		
– current year*	**–**	–
– attributable to a change in tax rate	**–**	–
	–	–
Total income tax recognised in profit or loss	**–**	–

13. INCOME TAX EXPENSE (Cont'd)

On 26th June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5%, which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years).

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

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

	2009		2008	
	HK$'000	%	HK$'000	%
Loss before tax	(77,333)		(4,416)	
Tax at PRC Enterprise Income Tax rate of 25% (2008: 25%)	(19,333)	(25.0)	(1,104)	(25.0)
Tax effect of expenses not deductible for tax purpose	38,062	49.22	1,190	26.9
Tax effect of income not taxable for tax purpose	(18,729)	(24.22)	(86)	(1.9)
Tax effect of tax losses not recognised	–	–	–	–
Effect of different tax rates of subsidiaries operating in different province of the PRC	–	–	–	–
Over provision in prior year	–	–	–	–
Income tax expenses for the year	–	–	–	–

Note: The income tax rate represents the average of the tax rate in the province in which the PRC subsidiaries are operated.

* As shown in note 14, the provision of Hong Kong profit tax of approximately HK$11,000 and deferred tax charge of approximately HK$250,000, a total of income tax expense of approximately HK$261,000 have been classified to discontinued operations for year ended 31st December 2009.

14. LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS

The Company entered into Disposal Agreements with Sino Commend Limited on 16th October 2009 and 19th October 2009 to dispose of its entire interest in Target Group for an aggregate cash consideration of HK$101,500,000. On 1st March 2010, the Board announced that the conditions precedent under the Disposal Agreements had been fulfilled and the disposal was duly completed on 28th February 2010. Upon completion, the Target Group has ceased to be subsidiaries of the Group. As a result, the business segment of manufacturing and trading of leather have classified as discontinued operations for the year ended 31st December 2009. The results of the discontinued operations included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below.

Analysis of loss for the year from discontinued operations

	2009 HK$'000	2008 HK$'000
Turnover	**246,128**	537,003
Cost of sales	**(300,143)**	(603,421)
Gross loss	**(54,015)**	(66,418)
Other operating income	**1,673**	2,869
Distribution costs	**(64)**	(174)
Administrative expenses	**(12,251)**	(22,571)
Other expenses	**(28,996)**	(103,869)
Loss from operations	**(93,653)**	(190,163)
Finance costs	**(4,820)**	(9,093)
Loss before tax	**(98,473)**	(199,256)
Income tax expense	**(261)**	(10,003)
Loss for the year from discontinued operations	**(98,734)**	(209,259)
Loss for the year from discontinued operations has been arrived at after charging:		
Directors' remunerations	**320**	560
Retirement benefits scheme contributions	**–**	479
Other staff costs	**9,222**	14,254
Total employee benefits expenses	**9,542**	15,293
Depreciation and amortisation of property, plant and equipment	**31,870**	31,220
Amortisation of prepaid lease payments on land use rights	**1,138**	1,138
Total depreciation and amortization	**33,008**	32,358
Auditors' remuneration	**424**	458
Allowance for inventories	**11,537**	13,833
Impairment loss on property, plant and equipment	**–**	70,000
Impairment loss on trade and other receivables	**28,996**	33,869
Net foreign exchange loss	**–**	1,928
Cost of inventories recognised as an expense	**300,143**	–
and after crediting:		
Net foreign exchange gains	**693**	–
Interest income	**66**	57
Gain on disposal of property, plant and equipment	**282**	56

14. LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS (Cont'd)

	2009 HK$'000	2008 HK$'000
Cash flows from discontinued operations		
Net cash inflows from operating activities	19,514	66,191
Net cash inflows from investing activities	24	1,075
Net cash outflows from financing activities	(23,545)	(61,821)
Net cash (outflows) inflows	(4,007)	5,445

15. DIVIDEND

The Directors do not recommend the payment of a dividend for the years ended 31st December 2009 and 2008.

16. LOSS PER SHARE

From continuing and discontinued operations

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

	2009 HK$'000	2008 HK$'000
Loss		
Loss for the purpose of basic loss per share	(179,113)	(217,814)

	2009 '000	2008 '000
Number of Shares		
Weighted average number of ordinary share for the purpose of basic loss per share	1,132,447	823,680

Diluted loss per share for the year ended 31st December 2009 and 2008 had not been disclosed, as the warrants outstanding in both periods and convertible notes outstanding as at 31st December 2009 had an anti-dilutive effect on the basic loss per share.

16. LOSS PER SHARE (Cont'd)

From continuing operations

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

	2009 HK$'000	2008 HK$'000
Loss figures are calculated as follows:		
Loss for the purpose of basic loss per share	**(179,113)**	(217,814)
Less:		
Loss for the year from discontinued operations	**101,780**	213,398
Loss for the purpose of basic loss per share from continuing operations	**(77,333)**	(4,416)

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

From discontinued operations

Basic loss per share for the discontinued operations is HK8.99 cents per share (2008: HK25.9 cents), based on the loss for the year from the discontinued operations of HK$101,780,000 (2008: HK$213,398,000) and the denominators detailed above for basic loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1st January 2008	247,025	394,347	34,467	7,467	5,000	688,306
Effect of foreign currency exchange differences	13,724	22,433	1,866	402	278	38,703
Additions	–	100	–	–	484	584
Transfers	173	–	–	–	(173)	–
Disposals	–	–	–	(444)	–	(444)
At 31st December 2008	260,922	416,880	36,333	7,425	5,589	727,149
Additions	–	–	189	–	304	493
Transfers	163	–	15	–	(178)	–
Disposals	–	–	–	(1,771)	–	(1,771)
Reclassified as held for sale (note 25)	(261,085)	(416,880)	(36,348)	(5,654)	(5,715)	(725,682)
At 31st December 2009	**–**	**–**	**189**	**–**	**–**	**189**
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st January 2008	121,521	321,700	34,331	7,324	–	484,876
Effect of foreign currency exchange differences	6,752	17,891	1,838	396	–	26,877
Provided for the year	10,734	20,383	–	103	–	31,220
Impairment loss recognised in profit or loss	60,000	10,000	–	–	–	70,000
Eliminated on disposals of assets	–	–	–	(398)	–	(398)
At 31st December 2008	199,007	369,974	36,169	7,425	–	612,575
Provided for the year	10,740	21,130	40	–	–	31,910
Eliminated on disposals of assets	–	–	–	(1,771)	–	(1,771)
Reclassification as held for sale (note 25)	(209,747)	(391,104)	(36,169)	(5,654)	–	(642,674)
At 31st December 2009	**–**	**–**	**40**	**–**	**–**	**40**
NET BOOK VALUES						
At 31st December 2009	**–**	**–**	**149**	**–**	**–**	**149**
At 31st December 2008	61,915	46,906	164	–	5,589	114,574

The land and buildings of the Group are situated in the PRC and held under medium-term land use rights.

18. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2009 HK$'000	2008 HK$'000
Analysed for reporting purposes as:		
Non-current asset*	–	45,992
Current asset*	–	1,138
	–	47,130

The leasehold land is held under medium-term lease and situated in PRC.

* As described in note 25, the carrying value of prepaid lease payment of discontinued operations of approximately HK$45,992,000 (of which approximately HK$44,854,000 non-current portion and approximately HK$1,138,000 current portion) have been classified as assets held for sale as at 31st December 2009.

19. GOODWILL

	HK$'000
Arising on acquisition of a subsidiary on 27th February 2009	321,768
Impairment loss recognised	(95,257)
At 31st December 2009	226,511

The goodwill represents the excess of the fair value of consideration of the acquisition of SATT over the fair value of the identified assets and liabilities at acquisition date of SATT. The valuation of the identified assets and liabilities at acquisition date are valued by BMI Appraisals Limited (the "BMIA"), an independent valuer and its valuations were carried out on the basis of market value, which is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

Impairment testing for goodwill

For the purpose of impairment testing, goodwill has been allocated to an individual cash-generating unit ("CGU"). The recoverable amount of goodwill of CGU of supporting services to sweetener and ethanol business had been assessed on the basis of a valuation report from BMIA. The valuer assessed the value in use basing on cash flow projections of this CGU and applied a discount factor of 14% per annum in the calculation and determined that the goodwill was impaired by an amount of approximately HK$95,257,000 at the end of reporting period.

20. INTANGIBLE ASSET

	HK$'000
Customer relationship	
Arising on acquisition of a subsidiary on 27th February 2009	**423,000**
Amortisation for the year	**(17,625)**
At 31st December 2009	**405,375**

The customer relationship represents the present value of the future cash flow attributed to established customer base and other business relationships built up by SATT in African and other nations. The valuation is valued by BMIA. Excess earnings method is adopted in the valuation of the customer relationship. The excess earnings are the amount of anticipated economic benefits that exceeds the required rates of return on the contributory assets, including the fixed assets, the working capital, the workforce assembled and intangible assets other than the subject asset, used to generate those anticipated economic benefits. This intangible asset is purchased as part of a business combination of SATT during the year and has a definite useful life which is amortised on straight-line basis over the estimated useful life of 20 years.

21. DEFERRED TAX ASSETS

The following are the major deferred tax assets balances recognised and movements thereon during the current and prior year:

	Accelerated accounting depreciation HK$'000	Inventories HK$'000	Trade receivables HK$'000	Total HK$'000
At 1st January 2008	10,364	(110)	–	10,254
Exchange Adjustments	576	(68)	–	508
(Charge) credit to profit or loss	(10,130)	747	–	(9,383)
Effect of change in tax rate	(810)	189	–	(621)
At 31st December 2008 and 1st January 2009	–	758	–	758
Charge to profit or loss	–	(250)	–	(250)
Reclassification as held for sale (note 25)	–	(508)	–	(508)
At 31st December 2009	**–**	**–**	**–**	**–**

21. DEFERRED TAX ASSETS (Cont'd)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009 HK$'000	2008 HK$'000
Deferred tax assets	**508**	758
Reclassified as assets held for sale (note 25)	**(508)**	–
	–	758

22. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials*	**–**	12,464
Work in progress*	**–**	86,159
Finished goods*	**–**	3,254
	–	101,877

* As described in note 25, the carrying value of inventories of discontinued operations comprising raw materials of approximately HK$10,972,000, work in progress of approximately HK$14,854,000 and finished goods of approximately HK$17,704,000, a total of approximately HK$43,530,000 had been classified as assets held for sale as at 31st December 2009.

23. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of continuing operations of approximately HK$186,306,000 and trade receivables of discontinued operations of approximately HK$41,371,000 that have been classified as part of a disposal group held for sale, net of allowance for doubtful debts, a total of approximately HK$227,677,000 as at 31st December 2009 (2008: HK$69,242,000), the following is an analysis of trade receivables by age, presented based on the invoice date. The Group allows a credit period of 90 days for trade customers of leather manufacturing and 365 days for trade customers of supporting services of sweetener and ethanol business. The analysis below includes those carrying amount of trade receivables of continuing operation and those related to discontinued operations which have been classified as part of a disposal group held for sale.

	2009 HK$'000	2008 HK$'000
Up to 30 days	**24,199**	15,527
31 – 60 days	**27,390**	34,405
61 – 90 days	**30,372**	19,310
91 – 180 days	**32,622**	–
181 days to 1 year	**78,027**	–
Over 1 year	**35,067**	–
	227,677	69,242

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

24. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 5% (2008: 0.01% to 2.70%) per annum.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2009	2008
	HK$'000	HK$'000
Bank balances and cash	**166,041**	46,887
Bank balances and cash included in a disposal group classified as held for sale (note 25)	**6,144**	–
	172,185	46,887

25. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	2009	2008	2007
	HK$'000	HK$'000	HK$'000
Assets related to leather business*	**229,330**	–	–
Liabilities directly associated with assets classified as held for sale*	**161,423**	–	–

* As described in note 14, the Company had entered into Disposal Agreements with Sino Commend Limited to dispose of its entire interest in the Target Group for an aggregate cash consideration of HK$101,500,000 and the disposal was duly completed on 28th February 2010. The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale. The Group has already received HK$20,000,000 as first payment which included in trade and other payables. The major classes of assets and liabilities of disposal group as at 31st December 2009, except the intra-group other payables of approximately HK$71,690,000 eliminated on group consolidation, are as follows:

25. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (Cont'd)

Analysis of net assets classified as held for sales

	2009 **HK$'000**
Property, plant and equipment	**83,008**
Prepaid lease payments on land use rights	**45,992**
Deferred tax assets	**508**
Inventories	**43,530**
Trade and other receivables	**50,148**
Bank balances and cash	**6,144**
Assets classified as held for sale	**229,330**
Trade and other payables	**(47,925)**
Loan from a director	**(113)**
Tax liabilities	**(10,338)**
Bank borrowings	**(103,047)**
Liabilities directly associated with assets classified as held for sale	**(161,423)**
Net assets classified as held for sale	**67,907**

26. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of continuing operations of approximately HK$70,570,000 and trade payables of discontinued operations of approximately HK$34,324,000 that have been classified as part of a disposal group held for sale, a total of approximately HK$104,894,000 as at 31st December 2009 (2008: HK$40,971,000). The following is an analysis of trade payables by age based on the invoice date. The analysis below includes those carrying amount of trade payables of continuing operation and those related to discontinued operations which have been classified as part of a disposal group held for sale.

	2009 **HK$'000**	2008 HK$'000
Up to 30 days	**40,637**	18,987
31 – 60 days	**7,524**	5,073
61 – 90 days	**6,281**	4,636
91 – 180 days	**13,633**	6,811
181 days to 1 year	**28,965**	3,609
Over 1 year	**7,854**	1,855
	104,894	40,971

The directors consider that the carrying amount of trade and other payables approximates their fair value.

27. LOAN FROM A DIRECTOR

The loan from Mr. Shih Chian Fang is unsecured, interest-free and is repayable on demand.

As described in note 25, the carrying value of loan from director of discontinued operations of approximately HK$113,000 had reclassified as assets held for sale as at 31st December 2009.

28. BANK BORROWINGS

	2009 **HK$'000**	2008 HK$'000
Secured bank loans*	–	33,344
Unsecured bank loans*	–	91,525
	–	124,869
The bank borrowings are repayable as follows:		
Within one year or on demand	–	124,869
One to two years	–	–
Two to five years	–	–
	–	124,869
Less: Amount due within one year shown under current liabilities	–	(124,869)
Amount due after one year	–	–

* As described in note 25, the carrying value of bank borrowings of secured bank loan of approximately HK$11,522,000 and unsecured bank loans of approximately HK$91,525,000, that are all repayable within one year of a total of approximately HK$103,047,000 have all been classified as liabilities directly associated with assets held for sale as at 31st December 2009.

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

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

	Denominated in RMB'000	**Denominated in US$'000**
As at 31st December 2009	10,370	9,800
As at 31st December 2008	30,010	9,800

The effective borrowing rate of the Group ranged from 4.3% to 7.8% (2008: 4.3% to 8.1%).

During the year, the Group obtained new loans with aggregate amounts of approximately HK$16 million. The proceeds were used for working capital purpose.

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the respective market rates.

28. BANK BORROWINGS (Cont'd)

At 31st December 2009, the Group's banking facilities were secured by the following:

(i) Certain of the Group's prepaid lease payments on land use rights, property, plant and equipment with a carrying value as follows:

	2009 HK$'000	2008 HK$'000
Prepaid lease payments on land use right and building	**76,580**	83,842
Plant and machinery	**25,936**	29,000
	102,516	112,842

(ii) No inventories of the Group have been pledged for the year ended 31st December 2009 and 2008;

(iii) No bank deposits of the Group have been pledged for the year ended 31st December 2009 and 2008; and

(iv) Cross-guarantees between subsidiaries.

At the end of the reporting period, the Company had not given guarantees to banks in respect of general banking facilities granted to subsidiaries.

On 12th September 2006, Bank of China, Xian Branch (the "Bank of China") which lent USD9.8 million to the Xian Hua Lien obtained a writ from 陝西省高級人民法院 (Shaanxi Province Highest People's Court) that granted the bank the legal rights to freeze and sequestrate all the assets of Xian Hua Lien including property, plant and equipment, inventories, trade receivables and bank balances. At the end of reporting period, Bank of China continued to sequestrate the bank accounts, the property, plant and machinery and inventories of Xian Hua Lien as additional security which have no carrying value at the end of reporting period.

Besides, the pledged prepared lease premium and certain of pledged buildings of Jiangmen Hua Lien with carrying value of approximately HK$24.5 million at the end of reporting period continued to sequestrate by Bank of China. The same assets was also sequestrated by Bank of Construction, Jiangmen Branch (the "Bank of Construction") (the pledgee of those assets) at the end of reporting period.

As the sequestration does not affect the lawful right to use, the encumbrances on pledged assets do not have material influence on present trading operation of Jiangmen Hua Lien.

29. CONVERTIBLE NOTES

On 27th February 2009, the Company issued two tranches of five-year zero-coupon Hong Kong-dollar convertible notes at par, due in February, 2014 (the "Notes"), for an aggregate principal amount of HK$673,200,000, which is part of the consideration for the acquisition of SATT. The Notes are convertible at the option of noteholders into ordinary shares of HK$0.10 each of the Company at an initial conversion price HK$0.6 per share, subject to anti-dilutive adjustment, at any time from 27th February 2009 up to and including 26th February 2014.

The Notes contain two components, a liability and an equity element. The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The equity element is presented in equity as "Convertible notes equity reserve". The effective interest rate of the liability component is 9.0219%.

A principal amount of HK$15,000,000 notes were converted on 4th November 2009.

	HK$'000
Proceeds of issue	673,200
Equity component	(236,105)
Liability component at date of issue	437,095
Issue of share on exercise of part of the convertible notes	(10,344)
Accrued effective interest charges	33,139
At 31st December 2009	459,890

30. WARRANTS

The Company has a total of 164,736,000 warrants outstanding at 31st December 2009 and its movements are as follows:

Date of grant	Note	Outstanding at 1/1/2009	Issued during the year	Exercised/ Lapsed during the year	Outstanding at 31/12/2009	Exercise period	Exercise price per share
4th October 2007	a	164,736,000	–	–	164,736,000	4/10/2007 – 3/10/2011	HK$0.60

Note:

(a) On 4th October 2007, the Company issued 164,736,000 unlisted warrants at HK$0.03 each. The gross proceeds of approximately HK$4,942,000 was raised and included in the warrant reserve. Each of the warrant has subscription right to subscribe for one subscription share of the Company at a subscription price of HK$0.60, subject to adjustment, for a exercise period of four years from 4th October 2007 to 3rd October 2011. None of such warrants were exercised since the date of issue. At the end of reporting date, the Company had outstanding 164,736,000 unlisted warrants to be exercised before 3rd October 2011. Exercise in full of such warrants would result in the issue of 164,736,000 additional ordinary shares.

31. SHARE CAPITAL

	Number of Shares		Share Capital	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Ordinary share of HK$0.1 each				
Authorised				
At beginning of year	**1,500,000**	1,500,000	**150,000**	150,000
Increase during the year (i)	**4,500,000**	–	**450,000**	–
At end of year	**6,000,000**	1,500,000	**600,000**	150,000
Issued and fully paid				
At beginning of year	**823,680**	823,680	**82,368**	82,368
Issue of consideration shares (ii)	**300,000**	–	**30,000**	–
Issue of subscription shares (iii)	**100,000**	–	**10,000**	–
Issue of shares on exercise of convertible notes (iv)	**25,000**	–	**2,500**	–
At end of year	**1,248,680**	823,680	**124,868**	82,368

Note:

(i) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 20th February 2009, the authorised ordinary share capital of the Company was increased from HK$150,000,000 divided into 1,500,000,000 shares with a par value of HK$0.1 each to HK$600,000,000 divided into 6,000,000,000 shares with a par value of HK$0.1 each by creation of an additional 4,500,000,000 new shares with a par value of HK$0.1 each in the capital of the Company.

(ii) On 27th February 2009, 300,000,000 new shares of HK$0.1 each were issued at a price of HK$0.60 per share. The net proceeds were used to settle part of the consideration for the acquisition of SATT.

(iii) On 22nd June 2009, 100,000,000 new shares of HK$0.1 each were issued at a price of HK$0.60 per share under three subscription agreements dated 5th June 2009.

(iv) On 4th November 2009, the Company issued 25,000,000 shares on exercise of conversion rights under the convertible notes with a principal amount of HK$15,000,000.

32. ACQUISITION OF A SUBSIDIARY

On 27th February 2009, the Group acquired 100% equity interest of the SATT from an independent third party for a consideration of HK$853,200,000.

	Carrying amount before the acquisition HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Intangible asset	–	423,000	423,000
Prepayments	216	–	216
Trade and other receivables	143,340	–	143,340
Cash at bank and cash equivalents	23,250	–	23,250
Accrued expenses	(6)	–	(6)
Trade and other payables	(58,368)	–	(58,368)
Net assets acquired	108,432	423,000	531,432
Total consideration			(853,200)
Goodwill			(321,768)
Satisfied by:			
Fair value of convertible notes			673,200
Issue of shares at fair value (Note 31)			180,000
			853,200
Net cash inflow arising on acquisition			
Cash consideration paid			–
Bank balance and cash acquired			23,250
			23,250

33. COMMITMENTS

a. Operating lease commitments:

	2009 HK$'000	2008 HK$'000
Lease payments paid during the year under operating leases in respect of land and buildings and office premises	**755**	192

33. COMMITMENTS (Cont'd)

a. Operating lease commitments: (Cont'd)

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

	2009 HK$'000	2008 HK$'000
Within one year	827	216
In the second to fifth year inclusive	647	180
Over five years	–	–
	1,474	396

Operating lease payments principally represent rentals payable by the Group for certain of its office premises for both years.

The Group did not have any significant operating lease commitments at the end of the reporting period.

b. Other commitments:

Under the terms of a cooperative joint venture agreement in respect of 江門華聯製皮工業有限公司 Jiangmen Hua Lien Tannery Co., Ltd. ("Jiangmen Hua Lien", formerly known as 新會華聯製皮工業有限公司 Xin Hui Hua Lien Tannery Co., Ltd.), a subsidiary of the Company, Galloon International (Holding) Company, Limited ("Galloon International") is entitled to all of the net profit or loss of Jiangmen Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Jiangmen Hua Lien each year to the joint venture partner of Galloon International (the "Joint Venture Partner"). In the event that Jiangmen Hua Lien does not have sufficient distributable profit to make the required payments to the Joint Venture Partner, Galloon International is responsible for making such payments to the Joint Venture Partner as compensation. At 31st December 2009, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	2009 HK$'000	2008 HK$'000
Amount payable:		
Within one year	5,384	6,234
One to two years	5,384	6,234
Two to five years	16,151	16,361
Over five years	41,275	44,192
	68,194	73,021

The Group did not have any significant other commitments at the end of the reporting period.

34. SHARE OPTIONS SCHEME

2007 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2007 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 20th September 2007. The details of the 2007 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 3rd September 2007.

The purpose of the 2007 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees, directors, consultants and advisers of the Group and to promote the success of the Group. Qualifying participant of the 2007 Share Option Scheme means (a) any executive director, employee or proposed employee including full time or part time of any member of the Group (b) any non-executive director including independent non-executive directors of any member of the Group (c) any supplier of goods or services to any member of the Group (d) any customer of any member of the Group (e) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group (f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group (g) any joint venture partner, business or strategic alliance partner of any member of the Group (h) any discretionary trust whose discretionary objects may be any of (a) to (g).

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the shares in issue as at the date of the adoption of the 2007 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company think fit, seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10 per cent. of the shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2007 Share Option Scheme or any other scheme of the Company or exercised options under the said scheme) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the shares in issue from time to time. As at the date of the annual report, a total of 82,368,000 shares (representing approximately 10 per cent. of the existing issued share capital of the Company) are available for issue under the 2007 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the 2007 Share Option Scheme and any other option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the total number of shares in issue.

34. SHARE OPTIONS SCHEME (Cont'd)

2007 Share Option Scheme (Cont'd)

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2007 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto in addition to those set forth in the 2007 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria conditions and the satisfactory performance. However, the 2007 Share Option Scheme itself does not specify any minimum holding period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a nominal value of HK$1.00 in total by the grantee. The exercise period of the share options granted is determined by the Board of Directors, and shall not exceed a period of ten years after the date of grant.

The subscription price in respect of any particular option under the 2007 Share Option Scheme shall be such price as the Board may at its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share; (b) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options. The 2007 Share Option Scheme will expire on 19th September 2017. As at the end of reporting period, no share option has been granted under the 2007 Share Option Scheme since its adoption.

35. RETIREMENT BENEFITS SCHEMES

The Group operates the MPF Scheme established under the Mandatory Provident Fund Ordinance for its qualifying employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The PRC subsidiaries are required to contribute a certain percentage, ranging from 18% to 20%, of the payroll of their employees to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes.

At the end of reporting period, there were no significant forfeited contributions available to reduce the contribution payable in the future years.

The total cost charged to the consolidated statement of comprehensive income of approximately HK$1.6 million (2008: HK$0.5 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

36. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had certain transactions with related parties. Details of these transactions with these related parties are as follows:

(a) Transactions with related parties

	From 27th February 2009 (Date of acquisition) to 31st December 2009 HK$'000
Sales to four subsidiaries of COMPLANT International Sugar Industry Co., Ltd. (Note (i))	154,317
Purchase from substantial shareholder of COMPLANT International Sugar Industry Co., Ltd. (Note (ii))	65,372
Rental and building management fee paid to substantial shareholder of COMPLANT International Sugar Industry Co., Ltd. (Note (iii))	539

Notes:

(i) Pursuant to four supply and service agreements dated 15th December 2008, which were approved by independent shareholders of the Company on 20th February 2009, SATT, a subsidiary of the Company, rendered supporting services to sweetener and ethanol business to four subsidiaries of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

(ii) Pursuant to an supply and service agreement dated 15th December 2008, which were approved by independent shareholders of the Company on 20th February 2009, SATT, a subsidiary of Company, received supporting services to sweetener and ethanol business from the substantial shareholder of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

(iii) The amount paid by SATT pursuant to a tenancy agreement dated 15th December 2008 between SATT, a subsidiary of Company and the substantial shareholder of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

36. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(b) Trade receivable and payable of related parties

	2009 HK$'000	2008 HK$'000
Trade receivables of four subsidiaries of COMPLANT International Sugar Industry Co., Ltd. (Note (i))	**186,305**	–
Trade payable to substantial shareholder of COMPLANT International Sugar Industry Co., Ltd. (Note (ii))	**70,570**	–

Notes:

(i) The trade receivables are interest free and unsecured, and for supporting services to sweetener and ethanol business rendered to four subsidiaries of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

(ii) The trade payable is interest free and unsecured, and for supporting services to sweetener and ethanol business rendered by the substantial shareholder of COMPLANT International Sugar Industry Co., Ltd., a substantial shareholder of the Company.

(c) Key management personnel compensation

Remuneration for key management personnel is as follows:

	2009 HK$'000	2008 HK$'000
Directors' fee	**160**	160
Salaries	**675**	660
Allowances	**61**	–
Performance bonus	**523**	–
Provident fund contributions	**27**	–
	1,446	820

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

(d) Others

Details of an arrangement with a joint venture partner of Galloon International in respect of the distribution of profits in Jiangmen Hua Lien are set out in note 33(b).

37. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2009 are as follows:

Name of company	Place of Incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Effective proportion of issued registered capital held by the Company	Principal activities
Galloon International (Holding) Company Limited	British Virgin Islands/ Taiwan	Ordinary shares US$2	100%	Sale and marketing of leather, raw materials sourcing and investment holding
嘉聯皮革(中國)有限公司 Galloon Leather (China) Co, Ltd, ("Galloon Leather") (formerly known as新會嘉聯皮革(中國)有限公司Xin Hui Galloon Tannery Co. Ltd.)	The PRC **	Registered capital US$21,700,000 Note (iv)	100%	Manufacture and sale of leather
Hua Lien Group (Holding) Company, Limited ("Hua Lien Group (Holding)")	British Virgin Islands/ Hong Kong	Ordinary shares US$19,193,997 Note (i)	100%	Investment holding
Jumbo Right Investments Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$1	100%	Investment holding
Hua Lien (Hong Kong) Company Limited ("Hua Lien Hong Kong")	Hong Kong	Ordinary shares HK$10,000 Non-voting deferred shares HK$15,000,000 Note (ii)	100%	Provision of management services
江門華聯製皮工業有限公司 Jiangmen Hua Lien Tannery Co. Ltd.	The PRC *	Registered capital US$14,522,000	70.5% Note (iii)	Manufacture and sale of leather
Sawston International Limited	British Virgin Islands/ Taiwan	Ordinary share US$1	100%	Sale and marketing of leather and raw material sourcing
西安華聯製皮工業股份有限公司 Xian Hua Lien Tannery Co. Ltd. ("Xian Hua Lien")	The PRC ***	Registered capital RMB65,600,000	51% Note (v)	Manufacture and sale of leather
Sino-Africa Technology & Trading Limited ("SATT")	British Virgin Islands	Ordinary shares US$3,000,000	100%	Provision of supporting services to sweetener and ethanol business

37. SUBSIDIARIES (Cont'd)

Name of company	Place of Incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Effective proportion of issued registered capital held by the Company	Principal activities
Sino-Africa Technology & Trading (Hong Kong) Limited ("SATT Hong Kong")	Hong Kong	Ordinary share HK$1	100%	Investment holding
River Right Limited	British Virgin Islands/ Hong Kong	Ordinary share US$1	100%	Investment holding
Joyful Right Limited	British Virgin Islands/ Hong Kong	Ordinary share US$1	100%	Investment holding

* Company incorporated as limited liability cooperative joint venture enterprise in the PRC

** Company incorporated as limited liability equity joint venture enterprise in the PRC

*** Joint stocks limited liability company in the PRC

Notes:

(i) Hua Lien Group (Holding) is held by the Company directly. All other subsidiaries are held by the Company indirectly.

(ii) The deferred shares of Hua Lien Hong Kong, which are not held by the Group, practically carry no rights to receive dividends or to receive notice of or to attend or to vote at any of its general meetings or to participate in any distribution on its winding up.

(iii) Jiangmen Hua Lien is a limited liability cooperative joint venture enterprise with a term of operation to 26th August 2022. Under the terms of the cooperative joint venture agreement, Galloon International holds 70.5% of the registered capital of Jiangmen Hua Lien, but it is entitled to all of the net profit or loss of Jiangmen Hua Lien throughout the entire cooperative joint venture period, after the payment of a pre-determined distribution by Jiangmen Hua Lien each year to the Joint Venture Partner, details of which are set out in note 33(b).

At the end of the cooperative joint venture period, Galloon International is entitled to the distribution of all the remaining assets of Jiangmen Hua Lien according to its capital contribution ratio in Jiangmen Hua Lien.

(iv) At the end of reporting period, the registered capital of Galloon Leather was paid up to the extent of US$21,700,000 (2008: US$21,700,000).

(v) In January 2003, Xian Hua Lien was approved to change from a limited liability sino-foreign equity joint venture enterprise for a term of operation of 20 years to a joint stock limited liability company with a registered capital of RMB 65,600,000.

Since the establishment of Xian Hua Lien, the minority shareholders received 40% of the profit distribution made by Xian Hua Lien in respect of the period from the date of its establishment to 31st December 2009 (rather than in proportion to the 49% equity interest that it holds in Xian Hua Lien) and, pursuant to an agreement made with Galloon International, Hua Lien Hong Kong, Xian Hua Lien, the minority shareholders waived its remaining entitlement to such profit distribution in favour of the Group, the Group therefore effectively had a 60% attributable economic interest in Xian Hua Lien for the period from the date of establishment of Xian Hua Lien to 31st December 2009.

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

38. INTERESTS IN SUBSIDIARIES

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**496,175**	476,175
Amounts due from subsidiaries	**926,061**	71,549
	1,422,236	547,724
Impairment loss recognised	**(541,198)**	(398,184)
	881,038	149,540

The carrying value of the unlisted shares is based on the fair values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group reorganisation in 2000.

Details of the Company's subsidiaries at 31st December 2009 are set out in note 37.

In the opinion of the directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repayable within one year from the end of reporting period and are therefore shown in the statement of financial position as non-current.

39. EVENTS AFTER THE REPORTING PERIOD

On 16th October 2009 and 19th October 2009, the Company entered into Disposal Agreements with Sino Commend Limited to dispose of its entire interest in the Target Group, a wholly-owned subsidiary of the Group, for an aggregate cash consideration of HK$101,500,000. Details of the transactions were set out in the Company's announcement and circular dated 20th October 2009 and 23rd November 2009 respectively.

On 1st March 2010, the Board of Directors announced that the conditions precedent under the Disposal Agreements had been fulfilled and the disposal was duly completed on 28th February 2010. Upon completion, the Target Group had ceased to be subsidiaries of the Group.

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company includes:

	Notes	**2009 HK$'000**	2008 HK$'000
Non-current asset			
Interests in subsidiaries	38	**881,038**	149,540
Current assets			
Trade and other receivables		**–**	24
Bank balances and cash		**89,016**	36,681
		89,016	36,705
Current liabilities			
Other payables		**21,962**	3,182
Loan from a director		**–**	468
Amount due to a subsidiary		**1,116**	1,116
		23,078	4,766
Net current assets		**65,938**	31,939
Total assets less current liabilities		**946,976**	181,479
Non-current liability			
Convertible notes		**459,890**	–
Net assets		**487,086**	181,479
Capital and reserves			
Share capital	31	**124,868**	82,368
Reserves		**362,218**	99,111
Total equity		**487,086**	181,479

Five Years Financial Summary

	Year ended 31st December				
	2005*	2006*	2007*	2008*	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Continuing operations					
Turnover	874,629	718,909	615,203	537,003	**154,317**
Cost of sales	(832,005)	(694,855)	(753,113)	(603,421)	**(67,005)**
Gross profit (loss)	42,624	24,054	(137,910)	(66,418)	**87,312**
Other operating income	5,562	14,565	14,638	3,213	**218**
Distribution cost	(720)	(408)	(220)	(174)	**(15)**
Administrative expenses	(23,338)	(19,874)	(22,707)	(27,331)	**(18,827)**
Other expenses	(2,217)	(124,154)	(111,911)	(103,869)	**(112,882)**
Profit (loss) from operations	21,911	(105,817)	(258,110)	(194,579)	**(44,194)**
Finance costs	(10,271)	(8,619)	(11,292)	(9,093)	**(33,139)**
Profit (loss) from ordinary activities before tax	11,640	(114,436)	(269,402)	(203,672)	**(77,333)**
Income tax (expense) income	(3,414)	1,597	(18,660)	(10,003)	**–**
	8,226	(112,839)	(288,062)	(213,675)	**(77,333)**
Discontinued operations					
Loss for the year from discontinued operations	–	–	–	–	**(98,734)**
Profit (loss) before non-controlling interests	8,226	(112,839)	(288,062)	(213,675)	**(176,067)**
Non-controlling interests	(4,641)	39,477	(5,906)	(4,139)	**(3,046)**
Net profit (loss) for the year	3,585	(73,362)	(293,968)	(217,814)	**(179,113)**

	At 31st December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,063,839	938,353	611,218	391,892	**1,217,815**
Total liabilities	(316,833)	(291,806)	(208,277)	(210,413)	**(730,730)**
Non-controlling interests	(47,183)	(2,096)	(2,096)	–	**–**
	699,823	644,451	400,845	181,479	**487,085**

* The Results for each of the year from 2005 to 2008 have not been re-presented for the discontinued operations in 2009.