# HYBRID KINETIC GROUP LIMITED

# 正 道 集 團 有 限 公 司

(Stock Code: 01188)

Annual Report 2009

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# Corporate Information

## BOARD OF DIRECTOR

**Executive Directors**
Dr. Yeung Yung
*(Chairman and Chief Executive Officer)*
Mr. Liu Quan *(Deputy Chairman)*
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang
Dr. Wang Chuantao *(appointed on 27 April 2009)*
Dr. Hou Junwen *(appointed on 27 April 2009)*
Mr. Wang Xiaolin
*(removed with effect from 15 April 2009)*

**Independent Non-Executives Directors**
Mr. He Bangjie
Mr. Ting Kwok Kit, Johnny
Mr. Wong Lee Hing

## AUDITORS

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

## PRINCIPAL BANKERS

East West Bank
(U.S. branch)
9550 Flair Drive
E1Monte CA91731

HSBC

## PRINCIPAL OFFICE

Suites 1407-8, 14/F,
Great Eagle Centre
23 Harbour Road, Wanchai
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## HONG KONG LEGAL ADVISOR

Chiu & Partners
40th Floor, Jardine House,
1 Connaught Place,
Hong Kong.

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street, Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

# Chairman's Statement

Dear Shareholders,

For and on behalf of the board ("Board") of directors ("Directors") of Hybrid Kinetic Group Limited ("the Company"), I hereby present to all shareholders the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2009.

For the financial year ended 31 December 2009, the Group recorded a turnover of approximately HK$10.39 million, representing an increase of approximately 3,108% over the same period in 2008. Loss attributable to shareholders was approximately HK$125.08 million (profit of approximately HK$35.21 million in 2008). The loss of the Group for the year was mainly attributable to the costs of developing the prospective environmental automobile business ("HK Motors Project") in the U.S. The Board has full confidence in the HK Motors Project and believes that will make enormous contribution to the shareholders in the long run.

As the HK Motors Project is still in the development stage, It may not generate any revenues in coming years. In order to improve the financial position of the Group, the Board will actively explore automobile related investment opportunities which can generate positive cash flow in the short run. One of possibilities is to invest in fast growing automobile power battery business.

As a result of increasing awareness of environmental protection and tighter carbon dioxide ("$CO_2$") emission regulations, the demand for hybrid electric vehicles has been increased continuously. In order to encourage the self-developed green automobile industry, many developed countries have passed relevant legislations and provided incentives to encourage the development and consumption of green vehicles. The U.S. passed the "2009 Advanced Automobile Technologies Act" at the end of last year, and expected to invest US$2.9 billion in the research and development of advanced-technology automobiles and components in the next 5 years. The European Union also invested Euro 3.2 billion through public and private partnerships for the research and development of green economy, of which one of the three biggest segments is environmental automobile industry. In France, purchase of a low emission environmental automobile will be subsidized and higher tax will be imposed on the purchase of traditional gasoline vehicles with higher $CO_2$ emission. The Group expects that more similar policies and regulations will be put forth in the future and the automobile industry will undergo an upside down reform. In order to grasp these emerging opportunities, the Group has established a long-term strategic plan and will take necessary actions accordingly.

# Chairman's Statement

During the year, the Group successfully acquired America's Center for Foreign Investment, LLC ("ACFI") and incorporated a subsidiary, Hybrid Kinetic Motors Corporation ("HKMC"), to commence the establishment of our environmental automobile business in the U.S.. In October, 2009, the Baldwin County Commission of the State of Alabama, the U.S., issued a non-legally binding letter of intent to HKMC signifying its intention to provide a 3,000 acre mega-site property for the HK Motors Project. The Group also entered into memorandum of understanding with Shenyang-EU Economic Development Zone for the establishment of an environmental-friendly hybrid system production base. The Board believes that such transaction and cooperation will help the Group to implement its strategy effectively.

In January 2010, the Group incorporated a subsidiary, namely HKMC Equity Investment Fund Management Co., Ltd., to explore business prospects of investing in the environmental automobile industry in China. The Group believes that such move will divert its regional risks and strengthen its overall competitiveness.

Apart from the environmental automobile business, the environmental product business based in Beijing, Beijing Century Wanyeyuan Bio-Engineering Co., Limited ("Wanyeyuan"), is another major business of the Group. This business recorded a significant growth in 2009 as a result of extended sales network. As part of its business development plan, Wanyeyuan has established a scalable production base in Shandong, China. The Board believes that the production base will help the Group to reduce production costs and improve product quality. We expect the environmental products and related businesses will achieve rapid growth in China in the years to come.

In order to cope with its business strategy, the Group will retreat gradually from the natural resources business and may dispose of this business during the year. As for other businesses such as indoor game centers and automobile axles, the Group had terminated these operations by the end of 2009.

# Chairman's Statement

With full support from the shareholders, who are our strong driving force to foster us to go faster, we will strive to achieve better returns for them in the long-run.

Finally, I would like to represent the Board to extend my sincere appreciation to our shareholders, customers, and business partners for their continuous support, and also to our staff for their dedication, diligence and relentless contributions.

**Yeung Yung**
*Chairman*

Hong Kong, 27 April 2010

# Information of Directors

## EXECUTIVE DIRECTORS

**Dr YEUNG Yung（仰融）**, aged 52, was appointed a Director of the Company in November 1998, and is the Chairman and the Chief Executive Officer of the Group. Dr Yeung holds a PhD Degree in Economics from China's Southwest University of Finance & Economics. Dr Yeung was elected as a director of the John Hopkins University Center – Nanjing University Centre for Chinese and American Studies（中美文化交流中心理事）. Dr Yeung was the chairman, chief executive officer and president of Brilliance China Automotive Holdings Limited and also the chairman and president of Shenyang Jinbei Passenger Vehicle Manufacture Co., Ltd. from 1992 to 2002.

**Mr LIU Quan（劉泉）**, aged 55, was appointed a Director of the Company in October 2007 and is the Deputy Chairman of the Group. Mr Liu holds a Master's Degree in business, economics and finance from China Europe International Business School (CEIBS). Mr Liu has extensive knowledge and experience in the management of supply chain business. He has been in the supply chain industry for more than 20 years and was one of the founders of several industrial companies and investment companies in China and the United States of America.

**Mr HUI Wing Sang, Wilson（許永生）**, aged 42, was appointed a Director of the Company in September 2007 and holds the offices of chief financial officer, company secretary and authorized representative of the Company. Mr Hui holds a Master's Degree in Business Administration from University of Surrey and a Master's Degree in Professional Accounting and Information System from City University of Hong Kong. He has been an associate member of Hong Kong Institute of Company Secretaries (HKICS) since 1996 and Hong Kong Institute of Certified Public Accountants (HKICPA) since 1999. Mr Hui possesses more than 15 years of experience in accounting, finance and corporate management.

**Dr ZHU Shengliang（朱勝良）**, aged 59, was appointed a Director of the Company in May 2008. Dr Zhu holds a PhD degree in Economics from Southwestern University of Finance and Economics. Dr. Zhu is currently a chairman of Ningbo Meilide Consulting Co., Limited, a subsidiary of the Company. Dr Zhu possesses extensive experience in finance and corporate management. He took senior managerial roles in several companies, including Shanghai Shenhua Holdings Co., Ltd., a PRC-listed company.

# Information of Directors

**Dr WANG Chuantao** (王川濤), aged 56, was appointed a Director of the Company in April 2009. Dr Wang has more than 29 years' experience in the field of manufacturing engineering and is an internationally recognized technologist in the development and implementation of advanced stamping using computer-aided engineering technology and production systems for digital die manufacturing and stamping for automotive applications. He is armed with interdisciplinary education, diverse and in-depth knowledge and management experience in the automotive industry. He received his doctorate in industrial systems and engineering and his master's degree in materials science and engineering from The Ohio State University, Columbus, Ohio, the US and his bachelor's degree and master's degree in mechanical engineering from Chongqing University, Chongqing, the PRC. Before joining the Group, Dr Wang was the Chief Die Engineer and Technical Fellow in the Global Die Center at the Manufacturing Engineering Division of General Motors Corp. ("**GM**") in Warren, Michigan, the US. He has also been appointed the chief executive officer of Hybrid Kinetic Motors Corporation, a wholly-owned subsidiary of the Company.

**Dr HOU Junwen** (侯俊文), aged 49, was appointed a Director of the Company in April 2009. Dr Hou has more than 19 years' experience in the field of engine and transmission manufacturing, powertrain (engine, transmission and axle) planning, powertrain program management and powertrain system calibration. He received his doctorate and master's degree in mechanical engineering from the University of Cincinnati, Cincinnati, Ohio, the US, his master of science degree in mechanical engineering (MSME), majoring in gear design and manufacturing, and his bachelor's degree in mechanical engineering from the Taiyuan University of Technology, Shanxi, the PRC. Before joining the Company, Dr Hou was a hypoid gear specialist in Chrysler LLC ("**Chrysler**") in Michigan, the US. During his stay with Chrysler, Dr Hou had taken various managerial roles and responsibilities, including hypoid gear design, gear set development, new axles programs, outside powertrain sales, process reengineering and so on.

# Information of Directors

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr He Bangjie**（何邦傑）, aged 47, was appointed an independent non-executive Director of the Company in April 2003. Mr He holds a Bachelor's and Master's degree in Engineering from Zhejiang University in China. He was a senior manager and a director in international trading and investment companies in the United States of America and China, and had extensive experience in international trading and investments. Mr He is currently a senior manager in an American company.

**Mr Ting Kwok Kit, Johnny**（丁國傑）, aged 49, was appointed an independent non-executive Director of the Company in November 2007 and is the authorized representative of the Company. Mr Ting holds a Bachelor's Degree in Economics from the University of Victoria of Canada and a MBA from the City University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Certified General Accountants Association of Canada (CGA). He is also a fellow member of the Institute of Chartered Secretaries and Administration (FCIS). Mr Ting has more than 10 years in accounting, finance and corporate management.

**Mr Wong Lee Hing**（王利興）, aged 41, was appointed an independent non-executive Director of the Company in October 2008. Mr Wong holds a Bachelor's degrees in Manufacturing Engineering and Postgraduate Certificate in Business Administration from the City University of Hong Kong. Mr Wong possesses more than 10 years' experience in the production industry and information technology management. He is currently a director of an electronic trading company.

# Directors' Report

## MANAGEMENT DISCUSSION AND ANALYSIS AND DISCLOSURE OF ADDITIONAL INFORMATION

## BUSINESS REVIEW

### Overview

The principal business of the Group during the year include environmental products and related business, natural resources business, operation of indoor family entertainment game centers, manufacturing and selling automobile axles in the PRC and automobile business in the U.S..

The Group's turnover from continuing operations and loss attributable to shareholders for the year ended 31 December 2009 amounted to HK$10.39 million (2008: HK$0.32 million) and HK$125.08 million (2008: profit of HK$35.21 million) respectively.

As compared with the corresponding period in 2008, the turnover increased by approximately 3,108%. The increase in turnover was mainly due to the significant growth of environmental product business in the second half of 2009.

The general operating expenses of continuing operations for the year ended 31 December 2009 increased to HK$122.12 million (2008: HK$68.58 million) which include professional expenses of HK$16.49 million, research and development expenses of HK$6.62 million, share-based compensation of HK$27.52 million for the share options issued during the year and salary expenses of HK$27.27 million.

**(a) Prospective U.S. Automobile business**

To implement the development of U.S. automobile business, the Group incorporated a wholly-owned subsidiary (namely, Hybrid Kinetic Motors Corporation ("HKMC")) in the U.S. and a limited partnership (namely, Hybrid Kinetic Motors Project A, LP) during the year. Hybrid Kinetic Motors' project ("HK Motors Project") is the first motors project implemented by HKMC. On 6 October 2009, the Baldwin County Commission of the State of Alabama, the U.S., issued a non-legally binding letter of intent to HKMC signifying its intention to provide a 3,000 acre megasite property for the HK Motors Project. It symbolizes the development of HK Motors Project is under the auspices of the initiative of the State of Alabama. The Group also entered into memorandum of understanding with Shenyang-Eu Economic Development Zone in connection with the establishment of production plants for eco-friendly vehicles and systems in the area. The Board is of the view that, based on the future market demand and the series of economic stimulus policies by the U.S. Government, the automobile industry has high growth potential.

# Directors' Report

**(b) Environmental products and related business**

The Group participated in environmental products and related business mainly through its non-wholly owned subsidiary in Beijing, namely Beijing Century Wanyeyuen Bio-Engineering Co., Ltd. ("Beijing Century") and its subsidiary. Beijing Century recorded a turnover of HK$10.39 million for the year (2008: HK$0.32 million). This business segment recorded a loss of HK$3.10 million for the year (2008: HK$1.13 million) as a result of the amortisation of intangible assets of HK$4.48 million. In December 2009, Beijing Century had a significant growth in turnover and the business started to develop promising sales channel in the PRC.

As at 31 December 2009, Beijing Century has been granted the "High-tech Enterprise Certificate" by Beijing Science and Technology Committee, and the "Microorganisms Fertilizer Registration Certificate" and the "Bio-organic Fertilizer Registration Certificate" by the Ministry of Agriculture of China. It has also been awarded the "Invention Patent Certificate of Microbial Agents" and the "Invention Patent Certificate of Bio-organic Fertilizers" by the Patent Office of China. In mid-2009, the development of the Group's bio-organic fertilizers is fully supported by China's "National Agricultural Technology Extension and Service Center". A pilot demonstration was launched throughout the country. Building on the pilot demonstration, the Group believes that it is well positioned to rapidly expand the market share of its environment-friendly products in the nationwide bio-organic fertilizer markets.

**(c) Natural resources business**

During the year, Jilin Shengshi Mining Limited ("Jilin Shengshi"), a wholly owned subsidiary of the Company, has not recorded any revenue (2008: N/A) and a loss of HK$2.65 million (2008: Loss of HK$5.37 million). Currently, a subsidiary of Jilin Shengshi owns two mine exploration rights in Jilin. Other than holding and managing its own mine exploration rights, Jilin Shengshi also entered into management agreements with owners of mine exploration rights for providing mine management services.

**(d) Game centers**

The Group continued to operate an indoor family entertainment game centers in the PRC. This business recorded turnover HK$0.82 million (2008: HK$0.69 million) and a profit before taxation of HK$0.36 million (2008: Loss before taxation of HK$0.57 million) for the year ended 31 December 2009. Since the indoor family entertainment business was not overly positive and even gloomy over the years, the Board discontinued the operation of the indoor family entertainment centre of the Group with effect from 31 December 2009.

# Directors' Report

**(e) Automobile axles**

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, namely Shenyang Liaohua Automobile Axles Company Ltd has suspended operations since the mid of 2004 as the result of re-allocation of plant. For the year ended 31 December 2009, the business recorded profit from operations of HK$0.18 million (2008: Loss of HK$0.31 million). Since the operation of the automobile axles business of the Group would not be revived, the Board closed down the automobile axles business of the Group with effect from 31 December 2009.

## PROSPECTS

With the increasing awareness of environmental protection issues, the voices requesting reduction of $CO_2$ emission become louder, resulting in a continuous increase in demand for hybrid electric vehicles globally. The U.S. government is actively encouraging the automobile industry to develop a new generation of hybrid automobiles and has nourished a favorable environment for the relevant measures. Hence, the Group is seizing this favorable opportunities to set our foothold in the U.S. automobile industry market.

In the future, the Group will treat the U.S. automobile business as its core business, and uses its project company, Hybrid Kinetic Motors Project A, LP, as the platform to develop the U.S. automobile business. The Group will further promote and consolidate its market position to enable itself to become the first enterprise specializing in the mass production of hybrid electric automobiles globally. At the same time, the Group will review and evaluate from time to time its master plan on the U.S. automobile business. By making reference to feasibility studies and taking into account of the market environment and other commercial conditions, it will consider to set up more production bases in different markets, especially those markets that are beneficial to the development of the Group's automobile business.

In January 2010, the Group set up a subsidiary, namely HKMC Equity Investment Fund Management Co., Ltd. ("HKMC Management") in Tianjin to explore the future businesses prospects of the automobile industry in China as well as its long-term strategic development. The Group believes that HKMC Management will lay down a solid foundation for the future development of automobile markets outside the U.S. The Board believes that a huge opportunity is emerging and the Group is in a good position to grab this opportunity as it is served by talented and experienced experts in the automobile industry from not only the U.S., but also other parts of the world, including Europe and the PRC. It is expected that formal production will commence in 2013.

# Directors' Report

Another major business segment of the Group is the environmental products which can improve the environment, enhance the quality of cultivated land effectively and reduce the reliance on environment-destructive products like pesticides. Owing to the increasing concern in environmental protection and food safety in the PRC, market demand for our products is also increasing, and hence, the environmental products business has a considerable growth potential. The Board believes that relevant opportunities in the PRC market will be huge and our efforts have already earned the recognition from customers and governmental departments. Accordingly, the Group will allocate more resources to this business, and our current priority is to establish scalable plants and production lines in Shandong, and try to establish a much larger production and distribution network in the PRC in the coming year.

## FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

As disclosed in the Company's announcement dated 15 December 2009, the Company completed the placing ("Placing") of 200,000,000 ordinary Shares and the top-up subscription ("Top-up Subscription") of the same number of Shares on 3 December 2009 and 15 December 2009 respectively. The issue price and net price of each Placing Share (and each Top-Up Subscription Share) is HK$0.265 (which represents a discount of about 11.67% to the closing price of HK$0.30 per Share as quoted on the Stock Exchange on 1 December 2009, being the last trading day of the Shares immediately before the Placing took place) and HK$0.241 respectively. The aggregate nominal value of the Placing Shares (and the Top-up Subscription Shares) is HK$20,000,000. The Placing Shares were placed by the placing agent to not fewer than six independent allottees who are independent of, and not connected nor acting in concert with (for the purpose of the Takeovers Code) any director(s), chief executive(s) or substantial shareholder(s) of the Company or any of its subsidiaries or any of their respective associates. Pursuant to the Placing and Top-up Subscription, the Company raised net proceeds of approximately HK$48 million, of which approximately HK$15 million was utilized as general working capital of the Group (which was in line with the disclosure made in the Company's announcements) and the balance of approximately HK$33 million was not utilized as at 26 April 2010.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the total equity of the Group amounted to approximately HK$228.04 million (31 December 2008: HK$253.05 million). The gearing ratio of the Group as at 31 December 2009 measured in terms of total liabilities divided by shareholders' equity was approximately 19.23% (31 December 2008: 14.20%). As at 31 December 2009, net current assets of the Group were approximately HK$162.10 million (31 December 2008: HK$159.95 million). The pledged bank deposits were approximately HK$0.81 million (31 December 2008: HK$0.80 million) while the cash and cash equivalents amounted to HK$114.71 million (31 December 2008: HK$178.81 million). The Group also had outstanding borrowings of approximately HK$1.89 million (31 December 2008: HK$1.90 million).

# Directors' Report

## HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 115 employees as at 31 December 2009. It has been the Group's policy to ensure that the remuneration levels of its employees are reviewed and rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to employees of the Group.

## RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 32 to the financial statements.

## CHARGES ON GROUP ASSETS

As at 31 December 2009, bank deposits of HK$0.81 million (31 December 2008: HK$0.80 million) were pledged to secure the general banking facilities granted to the Group.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollar and United States Dollar. The Group has not taken any financial instruments for hedging purpose during the year .

## LOAN AGREEMENT

On 29 June 2009 (U.S. time), the Company entered into a loan agreement ("Loan Agreement") with HKMI in respect of the advancement of a loan ("Loan") in the principal amount of US$9 million (equivalent to approximately HK$69.80 million at the exchange rate US$1 = HK$7.76) by the Company to HKMI. The Loan is secured against the entire ownership interest of the sole member of HKMI. Repayment is entitled on demand and the Loan does not carry any interest. The purpose of the Loan is to provide initial general working capital to HKMI. The Directors believe that the granting of the Loan will not cause significant financial impact on the Group but will pave the way for future co-operation with HKMI in the development of the Group's business in the U.S. automobile industry.

# Directors' Report

## MATERIAL ACQUISITIONS AND DISPOSALS

### Acquisition of America's Center for Foreign Investment, LLC ("ACFI") (formerly known as "Alabama Center for Foreign Investment, LLC")

In March 2009, the Group announced the acquisition of 80% equity interest in ACFI. The consideration for such acquisition is HK$7.8 million and payable by the issue and allotment of consideration shares of the Company. ACFI has been designated by the U.S. Citizenship and Immigration Services ("USCIS") of the U.S. Department of Homeland Security as regional center for the State of Alabama to participate in the Immigrant Investor Pilot Program (EB-5 visa category), an employment-creation visa program that offers foreign nationals the opportunity to become permanent residents in the U.S..

As disclosed in the Company's announcement dated 6 November 2009, ACFI has received approval from the USCIS to extend its geographical boundary from the State of Alabama (the initial designation by USCIS) into four neighbouring States of the U.S., namely Georgia, Florida, Mississippi and Tennessee. With the extension granted by USCIS, ACFI has become the largest EB-5 Regional Center in the U.S.. The Board considers that such extension signified the USCIS's confidence in ACFI and would help fortify the presence of the Group in the U.S..

### Possible very Substantial Acquisition and Connected Transaction – Strategic Participation in the development of HK Motors Project in U.S.

In September 2009, the Group entered into a legally-binding limited partnership agreement and the corresponding ancillary agreements (the "Agreements"), to refine the arrangements involving the Group's participation of HK Motors Project in the U.S.. The Agreements were approved in the special general meeting of the Company on 26 January 2010. According to the Agreements, a newly established limited partnership ("Project Company") in the U.S. will raise fund in the maximum amount of approximately US$7.8 billion (equivalent to HK$60.45 billion) by way of private placement and the minimum subscription is US$500,000. Potential investors are entitled to subscribe for shares of the Company equivalent to US$650,000 (which represents an annual yield of 6%) at the prevailing share price after 5 years. The net proceeds expected to be raised will be used in the development of HK Motors Project, including but not limited to the payment of the costs of research, design and development of the vehicles to be manufactured by the Project Company, the acquisition of all the intellectual property rights and interests of planned development and design of natural gas and multi-fuel electric-drive hybrid propulsion system etc.

Save for the above transactions, there were no material acquisitions and disposals during the financial period.

# Directors' Report

## EVENTS AFTER THE REPORTING DATE

### Establishment of HKMC Equity Investment Fund Management Co., Ltd.

In January 2010, the Company set up (through its wholly-owned subsidiary, HKMC) a wholly-foreign owned enterprise in the PRC, namely HKMC Equity Investment Fund Management Co., Ltd., to explore, undertake, or facilitate conducting business transaction in the PRC or with PRC enterprises, foreign investors (including financial investors and entrepreneurs) and organizing and procuring investment in the business opportunities identified by the Company in the PRC.

### Strategic Participation in the Development of the Automobile Project in the U.S.

On 26 January 2010, resolutions have been passed in the special general meeting of the Company to approve the Group's participation in the development of automobile project in the US. Details of the Group's participation in the development of automobile project in the US are set out in the Company's announcement dated 29 September 2009 and the Company's circular dated 29 December 2009.

### Placing of New Shares under Existing General Mandate

As disclosed in the Company's announcements dated 8 April 2010, the Company completed the placing of 338,300,000 new shares at HK$0.35 per share. Net proceeds of approximately HK$110.49 million was raised and is intended to be utilized by the Company as to 90% for research and development in automobile-related technology and 10% as general working capital of the Group.

### Grant of Share Options

On 15 April 2010, the Group has granted share options to subscribe for 60,000,000 ordinary shares of HK$0.10 each in the Company to certain employees and individuals under the share option scheme adopted by the Company on 12 June 2003. The fair value of the share options granted were amounted to approximately HK$8 million.

## DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil) and the Company did not declare any interim dividend during the year (2008: Nil).

## PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31 December 2009 are set out in note 18 to the financial statements.

# Directors' Report

## RESERVES

Movements in the reserves of the Group and the Company for the year ended 31 December 2009 are set out in note 39 to the financial statements.

## SHARE CAPITAL

The details of issued share capital of the Company for the year ended 31 December 2009 are set out in note 37 to the financial statements.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has received the annual confirmation of independence pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from each of the independent non-executive Directors. The Company considers all of the independent non-executive directors of the Company independent.

## RELATED PARTY TRANSACTIONS

Significant balances with related parties and related party transactions entered into by the Group during the year ended 31 December 2009 are disclosed in notes 33 and 40 to the financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the annual report on pages 131 to 132.

## TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2009, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons had an interest or short position in the shares ("Shares") and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Nature of interest | Number of Shares | Percentage (Note 1) |
|---|---|---|---|
| Sun East LLC | Beneficial Owner (Note 2) | 2,213,268,989 | 37.98% |
| Huang Xiujuan | Beneficial Owner | 340,560,000 | 5.84% |

Note:

1. The percentage of shareholding is calculated on the basis of 5,828,210,464 Shares in issue as at 31 December 2009 and has not taken into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

2. Sun East LLC is owned as to 35% by Dr. Yeung Yung (shared commonly with his wife under the laws of California, the US) and 65% by Mr. Ma Manwai (alias Ma Manwai, Philip) and Mr. Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr. Yeung Yung on 30 December 2002. Dr. Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.

Save as disclosed above, no person, other than Directors whose interests are set out in the section "Directors' and Chief Executive's Interests in Shares" below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

# Directors' Report

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### (1) Long positions in the ordinary Shares of HK$0.10 each in the Company

| Name | Capacity | Number of Shares held | Percentage of the issued share capital of the Company (Note 1) |
|---|---|---|---|
| Yeung Yung | Interest of controlled corporation (Note 2) | 2,213,268,989 | 37.98% |
| Liu Quan | Family Interest (Note 3) | 241,760,000 | 4.15% |
| Hui Wing Sang, Wilson | Beneficial Owner | 2,000,000 | 0.03% |
| Zhu Shengliang | Beneficial Owner | 5,333,883 | 0.09% |

Notes:

1. The percentage of shareholding is calculated on the basis of 5,828,210,464 Shares in issue as at 31 December 2009 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

2. These Shares are held by Sun East LLC. Sun East LLC is a limited liability company incorporated in California, the US, which is owned as to (i) 35% by Dr. Yeung Yung (shared commonly with his spouse under the laws of California, the US) and (ii) 65% by Mr. Ma Manwai (alias Ma Manwai, Philip) and Mr. Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr. Yeung Yung on 30 December 2002. Dr. Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.

3. These Shares are held by Fortune Venture Holding Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms. Li Xiaoqin (the spouse of Mr. Liu Quan). Mr. Liu Quan is deemed to be interested in these 241,760,000 Shares held by his spouse by virtue of Part XV of the SFO.

# Directors' Report

### (2) Interests in share options of the Company

| Name of Director | Date of grant | Exercisable period | Exercise price (HK$) | Number of underlying Shares subject to Outstanding Options | Approximate percentage of shareholding (Note) |
|---|---|---|---|---|---|
| Yeung Yung | 16 February 2000 | 16 February 2000 to 15 February 2010 | 0.619 | 11,140,000 | |
| | 2 November 2000 | 2 November 2000 to 1 November 2010 | 0.343 | 24,028,980 | |
| | 9 August 2005 | 29 August 2005 to 8 August 2015 | 0.102 | 11,140,000 | |
| | 6 February 2008 | 6 February 2008 to 5 February 2018 | 0.114 | 27,000,000 | |
| | 24 June 2009 | 24 June 2009 to 11 June 2013 | 0.123 | 40,000,000 | |
| | | | | 113,308,980 | 1.94% |
| Liu Quan | 6 February 2008 | 6 February 2008 to 5 February 2018 | 0.114 | 27,000,000 | |
| | 24 June 2009 | 24 June 2009 to 11 June 2013 | 0.123 | 13,000,000 | |
| | | | | 40,000,000 | 0.69% |

# Directors' Report

| Name of Director | Date of grant | Exercisable period | Exercise price (HK$) | Number of underlying Shares subject to Outstanding Options | Approximate percentage of shareholding (Note) |
|---|---|---|---|---|---|
| Hui Wing Sang, Wilson | 6 February 2008 | 6 February 2008 to 5 February 2018 | 0.114 | 27,000,000 | |
| | 24 June 2009 | 24 June 2009 to 11 June 2013 | 0.123 | 21,000,000 | |
| | | | | 48,000,000 | 0.82% |
| Zhu Shengliang | 9 August 2005 | 29 August 2005 to 8 August 2015 | 0.102 | 16,710,000 | |
| | 24 June 2009 | 24 June 2009 to 11 June 2013 | 0.123 | 1,290,000 | |
| | 10 July 2009 | 10 July 2009 to 11 June 2013 | 0.185 | 10,000,000 | |
| | | | | 28,000,000 | 0.48% |
| Wang Chuantao | 24 June 2009 | 24 June 2009 to 11 June 2013 | 0.123 | 15,000,000 | |
| | 17 November 2009 | 17 November 2009 to 11 June 2013 | 0.295 | 10,000,000 | |
| | | | | 25,000,000 | 0.43% |

# Directors' Report

| Name of Director | Date of grant | Exercisable period | Exercise price (HK$) | Number of underlying Shares subject to Outstanding Options | Approximate percentage of shareholding (Note) |
|---|---|---|---|---|---|
| Hou Junwen | 24 June 2009 | 24 June 2009 to 11 June 2013 | 0.123 | 7,500,000 | 0.13% |
| He Bangjie | 6 February 2008 | 6 February 2008 to 5 February 2018 | 0.114 | 2,000,000 | |
| | 10 July 2009 | 10 July 2009 to 11 June 2013 | 0.185 | 4,000,000 | |
| | | | | 6,000,000 | 0.10% |
| Ting Kwok Kit, Johnny | 10 July 2009 | 10 July 2009 to 11 June 2013 | 0.185 | 4,000,000 | 0.07% |

Note:

The percentage of shareholding is calculated on the basis of 5,828,210,464 Shares in issue as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, none of the Directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the section headed "Directors' and Chief Executive's Interests in Shares" above, and the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2009 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

# Directors' Report

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 15 March 1995 (the "1995 Scheme"), which was terminated on 12 June 2003, and a new share option scheme (the "2003 Scheme"), which are currently in force, was adopted by the Company on 12 June 2003.

The following share options were outstanding under the 1995 Scheme and 2003 Scheme during the period from 1 January to 31 December 2009:

| Name or Category of Participant | As at 1 January 2009 | Share Granted | Shares Lapsed/ cancelled during the year | Share Exercised | As at 31 December 2009 | Date of Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|---|
| *Director* | | | | | | | | |
| Yeung Yung | 11,140,000 | – | – | – | 11,140,000 | Note 1 | Note 1 | Note 1 |
| | 24,028,980 | – | – | – | 24,028,980 | Note 2 | Note 2 | Note 2 |
| | 11,140,000 | – | – | – | 11,140,000 | Note 4 | Note 4 | Note 4 |
| | 27,000,000 | – | – | – | 27,000,000 | Note 5 | Note 5 | Note 5 |
| | – | 40,000,000 | – | – | 40,000,000 | Note 6 | Note 6 | Note 6 |
| Liu Quan | 27,000,000 | – | – | – | 27,000,000 | Note 5 | Note 5 | Note 5 |
| | – | 13,000,000 | – | – | 13,000,000 | Note 6 | Note 6 | Note 6 |
| Hui Wing Sang, Wilson | 1,114,000 | – | – | (1,114,000) | – | Note 4 | Note 4 | Note 4 |
| | 27,000,000 | – | – | – | 27,000,000 | Note 5 | Note 5 | Note 5 |
| | – | 21,886,000 | – | (886,000) | 21,000,000 | Note 6 | Note 6 | Note 6 |
| Zhu Shengliang | 16,710,000 | – | – | – | 16,710,000 | Note 4 | Note 4 | Note 4 |
| | – | 1,290,000 | – | – | 1,290,000 | Note 6 | Note 6 | Note 6 |
| | – | 10,000,000 | – | – | 10,000,000 | Note 7 | Note 7 | Note 7 |
| Wang Chuantao | – | 15,000,000 | – | – | 15,000,000 | Note 6 | Note 6 | Note 6 |
| | – | 10,000,000 | – | – | 10,000,000 | Note 8 | Note 8 | Note 8 |
| Hou Junwen | – | 7,500,000 | – | – | 7,500,000 | Note 6 | Note 6 | Note 6 |
| He Bangjie | 2,000,000 | – | – | – | 2,000,000 | Note 5 | Note 5 | Note 5 |
| | – | 4,000,000 | – | – | 4,000,000 | Note 7 | Note 7 | Note 7 |
| Ting Kwok Kit, Johnny | 2,000,000 | – | – | (2,000,000) | – | Note 5 | Note 5 | Note 5 |
| | – | 4,000,000 | – | – | 4,000,000 | Note 7 | Note 7 | Note 7 |
| Wang Xiaolin | 27,000,000 | – | (27,000,000) | – | – | Note 9 | Note 9 | Note 9 |
| Sub-Total | 176,132,980 | 126,676,000 | (27,000,000) | (4,000,000) | 271,808,980 | | | |

# Directors' Report

| Name or Category of Participant | As at 1 January 2009 | Share Granted | Shares Lapsed/ cancelled during the year | Share Exercised | As at 31 December 2009 | Date of Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|---|
| Employee (in aggregate) | 4,678,800 | – | – | – | 4,678,800 | Note 1 | Note 1 | Note 1 |
| | 9,357,600 | – | – | – | 9,357,600 | Note 2 | Note 2 | Note 2 |
| | 19,241,008 | – | – | – | 19,241,008 | Note 3 | Note 3 | Note 3 |
| | 49,573,000 | – | – | (7,656,000) | 41,917,000 | Note 4 | Note 4 | Note 4 |
| | 89,800,000 | – | (5,000,000) | – | 84,800,000 | Note 5 | Note 5 | Note 5 |
| | – | 177,224,592 | – | (10,500,000) | 166,724,592 | Note 6 | Note 6 | Note 6 |
| | – | 54,000,000 | (20,000,000) | – | 34,000,000 | Note 7 | Note 7 | Note 7 |
| | – | 91,000,000 | – | (10,000,000) | 81,000,000 | Note 8 | Note 8 | Note 8 |
| Sub-Total | 172,650,408 | 322,224,592 | (25,000,000) | (28,156,000) | 441,719,000 | | | |
| Other eligible persons: (in aggregate) | 23,280,000 | – | – | – | 23,280,000 | Note 4 | Note 4 | Note 4 |
| | 35,000,000 | – | – | (20,000,000) | 15,000,000 | Note 5 | Note 5 | Note 5 |
| | – | 23,500,000 | – | (15,000,000) | 8,500,000 | Note 6 | Note 6 | Note 6 |
| Sub-Total | 58,280,000 | 23,500,000 | – | (35,000,000) | 46,780,000 | | | |
| **Total:** | **407,063,388** | **472,400,592** | **(52,000,000)** | **(67,156,000)** | **760,307,980** | | | |

Notes:

1. These share options were granted on 16 February 2000 and are exercisable at a subscription price of HK$0.619 per share at any time during the period of 10 years from 16 February 2000 to 15 February 2010.

2. These share options were granted on 2 November 2000 and are exercisable at a subscription price of HK$0.343 per share at any time during the period of 10 years from 2 November 2000 to 1 November 2010.

3. These share options were granted on 5 January 2004 and are exercisable at a subscription price of HK$0.144 per share at any time during the period of 10 years from 26 January 2004 to 4 January 2014.

4. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK$0.102 per share at any time during the period of 10 years from 29 August 2005 to 8 August 2015.

5. These share options were granted on 6 February 2008 and are exercisable at a subscription price of HK$0.114 per share at any time during the period of 10 years from 6 February 2008 to 5 February 2018.

6. These share options were granted on 24 June 2009 and are exercisable at a subscription price of HK$0.123 per share at any time during the period of 4 years from 24 June 2009 to 11 June 2013. The fair value of these share options at the date of grant was amounted to HK$12.72 million.

# Directors' Report

Fair value of share options granted on 24 June 2009 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

| | measurement date 24/06/2009 |
|---|---|
| Fair value | HK$0.042 |
| Exercise price | HK$0.123 |
| Expected volatility | 110.14% |
| Option life | 3.97 years |
| Risk-free interest rate | 1.95% |

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The financial instruments used by the company;
- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

# Directors' Report

7. These share options were granted on 10 July 2009 and are exercisable at a subscription price of HK$0.185 per share at any time during the period of 3 years and 11 Months from 10 July 2009 to 11 June 2013. The fair value of these share options at the date of grant was amounted to HK$4.62 million.

   Fair value of share options granted on 10 July 2009 and assumptions:

   The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

| | **measurement date 10/07/2009** |
|---|---|
| Fair value | HK$0.064 |
| Exercise price | HK$0.185 |
| Expected volatility | 110.14% |
| Option life | 3.92 years |
| Risk-free interest rate | 1.55% |

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The financial instruments used by the company;
- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

# Directors' Report

8. These share options were granted on 17 November 2009 and are exercisable at a subscription price of HK$0.295 per share at any time during the period of 3 years and 7 months from 17 November 2009 to 11 June 2013. The fair value of these share options at the date of grant was amounted to HK$10.17 million.

Fair value of share options granted on 17 November 2009 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

| | **measurement date 17/11/2009** |
|---|---|
| Fair value | HK$0.101 |
| Exercise price | HK$0.295 |
| Expected volatility | 114.75% |
| Option life | 3.57 years |
| Risk-free interest rate | 1.004% |

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

9. Mr. Wang Xiaolin was removed from the office of Director with effect from 15 April 2009. The share options granted to him to subscribe for Shares were lapsed accordingly.

# Directors' Report

Brief information on the 1995 Scheme and the 2003 Scheme are as follows:

| | | **The 2003 Scheme** | **The 1995 Scheme** |
|---|---|---|---|
| 1) | Purpose of the share option scheme | As incentives and rewards to eligible participants for their contribution to the Group and assistance to the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group | Provide incentives and rewards to eligible participants who contribute to the success of the Group's operations |
| 2) | Participants of the share option scheme | a) any employee (whether full time or part time, including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest;<br>b) any non-executive Directors (including independent non-executive Directors), any of the subsidiaries of the Company or any Invested Entity;<br>c) any supplier of goods or services to any member of the Group or any Invested Entity; | Eligible employees including executive Directors and employees of the Company and its wholly-owned subsidiaries |

# Directors' Report

| The 2003 Scheme | The 1995 Scheme |
| --- | --- |
| d) any customer of the Group or any Invested Entity; | |
| e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; | |
| f) any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; | |
| g) any advisor (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and | |
| h) any joint venture partner or business alliance that cooperates with any member of the Group or any Invested Entity in any area of business operation or development. | |

# Directors' Report

| | | The 2003 Scheme | The 1995 Scheme |
|---|---|---|---|
| 3) | Maximum entitlement of each participant under the share option scheme | In any 12-month period, shall not exceed 1% of the shares in issue | Shall not exceed 25% of the maximum aggregate number of shares in the capital of the Company at the time of grant or such other percentage as the Board may determine from time to time |
| 4) | The period within which the shares must be taken up under an option | The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant | 10 years from the date of grant |
| 5) | The minimum period for which an option must be held before it can be exercised | Unless otherwise determined by the Board, no minimum period | At any time after grant and acceptance |
| 6) | The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid | Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 21 days from the date of offer | Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 28 days from the date of offer |
| 7) | The basis of determining the exercise price | The exercise price is determined by the Board and being not less than the higher of:<br>a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or | The exercise price shall not less than the greater of:<br>a) 80% of the average closing price of the shares of the Company on the Stock Exchange on the 5 trading days immediately preceding the date of offer of such option; or |

# Directors' Report

| | | The 2003 Scheme | The 1995 Scheme |
|---|---|---|---|
| | | b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or | b) such amount as the Board may from time to time determine subject to the Listing Rules applicable for the time being; or |
| | | c) the nominal value thereof | c) nominal amount of the share |
| 8) | The remaining life of the share option scheme | The scheme remains in force until 12 June 2013 | The scheme was terminated on 12 June 2003 |

On 28 May 2008, the shareholders of the Company approved the renewal of the 10% share option scheme limit under the 2003 Scheme ("Renewal"). Therefore, the Company can grant share options to subscribe for up to 547,028,646 shares of the Company under the 2003 Scheme. As 472,400,592 share options have been granted under the 2003 scheme since the Renewal, the total number of shares available for issue under the 2003 scheme is 74,628,054, representing 1.28% of the Company's issued share capital as at 31 December 2009.

## DIRECTORS' INTERESTS IN CONTRACTS

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

## DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries, which is not determinable by the employer within one year without payment of compensation, other than statutory compensations.

# Directors' Report

## MAJOR CUSTOMERS AND SUPPLIERS

**Turnover**

The percentage of the Group's turnover attributable to the five largest customers for the year is as follows:

| | |
|---|---|
| – The largest customers | 28% |
| – The five largest customers in aggregate | 54% |

**Purchases**

The percentage of the Group's costs attributable to the five largest suppliers for the year is as follows:

| | |
|---|---|
| – The largest supplier | 74% |
| – The five largest suppliers in aggregate | 100% |

As far as the Directors are aware, no Directors, any of its subsidiaries, their associates or any shareholders of the Company (who to the directors' knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

The particulars of the Group's borrowings as at the end of the year are set out in note 34 to the financial statements respectively. No interest was capitalised by the Group during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda.

## AUDITORS

The Company's auditors, Grant Thornton will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

**Yeung Yung**
Chairman

Hong Kong, 27 April 2010

# Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance that ensure better transparency, protection and promotion of the interests of the shareholders of the Company and the Company as a whole and to enhance corporate value and accountability.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

During the year ended 31 December 2009, the Company has devoted time and efforts and taken proactive corporate initiatives to regularly monitoring and refining its corporate governance practices which best suited its corporate needs with reference to key industry trends, best corporate governance practices and shareholders' interests.

Throughout the year, the Company has complied with the code provisions and certain recommended best practices set out in the Code of Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules, except the following deviations:

### (i) Code Provision A 2.1

Pursuant to code A2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr. Yeung Yung, the chairman of the Company and an executive Director, will concurrently act as chief executive officer ("CEO") of the Company until a suitable candidate is identified to fill the vacancy left with the termination of the office of CEO of Mr. Wang Xiaolin with effect from 23 March 2009 (as disclosed in the Company's announcement dated 23 March 2009). The Board considers the current arrangement will not impair the balance of power and authority of the Board (which comprises six executive Directors and three independent non-executive Directors) and a strong independent element in the composition of the Board can and will still be maintained.

# Corporate Government Report

### (ii) Code Provision E 1.2

Pursuant to code E 1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (collectively the "Committees") (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any transaction that is subject to independent shareholders' approval.

The chairman of the Board and the chairman of the Committees could not attend the annual general meeting ("AGM") of the Company held on 3 June 2009 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

## BOARD OF DIRECTORS

### Board

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with emphasis on the business growth and financial performance of the Group.

The Board has determined that certain matter such as strategic planning; significant transactions; and budget should be retained for the Board's approval. It has formalized the functions reserved to the Board to achieve a clear division of responsibilities between the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has frequently reported back to the Board and obtained prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

In order to maximize the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established audit committee, nomination committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the Committees are reviewed and amended (if necessary) from time to time, as are the Committees' structure, duties and memberships.

# Corporate Governance Report

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations under the Listing Rules, the Codes on Takeover and Mergers and Share Repurchases, the Companies Ordinance, the Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All Directors are encouraged to propose and include items in the agenda of the Board/committee meetings for full discussion and deliberation. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each Director/committee member for inclusion in the agenda.

The Board meets regularly and at least four Board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary.

During the year, 19 Board meetings were held, due notice of these meetings were given to or, depending on the circumstances, urgency and/or importance of the matters, agreed to be shortened or waived by all the directors. Even though Directors often stay/travel in different time zones, they exercise their best endeavours to make themselves available via teleconferencing mechanisms.

Minutes of Board/committee meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by Directors and or dissenting views expressed. The meeting minutes are circulated to relevant Directors or committee members within a reasonable period of time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary and are open for inspection at any reasonable time upon reasonable notice being served by any Director. All Directors are entitled to have access to Board papers and related materials at least 3 days before the intended date of a Board or Board committee meeting unless there are restrictions on disclosure due to legal and regulatory requirements or other justifiable grounds.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on a timely basis. The Directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

# Corporate Governance Report

Whenever a member of the Board or member of a committee of the Board has cause to believe that a matter to be voted upon would involve him in a conflict or possible conflict of interest, he is required to disclose the conflict of interest and is not allowed to participate in the final deliberation or decision and will abstain from voting on such matter.

During the year ended 31 December 2009, the Board comprised the following members (who remained in office as at 31 December 2009 unless otherwise specified below):

**Name**

*Executive Directors*

Dr. Yeung Yung *(Chairman and Chief Executive Officer)*
Mr. Liu Quan *(Deputy Chairman)*
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang
Dr. Wang Chuantao *(appointed on 27 April 2009)*
Dr. Hou Junwen *(appointed on 27 April 2009)*
Mr. Wang Xiaolin *(removed from office of director with effect from 15 April 2009)*

*Independent Non-Executive Directors*

Mr. He Bangjie
Mr. Ting Kwok Kit, Johnny
Mr. Wong Lee Hing

Under bye-law 87(1) of the Company's bye-laws, all Directors are subject to rotation and reelection at least once every three years and will subject himself to the free and absolute choice of the shareholders for re-election at the annual general meetings whereas under bye-law 86(2), any Director appointed by the Board to fill a casual vacancy should hold office until the next following general meeting of the Company.

Mr. Hui Wing Sang, Wilson, Dr. Zhu Shengliang and Mr. He Bangjie, being Directors appointed by the Board pursuant to bye-law 87(1) of the Company's bye-laws, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The skills and expertise among the existing Directors are well-balanced with a mixture of core competencies in areas such as accounting and finance, legal, business and management, marketing strategies, business development, and scientific backgrounds.

# Corporate Governance Report

The independent non-executive Directors (the "INEDs") meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgments. The Board considers that all of the INEDs are independent and the confirmation of independence pursuant to Rule 3.13 of the Listing Rules has been obtained from each of them as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive Directors.

The functions of INEDs include, but not limited to:

- Participating in Board meetings to bring an independent judgment to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- Taking the lead where potential conflicts of interests arise;
- Serving and active participating on committees, if invited;
- Attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- Scrutinizing the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

**Chairman, Deputy Chairman and CEO**

During the year ended 31 December 2009, the Chairman and the CEO of the Company was Dr. Yeung Yung, the Deputy Chairman was Mr. Liu Quan. Dr. Yeung Yung will concurrently act as the CEO until a suitable candidate is identified to fill the vacancy. The Board considers the current arrangement will not impair the balance of power and authority of the Board and a strong independent element in the composition of the Board can and will still be maintained.

The Chairman of the Company provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

The Deputy Chairman assists the Chairman of the Company to carry out above duties.

# Corporate Governance Report

The position of CEO is vested with executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Chairman of the Company also seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

### Appointment, Re-election, Retirement and Removal

It is the Board's responsibility to select and appoint individuals with integrity, experience and calibre to act as directors of the Company. The Board reviews the profiles of the candidates and makes recommendations on the appointment, re-election, retirement and removal of directors.

All Directors are subject to rotation once in every three years as required by the Company's bye-laws. Each Director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he acquaints himself with the common law duties and responsibilities of acting as a director for a listed company and familiarise himself with the applicable laws and regulations (including without limitation, the Listing Rules, the Companies Ordinance, the Securities and Futures Ordinance, and the governance policies of the Company).

Each of the INEDs is appointed for an initial term of not more than two years commencing from his date of appointment and is renewable successively for a term of one year until terminated by either party by giving not less than one month's prior written notice to the other and is subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's bye-laws. Every Director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

### Committees

The Board has established Independent Committee, Audit Committee, Nomination Committee and Remuneration Committee with terms of reference to enable such committees to discharge their functions properly.

# Corporate Governance Report

## Audit Committee

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the CG Code. The Audit Committee is responsible for reviewing financial statements and internal control system of the Group. It also provides advice on the financial and accounting policies of the Group.

The Audit Committee comprises all three independent non-executive Directors, and the chairman of the Audit Committee is Mr. Ting Kwok Kit, Johnny.

Two meetings were held for the year ended 31 December 2009. The individual attendance of each member is set out below:

| Name of Member | Number of meetings attended |
|---|---|
| Mr. He Bangjie | 1/2 |
| Mr. Ting Kwok Kit, Johnny | 2/2 |
| Mr. Wong Lee Hing | 2/2 |

The Audit Committee met two times during the year 2009, and performed the following work:

- Reviewed and discussed with the management regarding the financial statements for the year ended 31 December 2009
- Reviewed with management the unaudited interim financial statement for the six months ended 30 June 2009

The Company Secretary keeps the minutes of Audit Committee. Draft and final versions have been sent to all members of the Audit Committee within a reasonable time after the meeting for their comments and records respectively. The term of reference of the Audit Committee is available from the Company Secretary on request.

## Auditors' Remuneration

Grant Thornton have been appointed by the shareholders annually as the independent auditors of the Company. For the year ended 31 December 2009, the fee charged for audit services was approximately HK$930,000, and approximately HK$450,000 was charged to non-audit services for the possible very substantial acquisition for strategic participation in the development of the HK Motors Project in the US.

# Corporate Governance Report

**Remuneration Committee**

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee is comprised of Mr. He Bangjie and Mr. Wong Lee Hing, both being independent non-executive Directors and Dr. Yeung Yung, being the Chairman of the Remuneration Committee.

During the year ended 31 December 2009, the Remuneration Committee had made recommendations to the Board regarding the Company's remuneration policy and for the formulation and review of the remuneration package of all Directors and senior management of the Company in view of the global economic downturn and considered and dealt with matters relating to appointment, retirement and re-election of Directors.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the CG Code. No Director is involved in deciding his own remuneration.

| Name of Member | Number of meetings attended |
|---|---|
| Dr. Yeung Yung | 2/2 |
| Mr. He Bangjie | 2/2 |
| Mr. Wong Lee Hing | 2/2 |

**Nomination Committee**

The Company has a Nomination Committee to ensure that there are fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee is comprised of Mr. He Bangjie and Mr. Wong Lee Hing, both being independent non-executive Directors, and Dr. Yeung Yung, being the Chairman of the Nomination Committee.

| Name of Member attended | Number of meetings attended |
|---|---|
| Dr. Yeung Yung | 1/1 |
| Mr. He Bangjie | 1/1 |
| Mr. Wong Lee Hing | 1/1 |

During the year ended 31 December 2009, the Nomination Committee carried out the process of selecting and recommending candidates for directorship with reference to the candidate's professional knowledge, industry experience, personal ethics, integrity and skills, evaluated the Board's composition and recommended the re-appointment of retiring Directors for shareholders' approval at the annual general meeting.

# Corporate Governance Report

### Board Meeting Attendance

Details of the attendance of individual Director at Board meetings during the year 2009 are set out below:

| Name of Member attended | Number of meetings attended |
|---|---|
| *Executive Directors* | |
| Dr. Yeung Yung | 18/19 |
| Mr. Liu Quan | 17/19 |
| Mr. Hui Wing Sang, Wilson | 19/19 |
| Dr. Zhu Shengliang | 15/19 |
| Dr. Wang Chuantao (appointed on 27 April 2009) | 11/19 (a) |
| Dr. Hou Junwen (appointed on 27 April 2009) | 11/19 (b) |
| Mr. Wang Xiaolin (removed from office of director with effect from 15 April 2009) | 0/19 (c) |
| *Independent Non-executive Directors* | |
| Mr. He Bangjie | 15/19 |
| Mr. Ting Kwok Kit, Johnny | 17/19 |
| Mr. Wong Lee Hing | 16/19 |

(a) Thirteen meetings were held since Dr. Wang Chuantao was appointed on 27 April 2009.

(b) Thirteen meetings were held since Dr. Hou Junwen was appointed on 27 April 2009.

(c) Mr. Wang Xiaolin was removed from his executive directorship of the Company with effect from 15 April 2009.

### Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, they have confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2009.

# Corporate Governance Report

### Independent Auditors

To enhance independent reporting, the Company engages independent auditors. The independent non-executive Directors are allowed to have access to and/or have meetings with the independent auditors without the presence or interference of the executive Directors. The nature and ratio of annual fees to the independent auditors for non-audit services and for audit services are subject to the scrutiny by the Audit Committee. On non-audit services by independent auditors, the Audit Committee considers various factors, such as (i) whether there are clear efficiencies and value-added benefits to the Company from a particular work being undertaken by the independent auditors, (ii) whether there is adverse effect on the independence of their audit work and (iii) the nature of non-audit services envisaged to be provided by the independent auditors and (iv) the related fee levels individually and in aggregate relative to the audit fees.

### Directors' acknowledgement

The Audit Committee and the Board have reviewed the Company's financial statements for the year ended 31 December 2009. The Directors acknowledge their responsibility for preparing the accounts and presenting a balanced, clear and comprehensive assessment for the Company's performance, position and prospect. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

### Internal control

The Board has conducted an annual review of the effectiveness of the internal control systems of the Group, covering all material controls, including but not limited to financial, operation, compliance controls and risk management functions.

# Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

**To the shareholders of Hybrid Kinetic Group Limited**
*(formerly known as Far East Golden Resources Group Limited)*
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Hybrid Kinetic Group Limited (formerly known as Far East Golden Resources Group Limited) (the "Company") set out on pages 45 to 130, which comprise the consolidated and company statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

# Independent Auditors' Report

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

## OPINION

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

# Independent Auditors' Report

## EMPHASIS OF MATTER IN RELATION TO VIEW GIVEN BY CORRESPONDING FIGURES

Without qualifying our opinion, we draw attention that we have expressed a disclaimer of opinion in our report on the consolidated financial statements for the year ended 31 December 2008.

The corresponding figures in the consolidated statement of comprehensive income for the year ended 31 December 2009 includes a profit for the year from discontinued operations of HK$93,670,000. As detailed in note 43.4 to the financial statements, on 22 October 2008, the Group had entered into a disposal agreement with an independent third party, to dispose of the entire equity interest in Ningbo Meili Assets Management Co., Limited and its subsidiaries (collectively "Ningbo Meili Group"). The disposal of Ningbo Meili Group was completed on 22 December 2008 (the "Disposal Date").

The books and records of Ningbo Meili Group were kept and maintained by the local management of Ningbo Meili Group, which were not made available to the Group's management subsequent to the Disposal Date. Under circumstances as explained above, we were not able to carry out procedures which we considered necessary on the books and records of Ningbo Meili Group, to satisfy ourselves as to the existence, completeness, accuracy and valuations of its assets of HK$331,428,000 and liabilities of HK$517,313,000 as at the Disposal Date and of its loss of HK$19,342,000 for the year ended 31 December 2008 up to the Disposal Date. Consequently, we were unable to satisfy ourselves as to whether the gain on disposal of HK$113,896,000 arising thereon, which had been included in the corresponding figures in the consolidated statement of comprehensive income for the year ended 31 December 2009, was fairly stated. Details of the loss of Ningbo Meili Group and the gain on disposal of Ningbo Meili Group for the year ended 31 December 2008 was set out in note 11.3 to the financial statements.

The above limitation on our scope of work happened in our audit of the Group's consolidated financial statements for the year ended 31 December 2008, which becomes the comparatives in the consolidated financial statements for the year ended 31 December 2009.

**Grant Thornton**
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

27 April 2010

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | **10,393** | 324 |
| Cost of sales | | **(2,761)** | (86) |
| **Gross profit** | | **7,632** | 238 |
| Other income | 7 | **1,823** | 5,568 |
| Distribution costs | | **(1,566)** | (2) |
| General operating expenses | | **(122,116)** | (68,577) |
| Impairment of goodwill | 9 | **(12,546)** | (570) |
| Impairment of available-for-sale financial asset | 9 | **–** | (2,178) |
| Impairment of property, plant and equipment | 9 | **–** | (2,742) |
| **Loss before income tax** | 9 | **(126,773)** | (68,263) |
| Income tax expense | 10 | **–** | (6) |
| Loss for the year from continuing operations | | **(126,773)** | (68,269) |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 11.3 | **523** | 93,670 |
| **(Loss)/Profit for the year** | | **(126,250)** | 25,401 |
| **Other comprehensive income, including reclassification adjustments** | 12 | **120** | 14,735 |
| **Other comprehensive income for the year** | | **120** | 14,735 |
| **Total comprehensive income for the year** | | **(126,130)** | 40,136 |
| **(Loss)/Profit for the year attributable to:** | | | |
| Equity holders of the Company | 13 | **(125,076)** | 35,206 |
| Minority interests | | **(1,174)** | (9,805) |
| | | **(126,250)** | 25,401 |

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Total comprehensive income for the year attributable to:** | | | |
| Equity holders of the Company | | **(124,982)** | 49,138 |
| Minority interests | | **(1,148)** | (9,002) |
| | | **(126,130)** | 40,136 |
| **(Loss)/Earnings per share for profit/(loss) attributable to the equity holders of the Company during the year** | 15 | | |
| **From continuing and discontinued operations** | | | |
| **(Loss)/Earnings per share – basic** | | **HK(2.26) cents** | HK0.67 cent |
| **(Loss)/Earnings per share – diluted** | | **N/A** | HK0.66 cent |
| **From continuing operations** | | | |
| **Loss per share – basic** | | **HK(2.27) cents** | HK(1.29) cent |
| **Loss per share – diluted** | | **N/A** | N/A |
| **From discontinued operations** | | | |
| **Earnings per share – basic** | | **HK0.01 cent** | HK1.96 cent |
| **Earnings per share – diluted** | | **HK0.01 cent** | HK1.94 cent |

# Consolidated Statement of Financial Position

*As at 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **28,838** | 26,454 |
| Land use rights | 19 | **–** | – |
| Available-for-sale financial asset | 21 | **–** | – |
| Goodwill | 22 | **–** | – |
| Intangible assets | 23 | **18,063** | 20,020 |
| Interest in an associate | 24 | **–** | – |
| Prepayments and deposits | 25 | **19,040** | 46,625 |
| | | **65,941** | 93,099 |
| **Current assets** | | | |
| Inventories | 26 | **57** | 177 |
| Trade receivables | 27 | **1,534** | – |
| Prepayments, deposits and other receivables | 28 | **84,118** | 12,890 |
| Pledged bank deposits | | **806** | 805 |
| Cash and cash equivalents | 29 | **114,714** | 178,809 |
| | | **201,229** | 192,681 |
| **Current liabilities** | | | |
| Trade payables | 30 | **99** | – |
| Accruals and other payables | 31 | **33,750** | 27,960 |
| Amounts due to related parties | 33 | **2,799** | 1,095 |
| Amount due to a director | 33 | **590** | 1,779 |
| Borrowings | 34 | **1,890** | 1,897 |
| Provisions | 35 | **–** | – |
| | | **39,128** | 32,731 |
| **Net current assets** | | **162,101** | 159,950 |
| **Net assets** | | **228,042** | 253,049 |
| **EQUITY** | | | |
| **Equity attributable to the Company's equity holders** | | | |
| Share capital | 37 | **582,821** | 548,305 |
| Reserves | 39 | **(379,303)** | (317,588) |
| | | **203,518** | 230,717 |
| Minority interests | | **24,524** | 22,332 |
| **Total equity** | | **228,042** | 253,049 |

**Yeung Yung**
*Director*

**Hui Wing Sang, Wilson**
*Director*

# Statement of Financial Position

*As at 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **381** | 505 |
| Interests in subsidiaries | 20 | **7,147** | 25,000 |
| | | **7,528** | 25,505 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 20 | **44,825** | 168,993 |
| Prepayments, deposits and other receivables | 28 | **70,826** | 492 |
| Cash and cash equivalents | | **20,904** | 9,419 |
| | | **136,555** | 178,904 |
| **Current liabilities** | | | |
| Accruals and other payables | | **12,530** | 11,432 |
| Amounts due to subsidiaries | 20 | **119** | 112 |
| | | **12,649** | 11,544 |
| **Net current assets** | | **123,906** | 167,360 |
| **Net assets** | | **131,434** | 192,865 |
| **EQUITY** | | | |
| Share capital | 37 | **582,821** | 548,305 |
| Reserves | 39 | **(451,387)** | (355,440) |
| **Total equity** | | **131,434** | 192,865 |

**Yeung Yung**
*Director*

**Hui Wing Sang, Wilson**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2009*

| | Equity attributable to equity holders of the Company | | | | | | Minority interests | (Capital deficiency)/ total equity |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Translation reserve | Equity compensation reserve | Accumulated losses | Total | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2008 | 272,400 | 310,781 | (12,477) | 6,272 | (680,386) | (103,410) | 26,008 | (77,402) |
| **Transactions with owners** | | | | | | | | |
| Issuance of new shares | 272,400 | – | – | – | – | 272,400 | – | 272,400 |
| Share issue expenses | – | (5,446) | – | – | – | (5,446) | – | (5,446) |
| Recognition of equity settled share-based compensation | – | – | – | 14,455 | – | 14,455 | – | 14,455 |
| Proceeds from shares issued under share options scheme | 3,505 | 1,482 | – | (1,407) | – | 3,580 | – | 3,580 |
| **Total transactions with owners** | 275,905 | (3,964) | – | 13,048 | – | 284,989 | – | 284,989 |
| **Comprehensive income** | | | | | | | | |
| Profit/(Loss) for the year | – | – | – | – | 35,206 | 35,206 | (9,805) | 25,401 |
| **Other comprehensive income** | | | | | | | | |
| Amount reclassified to profit or loss on disposal of foreign subsidiaries | – | – | 21,613 | – | – | 21,613 | – | 21,613 |
| Exchange differences on translation of financial statements of subsidiaries | – | – | (7,681) | – | – | (7,681) | 803 | (6,878) |
| **Total comprehensive income** | – | – | 13,932 | – | 35,206 | 49,138 | (9,002) | 40,136 |
| Acquisition of subsidiaries (note 43.3) | – | – | – | – | – | – | 23,730 | 23,730 |
| Disposal of subsidiaries (note 43.4) | – | – | – | – | – | – | (18,404) | (18,404) |
| At 31 December 2008 and 1 January 2009 | 548,305 | 306,817 | 1,455 | 19,320 | (645,180) | 230,717 | 22,332 | 253,049 |
| **Transaction with owners** | | | | | | | | |
| Issuance of new shares | 27,800 | 37,680 | – | – | – | 65,480 | – | 65,480 |
| Share issue expenses | – | (4,811) | – | – | – | (4,811) | – | (4,811) |
| Recognition of equity settled share-based compensation | – | – | – | 27,516 | – | 27,516 | – | 27,516 |
| Proceeds from shares issued under share options scheme | 6,716 | 6,188 | – | (3,306) | – | 9,598 | – | 9,598 |
| **Total transactions with owners** | 34,516 | 39,057 | – | 24,210 | – | 97,783 | – | 97,783 |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | – | – | – | – | (125,076) | (125,076) | (1,174) | (126,250) |
| **Other comprehensive income** | | | | | | | | |
| Exchange differences on translation of financial statements of subsidiaries | – | – | 94 | – | – | 94 | 26 | 120 |
| **Total comprehensive income** | – | – | 94 | – | (125,076) | (124,982) | (1,148) | (126,130) |
| Capital contribution from minority shareholders | – | – | – | – | – | – | 3,340 | 3,340 |
| **At 31 December 2009** | **582,821** | **345,874** | **1,549** | **43,530** | **(770,256)** | **203,518** | **24,524** | **228,042** |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities of continuing and discontinued operations** | | | |
| (Loss)/Profit before income tax | | | |
| Continuing operations | | **(126,773)** | (68,263) |
| Discontinued operations | | **542** | 94,260 |
| Total | | **(126,231)** | 25,997 |
| Adjustments for: | | | |
| Gain on disposal of subsidiaries | 43.4 | **–** | (113,896) |
| Impairment of trade receivables | | **–** | 316 |
| Impairment of other receivables | | **8,963** | 14,718 |
| Share-based compensation | | **27,516** | 14,455 |
| Interest income | | **(659)** | (6,916) |
| Imputed interest income on long-term interest-free deposits | | **(1,117)** | (313) |
| Interest expense | | **–** | 3,030 |
| Discount on initial recognition of long-term interest-free deposits | | **–** | 3,468 |
| Impairment of inventories | | **–** | 5,508 |
| Depreciation of property, plant and equipment | | **8,420** | 8,473 |
| Impairment of property, plant and equipment | | **–** | 2,742 |
| Amortisation of intangible assets | | **4,479** | 668 |
| Amortisation of land use rights | | **–** | 80 |
| Impairment of goodwill | | **12,546** | 570 |
| Loss/(gain) on disposal of property, plant and equipment | | **162** | (57) |
| Operating loss before working capital changes | | **(65,921)** | (41,157) |
| Decrease/(increase) in inventories | | **120** | (22,221) |
| (Increase)/decrease in trade receivables | | **(1,534)** | 7,990 |
| Increase in other receivables, prepayments and deposits | | **(51,411)** | (45,346) |
| Increase in amount due from an associate | | **–** | (697) |
| Increase in amount due from related parties | | **–** | (9,417) |
| Increase in trade payables | | **99** | 9,692 |
| Increase in accruals and other payables | | **4,567** | 7,660 |
| Decrease in bills payable | | **–** | (12,214) |
| Cash used in operations | | **(114,080)** | (105,710) |
| Interest paid | | **–** | (3,030) |
| Income tax paid | | **(19)** | (3,519) |
| *Net cash used in operating activities* | | **(114,099)** | (112,259) |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2009*

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities of continuing and discontinued operations** | | | |
| Purchase of property, plant and equipment | | (12,220) | (30,206) |
| Purchase of intangible assets | | (2,586) | – |
| Net cash inflow/(outflow) from acquisition of subsidiaries | 43.1, 43.2, 43.3 | 1,079 | (2,469) |
| Proceeds from disposal of property, plant and equipment | | 896 | 912 |
| Interest received | | 659 | 6,916 |
| Net cash outflow from disposal of subsidiaries | 43.4 | – | (17,838) |
| *Net cash used in investing activities* | | (12,172) | (42,685) |
| **Cash flows from financing activities of continuing and discontinued operations** | | | |
| Proceeds from issuance of share capital | | 62,598 | 275,980 |
| Share issue expenses | | (4,811) | (5,446) |
| Capital contribution from minority shareholders | | 3,340 | – |
| (Decrease)/increase in amount due to a director | | (1,189) | 1,779 |
| Increase/(decrease) in amounts due to related parties | | 1,704 | (7,176) |
| (Increase)/decrease in pledged bank deposits | | (1) | 10,301 |
| Repayment of borrowings | | – | (11,264) |
| *Net cash generated from financing activities* | | 61,641 | 264,174 |
| **Net (decrease)/increase in cash and cash equivalents** | | (64,630) | 109,230 |
| **Cash and cash equivalents at 1 January** | | 178,809 | 77,337 |
| **Effect of exchange rate fluctuation** | | 535 | (7,758) |
| **Cash and cash equivalents at 31 December** | | 114,714 | 178,809 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | 114,714 | 178,809 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 1. GENERAL INFORMATION

Hybrid Kinetic Group Limited (the "Company", formerly known as Far East Golden Resources Group Limited) is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal place of business is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed on 26 January 2010, and with the approval of the Registrar of Companies of Bermuda given on 29 January 2010, the name of the Company was changed from "Far East Golden Resources Group Limited" to "Hybrid Kinetic Group Limited", and "正道集團有限公司" was adopted as the secondary name of the Company.

The principal activities of the Company and its subsidiaries (together referred to as the "Group") were:

– environmental products and related business; and

– natural resources business.

On 30 December 2009, the board of directors resolved that the Group would discontinue operation of indoor game centres and manufacture and sales of automobile axles with effective from 31 December 2009. Operation of indoor game centres and manufacture and sales of automobile axles represent separate major lines of the Group's businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, in 2009, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5.

On 22 October 2008, the Group had entered into an agreement with an independent third party to dispose of the entire equity interest in Ningbo Meili Assets Management Co., Limited and its subsidiaries (collectively "Ningbo Meili Group") which principally engaged in sales and repair of motor vehicles and sales of properties. The disposal of Ningbo Meili Group was completed on 22 December 2008 and the Group had discontinued its operations in sales and repair of motor vehicles and sales of properties thereafter. Sales and repair of motor vehicles and sales of properties represent separate major lines of the Group's businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, since 2008, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 1. GENERAL INFORMATION *(Continued)*

Further details regarding the discontinued operations are set out in note 11.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 27 April 2010.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on the historical cost.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 2.3 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. When unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

### 2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition if measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Associates *(Continued)*

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Foreign currency translation

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and accumulated impairment losses.

Buildings held under leasing agreements are depreciated over their expected useful lives of 20 to 40 years or over the term of lease, if shorter.

Depreciation on other assets is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold improvements, fixture and fittings | Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter |
| Furniture and equipment | 20% |
| Game equipment | 20% |
| Machinery | 10% to 20% |
| Motor vehicles | 10% to 25% |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

CIP, which mainly represents leasehold improvements on buildings, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Land use rights

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.14. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

### 2.8 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of subsidiaries. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 2.4.

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

### 2.9 Intangible assets (other than goodwill) and research and development activities

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

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following estimated useful lives are applied:

| | |
|---|---|
| Technical know-how | 5 to 10 years |
| Patents | 5 years |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Intangible assets (other than goodwill) and research and development activities *(Continued)*

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

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described in note 2.18.

***Research and development costs***

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Financial assets are classified into the following categories:

– Loans and receivables

– Available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

***(i) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

***(ii) Available-for-sale financial assets***

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

***(ii) Available-for-sale financial assets*** *(Continued)*

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale investment in equity securities 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 each reporting date subsequent to initial recognition.

***Impairment of financial assets***

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

***Impairment of financial assets*** *(Continued)*

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

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) *Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

***Impairment of financial assets*** *(Continued)*

*(ii) Available-for-sale financial assets (Continued)*

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

*(iii) Financial assets carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

For financial assets other than loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of loans and receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### 2.13 Financial liabilities

The Group's financial liabilities include other loans, trade payables, other payables and amounts due to related parties and directors. They are included in line items in the statement of financial position as borrowings, trade payables, accruals and other payables, amounts due to related parties and amount due to a director.

Financial liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.21).

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

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

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Financial liabilities *(Continued)*

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

### 2.14 Leases

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

***(i) Classification of assets leased to the Group***

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

***(ii) Operating lease charges as the lessee***

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.15 Provisions, contingent liabilities and contingent assets

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

Probable inflow of economic benefit to the Group that do not yet meet the recognition criteria of an asset are considered as contingent assets.

### 2.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenues from operation of indoor game centres are recognised upon the sales of tokens to customers.

Services fees are recognised in the accounting period in which the services are rendered.

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits and instalments received.

### 2.18 Impairment of non-financial assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, land use rights, interests in subsidiaries and associates, and intangible assets are subject to impairment testing.

Goodwill and intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.18 Impairment of non-financial assets *(Continued)*

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Employee benefits

***Retirement benefits***

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligation under these plans is limited to the fixed percentage contributions payable.

***Short-term employee benefits***

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

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

### 2.20 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and exchange for services acquired from the service providers.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Share-based employee compensation *(Continued)*

For share options granted to service providers in exchange for services acquired, they are measured at the fair value of the services received. Their fair values of the services are recognised as expense immediately, unless the services qualify for recognition as assets. Corresponding adjustments have been made to equity.

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the share options granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in equity compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in equity compensation reserve will be transferred to share premium. After the vesting date, when the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in equity compensation reserve will continue to be held in equity compensation reserve.

### 2.21 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expenses when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Accounting for income taxes *(Continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

a. the Group has the legally enforceable right to set off the recognised amounts; and

b. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

a. the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

b. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    i. the same taxable entity; or

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

### 2.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major products and service lines.

The Group has identified the following reportable segments:

– Environmental products and related business; and

– Natural resources business.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 Segment reporting *(Continued)*

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in the financial statements prepared under HKFRSs, except that;

– expenses related to share-based payments;

– finance costs;

– income tax;

– corporate income and expenses which are not directly attributable to the business activities of any operating segment;

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to the segment. These include borrowings and amounts due to related parties and a director.

No asymmetrical allocations have been applied to reportable segments.

### 2.24 Discontinued operations

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

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.24 Discontinued operations *(Continued)*

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

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

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

### 2.25 Related parties

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 27 (Amendment) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| Various | Annual Improvements to HKFRSs 2008 |

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

**HKAS 1 (Revised 2007) Presentation of Financial Statements**

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses are unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform to the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly this statement is not presented.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 3. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

3.1 *(Continued)*

**HKAS 27 (Amendment) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate**

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The adoption of this new policy has no impact on the current period results and financial position therefore. The new accounting policy has been applied prospectively as permitted by the amendment and comparatives have not been restated.

**HKFRS 7 (Amendment) Improving Disclosures about Financial Instruments**

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendment and has not provided comparative information in respect of the new requirements.

**HKFRS 8 Operating Segments**

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 3. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

3.1 *(Continued)*

**Annual Improvements to HKFRSs 2008**

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

3.2 At date of authorisation of these financial statements, certain new or amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

**HKFRS 3 Business Combinations (Revised 2008)**

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree.

**HKFRS 9 Financial Instruments**

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 3. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

3.2 *(Continued)*

**HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)**

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Depreciation and amortisation**

The Group depreciates the property, plant and equipment and amortises the intangible assets (other than goodwill) in accordance with the accounting policies stated in notes 2.6 and 2.9. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

**Impairment of loans and receivables**

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the receivable balances, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than the estimated.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

**Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

**Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at cash reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

**Share-based compensation**

The fair value of share options granted was calculated using binomial option valuation model and based on the Group's managements' significant inputs into calculation, including estimated lives of share option granted, exercise restriction and behavioural consideration, the volatility of share price and weighted average share price of the share options granted. Furthermore, the calculation assumes no future dividends.

## 5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Company's executive directors. The executive directors have identified the Group's product and service lines as operating segments as follows:

(i) Environmental products and related business; and

(ii) Natural resources business.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

During the year, the Group has discontinued its operation of indoor game centres and manufacture and sales of automobile axles. In 2008, the Group had discontinued its operations in sales and repair of motor vehicles and sales of properties. These operations had been presented as discontinued operations in the financial statements. Further details regarding the results of these discontinued operations are set out in note 11 to the financial statements.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 5. SEGMENT INFORMATION *(Continued)*

### For the year ended 31 December 2009

| | Environmental products and related business HK$'000 | Natural resources business HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | | | |
| Sales to external customers | 10,393 | – | 10,393 |
| Segment results | (3,101) | (2,646) | (5,747) |
| Unallocated corporate income and expense, net | | | (93,510) |
| Share-based compensation | | | (27,516) |
| Loss for the year from continuing operations | | | (126,773) |
| Profit for the year from discontinued operations (note 11.3) | | | 523 |
| Loss for the year | | | (126,250) |
| Segment assets | 26,829 | 20,954 | 47,783 |
| Unallocated corporate assets | | | 219,387 |
| Total assets | | | 267,170 |
| Segment liabilities | 466 | 6,239 | 6,705 |
| Unallocated corporate liabilities | | | 27,144 |
| Borrowings | | | 1,890 |
| Amounts due to related parties | | | 2,799 |
| Amount due to a director | | | 590 |
| Total liabilities | | | 39,128 |
| Other segment information | | | |
| Interest income | 111 | – | 111 |
| Depreciation | 1,040 | 638 | 1,678 |
| Amortisation | 4,479 | – | 4,479 |
| Impairment of receivables | 726 | – | 726 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 5. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2008

| | Environmental products and related business HK$'000 | Natural resources business HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | | | |
| Sales to external customers | 324 | – | 324 |
| Segment results | (1,130) | (5,366) | (6,496) |
| Unallocated corporate income and expense, net | | | (47,312) |
| Share-based compensation | | | (14,455) |
| Loss before income tax | | | (68,263) |
| Income tax expense | | | (6) |
| Loss for the year from continuing operations | | | (68,269) |
| Profit for the year from discontinued operations (note 11.3) | | | 93,670 |
| Profit for the year | | | 25,401 |
| Segment assets | 43,155 | 22,773 | 65,928 |
| Unallocated corporate assets | | | 219,852 |
| Total assets | | | 285,780 |
| Segment liabilities | 509 | 5,347 | 5,856 |
| Unallocated corporate liabilities | | | 22,104 |
| Borrowings | | | 1,897 |
| Amounts due to related parties | | | 1,095 |
| Amount due to a director | | | 1,779 |
| Total liabilities | | | 32,731 |
| Other segment information | | | |
| Interest income | 16 | 4 | 20 |
| Depreciation | 203 | 170 | 373 |
| Amortisation | 668 | – | 668 |
| Impairment of goodwill | – | 570 | 570 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 5. SEGMENT INFORMATION *(Continued)*

The Group's revenues from external customers and its non-current assets (other than financial instruments) are divided into the following geographical areas:

| | Revenue from external customers (including continuing and discontinued operations) | | Non-current assets (other than financial assets) | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| – Hong Kong (domicile) | **–** | – | **1,379** | 31,752 |
| – PRC | **11,213** | 374,805 | **24,658** | 28,300 |
| – United States ("US") | **–** | – | **22,218** | 16,422 |
| Total | **11,213** | 374,805 | **48,255** | 76,474 |

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (other than financial instruments) is based on the physical location of the asset.

During the year ended 31 December 2009, HK$3,184,000 or 28% of the Group's revenues depended on a single customer in the environmental products and related business segment. For the year ended 31 December 2008, there were no external customers whose transactions exceeded 10% of the Group's revenue.

The management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office.

## 6. REVENUE

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

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Sales of motor vehicles | **–** | – | **–** | 338,191 | **–** | 338,191 |
| Repair and maintenance of motor vehicles | **–** | – | **–** | 35,088 | **–** | 35,088 |
| Sales of properties held for sale | **–** | – | **–** | 511 | **–** | 511 |
| Revenues from operation of indoor games centres | **–** | – | **820** | 691 | **820** | 691 |
| Sales of bioorganic fertilizer | **10,393** | 324 | **–** | – | **10,393** | 324 |
| | **10,393** | 324 | **820** | 374,481 | **11,213** | 374,805 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 7. OTHER INCOME

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank interest income | **659** | 5,213 | **–** | 1,703 | **659** | 6,916 |
| Imputed interest income on long-term interest-free deposits | **1,117** | 313 | **–** | – | **1,117** | 313 |
| Gain on disposal of property, plant and equipment | **–** | – | **–** | 57 | **–** | 57 |
| Subsidy income | **–** | – | **–** | 885 | **–** | 885 |
| Other service income | **–** | 1 | **–** | 529 | **–** | 530 |
| Miscellaneous | **47** | 41 | **501** | 2,671 | **548** | 2,712 |
| | **1,823** | 5,568 | **501** | 5,845 | **2,324** | 11,413 |

## 8. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Interest on borrowings repayable within five years: | | | | | | |
| Bank loans and overdrafts | **–** | – | **–** | 987 | **–** | 987 |
| Other loans | **–** | – | **–** | 2,043 | **–** | 2,043 |
| | **–** | – | **–** | 3,030 | **–** | 3,030 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Auditors' remuneration | **982** | 1,150 | **4** | 4 | **986** | 1,154 |
| Share-based compensation | **27,516** | 14,455 | **–** | – | **27,516** | 14,455 |
| Depreciation of property, plant and equipment | **8,419** | 5,311 | **1** | 3,162 | **8,420** | 8,473 |
| Amortisation of land use rights | **–** | – | **–** | 80 | **–** | 80 |
| Amortisation of intangible assets | **4,479** | 668 | **–** | – | **4,479** | 668 |
| Impairment of available-for-sale financial asset | **–** | 2,178 | **–** | – | **–** | 2,178 |
| Impairment of goodwill | **12,546** | 570 | **–** | – | **12,546** | 570 |
| Impairment of property, plant and equipment | **–** | 2,742 | **–** | – | **–** | 2,742 |
| Impairment of trade receivables | **–** | – | **–** | 316 | **–** | 316 |
| Impairment of other receivables | **8,963** | 1,440 | **–** | 13,278 | **8,963** | 14,718 |
| Research and development expenses | **6,623** | – | **–** | – | **6,623** | – |
| Gain on disposal of subsidiaries | **–** | – | **–** | (113,896) | **–** | (113,896) |
| Loss/(Gain) on disposal of property, plant and equipment | **167** | – | **(5)** | (57) | **162** | (57) |
| Discount on initial recognition of long-term interest-free deposits | **–** | 3,468 | **–** | – | **–** | 3,468 |
| Cost of inventories recognised as expenses* | **2,761** | 86 | **187** | 353,877 | **2,948** | 353,963 |
| Operating lease charges in respect of land and buildings | **2,896** | 2,403 | **62** | 1,405 | **2,958** | 3,808 |

* For the year ended 31 December 2008, cost of inventories recognised as expenses included HK$5,508,000 relating to impairment of inventories. For 2009, no impairment of inventory was provided for.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 10. INCOME TAX EXPENSE

For the years ended 31 December 2009 and 2008, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the year in Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Current tax | | | | | | |
| – PRC | **–** | 6 | **19** | 1,328 | **19** | 1,334 |
| – Over-provision in prior years | **–** | – | **–** | (738) | **–** | (738) |
| Income tax expense | **–** | 6 | **19** | 590 | **19** | 596 |

Reconciliation between income tax expense and accounting profit/(loss) at applicable tax rates:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| (Loss)/Profit before income tax | | |
| Continuing operations | **(126,773)** | (68,263) |
| Discontinued operations | **542** | 94,260 |
| | **(126,231)** | 25,997 |
| Tax on (loss)/profit before tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned | **(25,527)** | 10,228 |
| Tax effect of non-deductible expenses | **26,321** | 19,497 |
| Tax effect of non-taxable income | **(686)** | (29,171) |
| Tax losses not recognised as deferred tax asset | **–** | 780 |
| Tax effect of prior years' tax losses utilised this year | **(89)** | – |
| Over-provision in prior years | **–** | (738) |
| Income tax expense | **19** | 596 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 11. DISCONTINUED OPERATIONS

11.1 As mentioned in note 1, on 30 December 2009, the board of directors resolved that the Group would discontinue operation of indoor game centre and manufacture and sales of automobile axles business with effect from 31 December 2009. Operation of indoor game centres and manufacture and sales of automobile axles represent separate major lines of businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, in 2009, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5. The Group has also re-presented the disclosure for comparatives presented in the financial statements so that the disclosures relate to these operations that have been discontinued by the reporting date for the latest period presented. For the year ended 31 December 2009, the profit on these discontinued operations amounted to HK$523,000 (2008: loss of HK$884,000).

11.2 As mentioned in note 1, on 22 October 2008, the Group had entered into an agreement with an independent third party to dispose of the entire equity interest in Ningbo Meili Group, which principally engaged in sales and repair of motor vehicles and sales of properties. The disposal of Ningbo Meili Group was completed on 22 December 2008 and the Group had discontinued its operations in sales and repair of motor vehicles and sales of properties thereafter. Sales and repair of motor vehicles and sales of properties represent separate major lines of businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, since 2008, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5. For the year ended 31 December 2008, the loss on these discontinued operations amounted to HK$19,342,000.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 11. DISCONTINUED OPERATIONS *(Continued)*

11.3 The profit/(loss) for the year from the discontinued operations is analysed as follows:

| | **2009** | 2008 | | |
|---|---|---|---|---|
| | **Operation of indoor game centres and manufacture and sales of automobile axles HK$'000** | Sales and repair of motor vehicles and sales of properties HK$'000 | Operation of indoor game centres and manufacture and sales of automobile axles HK$'000 | Total HK$'000 |
| Profit/(loss) on discontinued operations (note 11.4) | **523** | (19,342) | (884) | (20,226) |
| Gain on disposal of subsidiaries (note 43.4) | **–** | 113,896 | – | 113,896 |
| Profit for the year from discontinued operations | **523** | 94,554 | (884) | 93,670 |
| Attributable to: | | | | |
| – Equity holders of the Company | **523** | 103,908 | (884) | 103,024 |
| – Minority interests | **–** | (9,354) | – | (9,354) |
| | **523** | 94,554 | (884) | 93,670 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 11. DISCONTINUED OPERATIONS *(Continued)*

11.4 An analysis of the results of the discontinued operations for the year is as follows:

**For the year ended 31 December 2009**

| | Operation of indoor game centres HK$'000 | Manufacture and sales of automobile axles HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | 820 | – | 820 |
| Cost of sales | (187) | – | (187) |
| Gross profit | 633 | – | 633 |
| Other income | 15 | 486 | 501 |
| General operating expenses | (286) | (306) | (592) |
| Profit before income tax | 362 | 180 | 542 |
| Income tax expense | (19) | – | (19) |
| Profit for the year | 343 | 180 | 523 |
| Cash flows (used in)/generated from discontinued operations | | | |
| Net cash flow from/(used in) operating activities | 28 | (53) | (25) |
| Net cash flow used in investing activities | – | (5) | (5) |
| Net cash (outflow)/inflow | 28 | (58) | (30) |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 11. DISCONTINUED OPERATIONS *(Continued)*

### 11.4 *(Continued)*

For the year ended 31 December 2008

| | Operation of indoor game centres HK$'000 | Manufacture and sales of automobile axles HK$'000 | Sales and repair of motor vehicles HK$'000 | Sales of properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Revenue | 691 | – | 373,279 | 511 | 374,481 |
| Cost of sales | (152) | – | (353,125) | (600) | (353,877) |
| Gross profit/(loss) | 539 | – | 20,154 | (89) | 20,604 |
| Other income | 6 | – | 4,941 | 898 | 5,845 |
| Distribution costs | – | – | (7,171) | (151) | (7,322) |
| General operating expenses | (1,115) | (308) | (20,543) | (13,767) | (35,733) |
| Operating loss | (570) | (308) | (2,619) | (13,109) | (16,606) |
| Finance costs | – | – | (3,028) | (2) | (3,030) |
| Loss before income tax | (570) | (308) | (5,647) | (13,111) | (19,636) |
| Income tax expense | (6) | – | (584) | – | (590) |
| Loss for the year | (576) | (308) | (6,231) | (13,111) | (20,226) |
| Cash flows generated from/(used in) discontinued operations | | | | | |
| Net cash (used in)/from operating activities | (6) | 25 | (6) | (7,354) | (7,341) |
| Net cash used in investing activities | – | – | (3,006) | – | (3,006) |
| Net cash from financing activities | – | – | 18,146 | 57 | 18,203 |
| Net cash inflow/(outflow) | (6) | 25 | 15,134 | (7,297) | 7,856 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 12. OTHER COMPREHENSIVE INCOME

The amount of reclassification adjustments relating to each component of other comprehensive income can be summarised as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Exchange differences on translation of financial statements of foreign subsidiaries | 120 | (6,878) |
| Amount reclassified to profit or loss on disposal of foreign subsidiaries (note 43.4) | – | 21,613 |
| | 120 | 14,735 |

## 13. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year of HK$125,076,000 (2008: profit of HK$35,206,000) attributable to the equity holders of the Company, a loss of HK$159,214,000 (2008: loss of HK$99,351,000) has been dealt with in the financial statements of the Company.

## 14. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil) and the Company did not declare any interim dividend during the year (2008: Nil).

## 15. (LOSS)/EARNINGS PER SHARE

The calculations of the basic and diluted (loss)/earnings per share attributable to the equity holders of the Company are based on the following:

**(Loss)/Earnings**

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| (Loss)/Profit attributable to the equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share | | |
| Continuing operations | (125,599) | (67,817) |
| Discontinued operations | 523 | 103,023 |
| Total (loss)/profit from continuing and discontinued operations | (125,076) | 35,206 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 15. (LOSS)/EARNINGS PER SHARE *(Continued)*

**Number of shares**

| | **2009 Number of shares '000** | 2008 Number of shares '000 |
|---|---|---|
| Weighted average number of shares for the purpose of basic (loss)/earnings per share | **5,534,194** | 5,250,217 |
| Effect of dilutive potential shares: | | |
| – share options issued by the Company | **199,723** | 50,815 |
| Weighted average number of shares for the purpose of diluted (loss)/earnings per share | **5,733,917** | 5,301,032 |

Diluted loss per share for the current year's continuing and discontinued operations and both years' continuing operations was not presented because the impact of the exercise of the share options was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would reduce loss per share attributable to the equity holders of the Company.

## 16. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Wages and salaries | **26,910** | 11,148 | **363** | 10,979 | **27,273** | 22,127 |
| Pension costs – defined contribution plans | **144** | 88 | **189** | 1,501 | **333** | 1,589 |
| Other benefits | **398** | 232 | **4** | 424 | **402** | 656 |
| Share-based payments | **27,516** | 14,455 | **–** | – | **27,516** | 14,455 |
| | **54,968** | 25,923 | **556** | 12,904 | **55,524** | 38,827 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

### For the year ended 31 December 2009

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contribution to defined contribution plan HK$'000 | Equity-settled share-based payment expenses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Executive directors | | | | | |
| Dr. Yeung Yung | 80 | 5,510 | – | 1,699 | 7,289 |
| Mr. Liu Quan | 80 | 1,670 | – | 552 | 2,302 |
| Mr. Hui Wing Sang, Wilson | 80 | 2,204 | 12 | 930 | 3,226 |
| Dr. Zhu Shengliang | – | 880 | – | 697 | 1,577 |
| Dr. Wang Chuantao (appointed on 27 April 2009) | – | – | – | 1,645 | 1,645 |
| Dr. Hou Junwen (appointed on 27 April 2009) | – | – | – | 319 | 319 |
| Mr. Wang Xiaolin (removed from the office of director with effect from 15 April 2009) | – | 194 | – | – | 194 |
| Independent non-executive directors | | | | | |
| Mr. He Bangjie | 80 | 100 | – | 257 | 437 |
| Mr. Wong Lee Hing | 80 | 100 | – | – | 180 |
| Mr. Ting Kwok Kit, Johnny | 80 | 100 | – | 257 | 437 |
| | 480 | 10,758 | 12 | 6,356 | 17,606 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

For the year ended 31 December 2008

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contribution to defined contribution plan HK$'000 | Equity-settled share-based payment expenses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Executive directors | | | | | |
| Dr. Yeung Yung | 80 | 3,510 | – | 1,446 | 5,036 |
| Mr. Liu Quan | 80 | 1,170 | – | 1,445 | 2,695 |
| Mr. Hui Wing Sang, Wilson | 80 | 1,326 | 12 | 1,445 | 2,863 |
| Dr. Zhu Shengliang (appointed on 28 May 2008) | – | 390 | – | – | 390 |
| Mr. Yury Royba (appointed on 15 January 2008 and resigned on 28 May 2008) | – | – | – | 268 | 268 |
| Mr. Chen Peiquan (appointed on 15 January 2008 and resigned on 28 May 2008) | – | 30 | – | 268 | 298 |
| Mr. Wang Xiaolin (removed from the office of director with effect from 15 April 2009) | 80 | 1,432 | – | 1,445 | 2,957 |
| Independent non-executive directors | | | | | |
| Mr. He Bangjie | 80 | – | – | 107 | 187 |
| Mr. Wong Lee Hing (appointed on 24 October 2008) | 15 | – | – | – | 15 |
| Mr. Ting Kwok Kit, Johnny | 80 | – | – | 107 | 187 |
| Mr. Li Zheng, Jack (resigned on 11 August 2008) | – | – | – | 107 | 107 |
| Mr. Ba Shusong (appointed on 11 September 2008 and resigned on 24 October 2008) | – | – | – | – | – |
| | 495 | 7,858 | 12 | 6,638 | 15,003 |

### Five highest paid individuals

For both the years ended 31 December 2009 and 2008, the five highest paid individuals in the Group were all directors whose emoluments are reflected in the analysis presented above.

No emoluments were paid by the Group to any directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2008: nil).

During the year, the directors, Dr. Wang Chuantao and Dr. Hou Junwen, have agreed to waive their remuneration amounted to approximately HK$827,000 and HK$517,000 respectively. For the year ended 31 December 2008, there were no arrangements under which a director waived or agreed to waive any remuneration.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 18. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements, fixture and fittings HK$'000 | Furniture and equipment HK$'000 | Game equipment HK$'000 | Machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2008 | | | | | | | | |
| Cost | 78,144 | – | 20,667 | 8,755 | 64,149 | 16,635 | 29,665 | 218,015 |
| Accumulated depreciation and impairment | (49,721) | – | (17,760) | (5,311) | (64,149) | (12,355) | (14,995) | (164,291) |
| Net book amount | 28,423 | – | 2,907 | 3,444 | – | 4,280 | 14,670 | 53,724 |
| Year ended 31 December 2008 | | | | | | | | |
| Opening net book amount | 28,423 | – | 2,907 | 3,444 | – | 4,280 | 14,670 | 53,724 |
| Acquisition of subsidiaries (note 43.3) | – | – | – | 29 | – | – | 589 | 618 |
| Exchange differences | 2,021 | 8 | 142 | 180 | – | 496 | 446 | 3,293 |
| Additions | 581 | 449 | 1,201 | 1,139 | 3 | 693 | 26,140 | 30,206 |
| Disposals | – | – | – | (11) | – | – | (844) | (855) |
| Disposal of subsidiaries (note 43.4) | (30,247) | (457) | (2,271) | (2,818) | – | (5,111) | (8,413) | (49,317) |
| Depreciation | (778) | – | (573) | (825) | – | (358) | (5,939) | (8,473) |
| Impairment | – | – | – | – | – | – | (2,742) | (2,742) |
| Closing net book amount | – | – | 1,406 | 1,138 | 3 | – | 23,907 | 26,454 |
| At 31 December 2008 | | | | | | | | |
| Cost | – | – | 19,200 | 4,556 | 68,688 | 11,349 | 43,995 | 147,788 |
| Accumulated depreciation and impairment | – | – | (17,794) | (3,418) | (68,685) | (11,349) | (20,088) | (121,334) |
| Net book amount | – | – | 1,406 | 1,138 | 3 | – | 23,907 | 26,454 |
| **Year ended 31 December 2009** | | | | | | | | |
| Opening net book amount | – | – | 1,406 | 1,138 | 3 | – | 23,907 | 26,454 |
| Exchange differences | – | – | (171) | (25) | – | – | (162) | (358) |
| Additions | – | – | 22 | 257 | – | – | 11,941 | 12,220 |
| Disposals | – | – | – | (167) | – | – | (891) | (1,058) |
| Depreciation | – | – | (276) | (388) | (1) | – | (7,755) | (8,420) |
| Closing net book amount | – | – | 981 | 815 | 2 | – | 27,040 | 28,838 |
| **At 31 December 2009** | | | | | | | | |
| Cost | – | – | 4,157 | 2,998 | 11,452 | – | 51,957 | 70,564 |
| Accumulated depreciation and impairment | – | – | (3,176) | (2,183) | (11,450) | – | (24,917) | (41,726) |
| **Net book amount** | **–** | **–** | **981** | **815** | **2** | **–** | **27,040** | **28,838** |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

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

### Company

| | Furniture and equipment HK$'000 | Leasehold improvements, fixture and fittings HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2008 | | | |
| Cost | 123 | 602 | 725 |
| Accumulated depreciation and impairment | (34) | (50) | (84) |
| Net book amount | 89 | 552 | 641 |
| Year ended 31 December 2008 | | | |
| Opening net book amount | 89 | 552 | 641 |
| Additions | 6 | 5 | 11 |
| Depreciation | (26) | (121) | (147) |
| Closing net book amount | 69 | 436 | 505 |
| At 31 December 2008 | | | |
| Cost | 129 | 607 | 736 |
| Accumulated depreciation and impairment | (60) | (171) | (231) |
| Net book amount | 69 | 436 | 505 |
| Year ended 31 December 2009 | | | |
| Opening net book amount | 69 | 436 | 505 |
| Additions | 27 | – | 27 |
| Depreciation | (29) | (122) | (151) |
| Closing net book amount | 67 | 314 | 381 |
| At 31 December 2009 | | | |
| Cost | 156 | 607 | 763 |
| Accumulated depreciation and impairment | (89) | (293) | (382) |
| **Net book amount** | **67** | **314** | **381** |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 19. LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Opening net carrying amount | – | 5,333 |
| Exchange differences | – | 395 |
| Annual charges of prepaid operating lease payment | – | (80) |
| Disposal of subsidiaries (note 43.4) | – | (5,648) |
| Closing net carrying amount | – | – |

## 20. INTERESTS IN SUBSIDIARIES – COMPANY

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | 276,893 | 252,220 |
| Less: Impairment | (269,746) | (227,220) |
| | 7,147 | 25,000 |
| Amounts due from subsidiaries | 407,873 | 459,486 |
| Less: Impairment | (363,048) | (290,493) |
| | 44,825 | 168,993 |
| Amounts due to subsidiaries | 119 | 112 |

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In view of poor financial performance of certain subsidiaries, the directors considered that it was appropriate to provide impairment for the investment costs and amounts due from these subsidiaries.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 20. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

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

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | Percentage of issued share capital held by the Company % | Principal activities and place of operations |
|---|---|---|---|---|
| American Compass Inc. | US, limited liability company | Ordinary US$17,000,000 | 100* | Investment holding, US |
| Far East Golden Resources Investment Limited | Hong Kong, limited liability company | Ordinary HK$25,000,000 | 100* | Investment holding, Hong Kong |
| Parkwell (Hong Kong) Limited | Hong Kong, limited liability company | Ordinary HK$2 | 100* | Leasing, Hong Kong |
| American Phoenix Group, Inc | US, limited liability company | Class A Ordinary US$16,792,529 | 100 | Investment holding, US |
| Star Western Holding, LLC | US, limited liability company | Ordinary US$8,750,000 | 100 | Investment holding, US |
| 寧波美立德咨詢有限公司 (Ningbo Meilide Consulting Co. Limited) | PRC, limited liability company | US$750,000 | 100 | Investment holding, PRC |
| United Kam Wah Development Limited | Hong Kong, limited liability company | Ordinary HK$2 | 100 | Investment holding, Hong Kong |
| Yaohan Whimsy Co., Limited | Hong Kong, limited liability company | Ordinary HK$1,000 Non-voting deferred HK$1,000 | 100 | Investment holding, Hong Kong |
| 河南歡樂天地兒童遊樂有限公司 (Henan Whimsy Amusement Company Limited) | PRC, limited liability company | US$2,000,000 | 97 | Operation of indoor entertainment centre, PRC |
| 瀋陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co., Limited) | PRC, limited liability company | RMB30,000,000 | 51 | Manufacture and sales of automobile axles, PRC |
| 吉林晟世礦業有限公司 (Jilin Shengshi Mining Limited) | PRC, limited liability company | RMB20,067,162 | 100 | Exploration and mining of natural resources, PRC |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 20. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | Percentage of issued share capital held by the Company % | Principal activities and place of operations |
|---|---|---|---|---|
| 延邊吉達建材經銷有限公司 (Yanbian Jida Construction Material Trading Limited) | PRC, limited liability company | RMB1,000,000 | 100 | Exploration and mining of natural resources, PRC |
| 北京世紀萬業源生物工程有限公司 (Beijing Century Wanyeyuan Bio-Engineering Co., Limited) | PRC, limited liability company | RMB60,000,000 | 65 | Development and sales of bioorganic fertilizer and environmental protected products, PRC |
| 北京平安福生物技術研究所有限公司 (Beijing Green Grow Biotech Engineering Research Institution Limited) | PRC, limited liability company | RMB1,000,000 | 65 | Development and sales of bioorganic fertilizer and environmental protected products, PRC |
| 山東萬德源生物工程有限公司 (Shandong Wandeyuan Bio-Engineering Co., Limited) | PRC, limited liability company | RMB6,000,000 | 33.15 (note a) | Manufacture of bioorganic fertilizer, PRC |
| Hybrid Kinetic Motors Corporation ("HKMC") | US, limited liability company | USD1,000 | 100 | Investment holding, US |
| America's Centre for Foreign Investment, LLC ("ACFI") (note b) | US, limited liability company | N/A (note c) | 80* | Provision of immigration advisory services, US |
| HKMP LP A, LLC | US, limited liability company | N/A (note c) | 100 | Investment holding, US |
| HKMP GP A, LLC | US, limited liability company | N/A (note c) | 100 | Investment holding, US |
| Hybrid Kinetic Motors Project A, LP | US, limited partnership | N/A (note d) | 100 | Not yet commenced business |

* Shares held directly by the Company.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 20. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

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

Notes:

a. The Group's subsidiary, Beijing Century Wanyeyuan Bio-Engineering Co., Limited ("Beijing Century") owns 51% of the equity interests in Shandong Wandeyuan Bio-Engineering Co., Limited ("Shandong Wandeyuan"). During the year, Beijing Century and the minority shareholders of Shandong Wandeyuan had contributed capital of RMB3,060,000 and RMB2,940,000 (equivalent to HK$3,477,000 and HK$3,340,000) respectively to Shandong Wandeyuan.

b. On 9 December 2009, the company name was changed from "Alabama Centre for Foreign Investment, LLC" to "America's Centre for Foreign Investment, LLC".

c. As at 31 December 2009 and up to the date of this report, the Group has not contributed capital to these subsidiaries. Pursuant to relevant rules and regulations in US, there is no minimum contribution requirement for Limited Liability Company. The voting rights and the controls of the Group in these subsidiaries have been determined pursuant to the Articles of Organisation or Limited Liability Company Agreement of the respective subsidiaries.

d. Pursuant to the limited partnership agreement dated 21 September 2009 (the "LPA"), the general partner of Hybrid Kinetic Motors Project A, LP (the "Project Company") is HKMP GP A, LLC (the "General Partner"), which owns 0.01% of the equity interest of the Project Company. No capital contribution is required to be made by the General Partner. The General Partner is responsible for management and control of the business of the Project Company and to make all decisions affecting the affairs of the Project Company in accordance with the provisions of the schedule to the LPA.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 20. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Notes:

d. *(Continued)*

Other than the General Partner, the Project Company has two classes of limited partnership units as follows:

i. Class A partnership units ("Class A Partnership Units"), which will be offered for subscription by prospective investors. As at 31 December 2009 and up to the date of this report, no Class A Partnership Units have been granted.

ii. Class B partnership units ("Class B Partnership Units"), which are held by HKMP LP A, LLC, (the "Class B Limited Partner"). The Class B Limited Partner owns 99.99% of the equity interest of the Project Company. Pursuant to the LPA, the liability of the Class B Limited Partner is limited to the capital contribution to the Project Company. The minimum capital contribution payable by the Class B Limited Partner is US$5,000.

Pursuant to the LPA, the Class B Limited Partner is required to make a minimal capital contribution of US$5,000. However, the said contribution has not been made by the Class B Limited Partner as at 31 December 2009 and up to the date of this report.

Both the General Partner and the Class B Limited Partner are wholly owned by HKMC, a wholly owned subsidiary of the Group.

The terms of the partnership commenced on 15 September 2009 and will continue until the partnership is dissolved and its affair wound up in accordance with the provisions of the LPA.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Available-for-sale financial asset | | |
| Unlisted equity investment in PRC, at cost | **2,171** | 2,178 |
| Impairment | **(2,171)** | (2,178) |
| | **–** | – |

The unlisted equity investment is measured at cost less impairment losses as it does not have quoted market price in an active market and the range of reasonable fair value estimates is so significant.

In view of the poor financial performance of the investment, in 2008, the directors considered that it was appropriate to make full impairment for the investment cost of the available-for-sale financial assets.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 22. GOODWILL – GROUP

The amount of the goodwill capitalised as an asset recognised in the consolidated statement of financial position, arising from business combinations, is as follows:

| | HK$'000 |
|---|---|
| At 1 January 2008 | |
| Gross carrying amount | 103,608 |
| Accumulated impairment (note a) | (103,608) |
| Net carrying amount | – |
| For the year ended 31 December 2008 | |
| Net carrying amount at beginning of year | – |
| Acquisition of subsidiaries (note 43.2) | 570 |
| Disposal of subsidiaries (note b) | – |
| Provision for impairment (note c) | (570) |
| Net carrying amount | – |
| At 31 December 2008 and 1 January 2009 | |
| Gross carrying amount | 570 |
| Accumulated impairment | (570) |
| Net carrying amount | – |
| For the year ended 31 December 2009 | |
| Net carrying amount at beginning of year | – |
| Acquisition of a subsidiary (note 43.1) | 12,546 |
| Provision for impairment (note d) | (12,546) |
| Net carrying amount | – |
| At 31 December 2009 | |
| Gross carrying amount | 13,116 |
| Accumulated impairment | (13,116) |
| **Net carrying amount** | **–** |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 22. GOODWILL – GROUP *(Continued)*

The recoverable amounts for the cash-generating units as given above were determined based on value-in-use estimation of the cash generating units by the directors of the Company. The key assumptions for the Group have been determined by the Group's management based on past performance and its expectations for the industry development.

Notes:

(a) In view of the bankruptcy of the manufacturer of MG Rover in England and the poor financial performance of America Phoenix Group, Inc and its subsidiaries ("APG"), in 2005, the directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of APG.

(b) In 2008, the Group had disposed of the entire equity interest in Ningbo Meili Group (note 43.4), which comprised of most of the business acquired under APG in 2005 and the directors considered that the goodwill arising from the acquisition of APG no longer existed as at 31 December 2008. In this regard, the gross carrying amount was derecognised and the accumulated impairment was reversed accordingly.

(c) In view of the unpredictable performance of the natural resources business, in 2008, the directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of Jilin Shengshi Mining Limited and its subsidiary (note 43.2).

(d) The directors have reviewed the performance of the immigration advisory service, and in 2009, they considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of ACFI (note 43.1).

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 23. INTANGIBLE ASSETS – GROUP

| | Technical know-how HK$'000 | Patents HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2008 | | | |
| Cost | – | – | – |
| Amortisation | – | – | – |
| Net carrying amount | – | – | – |
| Year ended 31 December 2008 | | | |
| Opening net carrying amount | – | – | – |
| Acquisition of subsidiaries (note 43.3) | 16,566 | 3,978 | 20,544 |
| Amortisation | (569) | (99) | (668) |
| Exchange realignment | 111 | 33 | 144 |
| Closing net carrying amount | 16,108 | 3,912 | 20,020 |
| At 31 December 2008 and 1 January 2009 | | | |
| Cost | 16,684 | 4,012 | 20,696 |
| Accumulated amortisation | (576) | (100) | (676) |
| Net carrying amount | 16,108 | 3,912 | 20,020 |
| Year ended 31 December 2009 | | | |
| Opening net carrying amount | 16,108 | 3,912 | 20,020 |
| Addition | 2,586 | – | 2,586 |
| Amortisation | (3,581) | (898) | (4,479) |
| Exchange realignment | (49) | (15) | (64) |
| Closing net carrying amount | 15,064 | 2,999 | 18,063 |
| At 31 December 2009 | | | |
| Cost | 19,224 | 3,999 | 23,223 |
| Accumulated amortisation | (4,160) | (1,000) | (5,160) |
| **Net carrying amount** | **15,064** | **2,999** | **18,063** |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 24. INTEREST IN AN ASSOCIATE – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Balance at 1 January | – | 8,542 |
| Exchange realignment | – | 578 |
| Disposal of subsidiaries (note 43.4) | – | (9,120) |
| Balance at 31 December | – | – |

## 25. PREPAYMENTS AND DEPOSITS – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Deposits for management agreements (note) | 17,686 | 16,625 |
| Prepayment for acquisition of land use right and property, plant and equipment | 1,354 | – |
| Prepayment for research and development projects | – | 30,000 |
| | 19,040 | 46,625 |

Note: The deposits for management agreements are interest-free, unsecured and repayable in 2011.

## 26. INVENTORIES – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Plush toys | – | 59 |
| Bioorganic fertilizer | 57 | 118 |
| | 57 | 177 |

## 27. TRADE RECEIVABLES – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Trade receivables | 1,534 | – |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 27. TRADE RECEIVABLES – GROUP *(Continued)*

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| At 1 January | **–** | 25,367 |
| Written off | **–** | (339) |
| Impairment loss recognised | **–** | 316 |
| Exchange realignment | **–** | 1,716 |
| Disposal of subsidiaries | **–** | (27,060) |
| At 31 December | **–** | – |

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

The ageing analysis of the trade receivables of the Group as at 31 December 2009, based on the invoice date, is as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| 0 – 30 days | **1,023** | – |
| 31 – 90 days | **511** | – |
| | **1,534** | – |

The ageing analysis of trade receivables that are not impaired is as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **1,534** | – |

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments to suppliers | **477** | 69 | **–** | – |
| Other receivables | **8,530** | 10,224 | **324** | 247 |
| Loan receivable (note) | **69,795** | – | **69,795** | – |
| Other prepayments | **5,316** | 2,597 | **707** | 245 |
| | **84,118** | 12,890 | **70,826** | 492 |

Note: Included in the prepayments, deposits and other receivables, there was a loan of US$9,000,000 due from Hybrid Kinetic Motors Investment, LLC ("HKMI"), a limited liability company organised in the State of Delaware, US. A wholly owned subsidiary of the Company, HKMC, is the manager of HKMI. The loan due from HKMI was non-interest bearing, repayable on demand and secured by the entire equity interest of HKMI.

## 29. CASH AND CASH EQUIVALENTS

As at 31 December 2009, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$14,629,000 (2008: HK$3,838,000). RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 30. TRADE PAYABLES – GROUP

The ageing analysis of the trade payables of the Group as at 31 December 2009, based on the invoice date, is as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| 0 – 180 days | 26 | – |
| Over 180 days | 73 | – |
| | 99 | – |

## 31. ACCRUALS AND OTHER PAYABLES – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Deposits received from customers | 15 | 56 |
| Accrued staff costs | 1,130 | 1,153 |
| Other payables | 17,583 | 13,290 |
| Other accrued expenses | 15,022 | 13,461 |
| | 33,750 | 27,960 |

## 32. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

Included in other payables were current obligations to various retirement benefits schemes (defined contribution plans) for Hong Kong and PRC employees.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Current obligations on: | | |
| – pension – defined contribution plans | 332 | 301 |

There were no forfeited contributions during the year (2008: Nil).

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 32. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

*(Continued)*

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective provinces to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

The retirement benefit scheme cost charged to the profit or loss represents contributions incurred by the Group. During the year ended 31 December 2009, the Group's contributions were approximately HK$333,000 (2008: HK$1,589,000). There was no (2008: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the reporting dates to reduce the Group's contribution payable in future periods.

## 33. AMOUNTS DUE TO RELATED PARTIES/A DIRECTOR – GROUP

| | Notes | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|---|
| Amounts due to related parties | | | |
| – minority shareholders of subsidiaries | (i) | **–** | 245 |
| – close family member of a director | (i) | **847** | 850 |
| – a company owned by a close family member of a director | (ii) | **1,952** | – |
| | | **2,799** | 1,095 |
| Amount due to a director | (i) | **590** | 1,779 |

Notes:

(i) The balances are unsecured, interest free and have no fixed repayment terms.

(ii) The balance is unsecured, interest free and due on 1 July 2010.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 34. BORROWINGS – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Other loans repayable within one year | **1,890** | 1,897 |

## 35. PROVISIONS – GROUP

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Provision in respect of legal claims | | |
| Balance at 1 January | – | 7,828 |
| Disposal of subsidiaries (note 43.4) | – | (7,828) |
| Balance at 31 December | – | – |

## 36. DEFERRED TAX

Deferred taxation is calculated on temporary differences under the liability method using the taxation rates prevailing in the countries in which the Group operates. As at 31 December 2009, the Group had no material deferred tax asset/liabilities (2008: Nil).

As at 31 December 2009, the Group had unused tax losses of HK$9,339,000 (2008: HK$9,709,000) available for offset against future profits. No deferred tax asset has been recognised in due to the unpredictability of future profit streams.

Unused tax losses of HK$3,368,000 (2008: HK$3,738,000) will expire at various dates up to and including 2013. Other tax losses have no expiry date.

The Group had no deferred withholding tax liabilities as the PRC subsidiaries did not derive any profits for both the year ended 31 December 2009 and 2008.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 37. SHARE CAPITAL

| | 2009 Number of shares | 2009 Amount HK$'000 | 2008 Number of shares | 2008 Amount HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.10 each | **30,000,000,000** | **3,000,000** | 30,000,000,000 | 3,000,000 |
| Issued and fully paid: | | | | |
| At 1 January | **5,483,054,464** | **548,305** | 2,724,003,232 | 272,400 |
| Placement of shares during the year (note i) | **200,000,000** | **20,000** | – | – |
| Issue of shares on acquisition of a subsidiary (note ii) | **78,000,000** | **7,800** | – | – |
| Issue of right shares (note iii) | **–** | **–** | 2,724,003,232 | 272,400 |
| Employee share options scheme – proceeds from shares issued (note iv) | **67,156,000** | **6,716** | 35,048,000 | 3,505 |
| At 31 December | **5,828,210,464** | **582,821** | 5,483,054,464 | 548,305 |

Notes:

(i) In December 2009, the Company entered into agreements in relation to a placing of an aggregate of 200,000,000 new shares at a placing price of HK$0.265 per share. The placing of new shares was completed on 15 December 2009. The shares issued from the placing during the year have the same rights as other ordinary shares of the Company in issue. An amount of HK$33,000,000 representing the excess of the fair value over the nominal value of the shares issued of HK$20,000,000 has been included in share premium account.

(ii) On 9 July 2009, the Company acquired 80% of the equity interest in ACFI by the issue and allotment of 78,000,000 consideration shares of the Company. The fair value of the shares issued at the date of acquisition amounted to HK$12,480,000 (note 43.1). An amount of HK$4,680,000 representing the excess of the fair value over the nominal value of the shares issued of HK$7,800,000 has been included in share premium account.

(iii) On 1 February 2008, the Company had completed the right issue of 2,724,003,232 right shares.

(iv) During the year, the issued share capital of the Company was increased due to the exercise of share options by the directors and employees of the Company and other eligible persons. Details of the share options exercised during the year are summarised in note 38. The shares issued during the year in relation to share options exercised have the same rights as other ordinary shares of the Company in issue.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 38. SHARE-BASED EMPLOYEE COMPENSATION

On 12 June 2003, the share option scheme adopted by the Company on 15 March 1995 was terminated and a new share option scheme (the "2003 Scheme") was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The 2003 Scheme became effective on 12 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the 2003 Scheme. The offer of a grant may be accepted upon payment of HK$1 per acceptance. The exercisable period of the share options granted is determinable by the board of directors, which commences and ends on a period specified at the date of grant of the share options. The share options are vested at the date of grant and exercisable within the specified exercisable period. The exercise price will be determined by the board of directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company's shares. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settled the options in cash.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

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

The movements of the share options of the Company during the year are as follows:

### For the year ended 31 December 2009

| | Share option type | At 1 January 2009 | Granted during the year | Exercised during the year | Cancelled during the year | At 31 December 2009 |
|---|---|---|---|---|---|---|
| | | Number of share options | | | | |
| **Directors** | | | | | | |
| Dr. Yeung Yung | 2000 (a) | 11,140,000 | – | – | – | 11,140,000 |
| | 2000 (b) | 24,028,980 | – | – | – | 24,028,980 |
| | 2005 | 11,140,000 | – | – | – | 11,140,000 |
| | 2008 | 27,000,000 | – | – | – | 27,000,000 |
| | 2009 (a) | – | 40,000,000 | – | – | 40,000,000 |
| Mr. Liu Quan | 2008 | 27,000,000 | – | – | – | 27,000,000 |
| | 2009 (a) | – | 13,000,000 | – | – | 13,000,000 |
| Mr. Wang Xiaolin | 2008 | 27,000,000 | – | – | (27,000,000) | – |
| Mr. Hui Wing Sang, Wilson | 2005 | 1,114,000 | – | (1,114,000) | – | – |
| | 2008 | 27,000,000 | – | – | – | 27,000,000 |
| | 2009 (a) | – | 21,886,000 | (886,000) | – | 21,000,000 |
| Dr. Zhu Shengliang | 2005 | 16,710,000 | – | – | – | 16,710,000 |
| | 2009 (a) | – | 1,290,000 | – | – | 1,290,000 |
| | 2009 (b) | – | 10,000,000 | – | – | 10,000,000 |
| Dr. Wang Chuantao | 2009 (a) | – | 15,000,000 | – | – | 15,000,000 |
| | 2009 (c) | – | 10,000,000 | – | – | 10,000,000 |
| Dr. Hou Junwen | 2009 (a) | – | 7,500,000 | – | – | 7,500,000 |
| Mr. He Bangjie | 2008 | 2,000,000 | – | – | – | 2,000,000 |
| | 2009 (b) | – | 4,000,000 | – | – | 4,000,000 |
| Mr. Ting Kwok Kit, Johnny | 2008 | 2,000,000 | – | (2,000,000) | – | – |
| | 2009 (b) | – | 4,000,000 | – | – | 4,000,000 |
| | | 176,132,980 | 126,676,000 | (4,000,000) | (27,000,000) | 271,808,980 |
| **Employees** | | | | | | |
| In aggregate | 2000 (a) | 4,678,800 | – | – | – | 4,678,800 |
| | 2000 (b) | 9,357,600 | – | – | – | 9,357,600 |
| | 2004 | 19,241,008 | – | – | – | 19,241,008 |
| | 2005 | 49,573,000 | – | (7,656,000) | – | 41,917,000 |
| | 2008 | 89,800,000 | – | – | (5,000,000) | 84,800,000 |
| | 2009 (a) | – | 177,224,592 | (10,500,000) | – | 166,724,592 |
| | 2009 (b) | – | 54,000,000 | – | (20,000,000) | 34,000,000 |
| | 2009 (c) | – | 91,000,000 | (10,000,000) | – | 81,000,000 |
| | | 172,650,408 | 322,224,592 | (28,156,000) | (25,000,000) | 441,719,000 |
| **Other eligible persons** | | | | | | |
| In aggregate | 2005 | 23,280,000 | – | – | – | 23,280,000 |
| | 2008 | 35,000,000 | – | (20,000,000) | – | 15,000,000 |
| | 2009 (a) | – | 23,500,000 | (15,000,000) | – | 8,500,000 |
| | | 58,280,000 | 23,500,000 | (35,000,000) | – | 46,780,000 |
| **TOTAL** | | **407,063,388** | **472,400,592** | **(67,156,000)** | **(52,000,000)** | **760,307,980** |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

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

### For the year ended 31 December 2008

| | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share option type | At 1 January 2008 | Granted during the year | Reclassification during the year | Exercised during the year | Cancelled during the year | Adjustment due to rights issue | At 31 December 2008 |
| **Directors** | | | | | | | | |
| Dr. Yeung Yung | 2000 (a) | 10,000,000 | – | – | – | – | 1,140,000 | 11,140,000 |
| | 2000 (b) | 21,570,000 | – | – | – | – | 2,458,980 | 24,028,980 |
| | 2005 | 10,000,000 | – | – | – | – | 1,140,000 | 11,140,000 |
| | 2008 | – | 27,000,000 | – | – | – | – | 27,000,000 |
| Mr. Liu Quan | 2008 | – | 27,000,000 | – | – | – | – | 27,000,000 |
| Mr. Wang Xiaolin | 2008 | – | 27,000,000 | – | – | – | – | 27,000,000 |
| Mr. Hui Wing Sang, Wilson | 2005 | 1,000,000 | – | – | – | – | 114,000 | 1,114,000 |
| | 2008 | – | 27,000,000 | – | – | – | – | 27,000,000 |
| Dr. Zhu Shengliang | 2005 | – | – | 16,710,000 | – | – | – | 16,710,000 |
| Mr. Chen Peiquan Chen | 2008 | – | 5,000,000 | – | – | (5,000,000) | – | – |
| Mr. Yury Royba | 2008 | – | 5,000,000 | – | – | (5,000,000) | – | – |
| Mr. He Bangjie | 2008 | – | 2,000,000 | – | – | – | – | 2,000,000 |
| Mr. Li Zheng, Jack | 2008 | – | 2,000,000 | – | – | (2,000,000) | – | – |
| Mr. Ting Kwok Kit, Johnny | 2008 | – | 2,000,000 | – | – | – | – | 2,000,000 |
| | | 42,570,000 | 124,000,000 | 16,710,000 | – | (12,000,000) | 4,852,980 | 176,132,980 |
| **Employees** | | | | | | | | |
| In aggregate | 2000 (a) | 4,800,000 | – | – | – | (668,400) | 547,200 | 4,678,800 |
| | 2000 (b) | 9,400,000 | – | – | – | (1,114,000) | 1,071,600 | 9,357,600 |
| | 2004 | 18,472,000 | – | – | – | (1,336,800) | 2,105,808 | 19,241,008 |
| | 2005 | 61,500,000 | – | (16,710,000) | (2,228,000) | – | 7,011,000 | 49,573,000 |
| | 2008 | – | 111,000,000 | – | (400,000) | (20,800,000) | – | 89,800,000 |
| | | 94,172,000 | 111,000,000 | (16,710,000) | (2,628,000) | (23,919,200) | 10,735,608 | 172,650,408 |
| **Other eligible persons** | | | | | | | | |
| In aggregate | 2000 (b) | 10,800,000 | – | – | – | (12,031,200) | 1,231,200 | – |
| | 2004 | 46,020,000 | – | – | – | (51,266,280) | 5,246,280 | – |
| | 2005 | 65,000,000 | – | – | (32,420,000) | (16,710,000) | 7,410,000 | 23,280,000 |
| | 2008 | – | 35,000,000 | – | – | – | – | 35,000,000 |
| | | 121,820,000 | 35,000,000 | – | (32,420,000) | (80,007,480) | 13,887,480 | 58,280,000 |
| **TOTAL** | | 258,562,000 | 270,000,000 | – | (35,048,000) | (115,926,680) | 29,476,068 | 407,063,388 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

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

Details of the share options are as follows:

| Share option type | Date of grant | Exercisable period | Exercise price |
|---|---|---|---|
| 2000 (a) | 16 February 2000 | 16 February 2000 to 15 February 2010 | HK$0.619* |
| 2000 (b) | 2 November 2000 | 2 November 2000 to 1 November 2010 | HK$0.343* |
| 2004 | 5 January 2004 | 26 January 2004 to 4 January 2014 | HK$0.144* |
| 2005 | 9 August 2005 | 29 August 2005 to 8 August 2015 | HK$0.102* |
| 2008 | 6 February 2008 | 6 February 2008 to 5 February 2018 | HK$0.114 |
| 2009 (a) | 24 June 2009 | 24 June 2009 to 11 June 2013 | HK$0.123 |
| 2009 (b) | 10 July 2009 | 10 July 2009 to 11 June 2013 | HK$0.185 |
| 2009 (c) | 17 November 2009 | 17 November 2009 to 11 June 2013 | HK$0.295 |

* Following the issue of right shares on 1 February 2008, the exercise prices of share options were adjusted from HK$0.690, HK$0.382, HK$0.160 and HK$0.114 to HK$0.619, HK$0.343, HK$0.144 and HK$0.102 respectively. The number of share option was also adjusted as a result of the issue of right shares.

Employee compensation expense of HK$27,516,000 (2008: HK$14,455,000) has been included in the consolidated statement of comprehensive income for the year ended 31 December 2009. It gave rise to an equity compensation reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

The fair values of the options granted during the year ended 31 December 2009 were determined using Binomial Option Valuation Model. Significant inputs into the model were as follows:

| Share option type | 2009 (a) | 2009 (b) | 2009 (c) |
|---|---|---|---|
| Share price | HK$0.123 | HK$0.185 | HK$0.295 |
| Exercise price | HK$0.123 | HK$0.185 | HK$0.295 |
| Expected volatility | 110.14% | 110.14% | 114.75% |
| Expected option life (years) | 3.97 | 3.92 | 3.57 |
| Weighted average annual risk fee interest rate | 1.949% | 1.55% | 1.004% |
| Expected dividend yield | 0% | 0% | 0% |
| Suboptimal exercise factor | 1.5 | 1.5 | 1.5 |

The expected volatility represents the historical volatility of the share price of the ordinary shares of the Company.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

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

Share options and weighted average exercise price are as follows for the reporting periods presented:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price HK$ | Number | Weighted average exercise price HK$ |
| Outstanding at 1 January | **407,063,388** | **0.151** | 258,562,000 | 0.202 |
| Granted | **472,400,592** | **0.169** | 270,000,000 | 0.114 |
| Exercised | **(67,156,000)** | **0.143** | (35,048,000) | 0.102 |
| Cancelled | **(52,000,000)** | **0.141** | (115,926,680) | 0.155 |
| Adjustment due to right issue | **–** | **–** | 29,476,068 | – |
| Outstanding at 31 December | **760,307,980** | **0.164** | 407,063,388 | 0.151 |

The share options exercised during the year resulted in an equal number of ordinary shares (see note 37). The weighted average share price of these shares at the date of exercise was HK$0.254 (2008: HK$0.190).

The share options outstanding at 31 December 2009 had exercise price of HK$0.102 to HK$0.619 (2008: HK$0.102 to HK$0.619) and a weighted average remaining contractual life of 4.7 years (2008: 7.4 years).

## 39. RESERVES

### Group

| | Share premium HK$'000 | Translation reserve HK$'000 | Equity compensation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 31 December 2009** | **345,874** | **1,549** | **43,530** | **(770,256)** | **(379,303)** |
| At 31 December 2008 | 306,817 | 1,455 | 19,320 | (645,180) | (317,588) |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 39. RESERVES *(Continued)*

### Company

| | Share premium HK$'000 | Contributed surplus HK$'000 | Equity compensation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2008 | 310,781 | 94,601 | 6,272 | (676,827) | (265,173) |
| Loss and total comprehensive loss for the year | – | – | – | (99,351) | (99,351) |
| Issuance of new shares | – | – | – | – | – |
| Share issue expense | (5,446) | – | – | – | (5,446) |
| Recognition of equity settled share-based compensation | – | – | 14,455 | – | 14,455 |
| Proceeds from shares issued under share option scheme | 1,482 | – | (1,407) | – | 75 |
| At 31 December 2008 and 1 January 2009 | 306,817 | 94,601 | 19,320 | (776,178) | (355,440) |
| Loss and total comprehensive loss for the year | – | – | – | (159,214) | (159,214) |
| Issuance of new shares | 37,680 | – | – | – | 37,680 |
| Share issue expense | (4,811) | – | – | – | (4,811) |
| Recognition of equity settled share-based compensation | – | – | 27,516 | – | 27,516 |
| Proceeds from shares issued under share option scheme | 6,188 | – | (3,306) | – | 2,882 |
| **At 31 December 2009** | **345,874** | **94,601** | **43,530** | **(935,392)** | **(451,387)** |

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 39. RESERVES *(Continued)*

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31 December 2009 (2008: Nil).

The equity compensation reserve was made in accordance to the adoption of HKFRS 2.

## 40. RELATED PARTY TRANSACTIONS

The directors represent the key management of the Group. During the year, the key management personnel compensations amounted to HK$17,606,000 (2008: HK$15,003,000). Further details of the remunerations to the directors of the Group are included in note 17 to the financial statements.

Save as disclosed above and elsewhere in the financial statement, the Group and the Company had no other related party transactions during the year (2008: Nil).

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 41. COMMITMENTS

### 41.1 Capital commitments

As at 31 December 2009, the Group had the following commitments in respect of setting up a subsidiary in the PRC:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Contracted but not provided for | **5,681** | 5,700 |

The Company has no capital commitments as at 31 December 2009 (2008: Nil).

### 41.2 Lease commitments

As at 31 December 2009, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Within one year | **3,929** | 2,524 |
| After one year but within five years | **13,288** | 3,745 |
| After five years | **6,110** | – |
| | **23,327** | 6,269 |

As at 31 December 2009 and 2008, the Group lease certain offices and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years. None of the leases include contingent rentals.

The Company has no lease commitments as at 31 December 2009 (2008: Nil).

## 42. BANKING FACILITIES

At 31 December 2009, the general banking facilities of the Group were secured by bank deposit of HK$806,000 (2008: HK$805,000).

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

43.1 On 25 March 2009, the Group and independent third parties entered into an equity swap agreement, as supplemented by a supplemental agreement entered into by the same parties, to acquire 80% of the equity interest in ACFI. Pursuant to the equity swap agreement, the cost of acquisition was HK$7,800,000, which was satisfied by the issue and allotment of 78,000,000 consideration shares (the "Consideration Shares") by the Company at the issue price of HK$0.1. The acquisition of ACFI was completed on 9 July 2009. At the date of completion, the fair value of the Consideration Shares was HK$12,480,000, which was determined with reference to the market price of the Company's ordinary shares at the date of acquisition. Following the acquisition, the Group owned 80% of the controlling interests in ACFI and ACFI became a subsidiary of the Group.

The assets and liabilities arising from the acquisition are as follows:

| | Fair values<br>HK$'000 | Carrying amounts<br>HK$'000 |
|---|---|---|
| Cash and cash equivalents | 1,079 | 1,079 |
| Other receivables | 78 | 78 |
| Other payables | (1,223) | (1,223) |
| Net liabilities | (66) | (66) |

Details of net assets acquired and goodwill are as follows:

| | HK$'000 |
|---|---|
| Purchase consideration: | |
| – fair value of the Consideration Shares | 12,480 |
| Fair value of the net liabilities acquired | 66 |
| Goodwill (note 22) | 12,546 |
| Net cash inflow arising on acquisition: | |
| Cash and cash equivalents acquired | 1,079 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

43.1 *(Continued)*

The goodwill of HK$12,546,000 was recognised after taking into consideration of the fact that ACFI has been designated by the US government as the regional centre to engage in immigration investment related business under the immigrant investor program of the US government. The capacity of ACFI as the regional centre to engage in immigration investment related business is not separable and therefore it does not meet the criteria for recognition as an intangible asset.

ACFI did not contribute revenues but net loss of HK$2,045,000 to the Group for the period from 9 July 2009 to 31 December 2009. If the acquisition of ACFI had been completed on 1 January 2009, there was no impact to the total revenue and the Group's loss for the year would have been HK$126,395,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of what have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

43.2 On 23 May 2008, the Group entered into a share transfer agreement with an independent third party to acquire the entire equity interest in Jilin Shengshi Mining Limited and its subsidiary (collectively the "Jilin Shengshi Group"), at the consideration of RMB4,000,000 in cash. The acquisition of Jilin Shengshi Group was completed on 8 August 2008. Following the acquisition, the Group owned the entire equity interests in Jilin Shengshi Group and Jilin Shengshi Group became wholly owned subsidiaries of the Group.

The assets and liabilities arising from the acquisition were as follows:

| | **Fair values**<br>HK$'000 | **Carrying amounts**<br>HK$'000 |
|---|---|---|
| Other receivables | 5,494 | 5,494 |
| Cash and cash equivalents | 7 | 7 |
| Other payables | (1,511) | (1,511) |
| Net assets | 3,990 | 3,990 |
| Net cash outflow arising on acquisition: | | |
| Cash consideration paid | | (4,560) |
| Cash and cash equivalents acquired | | 7 |
| Net cash outflow from acquisition of subsidiaries | | (4,553) |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

43.2 *(Continued)*

Details of net assets acquired and goodwill are as follows:

| | HK$'000 |
|---|---|
| Total purchase consideration | 4,560 |
| Fair value of net assets acquired | 3,990 |
| Goodwill (note 22) | 570 |

Jilin Shengshi Group did not contribute revenues but net loss of HK$5,366,000 to the Group for the period from 8 August 2008 to 31 December 2008. If the acquisition of Jilin Shengshi Group had been completed on 1 January 2008, there was no impact to the Group's total revenue and the Group's profit for the year would have been HK$24,845,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of what have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

43.3 On 11 July 2008, the Group entered into a capital injection agreement with independent third parties to inject RMB39,000,000 (equivalent to HK$44,191,000) in cash to Beijing Century Wanyeyuan Bio-Engineering Company Limited and its subsidiary (collectively the "Beijing Century Group"). The capital injection in Beijing Century Group was completed on 18 September 2008 with an initial capital injection of HK$20,000,000. Following the capital injection, the Group owned 65% of the controlling interests in Beijing Century Group and Beijing Century Group become subsidiaries of the Group.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

43.3 *(Continued)*

The assets and liabilities arising from the acquisition are as follows:

| | **Fair values** HK$'000 | **Carrying amounts** HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment (note 18) | 618 | 618 |
| Intangible assets (note 23) | 20,544 | 17,321 |
| Inventories | 203 | 203 |
| Amount receivable from the Group | 24,191 | 24,191 |
| Other receivables | 4,209 | 4,209 |
| Cash and cash equivalents | 22,084 | 22,084 |
| Other payables | (3,928) | (3,928) |
| | 67,921 | 64,698 |
| Minority interests | (23,730) | |
| | 44,191 | |

| | |
|---|---|
| Net cash inflow arising on acquisition: | |
| Cash consideration paid | (20,000) |
| Cash and cash equivalents acquired | 22,084 |
| Net cash inflow from acquisition of subsidiaries | 2,084 |

Details of net assets acquired and goodwill are as follows:

| | HK$'000 |
|---|---|
| Total purchase consideration | 44,070 |
| Fair value of net assets acquired | (44,070) |
| Goodwill | – |

Beijing Century Group contributed revenues of HK$324,000 and net loss of HK$1,130,000 to the Group for the period from 18 September 2008 to 31 December 2008. If the acquisition of Beijing Century Group had been completed on 1 January 2008, Group's total revenue for the year would have been HK$380,238,000, and profit for the year would have been HK$24,484,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of what have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

43.4 As mentioned in note 11.2, on 22 October 2008, the Group entered into a disposal agreement with an independent third party in respect of the disposal of the entire equity interests in Ningbo Meili Group at the consideration of RMB100. The disposal of Ningbo Meili Group was completed on 22 December 2008. The net liabilities of Ningbo Meili Group at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Net liabilities disposed of: | |
| Property, plant and equipment (note 18) | 49,317 |
| Land use rights (note 19) | 5,648 |
| Interest in an associate (note 24) | 9,120 |
| Prepayments and deposits | 406 |
| Inventories | 130,513 |
| Trade receivables | 8,899 |
| Prepayments, deposits and other receivables | 29,580 |
| Amount due from an associate | 3,420 |
| Amounts due from related parties | 11,259 |
| Pledged deposits | 65,427 |
| Cash and cash equivalents | 17,839 |
| Trade payables | (50,763) |
| Accruals and other payables | (193,644) |
| Amounts due to related parties | (39,096) |
| Amount due to holding company | (68,781) |
| Borrowings | (44,631) |
| Bills payable | (112,209) |
| Provisions (note 35) | (7,828) |
| Tax payable | (361) |
| | (185,885) |
| Minority interests | (18,404) |
| | (204,289) |
| Write off of amounts due from Ningbo Meili Group | 68,781 |
| Release of translation reserve | 21,613 |
| Gain on disposal of subsidiaries (note 11.3) | 113,896 |
| Total consideration | 1 |
| Satisfied by | |
| Cash | 1 |
| Net cash outflow arising from disposal: | |
| Cash consideration | 1 |
| Cash and cash equivalents disposed of | (17,839) |
| Net cash outflow from disposal of subsidiaries | (17,838) |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

43.4 *(Continued)*

Ningbo Meili Group contributed revenue of HK$373,790,000 and net loss of HK$19,342,000 to the Group for the period from 1 January 2008 to 22 December 2008 (being the effective date of disposal).

## 44. EVENTS AFTER THE REPORTING DATE

### 44.1 Set up of a subsidiary

On 25 January 2010, the Group set up a wholly-foreign owned enterprise in the PRC, through its wholly owned subsidiary, HKMC, namely HKMC Equity Investment Fund Management Co., Limited ("天津正道股權投資管理有限公司"), to explore and undertake businesses or potential businesses in the PRC. Details of the investment in HKMC Equity Investment Fund Management Co., Limited have been set out in the Company's announcement dated 26 January 2010.

### 44.2 Strategic participation in the development of the automobile project in the US

On 26 January 2010, resolutions have been passed in the Company's special general meeting to approve the Group's participation in the development of automobile project in the US. Details of the Group's participation in the development of automobile project in the US are set out in the Company's announcement on 29 September 2009 and the Company's circular on 29 December 2009.

### 44.3 Placement of shares

On 25 March 2010, the Company entered into an agreement to place a maximum of 750,000,000 new ordinary shares of HK$0.1 each at a price of HK$0.35 per share for cash. On 1 April 2010, the placing was completed and 338,300,000 out of the 750,000,000 placing shares were placed. Upon completion of the placing, the net proceeds from the placing are approximately HK$110,408,000.

### 44.4 Grant of share options

On 15 April 2010, the Group has granted share options to the employees of the Company or its subsidiaries to subscribe for 60,000,000 ordinary shares of HK$0.10 each in the Company under the share option scheme adopted by the Company on 12 June 2003.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The most significant financial risks to which the Group is exposed to are described below.

### (a) Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's floating interest rates bank balances. The Group does not actively engage in derivative financial instruments to hedge its interest rate risk.

It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss/profit after tax and accumulated losses as below.

| | **2009** | 2008 |
|---|---|---|
| Increase of 50 basis points in interest rate | **Loss for the year decreases HK$573,000** | Profit for the year increases HK$889,000 |
| Decrease of 50 basis points in interest rate | **Loss for the year increases HK$573,000** | Profit for the year decreases HK$889,000 |

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence for the whole year. The 50 basis points increase or decrease represents management's assessment of reasonably possible change in interest rates over the period until the next annual reporting date. The same basis of analysis also performed at 31 December 2008.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

### (b) Credit risk

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

As at 31 December 2009, there was a concentration of credit risk with the maximum exposure equal to the carrying amount of the loan to HKMI of US$9,000,000 (equivalent to HK$69,795,000) as disclosed in note 28. With respect to the credit risk arising from the loan to HKMI, the management actively monitored the creditworthiness of the counterparty to avoid excessive concentrations of credit risk.

The credit risk of the Group's other major financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk on cash and cash equivalents is mitigated as bank balances were deposited in banks of high credit ratings.

Since the Group trades only with recognised and creditworthy third parties, for trade debtors, there is no requirement for collateral.

### (c) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong, US and PRC with most of the transactions denominated and settled in HK$, US$ and RMB. No foreign currency risk has been identified for the US and PRC subsidiaries' financial assets and liabilities denominated in US$ and RMB, which is the functional currency of the US and PRC subsidiaries to which these transactions relate. The Group's exposure to foreign currency risk primarily arise from certain financial instruments which are denominated in US$, which is a currency other than the functional currency of the entities to which it relate. The Group currently does not have a foreign currency hedging policy.

As at 31 December 2009, the loan to HKMI of HK$69,795,000 (equivalent to US$9,000,000, see note 28) was denominated in US$ (2008: Nil). As US$ is pegged to HK$, the Group does not expect any significant movements in the US$/HK$ exchange rates. No sensitivity analysis in respect of the Group's financial assets denominated in US$ is disclosed as in the opinion of directors, such sensitivity analysis does not give additional value in view of insignificant movement in the US$/HK$ exchange rates as at reporting date.

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

### (d) Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as cash outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2009 and 31 December 2008, the Group's financial liabilities have contractual maturities which are summarised below:

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Repayable on demand HK$'000 | Within one year HK$'000 |
|---|---|---|---|---|
| **At 31 December 2009** | | | | |
| **Trade payables** | **99** | **99** | **–** | **99** |
| **Other payables** | **17,583** | **17,583** | **17,583** | **–** |
| **Amounts due to related parties** | **2,799** | **2,799** | **847** | **1,952** |
| **Amount due to a director** | **590** | **590** | **590** | **–** |
| **Borrowings** | **1,890** | **1,890** | **–** | **1,890** |
| | **22,961** | **22,961** | **19,020** | **3,941** |
| At 31 December 2008 | | | | |
| Other payables | 13,290 | 13,290 | 13,290 | – |
| Amounts due to related parties | 1,095 | 1,095 | 1,095 | – |
| Amount due to a director | 1,779 | 1,779 | 1,779 | – |
| Borrowings | 1,897 | 1,897 | – | 1,897 |
| | 18,061 | 18,061 | 16,164 | 1,897 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

### (d) Liquidity risk *(Continued)*

The Group's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms.

### (e) Fair value

The directors consider that the fair values of each class of the financial assets and financial liabilities approximate to their carry amounts.

### (f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2009 and 2008 may be categorised as follows. See notes 2.10 and 2.13 for explanations about how the category of financial instruments affects their subsequent measurement.

#### *(i) Financial assets*

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Loans and receivables: | | |
| Deposits for management agreements (note 25) | **17,686** | 16,625 |
| Trade receivables | **1,534** | – |
| Other receivables (note 28) | **8,530** | 10,224 |
| Loan receivable (not 28) | **69,795** | – |
| Cash and cash equivalents | **114,714** | 178,809 |
| Pledged bank deposits | **806** | 805 |
| | **213,065** | 206,463 |

# Notes to the Financial Statements

*For the year ended 31 December 2009*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

### (f) Summary of financial assets and liabilities by category *(Continued)*

#### *(ii) Financial liabilities*

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Financial liabilities at amortised cost: | | |
| Trade payables | **99** | – |
| Other payables | **17,583** | 13,290 |
| Amounts due to related parties | **2,799** | 1,095 |
| Amount due to a director | **590** | 1,779 |
| Borrowings | **1,890** | 1,897 |
| | **22,961** | 18,061 |

## 46. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern; and

(ii) to provide an adequate return to shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount dividends paid to shareholders, return capital to shareholders and issue new shares to reduce debt level.

For capital management purpose, the management regards the total equity presented in the face of the statement of financial position as capital.

# Financial Summary

*For the year ended 31 December 2009*

The consolidated results and assets and liabilities of the Group for the past five years:

## Results

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | **2009**<br>**HK$'000** |
| Revenue | | | | | |
| Continuing operations | – | 121 | – | 324 | **10,393** |
| Discontinued operations | 316,085 | 864,039 | 920,305 | 374,481 | **820** |
| | 316,085 | 864,160 | 920,305 | 374,805 | **11,213** |
| Operating profit/(loss) before taxation | | | | | |
| Continuing operations | (148,012) | (30,873) | (17,379) | (68,263) | **(126,773)** |
| Discontinued operations | (80,011) | (84,962) | 5,325 | 94,260 | **542** |
| | (228,023) | (115,835) | (12,054) | 25,997 | **(126,231)** |
| Income tax expense | | | | | |
| Continuing operations | (6) | (2) | – | (6) | **–** |
| Discontinued operations | 3,530 | (363) | (9,131) | (590) | **(19)** |
| | 3,524 | (365) | (9,131) | (596) | **(19)** |
| Profit/(loss) for the year | | | | | |
| Continuing operations | (148,018) | (30,875) | (17,379) | (68,269) | **(126,773)** |
| Discontinued operations | (76,481) | (85,325) | (3,806) | 93,670 | **523** |
| | (224,499) | (116,200) | (21,185) | 25,401 | **(126,250)** |
| Profit/(Loss) attribute to equity holders of the Company | (218,223) | (88,163) | (30,687) | 35,206 | **(125,076)** |
| Minority interests | (6,276) | (28,037) | 9,502 | (9,805) | **(1,174)** |
| | (224,499) | (116,200) | (21,185) | 25,401 | **(126,250)** |

# Financial Summary

*For the year ended 31 December 2009*

## Assets and liabilities

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | **2009**<br>**HK$'000** |
| Total assets | 365,581 | 365,458 | 409,394 | 285,780 | **267,170** |
| Total liabilities | 358,256 | 481,550 | 486,796 | 32,731 | **39,128** |
| | 7,325 | (116,092) | (77,402) | 253,049 | **228,042** |
| **Equity** | | | | | |
| Equity attribute to equity holders of the Company | (41,031) | (133,125) | (103,410) | 230,717 | **203,518** |
| Minority interests | 48,356 | 17,033 | 26,008 | 22,332 | **24,524** |
| | 7,325 | (116,092) | (77,402) | 253,049 | **228,042** |