



GLOBAL GREEN TECH GROUP LIMITED
高寶綠色科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 274



ANNUAL REPORT 2009



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yip Chung Wai, David

Mr. Wong Hiu Tung

Mr. Jia Xuelei

Independent Non-executive Directors

Mr. Cheung Kwok Yu

Ms. Lin Ying

Mr. Li Yongxiang

COMPANY SECRETARY

Mr. Fung Kwok Leung, *FCPA, FCCA*

AUDITORS

Hopkins CPA Limited

Certified Public Accountants

3/F., Sun Hung Kai Centre

30 Harbour Road

Hong Kong

LEGAL ADVISERS

As to Hong Kong law

LEUNG & LAU, Solicitors

13/F., Public Bank Centre

120 Des Voeux Road Central

Hong Kong

As to Cayman Islands law

Conyers Dill & Pearman

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3401-08, 34/F., Office Tower

Convention Plaza

1 Harbour Road

Wanchai

Hong Kong

PRINCIPAL BANKERS

Bank of Communications Ltd

Room 2201, 22/F., City Landmark 1

68 Chung On Street

Tsuen Wan, N.T.

Hong Kong

Public Bank (Hong Kong) Ltd

19/F., Asia Financial Centre

120 Des Voeux Road Central

Hong Kong

Bank of China (Hong Kong) Ltd

Unit 702-706, The Gateway Tower 3

(Prudential Tower), 21 Canton Road

Tsim Sha Tsui, Kowloon

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd

Butterfield House

Fort Street, P.O. Box 705

George Town

Grand Cayman

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Yip Chung Wai, David

Mr. Wong Hiu Tung

CHIEF EXECUTIVE'S STATEMENT

On behalf of the Board, I herein present the annual results of Global Green Tech Group Limited ("Global Green"/the "Group") for the year ended 31 December 2009.

2009 is still a difficult year for the Group due to overall market depression and slowdown in PRC economic growth.

BUSINESS REVIEW

The Group recorded a turnover of HK\$397.22 million, representing a decrease of 70.35% from that of HK\$1,399.71 million a year ago. Gross profit was HK\$49.89 million, representing a decrease of 89.88% from that of HK\$492.80 million in the last year. Loss for the year amounted to HK\$272.29 million compared with a profit of HK\$33.57 million in last year. The basic loss per share was HK\$13.78 cents (2008: the basic earnings per share of HK\$0.65 cents).

Under the stringent business environment in 2009, our core businesses, especially for cosmetics and skincare products and industrial products, continued to generate stable recurring turnover to the Group. The decline in the profit was primarily attributable to the non-cash provision for unrealized loss on investment securities, provision for redemption money and interest payment on convertible preference shares issued by a subsidiary of the Group and general provision for receivables and inventories of the Group.

OUTLOOK

It's widely believed that the impact of the financial crisis on China would not be as significant as on other main economical bodies. And with stimulus package implemented by the central government, the GDP and domestic demand in China will continue to grow in 2010, although in a slower pace. The Group, with its solid foundation planted in China since the establishment, will concentrate on its core business, seek for on-going development, and finally come over the present difficult time with the ultimate objective to diversify the business in order to generate more stable income.

For cosmetics and skincare products, our brand MB has established its brand name in mainland China through extensive distribution network and innovative promotion strategies. Riding on the growing disposable income and strong emergence of the middle class, we are confident that MB will continue to bring strong recurring income to the Group, by expansion of product line and effective promotion activities.

For industrial products, we will strive to maintain a reasonable profit margin for our traditional industrial surfactants business, and keep expanding the new industrial enzymes business which already made contribution to the Group's revenues in 2008.

At the same time, the Group will also continue working on waste-tyre-to-oil recycling project to capture the tremendous opportunities in green energy field.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2009 is still a difficult year for the Group due to overall market depression and slowdown in PRC economic growth.

The Group recorded a turnover of HK\$397.22 million, representing a decrease of 70.35% from that of HK\$1,399.71 million a year ago. Gross profit was HK\$49.89 million, representing a decrease of 89.88% from that of HK\$492.80 million in the last year. Loss for the year amounted to HK\$272.29 million compared with a profit of HK\$33.57 million in last year. The basic loss per share was HK\$13.78 cents (2008: the basic earnings per share of HK\$0.65 cents).

In 2009, by an settlement agreement made with the lender, the Group fully repaid the convertible preference share at USD24 million by internal resources. The settlement had resulted in an interest saving of some HK\$17 million. In order to maintain adequate liquidity, the Group slowed down its planned promotional campaign. This resulted in a significant drop in sales, especially the new lines of products.

In view of the foreseeable drop in revenue, the Group imposed cost saving scheme and managed to control, on one hand, sales and marketing expenses from HK\$100.27 million in last year to HK\$58.88 million in current year and on the other hand, reduced general and administrative expenses significantly from HK\$404.41 million in last year to HK\$276.94 million in current year.

The cosmetics and skincare business and industrial products and household products are the Group's largest contributor to the revenues.

OPERATIONAL REVIEW

I. Household Products

For the period under review, turnover of household products was HK\$8.78 million, representing a decline of 93.37% from a year ago and accounting for 2.2% of the Group's total turnover.

The gross margin of this segment was gradually deteriorated by the fierce market competition. The Group will try to maintain its market share by competitive pricing and marketing strategy.

II. Industrial Products

For the year ended 31 December 2009, turnover of industrial products went down by 56.01% to HK\$185.73 million, accounting for 46.76% of the Group's total turnover.

Industrial surfactants, with a long operation history and a strong customer base, used to be the Group's primary business. Despite the difficult operating environment in 2008 and 2009 for PRC textile and garment industry who are our major clients as well as the shortage of promotional campaign in force, the Group was able to maintain considerable market shares in the sector.

MANAGEMENT DISCUSSION AND ANALYSIS

After years of R&D and completion of the construction of the production facility for industrial enzymes in 2008, the Group started selling industrial enzymes to customers in the first half of 2008. Although current PRC market of industrial enzymes for textile industry is dominated by foreign players, the Group is confident of being capable of grabbing market share over the time with good product quality and relatively lower price.

III. Cosmetics And Skincare Products

During the review period, turnover of cosmetics and skincare products decreased by 70.44% to HK\$182.52 million, accounting for 45.95% of the Group's total turnover. This segment remained the key sales driver of the Group.

The global financial crisis also resulted in a profound effect on the economy of PRC, causing weaker consumer demand due to a slowdown in economic growth. In fact starting from the second half of 2008, the much weaker PRC consumer sentiment caused by the global economic turmoil, the own branded cosmetics and skincare products business of the Group had a weaker performance.

With a state-of-the-art GMPC compliant production base and R&D expertise, the Group continued its expansion into the European and North American markets by providing ODM cosmetics and skincare products in the formats of gift and premium packages.

In May 2008, the quality assurance and control test centre of our major cosmetics subsidiary in the PRC, Global Cosmetics (China) Company Limited was granted the Laboratory Accreditation Certificate by The China National Accreditation Service for Conformity Assessment. With such accreditation, the Group is now capable of testing its own products and issuing the quality control assessment report, instead of engaging other third party laboratories recognized by The China National Accreditation Service for Conformity Assessment for such purpose, which will expedite the development and production process of our ODM and OEM products.

IV. Biotechnology Products

The biotechnology products business comprises mainly production of patented biotech raw materials for medical companies and internally consumption.

V. Investments

In 2009, the conditions of international financial market started to recover. The Group managed to narrow down the investment losses through very careful investment strategy to HK\$3.10 million in current year as compared to a loss of HK\$199.73 million in 2008.

As at 31 December 2009, total market value of marketable securities held by the Group amounted to HK\$19.87 million.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF OPERATING EXPENSES

Selling and distribution expenses for the year ended 31 December 2009 amounted to HK\$58.88 million representing 14.82% of turnover as compared with that of HK\$100.27 million or 7.48% of turnover in the last year. During the year, the amount spent on advertising and promotion of cosmetics and skincare products were approximately HK\$25 million. Staff salaries and commission were approximately HK\$16 million. Freight and delivery charges were approximately HK\$5 million. Travelling expenses amounted to approximately HK\$1.6 million mainly due to regular MB counter's inspection and the number of regional managers and inspection staffs.

General and administrative expenses was HK\$276.94 million or 69.72% of turnover for the year ended 31 December 2009 as compared to HK\$404.41 million or 30.19% of turnover in the last year. Of the HK\$276.94 million expenses, HK\$53.63 million being specific bad debt written off and there was an increased of general bad debt provision of HK\$100.60 million. In addition, the provision for share based payment amounted to HK\$24.83 million; staff salaries amounted to HK\$27.74 million and rental expenses amounted to HK\$9.79 million.

Net finance cost for the year was a credit of HK\$6.7 million due to a write back of HK\$17.46 million being the over accrual of interest on convertible bond in previous year. The actual finance costs for the year ended 31 December 2009 amounted to HK\$10.76 million, mainly due to interest expenses on the syndicated loan of the Group and provision for interest expenses.

USE OF PROCEEDS FROM ISSUE OF SHARES AND WARRANTS

During the year, 198,506,000 share options were exercised at an average exercise price of HK\$0.44 per ordinary share. During the year, the Company raised approximately HK\$161,000,000 before expenses by way of open offer of 644,620,488 offer shares to the qualifying shareholders at a price of HK\$0.25 per offer share, payable in full on application, on the basis of twelve offer shares for every twenty five shares held on the record date. During the year, 444,444,444 shares of HK\$0.1 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK\$0.36 per share. No warrants were exercised during the year.

The net proceeds from exercise of share options; open offer share and convertible bonds were used to finance general working capital requirements. The exercise of share options, shares issued by way of open offer and the conversion of convertible bonds during the year resulted in the issue of 1,287,570,000 additional ordinary shares of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and cash equivalent of approximately HK\$35.51 million as at the end of the reporting period. The Group adopts conservative treasury policies in cash and financial management. Most of the retained cash was placed as Renminbi and Hong Kong Dollars short term deposits and therefore exposure to exchange fluctuations was minimal. The Group also invested in a combination of portfolio investments such as marketable securities, bonds, funds, foreign currencies and fixed income assets in order to increase the financial returns. Shareholders' funds as at 31 December 2009 was HK\$2,783.60 million compared with that of HK\$2,620.20 million as at 31 December 2008, representing an increase of HK\$163.40 million or 6.24%.

MANAGEMENT DISCUSSION AND ANALYSIS

Bio Beauty Group Limited (“BBG”), a subsidiary of the Company, issued 91,500 convertible preference shares (“REPS”) of US\$21,000,000 (equivalent to approximately HK\$164,475,000) on 7 August 2007 to an independent third party. During the year, the Company and BBG had entered into a settlement agreement with Macquarie Investment Holdings No. 2 Pty. Limited, Macquarie Capital Securities Limited and Macquarie Capital (Hong Kong) Limited (collectively called “Macquarie Group”).

The Company and BBG agreed to pay and Macquarie Group agreed to accept US\$24 million (“Settlement Price”) in full and final settlement of the REPS. The Settlement Price was paid during the year.

A Sale and Purchase Agreement and a Supplemental Sale and Purchase Agreement were entered into on 1 December 2009 and 9 December 2009 respectively. Pursuant to the agreements the Company has conditionally agreed to purchase the entire issued share capital of an Australian company, Westralian Resources Pty. Ltd., and its mining subsidiary, Hunan Westralian Mining Co., Ltd. at a total consideration of approximately HK\$1,200 million which was satisfied by issues of new shares of HK\$305 million and convertible bond of HK\$895 million. On 31 March 2010, the purchase and sale agreement was formally completed.

The Group’s capital expenditure for the year ended 31 December 2009 amounted to HK\$24.56 million were funded from cash generated from operations and bank loans.

The indebtedness of the Group mainly comprises bank loans and finance leases which are largely denominated in Hong Kong Dollars and Renminbi. The Group’s borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

As at 31 December 2009, the Group’s banking facilities had been utilized to the extent of approximately HK\$215 million which are short term bank loans.

The Group’s inventory turnover period increased slightly from 41 days in last year to 52 days in current year. Debtor’s and creditor’s turnover periods were 33 days and 30 days respectively.

Net debt to equity ratio (see note 34(g)) and gearing ratio (total interest bearing debts over total assets) were 10.08% and 6.79% respectively whereas current ratio was 0.86.

PROSPECTS

New Business with Enormous Potential – Green Recycle Energy

Regarding the green energy recycling project (the “Project”), the Hong Kong Science and Technology Parks Corporation of the HKSAR Government granted a site of approximately 24,000 square metres in Yuen Long Industrial Estate at approximately HK\$39.01 million for the Group to set up its recycle energy business. The Group has submitted application to Hong Kong Environmental Protection Department (EPD) and is now under negotiation with the Government. The Group believes that this business will become one of the major sources of revenue to the Group in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will first develop the Hong Kong market, mainly through wholesaling high quality petroleum and chemical (such as carbon black and/or active carbon) products to different clients including public transportation corporations. In the long run, the Group targets to expand the business to overseas markets under high oil price pressure, such as Singapore, Malaysia and Japan. The Group believes its development strategy will accelerate its growth and bring remarkable returns to shareholders.

Cosmetics and Skincare Products

Currently, the Group has both the retail line and professional line of product series which are under the Group's own brand name of "Marjorie Bertagne (MB)" and consistently develops and promotes new series of MB products. Besides, leveraging on our strong in-house product design and state-of-the-art production facilities, the Group is planning to launch another brand focusing on functional cleansing for younger generation of customers to capture more market shares. The Group expects to launch the new brand in PRC as its first market.

Other than that, the Group also designs and produces high quality skincare products, colour cosmetics and toiletries for its ODM and OEM customers in Europe and United States at competitive prices. As part of the "one-stop service" of this ODM and OEM business, the Group also provides research, development, sourcing, merchandising and technical enquires to its customers.

Biotech Products

Through years of collaboration with R&D team in The University of Hong Kong as well as the grant from Innovation and Technology Fund of the HKSAR Government, the Group has successfully commercialized the production of the industrial enzymes. The Directors believe that this business will keep bringing revenues to industrial segment going forward due to the rising awareness of environmental protection issue by the PRC Government. The Group also believes that the production of industrial enzymes will greatly reduce its reliance on overseas import as well as production costs.

EMPLOYEES AND REMUNERATION POLICIES

The Group's clear and effective management policies have enabled it to maintain good staff relations. It has not encountered any difficulties in recruiting experienced personnel and there has not been any interruption to its operations as a result of labour disputes. The Group provides social security benefits encompassing the mandatory provident fund and health insurance scheme to all its employees. It does not shoulder any material liability arising from the relevant statutory retirement scheme.

As at 31 December 2009, the Group had 760 salaried employees of which 692 and 68 were stationed in the PRC and Hong Kong respectively. Total staff costs paid during the year was approximately HK\$61.63 million.

CONTINGENT LIABILITY AND CHARGE ON GROUP ASSETS

The Group did not have any significant contingent liabilities as at 31 December 2009. As at 31 December 2009, the banking facilities of the Group were secured by corporate guarantees executed by a subsidiary of the Group (note 42) and certain property, plant and equipment (note 40).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yip Chung Wai, David, aged 46, joined the Group on 25 September 2009, is an executive Director, the chief executive officer and an authorized representative of the Company. Mr. Yip is also a director in a number of subsidiaries of the Company. Mr. Yip is responsible for formulation and execution of strategic development and daily operation of the Group. Mr. Yip has substantial experience in the financial and banking industry, particularly in securities and investment banking areas for over nineteen years. Mr. Yip has worked for different sizable financial groups and corporations in Hong Kong with senior position. Mr. Yip is well experienced in corporate finance and fund management matters and has indirectly involved in a number of fund raising exercises. He has also orchestrated in structuring mergers and acquisitions deals during his time in investments and banking areas. Mr. Yip obtained a Master Degree in Business Administration from University of Hull in the United Kingdom.

Mr. Wong Hiu Tung, aged 41, joined the Group on 25 September 2009, is as an executive Director, the chief financial officer and an authorized representative of the Company. Mr. Wong is responsible for the funding needs of the Group, monitoring the Group's operational and financial status such as cash flow and revenue generation, expenses containment and budget forecasting in accordance with the Group's strategic plans. Mr. Wong has over 10 years experience in various sectors of financial industry, including venture capital, investment banking and corporate finance with focus on the PRC and Hong Kong. Mr. Wong previously worked for WI Harper Group and JP Morgan Chase Bank. Mr. Wong holds an Honour Degree in law and a Master Degree of Business Administration from the University of Exeter, the United Kingdom.

Mr. Jia Xuelei, aged 39, joined the Group on 25 September 2009, is an executive Director. Currently, Mr. Jia is the general manager of Global Cosmetics (China) Co., Limited, a subsidiary of the Company. Mr. Jia has substantial experiences in trading and in sale and marketing of cosmetics in the PRC. Mr. Jia has been the senior management of an advertising agency, a trading company and renowned cosmetic distributors in the PRC. The appointment of Mr. Jia is to monitor and formulate the sale and marketing strategic of the Group and enhance the future business development of the Company. Mr. Jia has studied in Australia and Shanghai Artistic College in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Kwok Yu, aged 40, is an independent non-executive Director, the member and the chairman of audit committee and remuneration committee of the Company respectively. Mr. Cheung has over 18 years of experience with international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is the independent member of Finance Committee, Internet Professional Association, a member of Hong Kong Expert Council of International Financial Management Association, a Chartered Financial Analyst (CFA) Charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. Mr. Cheung has a Master Degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts Degree in Accountancy from Hong Kong Polytechnic University. Currently Mr. Cheung is an executive director of Pearl Oriental Innovation Limited (stock code: 632), a company whose issued shares are listed on the main board of the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Lin Ying, aged 47 is an independent non-executive Director, the member of audit committee and remuneration committee of the Company respectively. Currently Ms. Lin is a professor and the Deputy Dean of the Biology and Engineering Faculty of Huanan Polytechnic University (華南理工大學生物科學與工程學副院長). Ms. Lin obtained her Doctor Degree in Enzyme Engineering in Huanan Polytechnic University in 1997, Master Degree in Huanan Polytechnic University in 1987 and Bachelor Degree in Science (major in Microbiology Engineering) in Huanan Polytechnic University in 1983. Ms. Lin has carried out research in fermentation and enzyme engineering in Japan in 2001. Since her return from Japan to the PRC in 2003, Ms. Lin has focused on the research of yeast cell and its application. Ms. Lin has applied for three patents in connection with her research results.

Ms. Lin is also committee member of China Micro Biology and Enzyme Engineering Committee (中國微生物學會酶工程專業委員會), and China Food Science and Technology Academic Society Enzyme Preparation Branch (中國食品科學技術學會酶制劑分會委員) respectively, and an associate director of Engineering Technology Surface Active Agent Research Development Committee of The China Academy of Engineering Industry (中國工程院產業工程科技委員會表面活性劑研究開發促進會常務理事).

Mr. Li Yongxiang, aged 44, is an independent non-executive Director and the members of the audit committee and remuneration committee of the Company respectively. Mr. Li holds a Master Degree in Law from Chinese Politics and Law University Graduate School (中國政法大學研究生院#). Mr. Li is a lawyer in the PRC who has more than 24 years experience in practicing laws in the PRC. Currently Mr. Li is a deputy director, lawyer and a partner of Guangdong He Zhong Tuo Zhan Law Office (廣東合眾拓展律師事務所).

SENIOR MANAGEMENT

Mr. Ko Sik Fong, aged 43, is the General Manager of the industrial surfactant division of the Group. He is responsible for the sales, marketing, purchasing and production of the Group. He has over 16 years of experience in chemical industry in Hong Kong. He joined the Group in July 1995.

Mr. Zhou Jia, aged 39, is the Sales Manager of the industrial surfactants division of the Group. He is responsible for the overall sales of industrial surfactants division of the Group. Mr. Zhou graduated from Tian Jin Textile College in 1993 and received a bachelor degree in Knitting Chemical Engineering. He had over 16 years' experience in the textile industry. He joined the Group in 1996.

Ms. Wong Wai Kwan Connie, aged 60, is the Chief Executive Officer and an Executive Director of the cosmetics group. She joined the Group in April 2000. Ms. Wong has over 32 years of experience in the skincare and colour cosmetics industry and had worked for various international leading brands such as Revlon, MaxFactor and Avon. Ms. Wong resigned as an Executive Director on 9 June 2006.

Ms. Lui Wai Mui Grace, aged 60, is the Chief Operation Officer and an Executive Director of the cosmetics group. She joined the cosmetics group in September 2004. Ms. Lui has over 32 years of experience in the skincare and colour cosmetics industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chwang Tak Ming Joseph, aged 58, is the Production Manager of the cosmetics group. Mr. Chwang joined the cosmetics group in January 2007. He has over 22 years of experience in production implementation and management. Mr. Chwang holds a bachelor's degree in Business Administration from the University of Windsor, Canada.

Ms. Leung Yuen Ling, aged 41, is the Manager of the Marketing and Product Development Department of the cosmetics group. Ms. Leung joined the cosmetics group in January 2005 and she is responsible for marketing, product development, sales and promotion, public relations and advertising of our cosmetics business in Hong Kong and greater China. Ms. Leung has over 20 years of experience in sales and marketing in the cosmetics industry.

Mr. Siu Chu Sin, Vincent, aged 50, is the Project Manager of the cosmetics group's Research and Development Department. Mr. Siu joined the Group in February 2004 and is responsible for the research and development of bio-cosmetic products. He has over 18 years of experience in the field of biotechnology and he is experienced in large scale production of bio-cosmetic products being familiar with upstream and downstream processes. He received a bachelor's degree from Hong Kong University of Science and Technology in 2001.

Mr. Chu Wai Tak, aged 31, is the Project Manager of the cosmetics group's Research and Development Department as well as the Production Department of bio-cosmetic products. Mr. Chu joined our Group in June 2001 and he is responsible for the research and development as well as overseeing the production of bio-cosmetic products. He has over 8 years of experience in the field of biotechnology and he is experienced in large scale production of bio-cosmetic products being familiar with upstream and downstream processes. He received a bachelor's degree from Hong Kong University of Science and Technology in 2001.

Mr. Yang Xiaowu, aged 37, joined the Company as the Vice President of Investment Public Relation of our Group in March 2008, responsible for corporate finance and investor relations matters. Mr. Yang has over 14 years of experience in capital markets and corporate finance. Before joining the Company, Mr. Yang worked as Vice President in Global Markets of Deutsche Bank (Asia), and Director in CIBC World Markets. Mr. Yang holds a degree of MBA in Finance from Rotman School of Management, University of Toronto, Canada, and bachelor's degree in Economics from Guangzhou Institute of Foreign Trade, China. Mr. Yang is also a CFA charter holder.

Ms. Huang Bilian, aged 46, joined the Group as Project Manager of Research and Development Department in January 2003 and is responsible for the research and development of bio-tech products. Ms. Huang received her bachelor's degree from Xiamen University in 1986. Before joining the Group, she worked from various pharmaceutical companies and hospitals as senior researcher in the bio-engineering field.

Mr. Wu Wei Qiang, aged 36, joined the Group as Senior Researcher in April 2001 and is responsible for the research and development of industrial and household products for the Group. Mr. Wu received his bachelor's degree from Dalian Technical University in 1997. He had over 12 years of experience in chemical industry.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Cai Fang, aged 29, Purchasing Manager, joined the Group in April 2003 and is responsible for procurement of raw materials for industrial and household products. She had over 12 years of experience in the related field.

Mr. Qiu Jun Rong, aged 35, Production Manager of the industrial division, joined the Group as in February 1998 and is responsible for the production of industrial products. Mr. Qiu has over 18 years of experience in the related industry.

Ms. Wu Jian Rong, aged 35, Production Manager of the household division, joined the Group in February 1998 and is responsible for the production of household products. Ms. Wu has over 11 years of experience in the related industry.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework of the Company and its subsidiaries (collectively the “Group”) to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. The Board also believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Company has adopted most of the major code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). In the opinion of the Board, the Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2009, except for certain deviations that are discussed later in this report.

BOARD OF DIRECTORS

Composition

The Board comprises six directors (“Director(s)”) of the Company of which three are executive Directors and three are independent non-executive Directors. The members of Directors and Board Committee as at the date of this annual report are as follows:

Executive Directors

Mr. Yip Chung Wai, David (appointed on 25 September 2009)
Mr. Wong Hiu Tung (appointed on 25 September 2009)
Mr. Jia Xuelei (appointed on 25 September 2009)

Independent Non-executive Directors

Mr. Cheung Kwok Yu (appointed on 25 September 2009)
Mr. Li Yongxiang (appointed on 25 September 2009)
Ms. Lin Ying (appointed on 25 September 2009)

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. Decisions requiring the Board’s approval include, among others, all matters of objective and strategic importance, corporate governance practices, changes in Board members, major transactions and investment commitments, annual budget and financial matters, all policy matters etc. The day-to-day management, administration and operation of the Company are delegated to senior management which is accountable to the Board for the implementation of the Group’s overall strategies and coordination of overall business operations.

CORPORATE GOVERNANCE REPORT

The Board members are fully committed to their roles and have always acted, individually and collectively, in the best interests of the Company and its shareholders at all times. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship amongst Directors. Biographical details of the Directors are set out on pages 9 to 12 under the section headed "Directors and Senior Management" of this annual report.

During the year ended 31 December 2009 (the "Year"), the Board held 4 regular/special Board meetings. The attendance of each member at the Board meetings is set out below:

| Name | | Number of meetings attended/Total |
|--|---|--|
| <i>Executive Directors</i> | | |
| Mr. Lau Jin Wei, Jim | (resigned on 25 September 2009) | 2/4 |
| Mr. Wong Ying Yin | (resigned on 25 September 2009) | 2/4 |
| Mr. Bang Young Bae | (resigned on 25 September 2009) | 2/4 |
| Mr. Yip Chung Wai, David | (appointed on 25 September 2009) | 2/4 |
| Mr. Wong Hiu Tung | (appointed on 25 September 2009) | 2/4 |
| Mr. Jia Xuelel | (appointed on 25 September 2009) | 2/4 |
| <i>Independent Non-executive Directors</i> | | |
| Mr. Lin Jian | (resigned on 25 September 2009) | 2/4 |
| Mr. Lee Pak Chung | (resigned on 25 September 2009) | 2/4 |
| Mr. Ho Yik Leung | (resigned on 6 July 2009) | 1/4 |
| Dr. Xie Ming Quan | (appointed on 6 July 2009 and resigned on 25 September 2009) | 1/4 |
| Mr. Cheung Kwok Yu | (appointed on 25 September 2009) | 2/4 |
| Mr. Li Yongxiang | (appointed on 25 September 2009) | 2/4 |
| Ms. Lin Ying | (appointed on 25 September 2009) | 2/4 |

Notes:

1. One of the aforesaid Board meeting discussed matters regarding the directors' remuneration and re-election of directors.
2. The previous Chairman of the Board attended the Company's annual general meeting held on 29 June 2009.

The roles of the chief executive officer ("CEO") of the Company have been performed by Mr. Yip Chung Wai, David.

Mr. Yip Chung Wai, David, being the CEO of the Group since 25 September 2009, has taken the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. He also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner with the assistance of the company secretary.

Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participations provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors a confirmation of independence for the Year pursuant to Rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Service Term of Independent Non-executive Directors

In compliance with code provision A.4.1 of the CG Code, each independent non-executive Director should be appointed for a specific term and subject to re-election. All independent non-executive Directors are not appointed for a specific term but subject to retirement by rotation in accordance with the Articles of Association of the Company.

Mr. Cheung Kwok Yu has signed an appointment letter with the Company for an initial term of one year commencing on 25 September 2009 which is renewable automatically for successive term of one year each commencing from the next date after the expiry of the then current term and shall continue unless terminated by not less than one month's notice in writing served by either party. His appointment is subject to retirement by rotation and/or re-election in accordance with the Articles of Association. Pursuant to his letter of appointment, Mr. Cheung's remuneration is fixed at HK\$120,000 per annum, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation. Mr. Cheung has no interest in the securities of the Company within the meaning of Part XV of the SFO. Mr. Cheung is not connected with other Directors, senior management, substantial or controlling Shareholders.

Ms. Lin Ying has signed an appointment letter with the Company for an initial term of one year commencing on 25 September 2009 which is renewable automatically for successive term of one year each commencing from the next date after the expiry of the then current term and shall continue unless terminated by not less than one month's notice in writing served by either party. Her appointment is subject to retirement by rotation and/or re-election in accordance with the Articles of Association. Pursuant to his letter of appointment, Ms. Lin's remuneration is fixed at HK\$30,000 per annum, which commensurate with

CORPORATE GOVERNANCE REPORT

her duties and responsibilities as the independent non-executive Director and the prevailing market situation. Ms. Lin has no interest in the securities of the Company within the meaning of Part XV of the SFO. Ms. Lin is not connected with other Directors, senior management, substantial or controlling Shareholders. Ms. Lin did not hold any directorship in other public listed company or any other position with the Company and other members of the Group in the last three years.

Mr. Li Yongxiang has signed an appointment letter with the Company for an initial term of one year commencing on 25 September 2009 which is renewable automatically for successive term of one year each commencing from the next date after the expiry of the then current term and shall continue unless terminated by not less than one month's notice in writing served by either party. His appointment is subject to retirement by rotation and/or re-election in accordance with the Articles of Association. Pursuant to his letter of appointment, Mr. Li's remuneration is fixed at HK\$20,000 per annum, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation. Mr. Li has no interest in the securities of the Company within the meaning of Part XV of the SFO. Mr. Li is not connected with other Directors, senior management, substantial or controlling Shareholders.

Audit Committee

The Company established an audit committee on 28 October 2000. The audit committee currently comprises three independent non-executive Directors. The functions of the audit committee are:

- to make recommendations to the board concerning the appointment, reappointment, retention, evaluation and termination of compensation and overseeing the work of the Company's independent auditor;
- to approve all non-audit services to be provided by the Company's independent auditor;
- to approve the remuneration and terms of engagement of the Company's independent auditor;
- to review the relationships between the Company and the independent auditor;
- to approve the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding two years;
- to review the Company's annual and interim financial statements, accounting policies and practices, the effectiveness of the Company's disclosure controls and procedures and developments in financial reporting practices and requirements;
- to review the Company's risk assessment and management policies;
- to review the adequacy and effectiveness of the Company's legal and regulatory compliance procedures; and
- to obtain and review reports from management and the independent auditor regarding compliance with applicable legal and regulatory requirements.

CORPORATE GOVERNANCE REPORT

During the Year, the audit committee held 2 meetings with full attendance, details of which are set out below:

| Members | Number of meetings attended/Total |
|--|--|
| <i>Independent Non-executive Directors</i> | |
| Mr. Lin Jian (resigned on 25 September 2009) | 1/2 |
| Mr. Lee Pak Chung (resigned on 25 September 2009) | 1/2 |
| Mr. Ho Yik Leung (resigned on 6 July 2009) | 0/2 |
| Dr. Xie Ming Quan (appointed on 6 July 2009 and resigned on 25 September 2009) | 1/2 |
| Mr. Cheung Kwok Yu (appointed on 25 September 2009) | 1/2 |
| Mr. Li Yongxiang (appointed on 25 September 2009) | 1/2 |
| Ms. Lin Ying (appointed on 25 September 2009) | 1/2 |

Under code provisions C.3.4 of the CG Code, the terms of reference of audit committee are required to be made available on request and included on the issuer's website. At present, the terms of reference of the audit committee would be available on request and have not yet posted to the website.

Remuneration and Nomination Committees

The remuneration committee (the "Committee") established on 27 June 2008. The terms of reference of the Committee were prepared in accordance with the Code on Corporate Governance as set out in Appendix 14 to the Rule Governing of the Listing Securities on the The Stock Exchange of Hong Kong Limited (the "CG Code"). The responsibility of the Committee, among other things, includes the following:

- to recommend to the board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- to determine the remuneration packages of all executive directors and senior management;
- to review and approve performance-based remuneration;
- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of office or appointment; and
- to ensure that no director or any of his associates is involved in deciding his own remuneration.

Members of the Committee shall be appointed by the Board from amongst the members of the Board and shall consist of not less than three members and a majority of which should be independent non-executive directors of the Company. The chairman of the Committee shall be appointed by the Board. The appointment of the members of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolution passed by the Board and by the Committee.

CORPORATE GOVERNANCE REPORT

The Company has not established any nomination committee and the CEO of the Board is mainly responsible for identifying appropriate candidates to fill the casual vacancy whenever it arises or to add additional member as and when required. The CEO will propose the qualified candidate(s) to the Board for consideration. The Board will approve the appointment based on the suitability and qualification of the candidate.

DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the Year.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Group for the Year. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

The Group incurred a loss for the year attributable to equity shareholders of the Company of approximately HK\$269,748,000 and its current liabilities exceeded its current assets by HK\$44,716,000 as at 31 December 2009. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial supports from the substantial shareholders to cover the Group's operating costs and meet its financial commitments. The substantial shareholders have confirmed their intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future.

In light of the measures described above, the directors are confident that the Group will have sufficient working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Auditors' Report on pages 30 to 33 of this annual report.

Internal Controls

The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to manage risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

CORPORATE GOVERNANCE REPORT

The Group does not have an internal audit department and no formal independent internal control review had been performed for the year 2009. However, the Board has overall responsibilities for the maintenance of a sound and effective internal control system of the Group. During the Year under review, the Board has conducted a review of the effectiveness of the Group's internal control system and considered that it is adequate and effective.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Hopkins CPA Limited, for the Year is set out as follows:

| Services rendered | Fee paid/payable Approximately HK\$ |
|---|---|
| Audit services (Year 2008: HK\$1,250,000) | 2,262,000 |
| Non-audit services | Nil |
| Taxation services | Nil |
| Other services | Nil |
| Total: | <u>2,262,000</u> |

COMMUNICATION WITH SHAREHOLDERS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

To promote effective communication, the Company has established, including but not limited to, the following various channels:

1. annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The CEO and the Directors are available at annual general meetings to address shareholders' queries;
2. separate resolutions are proposed at general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in circulars to the shareholders to facilitate the enforcement of shareholders' rights;
3. interim and annual results are announced as early as possible so that the shareholders are kept informed of the Group's performance and operations; and
4. corporate website www.globalgreentech.com contains extensive information and updates on the Company's business developments and operations, financial information and other information.

REPORT OF THE DIRECTORS

The Directors herewith submit their report together with the audited accounts for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 22 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 14 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 34.

The Directors do not recommend payment of a final dividend for the year ended 31 December 2009 (2008: HK\$nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 35 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 34 to the accounts.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2009 are set out in note 35 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws in the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had no purchase, redemption or sales of its own shares during the year ended 31 December 2009.

SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the “Old Scheme”) was terminated and another share option scheme (the “New Scheme”) was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. As at 31 December 2009, there were 10,000,985 share options outstanding under the New Scheme. Details of the New Scheme are as follows:

(a) Purpose

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

(b) Eligible participants

Eligible participants of the New Scheme include the Company’s Directors, including the Non-executive Directors and Independent Non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders of the Company’s subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Group.

(c) Maximum number of issuable share options

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2009, no share options could be granted under the New Scheme unless the 10% general limit refreshed and approved by the shareholders in a general meeting.

(d) Maximum entitlement of each eligible participant

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Scheme in any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders’ approval in a general meeting.

REPORT OF THE DIRECTORS

(e) Exercisable period

The exercisable period of the share options granted is determined by the Directors, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the New Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the New Scheme.

(f) Payment on acceptance of option

The offer of a grant of share options shall be deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Company within 28 days from the date of the offer.

(g) Basis of determining the exercise price

The exercise price of the share option is determined by the Directors, but not less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

(h) Remaining life of the scheme

The New Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

As at 31 December 2009, there was no outstanding share options which was granted under the Old Scheme.

During the year, 168,238,000 share options were lapsed under the New Scheme.

REPORT OF THE DIRECTORS

Details of the share options outstanding as at 31 December 2009 which have been granted under the New Scheme are as follows:

| Participant | Date of grant | Original exercise price ⁽²⁾ HK\$ | Adjusted exercise price ⁽²⁾ HK\$ | Number of share options | | | | | | | | Company's share price ⁽³⁾ | | |
|---|------------------------------|--|--|-------------------------|--------------------------|------------------------|---|---|--|--|--------------------------|--------------------------------------|--------------------------|-----------------------------|
| | | | | 1 January 2009 | Exercise during the year | Lapsed during the year | Total number of share options before open offer | Adjusted number of share options after open offer | Cancelled during the year ⁽⁴⁾ | Granted during the year ⁽⁵⁾ | Exercise during the year | 31 December 2009 | At date of grant HK\$ | At date of exercise HK\$ |
| Executive Directors | | | | | | | | | | | | | | |
| Wong Ying Yin | 20 June 2006 ⁽²⁾ | 0.89 | 0.85 | 176,000 | - | - | 176,000 | 183,300 | (183,300) | - | - | - | 0.89 | N/A |
| Bang Young-bae | 20 June 2006 ⁽²⁾ | 0.89 | 0.85 | 150,000 | - | - | 150,000 | 156,222 | (156,222) | - | - | - | 0.89 | N/A |
| Wong Ying Yin | 25 March 2008 ⁽¹⁾ | 1.17 | 1.12 | 300,000 | - | - | 300,000 | 312,444 | (312,444) | - | - | - | 1.14 | N/A |
| Bang Young-bae | 25 March 2008 ⁽¹⁾ | 1.17 | 1.12 | 350,000 | - | - | 350,000 | 364,518 | (364,518) | - | - | - | 1.14 | N/A |
| Wong Ying Yin | 25 July 2008 ⁽¹⁾ | 0.91 | 0.87 | 400,000 | - | - | 400,000 | 416,592 | (416,592) | - | - | - | 0.90 | N/A |
| Bang Young-bae | 25 July 2008 ⁽¹⁾ | 0.91 | 0.87 | 450,000 | - | - | 450,000 | 468,666 | (468,666) | - | - | - | 0.90 | N/A |
| | | | | 1,826,000 | - | - | 1,826,000 | 1,901,742 | (1,901,742) | - | - | - | | |
| Suppliers of goods or services, customers and others | | | | | | | | | | | | | | |
| In aggregate | 25 March 2008 ⁽¹⁾ | 1.17 | 1.12 | 12,100,000 | - | - | 12,100,000 | 12,601,908 | (12,601,908) | - | - | - | 1.14 | N/A |
| | 25 July 2008 ⁽¹⁾ | 0.91 | 0.87 | 96,500,000 | - | - | 96,500,000 | 100,502,820 | (100,502,820) | - | - | - | 0.90 | N/A |
| | 7 July 2009 ⁽¹⁾ | 0.44 | N/A | - | - | - | - | - | 198,757,985 | (188,757,000) | 10,000,985 | 0.44 | 0.51 | |
| | | | | 108,600,000 | - | - | 108,600,000 | 113,104,728 | (113,104,728) | 198,757,985 | (188,757,000) | 10,000,985 | | |
| Other employees | | | | | | | | | | | | | | |
| In aggregate | 20 June 2006 ⁽²⁾ | 0.89 | N/A | 19,119,500 | (9,748,500) | (1,521,000) | 7,850,000 | 8,175,619 | (8,175,619) | - | - | - | 0.89 | 0.36 |
| | 25 March 2008 ⁽¹⁾ | 1.17 | 1.12 | 22,621,262 | - | (700,000) | 21,921,262 | 22,830,556 | (22,830,556) | - | - | - | 1.14 | N/A |
| | 25 July 2008 ⁽¹⁾ | 0.91 | 0.87 | 25,819,750 | - | (950,000) | 24,869,750 | 25,901,347 | (25,901,347) | - | - | - | 0.90 | N/A |
| | | | | 67,560,512 | (9,748,500) | (3,171,000) | 54,641,012 | 56,907,522 | (56,907,522) | - | - | - | | |
| Share options granted under the New Scheme | | | | 177,986,512 | (9,748,500) | (3,171,000) | 165,067,012 | 171,913,992 | (171,913,992) | 198,757,985 | (188,757,000) | 10,000,985 | | |

REPORT OF THE DIRECTORS

Notes:

- (1) The exercisable period of the above share options is 3 years from the date of grant as determined by the Directors.
- (2) By the ordinary resolution passed on 13 May 2008, all share options granted by the Company on 20 June 2006 pursuant to the share option scheme of the Company adopted by an ordinary resolution of the Company passed on 20 December 2001 shall be exercised at any time after the date of passing of the resolution and up to 20 June 2010.
- (3) During the year, the Company raised fund by way of open offer of 644,620,488 offer shares to the qualifying shareholders at a price of HK\$0.25 per offer share, payable in full in application, on the basis of twelve shares for every twenty-five shares held on the record date. Pursuant to the rules of the Share Option Scheme, the exercise prices of the Share Options and the aggregate number of Shares subject to the Share Options have been adjusted as follows:

| Exercise prices (per Share) | Number of Shares subject to the Share Options | Adjusted exercise prices (per Share) | Adjusted number of Shares subject to the Share Options |
|--|--|---|---|
| HK\$0.89 | 8,176,000 | HK\$0.85 | 8,515,141 |
| HK\$1.17 | 34,671,262 | HK\$1.12 | 36,109,426 |
| HK\$0.91 | 122,219,750 | HK\$0.87 | 127,289,425 |

- (4) By the ordinary resolution passed in the Annual General Meeting on 29 June 2009, all the outstanding share options as at the date of Annual General Meeting were cancelled.
- (5) The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of grant of the share options. The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised.
- (6) 198,757,985 share options were granted to the suppliers of goods or services, customers and others on 7 July 2009.

Summary of details of the Company's share option schemes are also set out in note 32 to the accounts.

The fair value of share options granted is recognised in profit and loss account taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

Subsequent to the end of the reporting period, there were 262,078,130 share options granted to the Group's employees and consultants at an exercise price of HK\$0.349 per ordinary share.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

| | |
|--------------------------|----------------------------------|
| Mr. Yip Chung Wai, David | (appointed on 25 September 2009) |
| Mr. Wong Hiu Tung | (appointed on 25 September 2009) |
| Mr. Jia Xuelei | (appointed on 25 September 2009) |
| Mr. Lau Jin Wei, Jim | (resigned on 25 September 2009) |
| Mr. Wong Yin Ying | (resigned on 25 September 2009) |
| Mr. Bang Young Bae | (resigned on 25 September 2009) |

Independent Non-executive Directors

| | |
|--------------------|--|
| Mr. Cheung Kwok Yu | (appointed on 25 September 2009) |
| Mr. Li Yongxiang | (appointed on 25 September 2009) |
| Ms. Lin Ying | (appointed on 25 September 2009) |
| Mr. Lin Jian | (resigned on 25 September 2009) |
| Mr. Lee Pak Chung | (resigned on 25 September 2009) |
| Dr. Xie Ming Quan | (appointed on 6 July 2009 and resigned on 25 September 2009) |
| Mr. Ho Yik Leung | (resigned on 6 July 2009) |

In accordance with the Company's Articles of Association, Mr. Jia Xuelei, Ms Lin Ying and Mr. Li Yongxiang will retire from office of Director by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out from page 9 to page 12.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of one year commencing from 25 September 2009 (the "Contracts"). The Contracts continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31 December 2009, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES OR WARRANTS

At 31 December 2009, no directors, chief executives or their associates had any interest or short position in the 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2009, the register of substantial shareholders maintained under Section 336 of the SFO showed that, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital:

| Name of shareholder | Number of ordinary shares | Percentage of the Company's share capital |
|-----------------------------------|---------------------------|---|
| Star Sino International Limited | 762,022,000 | 22.44% |
| Double Chance Investments Limited | 569,046,976 | 15.26% |

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, the Company has not been notified by any other person (other than a director of the Company disclosed above) who has an interest or short position in the shares or underlying shares of the Company pursuant to Section 336 of the SFO as at 31 December 2009.

MANAGEMENT CONTRACTS

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

COMPETING INTEREST

None of the Director or their respective associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors, employees and eligible participants, details of the scheme is set out in note 32 to the accounts.

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR SUPPLIERS AND CUSTOMERS

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

| | |
|-----------------------------------|-------|
| Purchases | |
| – the largest supplier | 9.5% |
| – five largest suppliers combined | 22% |
| Sales | |
| – the largest customer | 5.7% |
| – five largest customers combined | 24.8% |

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

COMPLIANCE OF CODE OF CORPORATE GOVERNANCE PRACTICE OF LISTING RULES

Information on the Company's compliance of the Code of Corporate Governance Practice ("CG Code") as set out in Appendix 14 of the Listing Rules and deviations from certain code provisions of the CG Code for the year is set out in the Corporate Governance Report in this annual report.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The existing Company's Audit Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Kwok Yu, Mr. Li Yongxiang and Ms. Lin Ying.

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee met twice during the year of 2009 in conjunction with the auditors to review the internal controls, interim results and final accounts of the Group prior to recommending them to the Board for approval.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors have an interest in any business constituting a competing business to the Group.

PENSION SCHEME ARRANGEMENTS

On 1 December 2000, the Group set up a Mandatory Provident Fund Scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and under control of an independent trustee.

Both the Group and its employees located in Hong Kong are required to contribute 5% of the employees' monthly salaries. The mandatory contributions required to be made by the Group and an employee are capped at HK\$1,000 per month. Members are entitled to 100% of the employers' mandatory contributions as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of the government of the PRC, a subsidiary of the Company operates a local municipal government retirement benefits scheme (the "PRC Scheme") for its employees located in the PRC. The subsidiary is required to make contributions to the PRC Scheme at rates specified by the local practice and regulations and the local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group is to make the ongoing required contributions to the PRC Scheme.

The Group's retirement benefit costs are charged to the consolidated income statement when incurred and the aggregate contributions paid or payable by the Group was approximately HK\$897,000 for the year ended 31 December 2009 (2008: HK\$1,207,000). There were no provisions under the Group's retirement schemes whereby forfeited contributions may be used to reduce future contributions.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements for the year ended 31 December 2009 were audited by Hopkins CPA Limited. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Hopkins CPA Limited as auditors of the Company.

On behalf of the Board

Yip Chung Wai, David
Chief Executive Officer

Hong Kong, 29 April 2010

INDEPENDENT AUDITOR'S REPORT



HOPKINS CPA LIMITED

3/F, Sun Hung Kai Centre

30 Harbour Road

Hong Kong

To the Shareholders of Global Green Tech Group Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Global Green Tech Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 109, which comprise the consolidated and company statements 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 CONSOLIDATED 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Goodwill

We have not been provided with adequate information and explanation to verify the carrying value of goodwill. We have been unable to perform any procedures we considered necessary to satisfy ourselves as to whether any impairment loss is required to be made against the carrying value of goodwill as at 31 December 2009. We are therefore unable to determine whether the "Goodwill" of HK\$968,024,000 appearing in the consolidated statement of financial position is fairly stated.

2. Property, Plant and Equipment

We have not been provided with adequate information to satisfy ourselves as to the Group's ownership of certain buildings situated in the People's Republic of China. Furthermore, we have not been provided with adequate information and explanation to satisfy ourselves as to whether any impairment loss is required to be made against the carrying value of the property, plant and equipment as at 31 December 2009. We are therefore unable to determine whether the "Property, Plant and Equipment" of HK\$1,416,802,000 appearing in the consolidated statement of financial position is fairly stated.

3. Investment Properties

We have not been provided with adequate information and explanations to verify the fair value of investment properties. We are therefore unable to determine whether the "Investment Properties" of HK\$25,179,000 appearing in the consolidated statement of financial position is fairly stated.

4. Prepaid Lease Payments for Land under Operating Leases

We have not been provided with adequate information and explanation to satisfy ourselves as to whether any impairment loss is required to be made against the carrying value of the prepaid lease payments for land under operating leases as at 31 December 2009. We are therefore unable to determine whether the "Prepaid Lease Payments for Land under Operating Leases" of HK\$175,368,000 under Non-current Assets and HK\$3,169,000 under Current Assets appearing in the consolidated statement of financial position are fairly stated.

5. Intangible Assets

We have not been provided with adequate information and explanation to satisfy ourselves as to whether any impairment loss is required to be made against the carrying value of the intangible assets as at 31 December 2009. We are therefore unable to determine whether the "Intangible Assets" of HK\$27,742,000 appearing in the consolidated statement of financial position is fairly stated.

6. Deposits for Acquisition of Property, Plant and Equipment

We have been unable to obtain sufficient information or perform satisfactory audit procedures to satisfy ourselves as to the existence of the deposits for acquisition of property, plant and equipment. We are therefore unable to determine whether the "Deposits for Acquisition of Property, Plant and Equipment" of HK\$279,123,000 appearing in the consolidated statement of financial position is fairly stated.

INDEPENDENT AUDITOR'S REPORT

7. Inventories

We have not been provided with adequate information to satisfy ourselves as to the valuation of inventories. We are therefore unable to determine whether the "Inventories" of HK\$56,141,000 appearing in the consolidated statement of financial position is fairly stated.

8. Trade Receivables and Bills Receivables

We have not received adequate response from trade debtors confirming their balances amounting to approximately HK\$18,765,000. Furthermore, we have not been able to obtain sufficient reliable evidence to assess the valuation and recoverability of trade and bills receivables amounting to approximately HK\$45,091,000. Accordingly, we are unable to determine whether the "Trade Receivables" and "Bills Receivables" of HK\$165,085,000 and HK\$2,040,000 respectively appearing in Note 25 to the consolidated financial statements are fairly stated.

9. Prepayments, Deposits and Other Receivables

We have not received adequate response from other debtors confirming their balances amounting to approximately HK\$30,279,000. Furthermore, we have not been able to obtain sufficient reliable evidence to assess the valuation and recoverability of prepayments, deposits and other receivables amounting to approximately HK\$21,652,000. Accordingly, we are unable to determine whether the "Prepayments, Deposits and Other Receivables" of HK\$81,188,000 appearing in Note 25 to the consolidated financial statements is fairly stated.

10. Loan Receivables

We have not received adequate response from loan debtors confirming their balances amounting to approximately HK\$44,907,000. Furthermore, we have not been able to obtain sufficient reliable evidence to assess the recoverability of loan receivables amounting to approximately HK\$34,907,000. Accordingly, we are unable to determine whether the "Loan Receivables" of HK\$44,907,000 appearing in Note 25 to the consolidated financial statements is fairly stated.

11. Trade Payables

We have not received adequate response from trade creditors confirming their balances amounting to approximately HK\$8,425,000. Furthermore, we have not been provided with adequate information to verify the completeness and valuation of trade payables. Accordingly, we are unable to determine whether the "Trade Payables" of HK\$31,493,000 appearing in Note 28 to the consolidated financial statements is fairly stated.

12. Accrued Liabilities and Other Payables

We have not been provided with sufficient information to verify the completeness and valuation of accrued liabilities and other payables. Accordingly, we are unable to determine whether the "Accrued Liabilities and Other Payables" of HK\$44,669,000 appearing in Note 28 to the consolidated financial statements is fairly stated.

INDEPENDENT AUDITOR'S REPORT

13. Tax Payable

We have not been provided with sufficient information and explanation to verify the completeness and valuation of tax payable. Accordingly, we are unable to determine whether the "Tax Payable" of HK\$29,827,000 appearing in the consolidated statement of financial position is fairly stated.

14. Finance Costs

We have not been provided with sufficient documents and explanation to satisfy ourselves as to the completeness, existence and validity of the transactions. Accordingly, we are unable to determine whether the "Finance Costs" of HK\$6,700,000 appearing in the consolidated statement of comprehensive income is fairly stated.

15. Contingent Liabilities

We have not received adequate response from the Group's solicitors concerning, among other things, the existence of contingent liabilities affecting the Group as at the end of the reporting period. Accordingly, we are unable to determine whether contingent liabilities have been adequately disclosed in the consolidated financial statements.

Any adjustments found to be necessary would affect the net assets as at 31 December 2009 and the results and cash flows for the year then ended.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2009 and of the Group's results and cash flows for the year then ended in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

We draw attention to Note 2(b) of the consolidated financial statements which indicates that the Group incurred a loss for the year attributable to equity shareholders of the Company of approximately HK\$269,748,000 and its current liabilities exceeded its current assets by HK\$44,716,000 as at 31 December 2009. These conditions, along with other matters set forth in Note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Hopkins CPA Limited

Albert Man-Sum Lam

Practising Certificate Number P02080

Hong Kong

29 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

| | Note | 2009 HK\$'000 | 2008 HK\$'000 |
|---|-------|----------------------|------------------|
| Turnover | 5 | 397,219 | 1,339,707 |
| Cost of sales | | (347,333) | (846,911) |
| Gross profit | | 49,886 | 492,796 |
| Other revenue and net income | 6 | 14,786 | 160,531 |
| Selling and distribution expenses | | (58,880) | (100,267) |
| General and administrative expenses | | (276,938) | (404,408) |
| Finance costs | 7(a) | 6,700 | (63,592) |
| (Loss)/Profit before taxation | 7 | (264,446) | 85,060 |
| Income tax | 8(a) | (7,839) | (51,495) |
| (Loss)/Profit for the year | | (272,285) | 33,565 |
| Other comprehensive income for the year | | | |
| Exchange difference on translation of financial statements of overseas subsidiaries | | 23,738 | 26,327 |
| Total comprehensive income for the year | | (248,547) | 59,892 |
| (Loss)/Profit attributable to: | | | |
| Equity shareholders of the Company | | (269,748) | 8,187 |
| Minority interests | | (2,537) | 25,378 |
| | | (272,285) | 33,565 |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the Company | | (244,857) | 34,514 |
| Minority interests | | (3,690) | 25,378 |
| | | (248,547) | 59,892 |
| (Loss)/Earnings per share | | | |
| Basic | 13(a) | (13.78 cents) | 0.65 cents |
| Diluted | 13(b) | (13.78 cents) | 0.65 cents |

The notes on pages 41 to 109 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

| | Note | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------|------------------|------------------|
| Non-current Assets | | | |
| Goodwill | 15 | 968,024 | 645,566 |
| Property, plant and equipment | 16 | 1,416,802 | 1,484,614 |
| Investment properties | 17 | 25,179 | 25,181 |
| Prepaid lease payments for land under operating leases | 18 | 175,368 | 178,602 |
| Intangible assets | 19 | 27,742 | 36,655 |
| Deposits for acquisition of property, plant and equipment | 20 | 279,123 | 175,624 |
| Other deposits and club debenture | 21 | 350 | 170 |
| | | <u>2,892,588</u> | <u>2,546,412</u> |
| Current Assets | | | |
| Prepaid lease payments for land under operating leases | 18 | 3,169 | 3,117 |
| Financial assets at fair value through profit or loss | 23 | 19,866 | 29,995 |
| Inventories | 24 | 56,141 | 94,880 |
| Trade and other receivables | 25 | 161,894 | 303,634 |
| Fixed bank deposits | 26 | – | 5,000 |
| Cash and cash equivalents | 27 | 35,514 | 187,919 |
| | | <u>276,584</u> | <u>624,545</u> |
| Current Liabilities | | | |
| Trade and other payables | 28 | (76,162) | (81,501) |
| Current portion of convertible preference shares | 29 | – | (199,431) |
| Bank loans | 30 | (215,308) | (180,000) |
| Current portion of obligations under finance leases | 31 | (3) | (32) |
| Tax payables | | (29,827) | (21,820) |
| | | <u>(321,300)</u> | <u>(482,784)</u> |
| Net Current (Liabilities)/Assets | | <u>(44,716)</u> | <u>141,761</u> |
| Total Assets less Current Liabilities | | <u>2,847,872</u> | <u>2,688,173</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

| | Note | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------|------------------|------------------|
| Non-current liabilities | | | |
| Obligations under finance leases | 31 | – | (5) |
| Deferred tax liabilities | 33 | (1,106) | (1,106) |
| | | <u>(1,106)</u> | <u>(1,111)</u> |
| NET ASSETS | | 2,846,766 | 2,687,062 |
| CAPITAL AND RESERVES | | | |
| Share capital | 34 | 262,078 | 133,321 |
| Reserves | 35 | 2,521,524 | 2,486,887 |
| Total equity attributable to equity shareholders of the Company | | <u>2,783,602</u> | <u>2,620,208</u> |
| Minority interests | | <u>63,164</u> | <u>66,854</u> |
| TOTAL EQUITY | | 2,846,766 | 2,687,062 |

Approved and authorised for issue by the Board of Directors on 29 April 2010.

Director

Director

The notes on pages 41 to 109 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

| | Note | 2009 HK\$'000 | 2008 HK\$'000 |
|-------------------------------|-------|------------------|------------------|
| Non-current Assets | | | |
| Investments in subsidiaries | 22 | 580,671 | 580,671 |
| Current Assets | | | |
| Trade and other receivables | 25 | 733 | 359 |
| Amounts due from subsidiaries | 22(a) | 1,179,892 | 1,348,107 |
| Fixed bank deposits | 26 | – | 5,000 |
| Cash and cash equivalents | 27 | 2,744 | 2,439 |
| | | 1,183,369 | 1,355,905 |
| Current Liabilities | | | |
| Trade and other payables | 28 | (751) | (420) |
| Bank loans | 30 | – | (180,000) |
| Amounts due to subsidiaries | 22(a) | (423,518) | (451,186) |
| | | (424,269) | (631,606) |
| Net Current Assets | | 759,100 | 724,299 |
| NET ASSETS | | 1,339,771 | 1,304,970 |
| CAPITAL AND RESERVES | | | |
| Share capital | 34 | 262,078 | 133,321 |
| Reserves | 35 | 1,077,693 | 1,171,649 |
| TOTAL EQUITY | | 1,339,771 | 1,304,970 |

Approved and authorised for issue by the board of directors on 29 April 2010.

Director

Director

The notes on pages 41 to 109 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

| | Attributable to owners of the Company | | | | | | | | | | | | |
|--|---------------------------------------|---------------------------|-----------------------------|--|--|-------------------------------|--|--------------------------------------|--|------------------------------|-------------------|-------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Capital redemption reserve HK\$'000 | Share-based compensation reserve HK\$'000 | Statutory reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Convertible bond reserve HK\$'000 | Convertible preference share reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Minority interest HK\$'000 | Total HK\$'000 |
| At 1 January 2008 | 118,334 | 911,885 | 166,159 | - | 8,924 | 88,805 | 53,134 | - | 26,635 | 999,917 | 2,373,793 | 120,681 | 2,494,474 |
| Net profit for the year | - | - | - | - | - | - | - | - | - | 8,187 | 8,187 | 25,378 | 33,565 |
| Exchange difference on translation of financial statements of oversea subsidiaries | - | - | - | - | - | - | 26,327 | - | - | - | 26,327 | - | 26,327 |
| Total comprehensive income for the year | - | - | - | - | - | - | 26,327 | - | - | 8,187 | 34,514 | 25,378 | 59,892 |
| Exercise of warrants | 4,699 | 56,385 | - | - | - | - | - | - | - | - | 61,084 | - | 61,084 |
| Exercise of share options | 10,588 | 126,037 | - | - | (21,702) | - | - | - | - | - | 114,923 | - | 114,923 |
| Equity settled share-based payment transactions | - | - | - | - | 37,596 | - | - | - | - | - | 37,596 | - | 37,596 |
| Share options lapsed during the year | - | - | - | - | (64) | - | - | - | - | 64 | - | - | - |
| Repurchase of shares | | | | | | | | | | | | | |
| -Par value paid | (300) | - | - | 300 | - | - | - | - | - | (300) | (300) | - | (300) |
| -Premium paid | - | (1,402) | - | - | - | - | - | - | - | - | (1,402) | - | (1,402) |
| Acquisition of interest from minority shareholders | - | - | - | - | - | - | - | - | - | - | - | (79,205) | (79,205) |
| Transfers of reserves | - | - | - | - | - | 21,316 | - | - | - | (21,316) | - | - | - |
| | 14,987 | 181,020 | - | 300 | 15,830 | 21,316 | - | - | - | (21,552) | 211,901 | (79,205) | 132,696 |
| At 31 December 2008 | 133,321 | 1,092,905 | 166,159 | 300 | 24,754 | 110,121 | 79,461 | - | 26,635 | 986,552 | 2,620,208 | 66,854 | 2,687,062 |
| Net loss for the year | - | - | - | - | - | - | - | - | - | (269,748) | (269,748) | (2,537) | (272,285) |
| Exchange difference on translation of financial statements of oversea subsidiaries | - | - | - | - | - | - | 24,891 | - | - | - | 24,891 | (1,153) | 23,738 |
| Total comprehensive income for the year | - | - | - | - | - | - | 24,891 | - | - | (269,748) | (244,857) | (3,690) | (248,547) |
| Issue of convertible bonds | - | - | - | - | - | - | - | 160,000 | - | - | 160,000 | - | 160,000 |
| Exercise of share options | 19,851 | 95,461 | - | - | (23,582) | - | - | - | - | - | 91,730 | - | 91,730 |
| Exercise of convertible bonds | 44,444 | 115,556 | - | - | - | - | - | (160,000) | - | - | - | - | - |
| Allotment through open offer | 64,462 | 93,862 | - | - | - | - | - | - | - | - | 158,324 | - | 158,324 |
| Equity settled share-based payment transactions | - | - | - | - | 24,832 | - | - | - | - | - | 24,832 | - | 24,832 |
| Share options lapsed during the year | - | 24,754 | - | - | (24,754) | - | - | - | - | - | - | - | - |
| Repurchase of convertible preference shares of a subsidiary | - | - | - | - | - | - | - | - | (26,635) | - | (26,635) | - | (26,635) |
| | 128,757 | 329,633 | - | - | (23,504) | - | - | - | (26,635) | - | 408,251 | - | 408,251 |
| At 31 December 2009 | 262,078 | 1,422,538 | 166,159 | 300 | 1,250 | 110,121 | 104,352 | - | - | 716,804 | 2,783,602 | 63,164 | 2,846,766 |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------------------|------------------|
| Cash flows operating activities | | |
| (Loss)/Profit before taxation | (264,446) | 85,060 |
| Adjustments for: | | |
| Depreciation | 93,632 | 84,542 |
| Amortisation | | |
| – Prepaid lease payments for land under operating leases | 3,166 | 3,117 |
| – Intangible assets | 8,909 | 7,436 |
| Interest income | (900) | (8,947) |
| Loss on disposal of property, plant and equipment | 342 | 167 |
| Valuation loss on financial assets at fair value through profit or loss | 3,722 | 167,986 |
| Gain on disposal of a subsidiary | (2,180) | – |
| Write-down of inventories | 3,407 | 73,685 |
| Impairment loss on trade and other receivables | 100,599 | 41,220 |
| Write off of bad debts | 53,633 | 20 |
| Write back of impairment loss on trade receivables | – | (731) |
| Write back of provision for redemption loss | (17,462) | – |
| Equity settled share-based payments expenses | 24,831 | 37,596 |
| Other borrowing costs | 3,795 | 150 |
| Interest element of finance lease rentals | 5 | 4 |
| Interest expense on bank advances and other borrowings | 6,962 | 63,438 |
| Effect of foreign exchange rate changes | (2,796) | (59,131) |
| Operating cash flows before movements in working capital | 14,769 | 495,612 |
| Decrease in financial assets at fair value through profit or loss | 6,407 | 805 |
| Decrease/(Increase) in inventories | 6,612 | (115,793) |
| (Increase)/Decrease in trade and other receivables | (4,576) | 4,120 |
| Decrease/(Increase) in trade and other payables | 12,972 | (89,655) |
| Cash generated from operations | 36,184 | 295,089 |
| Income taxes refunded/(paid) | 168 | (54,588) |
| Net cash generated from operating activities | 36,352 | 240,501 |
| Investing activities | | |
| Acquisition of additional interest in a subsidiary (Note 38) | (159,801) | (265,343) |
| Purchase of property, plant and equipment | (24,562) | (411,410) |
| Proceeds on disposal of property, plant and equipment | 16 | 8 |
| Deposits paid for acquisition of property, plant and equipment | (103,499) | – |
| Interest received | 900 | 8,947 |
| Decrease in fixed bank deposits | 5,000 | 37,733 |
| Net cash used in investing activities | (281,946) | (630,065) |

The notes on pages 41 to 109 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------------------|------------------|
| Financing activities | | |
| Repayment for convertible preference shares of a subsidiary | (181,969) | – |
| Net borrowings raised from short-term bank loans | 215,308 | – |
| Payment for repurchase of shares | – | (1,702) |
| Repayment of long-term bank loans | (180,000) | (60,000) |
| Proceeds from exercise of warrants | – | 61,084 |
| Proceeds from exercise share options | 91,730 | 114,923 |
| Proceeds from open offer subscription | 158,324 | – |
| Capital element of finance lease rentals paid | (34) | (36) |
| Interest element of finance lease rentals paid | (5) | (4) |
| Interest paid on bank advances and other borrowings | (6,962) | (17,205) |
| Other borrowing costs paid | (3,795) | (150) |
| | <hr/> | <hr/> |
| Net cash generated from financing activities | 92,597 | 96,910 |
| | <hr/> | <hr/> |
| Net Decrease in Cash and Cash Equivalents | (152,997) | (292,654) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at the beginning of the year | 187,919 | 472,989 |
| | <hr/> | <hr/> |
| Effect of foreign exchange rate changes | 592 | 7,584 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the year | 35,514 | 187,919 |
| | <hr/> | <hr/> |

The notes on pages 41 to 109 form part of these consolidated financial statements.

1 GENERAL INFORMATION

Global Green Tech Group Limited (the "Company") was incorporated as an exempted Company with limited liability in the Cayman Islands on 25 September 2000 under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is listed on Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK"). The registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Company are investment holding and its subsidiaries are principally engaged in manufacturing and sale of household products, industrial products, cosmetics and skincare products and bio-technology products with medical and cosmetics applications, provision of loan financing services and investment and/or trading in market securities, bonds, foreign currencies, various funds and other income generated fixed assets' portfolios.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent they are relevant to the Group for the current and prior accounting periods reflect in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (collectively referred to as the "Group").

The Group incurred a loss for the year attributable to equity shareholders of the Company of approximately HK\$269,748,000 and its current liabilities exceeded its current assets by HK\$44,716,000 as at 31 December 2009. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

b) Basis of preparation of the financial statements – continued

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial supports from the substantial shareholders to cover the Group's operating costs and meet its financial commitments. The substantial shareholders have confirmed their intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future.

In light of the measures described above, the directors are confident that the Group will have sufficient working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. These consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

The measurement basis used in the preparation of the financial statements is the historical cost basis except the following assets and liabilities which are stated at their fair value as explained in the accounting policies set out below:

- Financial instruments classified as financial assets at fair value through profit or loss (see note 2(e));
- Investment properties (see note 2(f)); and
- Convertible preference shares (see note 2(n)).

The preparation of financial statements in conformity to HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

d) Goodwill

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.

Goodwill is allocated to cash generating units and is tested annually for impairment (see note 2(j)).

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 or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of the reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in statement of comprehensive income.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the statement of financial position at amortised cost less impairment losses (see note 2(j)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES – continued

e) Other investments in debt and equity securities – continued

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At the end of the reporting period, the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(j)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised in the statement of comprehensive income. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the statement of comprehensive income.

Investments are recognised/derecognised on the date the Group and or the Company commits to purchase/sell the investments or they expire.

f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(u)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

g) Property, plant and equipment

The following items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(h)); and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of comprehensive income on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- | | |
|-------------------------------------|---|
| – Building held for own use | over 50 years and the unexpired term of the relevant lease whichever is shorter |
| – Leasehold improvements | 2 – 20 years |
| – Plant and machinery | 5 – 20 years |
| – Furniture, fixtures and equipment | 2 – 20 years |
| – Motor vehicles | 5 – 10 years |

Where parts of an item of property, plant equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

h) Leased assets

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, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(f)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals 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 SIGNIFICANT ACCOUNTING POLICIES – continued

h) Leased assets – continued

iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(f)).

i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | | |
|---|----------|----------|
| – | licenses | 10 years |
|---|----------|----------|

2 SIGNIFICANT ACCOUNTING POLICIES – continued

i) Intangible assets (other than goodwill) – continued

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

j) Impairment of assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment 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;
- 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.

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

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

j) Impairment of assets – continued

i) Impairment of investments in debt and equity securities and other receivables – continued

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the 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.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale 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. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt 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.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

j) Impairment of assets – continued

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value 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 assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

j) Impairment of assets – continued

ii) Impairment of other assets – continued

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) Convertible preference shares

Convertible preference shares issued by the Company that contain liability, conversion option and redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible loan notes and the fair values assigned to the liability and redemption option components, representing the conversion option for the holder to convert the convertible preference share into equity, is included in equity (convertible preference share reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The redemption option is measured at fair value with changes in fair value recognised in the statement of comprehensive income.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible preference share reserve until the embedded conversion option is exercised (in which case the balance stated in convertible preference share reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible preference share reserve will be released to the retained profits. No gain or loss is recognised in the statement of comprehensive income upon conversion or expiration of the conversion option.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

n) Convertible preference shares – continued

Transaction costs that relate to the issue of the convertible preference share are allocated to the liability, equity and redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the redemption option are charged to the statement of comprehensive income immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible preference share using the effective interest method.

o) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

r) Employee benefits

i) Short term employee benefits and contributions to defined contribution retirement plans
Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

r) Employee benefits – continued

ii) Share-based payments – continued

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to share premium).

iii) Termination benefits

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

s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

s) Income tax – continued

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

2 SIGNIFICANT ACCOUNTING POLICIES – continued

s) Income tax – continued

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or

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

t) Financial guarantees issued, provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate 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.

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 future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

u) Revenue recognition – continued

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Royalty income

Royalty income is recognised on monthly basis in accordance with the terms and condition of the royalty agreement.

v) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entry operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

v) Translation of foreign currencies – continued

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences 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 in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

x) 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;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES – continued

x) Related parties – continued

- (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.

y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 8, Operating segments

HKAS 1 (revised 2007), Presentation of financial statements

The "Improvements to HKFRSs (2008)"

Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate

HKAS 23 (revised 2007), Borrowing costs

Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

HKFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segment (see note 14).

Paragraph 28 of HKAS 8 requires certain disclosures to be made when the initial application of a Standard or Interpretation has an effect on the current period or any prior period (or would have such an effect except that it is impracticable to determine the amount of the adjustment), or might have an effect on future periods. The disclosures required are both qualitative and quantitative, and include, to the extent practicable, the adjustments for the current period and each prior period presented for each financial statement line item affected, including earnings per share, if disclosed. As with all HKFRSs, these requirements in HKAS 8 apply only to the extent that the effect would be material.

The above wording describes a range of changes relevant to the Group which have varying impacts on the Group's financial statements. It is important that care is taken to tailor the disclosures to suit the entity's circumstances, as there may be other changes in accounting policies which an entity needs to disclose but which have not been illustrated here and/or the impact of the changes highlighted may vary from one entity to another, depending on their facts and circumstances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

3 CHANGES IN ACCOUNTING POLICIES – continued

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

The “Improvements to HKFRSs (2008)” comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following two amendments have resulted in changes to the Group’s accounting policies:

- As a result of amendments to HKAS 40, Investment property, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company’s profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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:

a) Impairment of property, plant and equipment

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

b) Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for the Group's property, plant and equipment. The Group will revise the depreciation charge where useful lives and residual values are different to previous estimates, or will write off or write down technically obsolete or on-strategic assets that have been abandoned or sold.

c) Investment properties

The fair values of investment properties are determined by the Group's management on an open market basis.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the end of the reporting period and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

d) Impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets and goodwill in accordance with the accounting policy stated in note 2(d). The recoverable amounts of cash generating units are determined based on value in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in use calculations.

e) Amortisation of intangible assets

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

f) Inventories

The Group performs regular review of the carrying amounts of inventories with the aged inventories analysis expected future consumption and management judgment. Based on this review, write down of inventories will be made when the carrying amount of inventories decline below the estimated net realisable value. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

g) Impairment of receivables

The policy for impairment on receivables of the Group is based on the evaluation of collectability ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

h) Taxation

The Group is subject to various taxes in the People's Republic of China ("PRC"). Significant judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

5 TURNOVER

The principal activities of the Group are manufacturing and sale of household produces, industrial products, cosmetics and skincare products and biotechnology products with medical and cosmetic applications, provision of loan financing services and investment and/or trading in marketable securities, bonds, foreign currencies, various funds and other income generated fixed assets' portfolios.

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---------------------------------|------------------|------------------|
| Household products | 8,775 | 132,420 |
| Industrial products | 185,732 | 422,248 |
| Cosmetics and skincare products | 182,518 | 617,390 |
| Biotechnology products | 553 | 8,532 |
| Investments | 19,641 | 159,117 |
| | <u>397,219</u> | <u>1,339,707</u> |

6 OTHER REVENUE AND NET INCOME

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------------------|------------------|
| Other revenue: | | |
| Interest income | 900 | 8,947 |
| Rental income from operating leases | 1,680 | 3,436 |
| Bad debts recovery | – | 731 |
| Others | 7,230 | 3,991 |
| | <u>9,810</u> | <u>17,105</u> |
| Other net income: | | |
| Gain on disposal of a subsidiary (note 39) | 2,180 | – |
| Net exchange gain | 2,796 | 143,426 |
| | <u>4,976</u> | <u>143,426</u> |
| | <u>14,786</u> | <u>160,531</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

7 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging/(crediting):

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| a) Finance costs | | |
| Written back of provision for redemption loss | (17,462) | – |
| Interest expense on bank advances and other borrowings wholly repayable within five years | 6,962 | 63,438 |
| Finance charges on obligations under finance leases | 5 | 4 |
| Other borrowing costs | 3,795 | 150 |
| | <u>(6,700)</u> | <u>63,592</u> |
| b) Staff costs (excluding directors' remuneration) | | |
| Salaries, wages and other benefits | 57,451 | 60,421 |
| Equity settled share-based payment expenses | 24,831 | 37,367 |
| Contributions to defined contribution retirement plans | 897 | 1,207 |
| | <u>83,179</u> | <u>98,995</u> |
| c) Other items | | |
| Auditors' remuneration | 2,262 | 8,933 |
| Cost of inventories | 213,591 | 547,440 |
| Depreciation | | |
| – assets held under finance leases | 18 | 18 |
| – other assets | 93,614 | 84,524 |
| Amortisation | | |
| – prepaid lease payments for land under operating leases | 3,166 | 3,117 |
| – intangible assets | 8,909 | 7,436 |
| Loss on disposal of property, plant and equipment | 342 | 167 |
| Impairment loss on trade and other receivables | 100,599 | 41,220 |
| Write off of bad debts | 53,633 | 20 |
| Operating lease charges: minimum lease payments | | |
| – property rentals | 13,763 | 10,301 |
| Research and development costs | 2,340 | 22,817 |
| Valuation loss on financial assets at fair value through profit or loss | 3,722 | 167,986 |
| Write-down of inventories | 3,407 | 69,363 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) Income tax in the consolidated statement of comprehensive income represents:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Current tax – Hong Kong profits tax | | |
| Provision for the year | 865 | 201 |
| Under/(Over)-provision in prior years | 852 | (72) |
| | <u>1,717</u> | <u>129</u> |
| Current tax – Overseas income tax | | |
| Provision for the year | 6,122 | 51,086 |
| Deferred tax | | |
| Origination of temporary differences | – | 280 |
| | <u>7,839</u> | <u>51,495</u> |

Provision for Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates is as follows:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| (Loss)/Profit before taxation | <u>(264,446)</u> | <u>85,060</u> |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the countries concerned | (64,145) | 52,460 |
| Tax effect of non-deductible expenses | 54,956 | 18,634 |
| Tax effect of non-taxable income | (2,901) | (16,943) |
| Tax effect of movement in unrecognised temporary differences | 144 | 82 |
| Tax effect of unused tax losses not recognised | 3,227 | 46,841 |
| Preferential tax treatment (note) | – | (52,549) |
| Over-provision in prior years | 852 | (72) |
| Others | 15,706 | 3,042 |
| | <u>7,839</u> | <u>51,495</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – continued

b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates is as follows: – continued

Note:

Overseas tax provision is required to be made in respect of Dongguan Proamine Chemical Co., Limited (“Dongguan Proamine”), Dongguan Gao Bao Chemical Co., Limited (“Gao Bao Chemical”), Global Cosmetics (China) Co., Limited (“Global Cosmetics”), and Dongguan Polygene Biotech R&D Co., Limited (“Dongguan Polygene”), all of them are subsidiaries of the Company established in the PRC. In accordance with the relevant income tax rules and regulations, the enacted income tax rate was 33%. In accordance with the relevant income tax rules and regulations of Guangdong Province, Global Cosmetics was entitled to preferential tax treatment by reducing the Foreign Enterprise Income Tax (“FEIT”) rate to 24%. After the implementation of New Law, the tax rate is unified at 25% for the year ended 31 December 2008.

Pursuant to a letter of approval issued by the local tax authority on 8 April 2005, Global Cosmetics was exempted from FEIT for the first two profitable years of its operations after offsetting prior years’ losses and is entitled to a 50% reduction on the FEIT for the following three years. Global Cosmetics began its first two profitable years in the year ended 31 December 2004 and 2005, and is subject to PRC FEIT at a rate of 12% for each of the three years ended 31 December 2008. On 27 December 2007, Global Cosmetics was further awarded Hi-and-New Tech Enterprise of Guangdong Province (“高新技術企業外商投資企業”) by the Guangdong Science and Technology Council. Due to the accreditation of this award Global Cosmetics enjoys a preferential income tax rate of 15% for years 2009 to 2013.

On 30 May 2003, Dongguan Proamine was accredited by the Department of Science and Technology of Guangdong Province as a Hi-and-New Tech Enterprise (“高新技術企業外商投資企業”) of Guangdong Province. On 16 January 2004, Dongguan Proamine received a written confirmation from Dongguan Local Tax Bureau that it was entitled to a reduced income tax rate of 15% for the period from 1 January 2003 to 31 December 2005. On 1 June 2005, Dongguan Proamine continued to be accredited as a Hi-and-New Tech Enterprise of Guangdong Province and the income tax rate remained as 15% for two years. On 28 April 2007, Dongguan Proamine renewed its status as Hi-and-New Tech Enterprise of Guangdong Province and continued to enjoy income tax rate of 15% for two years. On 16 December 2008, Dongguan Proamine renewed its accreditation as Hi-and-New Tech Enterprise of Guangdong Province for three years and it continued to enjoy preferential income tax rate of 15%.

Pursuant to a letter of approval issued by the local tax authority on 1 July 2005, Gao Bao Chemical was exempted from EIT for the first two profitable years of its operations after offsetting prior years’ losses and are entitled to a 50% reduction on the EIT for the following three years. Gao Bao Chemical began its first profitable year in the year ended 31 December 2005 and obtained tax exemption for 2005 and 2006, and was entitled to a reduced income tax rate for 2007, 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

9 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

For the year ended 31 December 2009

| | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Share-based payments HK\$'000 | Retirement scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|----------------------------------|---|-------------------|
| Executive Directors | | | | | |
| Lau Jin Wei, Jim (Note 3) | - | 720 | - | 12 | 732 |
| Wong Ying Yin (Note 3) | - | 433 | - | 12 | 445 |
| Bang Young-Bae, Ray (Note 3) | - | 600 | - | 12 | 612 |
| Yip Chung Wai (Note 1) | - | 252 | - | 12 | 264 |
| Wong Hiu Tung (Note 1) | - | 162 | - | 12 | 174 |
| Jia Xuelel (Note 1) | - | 45 | - | - | 45 |
| Independent Non-executive Directors | | | | | |
| Ho Yik Leung (Note 2) | 120 | - | - | - | 120 |
| Ou Ying Ji | - | - | - | - | - |
| Lin Jian (Note 3) | - | - | - | - | - |
| Lee Pak Chung (Note 3) | - | - | - | - | - |
| Cheung Kwok Yu (Note 1) | 30 | - | - | - | 30 |
| | 150 | 2,212 | - | 60 | 2,422 |

Note 1: Appointed on 25 September 2009.

Note 2: Retired on 6 July 2009.

Note 3: Retired on 25 September 2009.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

9 DIRECTORS' REMUNERATION – continued

For the year ended 31 December 2008

| | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Share-based payments HK\$'000 | Retirement scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|----------------------------------|---|-------------------|
| Executive Directors | | | | | |
| Lau Jin Wei, Jim | – | 2,060 | – | 12 | 2,072 |
| Wong Ying Yin | – | 435 | 112 | 12 | 559 |
| Bang Young-Bae, Ray | – | 660 | 126 | 12 | 798 |
| Independent Non-executive Directors | | | | | |
| Ho Yik Leung | 160 | – | – | – | 160 |
| Ou Ying Ji | – | – | – | – | – |
| Lin Jian | 20 | – | – | – | 20 |
| Lee Pak Chung | 20 | – | – | – | 20 |
| | <u>200</u> | <u>3,155</u> | <u>238</u> | <u>36</u> | <u>3,629</u> |

The above emoluments for the year ended 31 December 2008 include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed note 32.

No director received any emoluments from the Group as an inducement to join or leave the Group or compensate for loss of office. No director waived or has agreed to waive any emoluments during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments in the Group, one (2008: one) director of the Company whose emoluments was included in the disclosure in note 9 above. The emoluments of the four (2008: remaining four) individuals were as follows:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 3,757 | 5,873 |
| Share-based payments | – | 1,499 |
| Retirements benefits schemes contributions | 48 | 48 |
| | <u>3,805</u> | <u>7,420</u> |

The emoluments of the four (2008: four) individuals with the highest emoluments are within the following bands:

Their emoluments were within the following bands:

| | 2009 No. of employees | 2008 No. of employees |
|-------------------------------|-----------------------------|-----------------------------|
| HK\$Nil – HK\$1,000,000 | 3 | – |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 2 |
| HK\$1,500,001 – HK\$2,000,000 | – | 1 |
| HK\$2,000,001 – HK\$2,500,000 | – | – |
| HK\$2,500,001 – HK\$3,000,000 | – | – |
| HK\$3,000,001 – HK\$3,500,000 | – | 1 |
| | <u>–</u> | <u>1</u> |

11 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of approximately HK\$400,085,000 (2008: HK\$49,875,000) which has been dealt with in the financial statements of the Company respectively.

12 DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2009 (2008: Nil), nor has any dividend been proposed since the end of the reporting period (2008: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

13 (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately HK\$269,748,000 (2008: profit of HK\$8,187,000) and the weighted average number of approximately 1,957,995,000 shares (2008: 1,260,214,000 shares) in issue during the year, calculated as follows:

| | 2009 '000 | 2008 '000 |
|---|------------------|--------------|
| Issued ordinary shares at 1 January | 1,333,211 | 1,183,347 |
| Effect of warrants exercised | – | 26,243 |
| Effect of share options exercised | 82,840 | 51,315 |
| Effect of open offer subscription | 518,238 | – |
| Effect of convertible bonds exercised | 23,706 | – |
| Effect of share repurchased | – | (691) |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares at 31 December | 1,957,995 | 1,260,214 |
| | <hr/> | <hr/> |

b) Diluted (loss)/earnings per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately HK\$269,748,000 (2008: profit of HK\$8,187,000) and the weighted average number of diluted ordinary shares of approximately 1,957,995,000 shares (2008: 1,264,945,000 shares), calculated as follows:

| | 2009 '000 | 2008 '000 |
|--|------------------|--------------|
| Weighted average number of ordinary shares at 31 December | 1,957,995 | 1,260,214 |
| Effect of deemed issue of shares attributable to the Company's share option scheme | – | 4,731 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares diluted at 31 December | 1,957,995 | 1,264,945 |
| | <hr/> | <hr/> |

14 SEGMENT REPORTING

Segment revenues and result

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting segment was business and geographical segments. The adoption of HKFRS 8 has not resulted in significant change in the presentation of the Group's reportable segment information as segment information has been previously presented on a basis consistent with the internal information reported to the Group's chief operating decision maker.

Business segments

The Group comprises the following main business segments:

- a) Household products segment – manufacture of household products for sale to wholesalers and retailers in the general consumer market;
- b) Industrial products segment – manufacture of industrial surfactants for sale principally to textile and garment manufactures and traders;
- c) Cosmetics and skincare products segment – manufacture of cosmetics and skincare products under the brand name of Marjorie Bertagne for sale to authorised distributors and retailers in the general consumer market;
- d) Biotechnology products segment – manufacture of biotechnology products with medical applications; and
- e) Investments segment – engaged in provision of loan financing services and investment and/or trading in market securities, bonds, foreign currencies, various funds and other income generated fixed assets' portfolios.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

14 SEGMENT INFORMATION – continued

Primary reporting format – business segments

| | Household products | | Industrial products | | Cosmetics and skincare products | | Biotechnology products | | Investments | | Others | | Consolidated | |
|--|--------------------|----------|---------------------|----------|---------------------------------|-----------|------------------------|----------|-------------|-----------|----------|----------|--------------|-----------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 8,775 | 132,420 | 185,732 | 422,248 | 182,518 | 617,390 | 553 | 8,532 | 19,641 | 159,117 | - | - | 397,219 | 1,339,707 |
| Inter-segment sales | 6,005 | 49,585 | 33,598 | 51,227 | 3,014 | - | - | - | - | - | - | - | 42,617 | 100,812 |
| Reportable segment revenue | 14,780 | 182,005 | 219,330 | 473,475 | 185,532 | 617,390 | 553 | 8,532 | 19,641 | 159,117 | - | - | 439,836 | 1,440,519 |
| Reportable segment results | (8,025) | 49,380 | (145,034) | 72,923 | (79,062) | 271,791 | (7,217) | 873 | (3,104) | (199,728) | - | - | (242,442) | 195,239 |
| Unallocated operating income and expenses | | | | | | | | | | | | | (28,704) | (46,587) |
| (Loss)/Profit from operations | | | | | | | | | | | | | (271,146) | 148,652 |
| Finance costs | | | | | | | | | | | | | 6,700 | (63,592) |
| (Loss)/Profit before taxation | | | | | | | | | | | | | (264,446) | 85,060 |
| Income tax | | | | | | | | | | | | | (7,839) | (51,495) |
| (Loss)/Profit for the year | | | | | | | | | | | | | (272,285) | 33,565 |
| Depreciation | 612 | 11,420 | 9,085 | 30,144 | 83,236 | 42,442 | 23 | 536 | - | - | 676 | - | 93,632 | 84,542 |
| Amortisation | 580 | - | 8,603 | - | 2,871 | 2,827 | 22 | 7,726 | - | - | - | - | 12,075 | 10,553 |
| Loss on disposal of property, plant and machinery | - | 65 | - | 102 | 342 | - | - | - | - | - | - | - | 342 | 167 |
| Net unrealised loss on financial assets at fair value through profit or loss | - | - | - | - | - | - | - | - | 3,722 | 167,986 | - | - | 3,722 | 167,986 |
| Write-down of inventories | - | - | 3,407 | 69,363 | - | - | - | - | - | - | - | - | 3,407 | 73,685 |
| Impairment loss on trade and other receivables | 15,121 | 16,150 | 85,478 | 25,070 | - | - | - | - | - | - | - | - | 100,599 | 41,220 |
| Write off of bad debts | - | 5 | - | 14 | 53,633 | - | - | 1 | - | - | - | - | 53,633 | 20 |
| Reportable segment assets | 61,339 | 311,016 | 910,216 | 831,942 | 1,211,427 | 1,266,474 | 29,812 | 48,595 | 70,789 | 91,908 | - | - | 2,283,583 | 2,549,935 |
| Investment properties | | | | | | | | | | | | | 25,179 | 25,181 |
| Cash and cash equivalents | | | | | | | | | | | | | 35,514 | 192,919 |
| Other unallocated assets | | | | | | | | | | | | | 824,896 | 402,922 |
| Total assets | | | | | | | | | | | | | 3,169,172 | 3,170,957 |
| Reportable segment liabilities | 11,133 | 13,907 | 165,196 | 37,200 | 137,653 | 244,530 | - | - | 577 | 1,024 | - | - | 314,559 | 296,661 |
| Unallocated liabilities | | | | | | | | | | | | | 7,847 | 187,234 |
| Total liabilities | | | | | | | | | | | | | 322,406 | 483,895 |
| Capital expenditure | 349 | 126,161 | 5,172 | 195,843 | 19,041 | 88,667 | - | - | - | - | - | - | 24,562 | 410,671 |
| Unallocated capital expenditure | | | | | | | | | | | | | - | 738 |
| | | | | | | | | | | | | | 24,562 | 411,409 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

14 SEGMENT REPORTING – continued

Geographical segments

The Group operates in two main geographical areas:

The PRC – manufacturing and trading of household products, industrial products, cosmetics and skincare products and biotechnology products with medical applications.

Hong Kong – trading of household products, industrial products and cosmetic and skincare products and provision of loan financing services and investments and/or trading in marketable securities, bonds, foreign currencies, various funds and other income generated fixed assets' portfolios.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of Company's subsidiaries. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Hong Kong | | The PRC | |
|--|-----------|-----------|-----------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 132,189 | 254,805 | 265,030 | 1,084,902 |
| Inter-segment sales | 3,014 | – | 39,603 | 100,812 |
| Reportable segment results | (58,272) | (165,805) | (184,170) | 361,044 |
| Reportable segment assets | 797,221 | 290,579 | 1,486,362 | 2,259,356 |
| Capital expenditure incurred during the year | 3,946 | 738 | 20,616 | 410,671 |

Revenue from major customers

There is no single customer contributing over 10% of total sales of the Group for both years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

15 GOODWILL

| | The Group |
|---|------------------|
| Cost | HK\$'000 |
| At 1 January 2008 | 459,428 |
| Arising from acquisition of additional interest in subsidiary | 186,138 |
| | <hr/> |
| At 31 December 2008 and 1 January 2009 | 645,566 |
| Arising from acquisition of interest in subsidiary | 322,458 |
| | <hr/> |
| At 31 December 2009 | 968,024 |
| Accumulated impairment loss | |
| At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009 | — |
| | <hr/> |
| Carrying amount | |
| At 31 December 2009 | 968,024 |
| | <hr/> |
| At 31 December 2008 | 645,566 |
| | <hr/> |

Pursuant to an acquisition agreement dated 2 January 2007, the Group acquired 6,800,000 shares of HK\$1 each in the issued share capital of Global Cosmetics (HK) Company Limited ("Cosmetics HK") (representing 17% of the entire issued share capital of Cosmetics HK) from Cristal Marketing Management Company Limited ("Cristal Marketing"), a minority shareholder of a subsidiary of the Company which held 30% in Cosmetics HK, for a consideration of HK\$241,090,000. The consideration was determined having regard to the net asset value and earnings of Cosmetics HK and its subsidiary and the market potential of their business. After the acquisition, the percentage of the issued share capital of Cosmetics HK held by the Group was changed from 70% to 87% and the goodwill arising from the acquisition by the Group amounted to approximately HK\$222,963,000 with reference to the consideration paid amounting to approximately HK\$241,090,000 and the carrying amounts of the net assets acquired amounting to approximately HK\$18,127,000.

Pursuant to an acquisition agreement dated 16 August 2007, the Group acquired 5,200,000 shares of HK\$1 each in the issued share capital of Cosmetics HK (representing 13% of the entire issued share capital of Cosmetics HK) from Cristal Marketing, for a consideration of approximately HK\$274,058,000 which was paid by the Company by transfer of 13,936,390 ordinary shares of HK\$0.10 each of the Bio Beauty Group Ltd. ("Bio Beauty"). The consideration was determined based on (i) profitability of Cosmetics HK and Bio Beauty for the year ended 31 December 2006 and (ii) the profit earning ratio of Bio Beauty calculated with reference to the subscription price of the convertible preference share (see note 31) in issue. After the acquisition, the percentage of the issued share capital of Cosmetics HK held by the Group was changed from 87% to 100% and the goodwill arising from the acquisition by the Group amounted to approximately HK\$236,465,000 with reference to the consideration paid amounting to approximately HK\$274,058,000 and the carrying amounts of the net assets acquired amounting to approximately HK\$37,593,000.

15 GOODWILL – continued

By the announcement dated 12 September 2008, the Company entered into the acquisition agreement in relation to the sales and purchase of approximately 8.54% of the entire issued share capital of Bio Beauty at cash consideration of approximately HK\$265.34 million. Goodwill arose from the transaction was HK\$186.14 million. The acquisition will increase earnings of the Group by the amount of the increase in Group's sharing of profits after tax of BBG and its subsidiaries from 84.6% to 93.2%.

On 1 July 2009, the Group acquired 100% interest in Supreme China Limited and its subsidiary, Cristal Marketing (collectively called the "Supreme China Group") for a consideration of HK\$320 million which was satisfied by cash of HK\$160 million and issue of convertible bond of HK\$160 million. Goodwill arose from the transaction was approximately HK\$322,458,000 (see note 38).

All of the goodwill is allocated to the Cash Generating Unit ("CGU") of cosmetics business in Hong Kong and the PRC.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year ended 31 December 2009, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using the discount rate of 15% which reflects current market assessments of the time value of money and the credit risk specific to the CGUs. The cash flows beyond the five year periods are extrapolated using a constant growth rate of 2% per annum which is made with reference to the GDP growth rate in the PRC and also the industry growth forecasts for cosmetics business.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

16 PROPERTY, PLANT AND EQUIPMENT

a) The Group

| | Buildings held for own use HK\$'000 | Leasehold improvement HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|--|--------------------------------------|---------------------------------------|---|-------------------------------|---|-------------------|
| COST | | | | | | | |
| At 1 January 2008 | 282,986 | 79,132 | 759,217 | 176,049 | 9,694 | 57,287 | 1,364,365 |
| Exchange adjustment | 18,788 | 5,601 | 52,570 | 10,544 | 323 | 4,075 | 91,901 |
| Additions | – | 988 | 16,878 | 6,309 | – | 387,235 | 411,410 |
| Disposals | – | – | (242) | – | (228) | – | (470) |
| Transfers | – | – | 43,873 | 25,354 | – | (69,227) | – |
| At 31 December 2008 | 301,774 | 85,721 | 872,296 | 218,256 | 9,789 | 379,370 | 1,867,206 |
| Exchange adjustment | (29) | (8) | 309 | 1,769 | – | (36) | 2,005 |
| Additions | – | 427 | 22,264 | 334 | – | 1,537 | 24,562 |
| Acquired on acquisition of subsidiaries | – | – | – | 2,188 | – | – | 2,188 |
| Disposals | – | – | (4,203) | (10) | – | – | (4,213) |
| At 31 December 2009 | <u>301,745</u> | <u>86,140</u> | <u>890,666</u> | <u>222,537</u> | <u>9,789</u> | <u>380,871</u> | <u>1,891,748</u> |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2008 | 12,974 | 9,502 | 216,589 | 34,465 | 5,136 | – | 278,666 |
| Exchange adjustment | 1,094 | 747 | 15,954 | 1,712 | 172 | – | 19,679 |
| Charge for the year | 12,018 | 8,358 | 53,263 | 9,601 | 1,302 | – | 84,542 |
| Disposals | – | – | (67) | – | (228) | – | (295) |
| At 31 December 2008 | 26,086 | 18,607 | 285,739 | 45,778 | 6,382 | – | 382,592 |
| Exchange adjustment | (2) | (1) | 2,782 | (202) | – | – | 2,577 |
| Charge for the year | 20,797 | 8,580 | 57,283 | 5,871 | 1,101 | – | 93,632 |
| Disposals | – | – | (3,853) | (2) | – | – | (3,855) |
| At 31 December 2009 | <u>46,881</u> | <u>27,186</u> | <u>341,951</u> | <u>51,445</u> | <u>7,483</u> | <u>–</u> | <u>474,946</u> |
| Net book value | | | | | | | |
| At 31 December 2009 | <u>254,864</u> | <u>58,954</u> | <u>548,715</u> | <u>171,092</u> | <u>2,306</u> | <u>380,871</u> | <u>1,416,802</u> |
| At 31 December 2008 | <u>275,688</u> | <u>67,114</u> | <u>586,557</u> | <u>172,478</u> | <u>3,407</u> | <u>379,370</u> | <u>1,484,614</u> |

b) As at 31 December 2009, the net book value of furniture, fixtures and equipment of approximately HK\$171,092,000 (2008: HK\$172,478,000) included an amount of approximately HK\$6,000 (2008: HK\$24,000) in respect of assets held under finance leases.

c) The net book value of the Group's buildings located in the PRC, which are pledged to secure bank loans to the Group, is approximately HK\$246,174,000 (2008: Nil) (see Notes 30 & 40).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

17 INVESTMENT PROPERTIES

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---------------------|------------------|------------------|
| At 1 January | 25,181 | 23,500 |
| Exchange adjustment | (2) | 1,681 |
| | <hr/> | <hr/> |
| At 31 December | 25,179 | 25,181 |

Investment properties are interests in land and buildings held in the People's Republic of China under medium term leases.

The Group's investment properties were valued on 31 December 2009 by the management at HK\$25,179,000, which was estimated by reference to available similar market information.

All of the Group's properties held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

18 PREPAID LEASE PAYMENTS FOR LAND UNDER OPERATING LEASES

The net book value of the Group's prepaid lease payments for land under operating leases is analysed as follows:

| | The Group | |
|-------------------------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| In Hong Kong, held on: | | |
| Lease between 30 to 40 years | 39,015 | 39,015 |
| Outside Hong Kong, held on: | | |
| Leases of 50 years | 139,522 | 142,704 |
| | <hr/> | <hr/> |
| | 178,537 | 181,719 |
| | <hr/> | <hr/> |
| Analysed for reporting purposes as: | | |
| Current portion | 3,169 | 3,117 |
| Non-current portion | 175,368 | 178,602 |
| | <hr/> | <hr/> |
| | 178,537 | 181,719 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

18 PREPAID LEASE PAYMENTS FOR LAND UNDER OPERATING LEASES – continued

In the opinion of the directors, the deposits for acquisition of interests in leasehold land held for own use under operating leases of HK\$39,015,000 (2008: HK\$39,015,000) was classified as non-current portion of prepaid lease payments for land under operating leases with the lease commencing in 2010 and no amortisation was provided for the year ended 31 December 2009.

The amortisation charge for the year is included in cost of sales in the consolidated statement of comprehensive income.

The leasehold land located in the PRC with a net book value of approximately HK\$139,522,000 (2008: Nil) has been pledged to secure the bank loans (see Notes 30 & 40).

19 INTANGIBLE ASSETS

| | Licenses HK\$'000 |
|--|-----------------------------|
| Cost | |
| At 1 January 2008 | 89,853 |
| Exchange adjustment | 3,779 |
| Reclassification | 15,267 |
| | <hr/> |
| At 31 December 2008 | 108,899 |
| Exchange adjustment | 10 |
| | <hr/> |
| At 31 December 2009 | 108,909 |
| Accumulated amortisation | |
| At 1 January 2008 | 62,290 |
| Exchange adjustment | 2,518 |
| Amortisation for the year | 7,436 |
| | <hr/> |
| At 31 December 2008 and 1 January 2009 | 72,244 |
| Exchange adjustment | 14 |
| Amortisation for the year | 8,909 |
| | <hr/> |
| At 31 December 2009 | 81,167 |
| Carrying amount | |
| At 31 December 2009 | 27,742 |
| | <hr/> |
| At 31 December 2008 | 36,655 |
| | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

19 INTANGIBLE ASSETS – continued

Licences comprise licence rights acquired from independent third parties to exploit technical knowhow for the manufacture of certain biotechnology products with medical applications. The underlying products relating to the licences acquired have been put into commercial production. Amortisation on the cost of licences has been provided on a straight-line basis over their estimated useful lives to the Group.

The amortisation charge for the year is included in cost of sales in the consolidated statement of comprehensive income.

20 DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At 31 December 2009, the Group paid a total sum of approximately HK\$279,123,000 (2008: HK\$175,624,000) as deposits for the acquisition of certain property, plant and equipment, which comprise plant and machinery for manufacturing operations as well as for a new business line of recycling waste tyres and plastic products into usable oil, diesel, gasoline and natural gas.

The Group's application for a site located at Yuen Long Industrial Estate to pursue its recycling business was approved by Hong Kong Science and Technology Parks Corporation. It is expected that the Group will invest in aggregate approximately HK\$310,000,000 to pursue the recycling business plant and machinery and the Company expects that the recycling plant will start commercial production in year 2010.

Capital commitments of the Group in respect of the remaining unpaid balances of approximately HK\$47,977,000 (2008: HK\$149,984,000) for these purchases are disclosed in note 41(a) to the financial statements.

21 OTHER DEPOSITS AND CLUB DEBENTURE

| | The Group | |
|---|-----------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Club debenture | 460 | 460 |
| Other deposits | 180 | – |
| Less: Impairment loss on club debenture | (290) | (290) |
| | <hr/> | <hr/> |
| | 350 | 170 |
| | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

22 INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|--------------------------|----------------|----------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | <u>580,671</u> | <u>580,671</u> |

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

b) Particulars of the major subsidiaries at 31 December 2009 are as follows:

| Name | Place of incorporation/ establishment | Principal activities/ place of operation | Particulars of issued and paid-up share/ contributed capital | Interest held |
|---|---------------------------------------|--|---|---------------|
| Bio Beauty Group Ltd. | The Cayman Islands | Investment holding/ Hong Kong | 90,850,000 ordinary shares of HK\$0.1 each | 93.20% # |
| Global Success Properties Limited | The British Virgin Islands ("BVI") | Investment holding/ Hong Kong | 200 ordinary shares of US\$1 each | 100% # |
| GCC Finance Company Limited | Hong Kong | Provision of loan financing services/ Hong Kong | 2 ordinary shares of HK\$1 each | 100% # |
| Global Power and Energy Company Limited | Hong Kong | Energy recycling business/ Hong Kong | 10,000 ordinary shares of HK\$1 each | 100% # |
| Global Chemicals (China) Company Limited (Note (i)) | Hong Kong | Trading of household products and industrial products/ Hong Kong | 10,000 ordinary shares of HK\$1 each and 1,000,000 non-voting deferred shares of HK\$1 each | 93.2% |
| Global Cosmetics (HK) Company Limited | Hong Kong | Investment holding and trading of cosmetics and skincare products/ Hong Kong | 40,000,000 ordinary shares of HK\$1 each | 93.2% |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

22 INVESTMENTS IN SUBSIDIARIES – continued

b) – continued

| Name | Place of incorporation/ establishment | Principal activities/ place of operation | Particulars of issued and paid-up share/ contributed capital | Interest held |
|--|--|---|---|---------------|
| Global Idea (Int'l) Company Limited | Hong Kong | Trading of cosmetics and skincare products/ Hong Kong | 1,000 ordinary shares of HK\$1 each | 93.2% |
| Dongguan Proamine Chemical Co., Limited (Note (ii)) | PRC | Manufacture and sale of household products and industrial products/ PRC | Approximately HK\$ 111,319,000 | 100% |
| Global Cosmetics (China) Co., Limited (Note (iii)) | PRC | Manufacture and sale of cosmetics and skincare products/PRC | HK\$160,000,000 | 93.2% |
| Cristal Marketing Management Company Limited | Hong Kong | Retailing of cosmetics and provision of beauty treatment services/ Hong Kong & Macau | 5,010,000 ordinary shares of HK\$1 each | 100% |
| Dongguan Polygene Biotech R&D Co., Limited (Note (iv)) | PRC | Research and development of bio-technology products/PRC | Approximately HK16,000,000 | 100% |
| High Billion Investment Limited | Hong Kong | Holding of licence/ Hong Kong | 10,000 ordinary shares of HK\$1 each | 93.2% |

Shares held directly by the Company

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

22 INVESTMENTS IN SUBSIDIARIES – continued

b) – continued

Notes:

- i) The non-voting deferred shares carry no rights as to dividends, no rights to attend or vote at general meetings, and no rights to receive any surplus in return of capital in a winding-up of Global Chemicals (China) Company Limited (“Global Chemicals”) (other than 1% of the surplus assets of Global Chemicals available for distribution after a total of HK\$1,000,000,000 has been distributed to holders of the ordinary shares of Global Chemicals in such winding-up).
- ii) Dongguan Proamine is a foreign wholly owned enterprise established by the Company in the PRC for an operating period of 16 years commencing from the date of the issuance of its business licence on 29 August 1995. The registered capital of Dongguan Proamine was HK\$112,000,000 of which approximately HK\$111,319,000 was paid up by the Group as at 31 December 2008 and 2009.
- iii) Global Cosmetics is a foreign wholly owned enterprise established by the Company in the PRC for an operating period of 30 years commencing from the date of the issuance of its business licence on 1 April 2005. The registered capital of Global Cosmetics was HK\$160,000,000 which was fully paid up by the Group as at 31 December 2008 and 2009.
- iv) Dongguan Polygene is a foreign wholly owned enterprise established by the Company in the PRC for an operating period of 30 years commencing from the date of the issuance of its business licence on 18 July 2003. The registered capital of Dongguan Polygene was HK\$20,000,000 of which approximately HK\$16,000,000 was paid up by the Group as at 31 December 2008 and 2009.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | |
|--|---------------|---------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Listed equity securities at market value | | |
| – in Hong Kong | 18,540 | 25,158 |
| – outside Hong Kong | 1,326 | 4,837 |
| | <u>19,866</u> | <u>29,995</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

24 INVENTORIES

| | The Group | |
|---------------------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Raw materials | 35,016 | 41,891 |
| Finished goods | 24,532 | 122,352 |
| | 59,548 | 164,243 |
| Less: Write-down of inventories | (3,407) | (69,363) |
| | 56,141 | 94,880 |

25 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2009 HK\$'000 | 2008 HK\$'000 |
| Trade receivables | 165,085 | 209,382 | - | - |
| Bills receivables | 2,040 | 2,040 | - | - |
| Loan receivables (d) | 44,907 | 63,142 | - | - |
| Prepayments, deposits and other receivables | 81,188 | 80,762 | 733 | 359 |
| | 293,220 | 355,326 | 733 | 359 |
| Less: Allowance for doubtful debts | (131,326) | (51,692) | - | - |
| | 161,894 | 303,634 | 733 | 359 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

25 TRADE AND OTHER RECEIVABLES – continued

a) The aging analysis of the trade and bills receivables is as follows:

| | The Group | |
|--|-----------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Within 30 days | 28,965 | 97,284 |
| 31 – 60 days | 15,600 | 87,291 |
| 61 – 90 days | 4,943 | 12,792 |
| Over 90 days | 117,617 | 14,055 |
| | <hr/> | <hr/> |
| | 167,125 | 211,422 |
| Less: Impairment loss on trade receivables | (131,326) | (30,574) |
| | <hr/> | <hr/> |
| | 35,799 | 180,848 |
| | <hr/> | <hr/> |

The normal credit period granted to the customers of the Group is 30 to 180 days (2008: 30 to 180 days). Impairment loss on trade receivables was made and thereafter written off when collection of full amount was no longer probable. Bad debts are written off as incurred.

b) Included in trade and bills receivables in the statement of financial position are mainly the following amounts denominated in a currency other than the functional currency of the Company to which they relate:

| | The Group | |
|--------------------------------|-----------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Renminbi ("RMB") | 141,150 | 156,684 |
| United States Dollars ("US\$") | 10,385 | 830 |
| | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

25 TRADE AND OTHER RECEIVABLES – continued

c) The movement in the allowance for doubtful debts on trade and other receivables is as follows:

| | The Group | |
|--|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| At 1 January | 51,692 | 9,620 |
| Bad debt written off | (21,118) | – |
| Impairment loss recognised during the year | 100,599 | 41,220 |
| Exchange adjustment | 153 | 852 |
| | <hr/> | <hr/> |
| At 31 December | 131,326 | 51,692 |

d) No single loan receivable is individually material, and the terms and conditions of all loan receivables are presented as follows:

| | The Group | |
|-----------------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Fixed-rate loan receivables | 44,907 | 63,142 |

The ranges of effective interest rates on the Group's loan receivables are as follows:

| | 2009 | 2008 |
|-----------------------------|----------------|----------------|
| Effective interest rate: | | |
| Fixed-rate loan receivables | 2.00% to 5.00% | 3.00% to 5.00% |

The loan receivables are unsecured and repayable within 1 year and denominated in HK\$.

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on management's judgement, including the current creditworthiness and the past collection history of each client.

In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that no impairment is required.

26 FIXED BANK DEPOSITS

The fixed bank deposits carry at fixed interest rate of 0.45% per annum was matured during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

27 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|--------------------------|---------------|----------|--------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cash at bank and in hand | 35,514 | 187,919 | 2,744 | 2,439 |

Included in cash and cash equivalents in the statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the Company to which they relate:

| | The Group | |
|--------------|---------------|---------|
| | 2009 | 2008 |
| | HK'000 | HK'000 |
| RMB | 20,591 | 144,087 |
| US\$ | 836 | 1,923 |
| Euro ("EUR") | 241 | 241 |

28 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|--|---------------|----------|-------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade payables | 31,493 | 36,540 | – | – |
| Accrued liabilities and other payables | 44,669 | 44,961 | 751 | 420 |
| | 76,162 | 81,501 | 751 | 420 |

The aging analysis of the trade and bills payable is as follows:

| | The Group | |
|----------------|---------------|--------|
| | 2009 | 2008 |
| | HK'000 | HK'000 |
| Within 30 days | 12,760 | 18,547 |
| 31-60 days | 7,211 | 8,499 |
| 61-90 days | 5,468 | 6,555 |
| Over 90 days | 6,054 | 2,939 |
| | 31,493 | 36,540 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

28 TRADE AND OTHER PAYABLES – continued

Included in trade payables in the statement of financial position are mainly the following amounts denominated in a currency other than the functional currency of the Company to which they relate:

| | The Group | |
|------|--------------|--------------|
| | 2009 '000 | 2008 '000 |
| RMB | 18,152 | 22,238 |
| US\$ | 3,636 | 1,136 |

29 CONVERTIBLE PREFERENCE SHARES

Bio Beauty Group Limited (“BBG”), a subsidiary of the Company, issued 91,500 convertible preference shares (“REPS”) of US\$21,000,000 (equivalent to approximately HK\$164,475,000) on 7 August 2007 to an independent third party.

The REPS contains the following major terms:

Each of the preference shares is automatically fully convertible into 100 ordinary shares of Bio Beauty immediately prior to the day of listing of shares of Bio Beauty on the SEHK.

The REPS contain two components, liability component and conversion option which is an equity component. The liability portion is carried at amortised cost using the effective interest rate method. The effective interest rate of the liability component is 25%. The equity component is presented in equity heading “convertible preference share reserve”.

During the year, the Company and BBG had entered into a settlement agreement with Macquarie Investment Holdings No. 2 Pty. Limited, Macquarie Capital Securities Limited and Macquarie Capital (Hong Kong) Limited (collectively called “Macquarie Group”).

The Company and BBG agreed to pay and Macquarie Group agreed to accept US\$24 million (“Settlement Price”) in full and final settlement of the REPS. The Settlement Price was paid during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

29 CONVERTIBLE PREFERENCE SHARES – continued

The movement of the liability component of the REPS for the year ended 31 December 2009 is as follows:

| | Liability component HK\$'000 |
|-------------------------------------|------------------------------------|
| Carrying amount at 31 December 2007 | 134,191 |
| Finance cost accrued | 55,383 |
| Preferred dividend paid | (9,150) |
| Currency realignment | 19,007 |
| | <hr/> |
| Carrying amount at 31 December 2008 | 199,431 |
| Written back of redemption loss | (17,462) |
| Settled during the year | (181,969) |
| | <hr/> |
| Carrying amount at 31 December 2009 | <hr/> – <hr/> |

30 BANK LOANS

| | The Group | | The Company | |
|---|------------------|-----------|-------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loans repayable: | | | | |
| Unsecured (a) | – | 180,000 | – | 180,000 |
| Secured (b) | 215,308 | – | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total bank loans | 215,308 | 180,000 | – | 180,000 |
| Less: Amount due within 1 year shown under current liabilities | (215,308) | (180,000) | – | (180,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | – | – | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

30 BANK LOANS – continued

- (a) On 27 February 2006, the Company obtained a syndicated bank loan of HK\$200,000,000. The loan was fully drawn down during the year ended 31 December 2006 and it bears an interest rate at HIBOR plus 1% per annum and repayable by 6 unequal semi-annual instalments commencing 12 months after the date of the relevant loan agreement. On 16 March 2007, the Company drew down the revolving loan of HK\$100,000,000 according to the terms stipulated in the above syndicated bank loan agreement. The loan was fully drawn down during the year ended 31 December 2007 and it bears an interest rate at HIBOR plus 1% per annum and repayable one month prior to the maturity date on 26 August 2009. The unsecured bank loans were repaid in full during the year.
- (b) The secured bank loans were short term loans that borrowed from the banks in PRC by the PRC subsidiaries of the Group and secured by the properties in the PRC (see Notes 16 & 18). The interest rate ranged from 5.31% to 5.84% per annum.

31 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2009, the Group had obligations under finance leases repayable as follows:

| The Group | 2009 | | | 2008 | | |
|--|---|--|---|---|--|---|
| | Present value of the minimum lease payments HK\$'000 | Interest expenses relating to future periods HK\$'000 | Total minimum lease payments HK\$'000 | Present value of the minimum lease payments HK\$'000 | Interest expenses relating to future periods HK\$'000 | Total minimum lease payments HK\$'000 |
| Within 1 year shown under current liabilities | 3 | 1 | 4 | 32 | 4 | 36 |
| After 1 year but within 2 years | - | - | - | 5 | 1 | 6 |
| Total | <u>3</u> | <u>1</u> | <u>4</u> | <u>37</u> | <u>5</u> | <u>42</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 20 December 2001 whereby the directors of the Company are authorised, at their discretion, to invite employees and other eligible suppliers and customers of the Group, including directors of any Company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options vest immediately from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

- a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

| | Number of instruments '000 | Vesting conditions | Contractual life of options |
|--|----------------------------------|---------------------------------------|--------------------------------|
| Options granted to others: – on 7 July 2009 | 10,001 | Immediately from the date of grant | up to 6 July 2012 |

- b) The number and weighted average exercise price of share options are as follows:

| | 2009 | | 2008 | |
|---|---|-----------------------------|---|-----------------------------|
| | Weighted average exercise price HK\$ | Number of option '000 | Weighted average exercise price HK\$ | Number of option '000 |
| Outstanding at the beginning of the year | 0.96 | 177,986 | 0.89 | 51,702 |
| Exercised during the year | 0.44 | (198,505) | 1.09 | (105,877) |
| Granted during the year | 0.44 | 198,758 | 1.03 | 232,441 |
| Lapsed during the year | 0.96 | (168,238) | 0.80 | (280) |
| Outstanding at the end of the year | 0.44 | 10,001 | 0.96 | 177,986 |

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$0.44 (2008: HK\$1.09). The options outstanding at 31 December 2009 had an exercise price of HK\$0.44 (2008: HK\$0.89, HK\$0.91 or HK\$1.17) and a weighted average remaining contractual life of 2.5 years (2008: 2.38 years).

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS – continued

c) Fair value of share options 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 services received is measured based on binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

| | |
|--|---------------|
| Date of grant | 7 July 2009 |
| Fair value at measurement date | HK\$0.12 |
| Share price | HK\$0.44 |
| Exercise price | HK\$0.44 |
| Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model) | 78.62% |
| Option life (expressed as weighted average life used in the modeling under binomial lattice model) | 3 years |
| Risk-free interest rate (based on Exchange Fund Notes) | 0.08% – 0.27% |

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumption could materially affect the fair value estimate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

33 DEFERRED TAX LIABILITIES

The major components of the deferred tax liabilities provided for at the end of reporting period and for the year ended are as follows:

| | The Group | | | | | |
|--|---|--------------|-----------------|--------------|----------------|----------------|
| | Depreciation in excess of the related depreciation allowances | | Impairment loss | | Total | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At the beginning of the year | (280) | – | (826) | (826) | (1,106) | (826) |
| Charged/(credited) to consolidated statement of comprehensive income | – | (280) | – | – | – | (280) |
| At the end of the year | <u>(280)</u> | <u>(280)</u> | <u>(826)</u> | <u>(826)</u> | <u>(1,106)</u> | <u>(1,106)</u> |

The Group has unused tax losses of approximately HK\$285,268,000 (2008: HK\$282,042,000) available for offset against future profits. No deferred tax assets in respect of these unused tax losses have been recognised due to the unpredictability of future taxable profits streams. The tax losses do not expire under current tax legislation.

34 SHARE CAPITAL

a) Authorised and issued share capital

| | 2009 | | 2008 | |
|----------------------------------|--------------------|----------------|--------------------|----------------|
| | No. of shares '000 | HK\$'000 | No. of shares '000 | HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.10 each | <u>6,000,000</u> | <u>600,000</u> | <u>2,000,000</u> | <u>200,000</u> |

By the ordinary resolution passed in Annual General Meeting on 29 June 2009, the authorised share capital of the Company increased from HK\$200,000,000 to HK\$600,000,000 by the creation of an additional 4,000,000,000 shares of HK\$0.10 each.

Ordinary shares, issued and fully paid:

| | | | | |
|-------------------------------|------------------|----------------|------------------|----------------|
| At 1 January | 1,333,211 | 133,321 | 1,183,347 | 118,334 |
| Exercise of warrants | – | – | 46,987 | 4,699 |
| Exercise of share options | 198,506 | 19,851 | 105,877 | 10,588 |
| Allotment through open offer | 644,620 | 64,462 | – | – |
| Exercise of convertible bonds | 444,444 | 44,444 | – | – |
| Repurchase of shares | – | – | (3,000) | (300) |
| | <u>2,620,781</u> | <u>262,078</u> | <u>1,333,211</u> | <u>133,321</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

34 SHARE CAPITAL – continued

b) Exercise of share options

During the year, share options were exercised to subscribe for 198,506,000 (2008: 105,877,000) ordinary shares in the Company at a consideration of HK\$91,429,000 (2008: HK\$114,923,000) of which HK\$19,851,000 (2008: HK\$10,588,000) was credited to share capital and the balance of HK\$95,461,000 (2008: HK\$126,037,000) was credited to share premium. HK\$23,582,000 (2008: HK\$21,702,000) has been transferred from the share-based compensation reserve to the share premium in accordance with policy set out in note 2(r)(ii) to the financial statements.

c) Exercise of open offer

During the year, the Company raised not less than approximately HK\$161,000,000 before expenses by way of open offer of 644,620,488 offer shares to the qualifying shareholders at a price of HK\$0.25 per offer share, payable in full on application, on the basis of twelve offer shares for every twenty five shares held on the record date.

d) Exercise of convertible bonds

During the year, 444,444,444 shares of HK\$0.1 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK\$0.36 per share.

e) Repurchase of shares

No repurchase of shares was made by the Company during the year or subsequent to the end of the reporting date. The Company repurchased 3,000,000 ordinary shares of the Company on the Hong Kong Stock Exchange during the year 2008.

f) Terms of unexpired and unexercised share options at the end of the reporting period

| Exercise period | Exercise price | 2009 Number '000 | 2008 Number '000 |
|--------------------------------|----------------|------------------------|------------------------|
| 13 June 2005 to 12 June 2008 | HK\$0.80 | – | – |
| 20 June 2006 to 20 June 2010 | HK\$0.89 | – | 19,445 |
| 25 March 2008 to 24 March 2011 | HK\$1.17 | – | 35,371 |
| 25 July 2008 to 24 July 2011 | HK\$0.91 | – | 123,170 |
| 7 July 2009 to 6 July 2012 | HK\$0.44 | 10,001 | – |
| | | 10,001 | 177,986 |

Each option entitles the holders to subscribe for one ordinary share in the Company. Further details of these options are set out in note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

34 SHARE CAPITAL – continued

g) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

During the year, the gearing ratios at 31 December 2009 and 2008 were as follows:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| Total liabilities | 322,406 | 483,895 |
| Less: Cash and cash equivalents (Note 27) | <u>(35,514)</u> | <u>(187,919)</u> |
| Net debt | <u>286,892</u> | <u>295,976</u> |
| Total equity | <u>2,846,766</u> | <u>2,687,062</u> |
| Gearing ratio | 10.08% | 11.01% |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

35 RESERVES

a) The Group

| | Attributable to owners of the Company | | | | | | | | | |
|--|---------------------------------------|-----------------------------|--|--|-------------------------------|--|--------------------------------------|--|------------------------------|-------------------|
| | Share premium HK\$'000 | Capital reserve HK\$'000 | Capital redemption reserve HK\$'000 | Share-based compensation reserve HK\$'000 | Statutory reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Convertible bond reserve HK\$'000 | Convertible preference share reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
| At 1 January 2008 | 911,885 | 166,159 | - | 8,924 | 88,805 | 53,134 | - | 26,635 | 999,917 | 2,255,459 |
| Net profit for the year | - | - | - | - | - | - | - | - | 8,187 | 8,187 |
| Exchange difference on translation of financial statements of oversea subsidiaries | - | - | - | - | - | 26,327 | - | - | - | 26,327 |
| Total comprehensive income for the year | - | - | - | - | - | 26,327 | - | - | 8,187 | 34,514 |
| Exercise of warrants | 56,385 | - | - | - | - | - | - | - | - | 56,385 |
| Exercise of share options | 126,037 | - | - | (21,702) | - | - | - | - | - | 104,335 |
| Equity settled share-based payment transactions | - | - | - | 37,596 | - | - | - | - | - | 37,596 |
| Share options lapsed during the year | - | - | - | (64) | - | - | - | - | 64 | - |
| Repurchase of shares | - | - | - | - | - | - | - | - | - | - |
| -Par value paid | - | - | 300 | - | - | - | - | - | (300) | - |
| -Premium paid | (1,402) | - | - | - | - | - | - | - | - | (1,402) |
| Transfers of reserves | - | - | - | - | 21,316 | - | - | - | (21,316) | - |
| | 181,020 | - | 300 | 15,830 | 21,316 | - | - | - | (21,552) | 196,914 |
| At 31 December 2008 | 1,092,905 | 166,159 | 300 | 24,754 | 110,121 | 79,461 | - | 26,635 | 986,552 | 2,486,887 |
| Net loss for the year | - | - | - | - | - | - | - | - | (269,748) | (269,748) |
| Exchange difference on translation of financial statements of oversea subsidiaries | - | - | - | - | - | 24,891 | - | - | - | 24,891 |
| Total comprehensive income for the year | - | - | - | - | - | 24,891 | - | - | (269,748) | (244,857) |
| Issue of convertible bonds | - | - | - | - | - | - | 160,000 | - | - | 160,000 |
| Exercise of share options | 95,461 | - | - | (23,582) | - | - | - | - | - | 71,879 |
| Exercise of convertible bonds | 115,556 | - | - | - | - | - | (160,000) | - | - | (44,444) |
| Allotment through open offer | 93,862 | - | - | - | - | - | - | - | - | 93,862 |
| Equity settled share-based payment transactions | - | - | - | 24,832 | - | - | - | - | - | 24,832 |
| Share options lapsed during the year | 24,754 | - | - | (24,754) | - | - | - | - | - | - |
| Repurchase of convertible preference shares of a subsidiary | - | - | - | - | - | - | - | (26,635) | - | (26,635) |
| | 329,633 | - | - | (23,504) | - | - | - | (26,635) | - | 279,494 |
| At 31 December 2009 | 1,422,538 | 166,159 | 300 | 1,250 | 110,121 | 104,352 | - | - | 716,804 | 2,521,524 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

35 RESERVES – continued

a) The Group – continued

i) Capital reserve

The capital reserve of the Group includes the difference between the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the Group reorganisation carried on 28 November 2000, over the nominal value of the share capital of the Company issued in exchange; and amount arising from the acquisition by the Group in respect of additional interest of 13% in Cosmetics HK for a consideration of approximately HK\$274,058,000 which was paid by the Company on behalf of Bio Beauty by transfer of 13,936,390 ordinary shares of HK\$0.10 each of Bio Beauty on 29 October 2007.

The capital reserve of the Company arose as a result of the above-mentioned Group reorganisation and represents the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange.

ii) Capital redemption reserve

The capital redemption reserve represents the nominal value of the cancelled shares arising from share repurchase as set out in note 34(e).

iii) Share-based compensation reserve

The fair value of the actual or estimated number of unexercised in accordance with the accounting policy adopted for share-based payments in note 2(r)(ii).

iv) Statutory reserve

Subsidiaries of the Group in the PRC, which are wholly-owned-foreign enterprises, follow the accounting principles and relevant financial regulations of the PRC applicable to wholly-owned foreign enterprises (“PRC GAAP-WFOE”), in the preparation of its accounting records and financial statements. Pursuant to the accounting regulations for business enterprises (企業會計制度[財會(2000) 25號]), the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP-WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with the accounting policy set out in note 2(v).

vi) Distributability of reserves

Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium and capital reserve are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business.

At 31 December 2009, the aggregate amount of reserves available for distribution to equity holders of the Group was HK\$716,804,000 (2008: HK\$986,552,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

35 RESERVES – continued

b) The Company

| | Attributable to owners of the Company | | | | | Total HK\$'000 |
|--|---------------------------------------|--------------------------------|--|--|---------------------------------|-------------------|
| | Share premium HK\$'000 | Capital reserve HK\$'000 | Capital redemption reserve HK\$'000 | Share-based compensation reserve HK\$'000 | Retained profits HK\$'000 | |
| At 1 January 2008 | 911,885 | 89,247 | – | 8,924 | 14,554 | 1,024,610 |
| Net loss for the year | – | – | – | – | (49,875) | (49,875) |
| Total comprehensive income for the year | – | – | – | – | (49,875) | (49,875) |
| Exercise of warrants | 56,385 | – | – | – | – | 56,385 |
| Exercise of share options | 126,037 | – | – | (21,702) | – | 104,335 |
| Equity settled share-based payment transactions | – | – | – | 37,596 | – | 37,596 |
| Share options lapsed during the year | – | – | – | (64) | 64 | – |
| Repurchase of shares | (1,402) | – | 300 | – | (300) | (1,402) |
| | 181,020 | – | 300 | 15,830 | (236) | 196,914 |
| At 31 December 2008 | 1,092,905 | 89,247 | 300 | 24,754 | (35,557) | 1,171,649 |
| Net loss for the year | – | – | – | – | (400,085) | (400,085) |
| Total comprehensive income for the year | – | – | – | – | (400,085) | (400,085) |
| Exercise of share options | 95,461 | – | – | (23,582) | – | 71,879 |
| Exercise of convertible bonds | 115,556 | – | – | – | – | 115,556 |
| Allotment through open offer | 93,862 | – | – | – | – | 93,862 |
| Grant of share options | – | – | – | 24,832 | – | 24,832 |
| Share options lapsed during the year | 24,754 | – | – | (24,754) | – | – |
| | 329,633 | – | – | (23,504) | – | 306,129 |
| At 31 December 2009 | 1,422,538 | 89,247 | 300 | 1,250 | (435,642) | 1,077,693 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets include cash and cash equivalents, trade and other receivables, loan receivables and financial assets at fair value through profit or loss. The Group's financial liabilities include bank borrowings, trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate, foreign currency fair value, economic and business risks arises in the normal course of the Group's business.

(a) Credit risk

- i) As at 31 December 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.
- ii) In respect of trade and other receivables and loan receivables, in order to minimize risk, the management has a credit risk are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within a normal credit period of 30-180 days from the date of billing.
- iii) The majority of the Group's investment are listed on a recognised stock exchange. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligation.
- iv) The credit risk on liquid funds is limited because the counterparties are bank with high credit standing, management does not expect any investment counterparty to fall to meet its obligations.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management. Including the short term investment of cash surprises and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a source of liquidity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(b) Liquidity risk – continued

Details of the remaining contractual maturities of the financial liabilities as at the end of the reporting period were as follows:

| | The Group | |
|--|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Total amounts of contractual undiscounted obligations: | | |
| Trade and other payables | 76,162 | 81,501 |
| Bank loans | 215,308 | 180,000 |
| Obligations under finance leases | 3 | 42 |
| Convertible preference shares | – | 199,431 |
| | 291,473 | 460,974 |
| Due to payment: | | |
| Within 1 year | 291,473 | 460,969 |
| Between 1 and 5 years | – | 5 |
| | 291,473 | 460,974 |
| | | |
| | The Company | |
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Total amounts of contractual undiscounted obligations: | | |
| Amount due to subsidiaries | 423,518 | 451,186 |
| Trade and other payables | 751 | 420 |
| Bank loans | – | 180,000 |
| | 424,269 | 631,606 |
| Due to payment: | | |
| Within 1 year | 424,269 | 631,606 |
| Between 1 and 5 years | – | – |
| | 424,269 | 631,606 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

c) Interest rate risk

i) The Group's exposure to changes in interest rates relates primarily to the Group's cash and cash equivalents, bank deposits and bank loans. The Group does not use financial derivatives to hedge against the interest rate risk.

ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points (2008: increase of 100 basis points) in interest rates, with all other variables held constant, would decrease/increase the Group's profit after taxation and retained profits by approximately HK\$2,153,000 (2008: decrease of HK\$66,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the statement of financial position and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase/decrease represents managements assessment of a reasonably possible change in interest rates over the period until the end of the reporting period. The analysis is performed on the same basis for 2008.

d) Foreign currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currencies are RMB and HK\$ as substantially all the turnover are within Hong Kong and other parts in the PRC. With the natural hedging of the revenue and costs being denominated in RMB and HK\$, the Group is subject to transactional foreign exchange exposure. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and remittance of these funds out of the PRC is subject to exchange restriction imposed by the government of the PRC.

Should HK\$ at the end of the reporting period devalue/appreciate by 1% (2008: 1%) against all the foreign currencies, the effect on profit after taxation and retained profits would be an increase/decrease by a net amount of approximately HK\$1,436,000 (2008: HK\$2,269,000).

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end date of the reporting period. The analysis is performed on the same basis for 2008.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

e) Price risk

Price risk arises mainly from the volatility of prices of equity securities held by the Group. Prices of equity securities are determined by market forces. The Group is subject to increased market risk largely because stock markets are relatively volatile. The Group manages price risk by holding an appropriately diversified investment portfolio designed to reduce the risk of concentration in any one specific industry or issuer.

At 31 December 2009, if all the Group's equity securities' prices had increased or decreased by 2% with all other variables held constant, profit after taxation and retained profits for the year would have been approximately HK\$397,000 (2008: HK\$501,000) higher or lower respectively.

f) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2008 and 2009.

i) Cash and cash equivalents, trade and other receivables, trade and other payables (current portion). The carrying values approximate their fair values because of the short maturities of these items.

ii) Bank loans
The carrying amount of bank loans approximates their fair value based on the borrowing rates currently available for bank loan with similar terms and maturities.

iii) Amounts due from/to subsidiaries
It is not practical to estimate the fair values of the amounts due to the related party nature of these instruments.

g) Economic risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the government of the PRC has been pursuing economic reform policies for the past years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered.

h) Business risk

A substantial portion of the Group's operations is conducted in the PRC. This includes risks associated with, among others, the political, economic and legal environment in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

37 MAJOR NON-CASH TRANSACTION

During the year, the Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

- i The Group acquired 100% interest in Supreme China Limited and its subsidiary (collectively called the "Supreme China Group") for a consideration of HK\$320 million which was partly satisfied by issue of convertible bond of HK\$160 million, which was exercised to convert into ordinary shares of 444,444,444 of HK\$0.1 each at HK\$0.36 per share during the year (see note 38).
- ii The Group disposed of a subsidiary, Global Chemical International Limited ("GCIL") and its subsidiary at a consideration of approximately HK\$39,881,000 which was satisfied by settlement of cash borrowings owing by a subsidiary of GCIL (see note 39).
- iii There was no major non-cash transaction during the year in 2008.

38 ACQUISITION OF INTEREST IN A SUBSIDIARY

On 1 July 2009, Group completed the Acquisition of 100% interest in Supreme China Group for a consideration of HK\$320 million which was satisfied by cash of HK\$160 million and issue of convertible bond of HK\$160 million. Details of the net liabilities and goodwill as at the date of acquisition are as follows:

| | 2009 HK\$'000 |
|---|------------------|
| Purchase consideration: | |
| Cash and convertible bonds | 320,000 |
| Add: Fair value of net liabilities acquired shown below | 2,458 |
| | <hr/> |
| Goodwill (note 15) | 322,458 |
| | <hr/> |

Note: The goodwill is attributable to the high profitability expected to arise after the acquisition and the Acquisition and the synergies expected to arise after the Acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

38 ACQUISITION OF INTEREST IN A SUBSIDIARY – continued

The fair value of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to the acquisition are as follows:

| | Fair value HK\$'000 | Carrying amounts HK\$'000 |
|---|------------------------|---------------------------------|
| Property, plant and equipment | 2,188 | 2,188 |
| Inventories | 2,628 | 2,628 |
| Trade and other receivables | 7,916 | 7,916 |
| Cash and cash equivalents | 2,657 | 2,657 |
| | <hr/> | <hr/> |
| | 15,389 | 15,389 |
| Trade and other payables | (17,847) | (17,847) |
| | <hr/> | <hr/> |
| Net liabilities attributed to the Group | (2,458) | (2,458) |
| | <hr/> | <hr/> |
| Cash and cash equivalents in subsidiaries acquired | 2,657 | |
| Purchase consideration settled in cash | (160,000) | |
| | <hr/> | |
| Net cash outflow | (159,801) | |
| | <hr/> | |

Impact of acquisition on the results of the Group.

Since the acquisition, the newly acquired subsidiaries contributed revenue of approximately HK\$25 million and net profit of approximately HK\$397,000 to the Group for the year ended 31 December 2009.

Had the business combination taken place on 1 January 2009, the revenue and the loss of the Group for the year ended 31 December 2009 would have been approximately HK\$477million and HK\$239 million respectively. The pro-forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009 nor are they intended to be a projection of future results.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

39 DISPOSAL OF A SUBSIDIARY

During the year, the Group entered into a settlement arrangement with an independent lender to dispose of its entire interest in GCIL and its subsidiary, Dongguan Gao Bao Chemicals Co. Ltd. ("Dongguan Gao Bao") at a consideration of approximately HK\$39,936,000 which was satisfied by settlement of cash borrowings (including accrued interests) owing by Dongguan Gao Bao to the Lender. The assets retained by Dongguan Gao Bao that would be transferred to the Lender were certain property, plant and equipment and inventories relating to laundry powder business of Dongguan Gao Bao.

Details of the transaction are set out as follows:

| | HK\$'000 |
|--|----------|
| Net assets disposal of: | |
| Property, plant and equipment | 1 |
| Inventories | 37,755 |
| | <hr/> |
| | 37,756 |
| Gain on disposal of a subsidiary | 2,180 |
| | <hr/> |
| Consideration | 39,936 |
| | <hr/> |
| Satisfied by: | |
| Settlement of cash borrowings owing by Dongguan Gao Bao to the Lender | 39,936 |
| | <hr/> |

40 PLEDGE OF ASSETS

The following assets have been pledged to secure bank loans granted to the Group:

| | The Group | |
|--|-----------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Leasehold buildings (Note 16) | 246,174 | – |
| Prepaid lease payments for land under operating leases (Note 18) | 139,522 | – |
| | <hr/> | <hr/> |
| | 385,696 | – |
| | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

41 COMMITMENTS

- a) Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

| | The Group | |
|---------------------------------|-------------------------|----------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Contracted for: | | |
| – Property, plant and equipment | 47,977 | 149,984 |
| – Acquisition of a subsidiary | 1,200,000 | – |
| | <u>1,247,977</u> | <u>149,984</u> |

- b) At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases in respect of office properties are payable as follows:

| | The Group | |
|---------------------------------|---------------------|--------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Within 1 year | 2,171 | 2,090 |
| After 1 year but within 5 years | – | 735 |
| | <u>2,171</u> | <u>2,825</u> |

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

- c) At the end of the reporting period, the total future minimum lease income under non-cancellable operating leases in respect of office properties are receivable as follows:

| | The Group | |
|---------------------------------|---------------------|--------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Within 1 year | 1,260 | 1,369 |
| After 1 year but within 5 years | 105 | – |
| | <u>1,365</u> | <u>1,369</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

42 FINANCIAL GUARANTEE

During the years ended 2009 and 2008, the Company had given corporate guarantee to a bank in connection with banking facilities granted by the bank to subsidiaries. At 31 December 2009, such facilities were drawn down by the subsidiaries to the extent of HK\$20,000,000 (2008: HK\$20,000,000). The maximum liability of the Company under the guarantee issued represents the amount drawn down by the subsidiaries of HK\$Nil (2008: HK\$Nil). The financial guarantee liability was not provided in the financial statements because the fair value of the guarantee was insignificant and the directors considered that a claim would not be probably made against the Company under the guarantee.

43 SUBSEQUENT EVENT

A Sale and Purchase Agreement and a Supplemental Sale and Purchase Agreement were entered into on 1 December 2009 and 9 December 2009 respectively with Cosmos Castle Management Limited and Mr. Wang Chun Lin, both of whom are independent third parties. Pursuant to the agreements the Company has conditionally agreed to purchase the entire issued share capital of an Australian company, Westralian Resources Pty. Ltd., and its mining subsidiary, Hunan Westralian Mining Co., Ltd. at a total consideration of approximately HK\$1,200 million which was satisfied by issues of new shares of HK\$305 million and convertible bond of HK\$895 million. The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Full details of the transaction had been disclosed and announced in the Company's circular dated 1 February 2010.

At the Extraordinary General Meeting of the shareholders dated 19 February 2010, the proposal for the very substantial acquisition was fully passed by way of poll. On 31 March 2010, the purchase and sale agreement was formally completed.

44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

| | Effective for accounting periods beginning on or after |
|--|---|
| HKFRS 3 (Revised), <i>Business combinations</i> | 1 July 2009 |
| Amendments to HKAS 27, Consolidated and separate financial statements | 1 July 2009 |
| Amendments to HKAS 39, Financial instruments: Recognition and measurement – <i>Eligible hedged items</i> HK(IFRIC) 17, <i>Distributions of non-cash assets to owners</i> | 1 July 2009 |
| Improvements to HKFRSs 2009 | 1 July 2009 or 1 January 2010 |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

45 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 29 April 2010.

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the published consolidated results and of the assets and liabilities of the Group for each of the five years ended 31 December 2009 prepared on the basis set out in the note below:

RESULTS

| | For the year ended 31 December | | | | |
|------------------------------------|--------------------------------|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Turnover | 397,219 | 1,339,707 | 1,071,833 | 846,916 | 902,024 |
| (Loss)/Profit before tax | (264,446) | 85,060 | 418,581 | 301,360 | 270,146 |
| Income tax expense | (7,839) | (51,495) | (60,122) | (30,219) | (20,794) |
| (Loss)/Profit for the year | (272,285) | 33,565 | 358,459 | 271,141 | 249,352 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | (269,748) | 8,187 | 311,772 | 197,039 | 223,305 |
| Minority interests | (2,537) | 25,378 | 46,687 | 74,102 | 26,047 |
| (Loss)/Profit for the year | (272,285) | 33,565 | 358,459 | 271,141 | 249,352 |

FIVE YEAR FINANCIAL SUMMARY

| | As at 31 December | | | | |
|--|-------------------|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Goodwill | 968,024 | 645,566 | 459,428 | – | – |
| Property, plant and equipment | 1,416,802 | 1,484,614 | 1,085,699 | 940,350 | 408,859 |
| Investment properties | 25,179 | 25,181 | 23,500 | 19,240 | 18,500 |
| Prepaid lease payments for land under operating leases | 175,368 | 178,602 | 172,964 | 128,255 | 128,842 |
| Intangible assets | 27,742 | 36,655 | 27,563 | 32,791 | 40,725 |
| Deposits for acquisition of property, plant and equipment | 279,123 | 175,624 | 173,737 | 207,110 | 342,961 |
| Deposits for acquisition of interests in leasehold land held for own use under operating leases | – | – | – | 39,015 | – |
| Deposits for acquisition of intangible assets | – | – | 14,070 | 13,272 | 12,762 |
| Other deposits and club debenture | 350 | 170 | 170 | 170 | 530 |
| Investments in securities | – | – | – | – | 31,500 |
| Deferred tax assets | – | – | – | 7,355 | 5,109 |
| Current assets | 276,584 | 624,545 | 1,120,890 | 769,977 | 766,269 |
| Total assets | 3,169,172 | 3,170,957 | 3,078,021 | 2,157,535 | 1,756,057 |
| Current liabilities | 321,300 | 482,784 | 268,496 | 275,171 | 223,945 |
| Non-current liabilities | 1,106 | 1,111 | 315,051 | 140,503 | 58,808 |
| Total liabilities | 322,406 | 483,895 | 583,547 | 415,674 | 282,753 |
| Net assets | 2,846,766 | 2,687,062 | 2,494,474 | 1,741,861 | 1,473,304 |
| Total equity attributable to: | | | | | |
| Equity shareholders of the Company | 2,783,602 | 2,620,208 | 2,373,793 | 1,733,907 | 1,439,452 |
| Minority interests | 63,164 | 66,854 | 120,681 | 7,954 | 33,852 |
| Total equity | 2,846,766 | 2,687,062 | 2,494,474 | 1,741,861 | 1,473,304 |

LIST OF PRINCIPAL PROPERTIES

INVESTMENT PROPERTIES

| Location | Lot number | Existing use | Lease term | Group's interest |
|---|------------|--------------|------------|------------------|
| a) Global Green Tech Industrial City, Chang Ping, Tu Tang District, Dongguan City, Guangdong Province, PRC. | * | Commercial | Medium | 100% |

* Property located in PRC without lot number.