HYBRID KINETIC GROUP LIMITED

正道集團有限公司

(Stock Code: 01188)

Annual Report 2010

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Dr. Yeung Yung *(Chairman)*
Dr. Huang Chunhua *(Deputy Chairman)*
(appointed on 17 June 2010)
Dr. Wang Chuantao *(Chief Executive Officer)*
Mr. Liu Stephen Quan
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang
Dr. Wang Wei *(appointed on 17 June 2010)*
Dr. Zhang Zhenwei *(appointed on 17 June 2010)*
Mr. Xu Jianguo *(appointed on 17 June 2010)*
Mr. Li Zhengshan *(appointed on 17 June 2010)*
Dr. Hong Shuguang *(appointed on 15 July 2010)*
Dr. Hou Junwen *(resigned on 23 June 2010)*

Non-executive Directors
Dr. Xia Tingkang, Tim
(appointed on 17 June 2010)
Dr. Zhu Guobin *(appointed on 15 July 2010)*

Independent Non-Executives Directors
Mr. He Bangjie
Mr. Ting Kwok Kit, Johnny
Mr. Wong Lee Hing
Dr. Song Jian *(appointed on 14 May 2010)*

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

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

HSBC

PRINCIPAL OFFICE

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HONG KONG LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street, Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

Chairman's Statement

Dear Shareholders,

For and on behalf of the board (the "Board") of directors (the "Directors") of Hybrid Kinetic Group Limited (the "Company"), I would like to present to all shareholders the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2010 (the "Year").

For the Year, the Group recorded a turnover of approximately HK$28.61 million, representing an increase of approximately 175% from HK$10.39 million in the same period last year. Loss attributable to shareholders was approximately HK$251.47 million (loss of approximately HK$125.08 million in 2009). The loss for the Year was mainly attributable to the fact that the Group's development of its environmental automobile business in the United States of America (the "US") and China was still at an early investment stage. Nevertheless, we have full confidence that, with heightened public awareness of environmental protection, the promulgation of legislation, measures and policies favourable to sustain the development of auto markets globally and the enhancement of the Group's capability of independent innovation through its increased investment in research and development ("R&D"), the automobile industry and the Group's automobile business present a wealth of attractive investment or development opportunities to capture and will continue to flourish in the foreseeable future.

The Group's long-term objective is to become a leading enterprise of new energy automobiles. In 2010, the Group has been steadily developing its automobile business through different forms of investment, participation or co-operation with a view to optimizing the possible economic benefits to, and minimizing business risks for, the Group. Apart from the US market, the PRC market will also be the focus of the future automobile industry development.

We realize that R&D and innovation capacity is the key to upgrading corporate competitiveness in the global automobile industry. To this end and in furtherance of the Group's business objective in this sector, the Group successfully completed the acquisition of Zhejiang GBS Energy Co., Ltd.（浙江佳貝思綠色能源有限公司）（"Zhejiang GBS"）, a power battery manufacturer in October 2010. The acquisition will not only provides the Group with profit contribution and cash flow stability, but will also ensure a source of stable and reliable high-quality battery products for the Group. In addition, the Group entered into an agreement with Nederlandse Organisatie Voor Toegepast-Natuurwetenschappelijk Onderzoek TNO ("TNO") in December 2010 for the global exclusive licensing rights regarding certain intellectual property rights owned or controlled by TNO in electric variable transmission ("EVT"). With the cutting-edge technology of the EVT, we believe that it will greatly benefit the Group in achieving the goal of developing and producing hybrid vehicles at affordable prices for consumers. The Group, with its dedicated and market-oriented research team, will fully utilize the intellectual property rights and resources available to it to further develop new technologies, so as to accelerate the pace of commercialization of its new products and achieve economies of scale through mass production in the long run.

Chairman's Statement

During the Year, the Group's U.S. automobile business achieved encouraging progress as well. In April 2010, the Group established a strategic collaboration with Natural Gas Vehicles for America and The American Public Gas Association to promote future mass production and sales of natural gas-powered hybrid passenger vehicles. The collaboration is meaningful as it helps promote a stronger business presence of the Group in the US and put the alliance in a better and more influential position to voice its views on public policies affecting the automobile sector in the US. The motor project undertaken by the Group in the US receives great support from the State of Alabama which symbolizes the development of the Group's automobile business under the auspices of the State of Alabama.

Apart from the eco-friendly automotive business, the Group's business also includes the environmental products and related business which is carried out through Beijing Century Wanyeyuan Bio-Engineering Co., Ltd.,(北京世紀萬業源生物工程有限公司)("Beijing Century"), a wholly owned subsidiary of the Company. At the beginning of 2010, Beijing Century established a large-scaled production base in Shandong, the PRC with the goal of establishing a solid foundation for sustaining stable development of its environmental products and related business.

Although the Group has yet to record a positive result for its natural resources business, we believe that this sector has strong growth potentials and will continue to allocate suitable resources to explore investment opportunities around the globe (in particular, the PRC and the US) to optimize its business.

Finally, on behalf of the Board, I would like to take this opportunity to extend my sincere appreciation to our valued shareholders, customers, and business partners for their continuous support, and also to our staff for their dedication and relentless contribution in the past year!

Yeung Yung
Chairman

Hong Kong, 30 March 2011

Biographical Details of Directors

EXECUTIVE DIRECTORS

Dr YEUNG Yung（仰融）, aged 53, was appointed a Director of the Company in November 1998, and is the Chairman of the Group. Dr Yeung holds a PhD Degree in Economics from the China's Southwest University of Finance & Economics. Dr Yeung was elected as a director of the John Hopkins University Center – Nanjing University Centre for Chinese and American Studies（中美文化交流中心理事）. Dr Yeung was the chairman, chief executive officer and president of Brilliance China Automotive Holdings Limited and also the chairman and president of Shenyang Jinbei Passenger Vehicle Manufacture Co., Ltd. from 1992 to 2002. Dr Yeung is a well-known, highly successful automotive industrialist with over 18 years' experience in the automobile industry as well as a pioneering international financier from China.

Dr HUANG Chunhua（黃春華）, aged 47, was appointed a Director of the Company in June 2010, and is the Deputy Chairman of the Group. Dr Huang holds a Bachelor of Economics Degree from the Wuhan University in China, an MBA and PhD in Marketing (focus on corporate strategy) from the University of Strathclyde in Scotland. Dr Huang is also the vice-chairman of Hybrid Kinetic Motors Corporation ("HKMC"), a wholly-owned subsidiary of the Company and a director of certain subsidiaries of the Company. Dr Huang had been the vice-chairman of the Company between November 2002 and October 2007 and its chief financial officer between August 2000 and September 2004. He was among the first generation China equity analysts and had in-depth knowledge about China's automotive and the transport infrastructure sectors, as well as red chip conglomerates. Dr Huang was a pioneering financier for China's first wave of private companies going public in Hong Kong during 1999 and 2001.

Dr WANG Chuantao（王川濤）, aged 57, was appointed a Director of the Company in April 2009, and is the Chief Executive Officer of the Group. Dr Wang has more than 29 years' experience in the field of manufacturing engineering. He is an internationally recognized technologist in the development and implementation of advanced stamping using computer-aided engineering technology and production systems for digital die manufacturing and stamping for automotive applications and had been the Chief Die Engineer and Technical Fellow in General Motors Corp in Michigan, the US before he joined the Group. He is armed with interdisciplinary education, diverse and in-depth knowledge and management experience in the automotive industry. He received his doctorate in industrial systems and engineering and his master's degree in materials science and engineering from The Ohio State University, Columbus, Ohio, the US and his bachelor's degree and master's degree in mechanical engineering from Chongqing University, Chongqing, the PRC. Dr Wang is also the chief executive officer of HKMC.

Biographical Details of Directors

Mr LIU Stephen Quan（劉泉）, aged 56, was appointed a Director of the Company in October 2007. Mr Liu holds a Master's Degree in business, economics and finance from the China Europe International Business School (CEIBS). Mr Liu has extensive knowledge and experience in the management of supply chain business. He has been in the supply chain industry for more than 20 years and was one of the founders of several industrial companies and investment companies in China and the US.

Mr HUI Wing Sang, Wilson（許永生）, aged 43, was appointed a Director of the Company in September 2007 and holds the offices of chief financial officer, company secretary and authorized representative of the Company. Mr Hui holds a Master's Degree in Business Administration from the University of Surrey and a Master's Degree in Professional Accounting and Information Systems from the City University of Hong Kong. He has been an associate member of Hong Kong Institute of Chartered Secretaries (HKICS) since 1996 and Hong Kong Institute of Certified Public Accountants (HKICPA) since 1999. Mr Hui possesses more than 15 years of experience in accounting, finance and corporate management.

Dr ZHU Shengliang（朱勝良）, aged 60, was appointed a Director of the Company in May 2008. Dr Zhu holds a PhD degree in Economics from the Southwestern University of Finance and Economics. Dr. Zhu is currently the chairman of Ningbo Meilide Consulting Co., Limited, a subsidiary of the Company. Dr Zhu possesses extensive experience in finance and corporate management. He took senior managerial roles in several companies, including Shanghai Shenhua Holdings Co., Ltd., a PRC-listed company.

Dr WANG Wei（王瑋）, aged 43, was appointed a Director of the Company in June 2010. Dr Wang holds a Master's degree and PhD from the Ohio State University in the US and an MBA with focus on general management and marketing from the University of Michigan in the US. Dr Wang is currently the senior vice-president in the global sales and marketing division of HKMC. Dr Wang has extensive knowledge of steel production and applications, especially in the area of steel applications in the automobile industry. He served as a manager of advanced engineering and product development and automotive product applications of the Group, and is responsible for product development strategy.

Dr Zhang Zhenwei（張振威）, aged 44, was appointed a Director of the Company in June 2010. Dr Zhang holds a Doctor of Business Administration Degree from the Southwest International University in the US and a Bachelor's Degree in Vehicle Body Engineering from the Ji Lin University of Technology in the PRC. He is currently the vice-president of the product development division in HKMC. Dr Zhang has about 18 years' experience in the automotive industry in China.

Mr Xu Jianguo（徐建國）, aged 43, was appointed a Director of the Company in June 2010. Mr Xu holds a Master's degree in mechanical engineering from the Shanghai Jiaotong University in the PRC. He is currently the vice-president of the global sourcing division in HKMC, a wholly-owned subsidiary of the Company. Mr Xu has 20 years' experience in the field of mechanical engineering and automotive industries. He was one of the key experts who developed Chinese Computer aided engineering industry in 1990s. Mr Xu has extensive experience in product development, engineering management, product planning, purchasing and supplier management. Mr Xu was involved in multiple projects for certain well-known auto makers in Asia and Europe and has extensive expertise in automotive development procedure. Mr Xu has in-depth understanding in the global automotive industry, in particular the Chinese automotive industry.

Biographical Details of Directors

Mr Li Zhengshan (李正山), aged 41, was appointed a Director of the Company in June 2010. Mr Li holds a MA Degree in English language and literature from the Shanghai International Studies University. He has been the Executive Assistant to Dr Yeung Yung, the Chairman of the Company since 2003 and the deputy general manager of the PRC investment division of the Company. He is currently a director of certain subsidiaries of the Company. He is responsible for corporate coordination and business development of the Group in China.

Dr Hong Shuguang (洪曙光), aged 56, was appointed a Director of the Company in July 2010. Dr Hong holds a Bachelor's Degree in computer science from the Chongqing University in China, a Master's Degree and PhD in computer science from the University of Connecticut in the US. Dr Hong is currently the chief information officer of HKMC, a wholly-owned subsidiary of the Company. Dr Hong is a seasoned information technology professional with both academic and industry experience and possesses solid and "hands-on" technical expertise in information technologies and is strong in entrepreneurship. Prior to joining the private sector, Dr Hong was a professor in the Computer Information Systems Department at the Georgia State University, the US.

NON-EXECUTIVE DIRECTORS

Dr Xia Tingkang, Tim (夏廷康), aged 55, was appointed a non-executive Director of the Company in June 2010. Dr Xia holds a Bachelor's Degree from Peking University, the PRC, a PhD from The Ohio State University, the US and a Juris Degree from the Columbia University School of Law, the US. Dr Xia is currently a senior partner of an international law firm, Morris Manning & Martin, LLP, and a registered U.S. patent attorney. Prior to his legal career, he was a physicist specializing in supercomputing, large scale computer simulation of complex fluids, super-thin-films of polymers, and Josephson junction superconducting arrays, electromagnetic properties of high temperature superconductors, and physics of granular metals. Dr Xia also counsels clients of international corporate law.

Dr Zhu Guobin (朱國斌), aged 49, was appointed a non-executive Director in July 2010. Dr Zhu holds a Bachelor's Degree in history, a Master's Degree in history and a Master's Degree in law from the Renmin University of China, a Master's degree from the University of Hong Kong and a PhD in law and a HDR (Diplôme d'Habilitation à Diriger des Recherches) from the University of Aix-Marseilles in France. Dr Zhu also holds a certificate in Administrative Engineering Class from the National School of Administration (Ecole Nationale d'Administration) in France. Dr Zhu is currently an associate professor in the School of Law in the City University of Hong Kong. He is a also a guest professor of law in the Central South University and Shandong University in China. He is council member of the Chinese Association of Constitutional Law and a member of International Association of Constitutional Law in France, and an associate member of the International Academy of Comparative Law in The Hague, the Netherlands.

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr He Bangjie（何邦傑）, aged 48, was appointed an independent non-executive Director of the Company in April 2003. Mr He holds a Bachelor's and Master's degree in Engineering from the Zhejiang University in China. He was a senior manager and a director in international trading and investment companies in the US and China, and had extensive experience in international trading and investments. Mr He is currently a senior manager in an American company.

Mr Ting Kwok Kit, Johnny（丁國傑）, aged 50, was appointed an independent non-executive Director of the Company in November 2007 and is the authorized representative of the Company. Mr Ting holds a Bachelor's Degree in Economics from the University of Victoria of Canada and a MBA from the City University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Certified General Accountants Association of Canada (CGA). He is also a fellow member of the Institute of Chartered Secretaries and Administration (FCIS). Mr Ting has more than 10 years in accounting, finance and corporate management.

Mr Wong Lee Hing（王利興）, aged 42, was appointed an independent non-executive Director of the Company in October 2008. Mr Wong holds a Bachelor's degrees in Manufacturing Engineering and Postgraduate Certificate in Business Administration from the City University of Hong Kong. Mr Wong possesses more than 10 years' experience in the production industry and information technology management. He is currently a director of an electronic trading company.

Dr Song Jian（宋健）, aged 53, was appointed an independent non-executive Director of the Company in May 2010. Dr Song holds a Doctorate's and Bachelor's degrees in Tsinghua University. He is currently a professor of Automotive Engineering Department in Tsinghua University. He is also the Executive Vice-President of the Tsinghua Automotive Engineering Institute, the Vice-Director of the National Laboratory in Automotive Safety and Energy and an expert consultant to the Beijing Government. Dr Song was formerly the Deputy Dean of the Automotive Engineering Department at Tsinghua University.

Directors' Report

The Directors hereby present to shareholders of the Company this report and the audited consolidated financial statements (the "Financial Results") of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2010 (the "Year") which are to be presented for consideration and approval by the Company's shareholders at the forthcoming annual general meeting of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The principal businesses of the Group during the Year included the environmental automobile and related business, the environmental products and related business, and the natural resources business.

The Group's turnover from continuing operations and loss attributable to shareholders for the Year amounted to HK$28.61 million (2009: HK$10.39 million) and HK$251.47 million (2009: loss of HK$125.08 million) respectively. The loss for the Year was mainly attributable to the costs and expenses incurred for the promotion and development of the environmental automobile project in the United States of America (the "US") and China, which was still at an early investment stage.

The general operating expenses of continuing operations for the Year increased to HK$267.19 million (2009: HK$122.12 million) which included professional expenses of HK$19.85 million (2009: HK$16.49 million), research and development expenses of HK$148.71 million (2009: HK$6.62 million), share-based compensation of HK$8.28 million for the share options granted during the Year (2009: HK$27.52 million) and salary expenses of HK$39.76 million (2009: HK$27.27 million).

(a) Environmental automobile and related Business

Automobile Battery Business

On 26 October 2010, the Group completed the significant acquisition of Zhejiang GBS Energy Co., Ltd.（浙江佳貝思綠色能源有限公司）("Zhejiang GBS") which has since then become a wholly-owned subsidiary of the Company. The turnover and profit of Zhejiang GBS consolidated into the Group's financial statement since the date of its acquisition by the Group up to 31 December 2010 amounted to HK$13.97 million and HK$1.36 million respectively.

Directors' Report

Zhejiang GBS specializes in the development and manufacture of lithium-ion power battery and power battery pack and owns certain patented technology and application that allow production of batteries of higher technical level, longer cycle life, faster charge capabilities and deliver higher energy density cells optimized for the mobility needs of the transportation market at lower costs. The acquisition not only provides a synergistic effect on the Group's development of its environmental automobile and related business but also brings economic benefits and business prospects to the Group.

Environmental Automobile Business

During the Year, the loss from environmental automobile business is HK$166.65 million, which was primarily attributable to higher research and development expenses of HK$147.67 million. Meanwhile, the Group's emerging automobile business made remarkable progress in the research and development of energy-saving environmental automobiles. The Board believes that the loss could be reduced upon commercialization and the launch of the hybrid vehicles and related products of the Group in future.

In terms of automobile transmissions, the Group entered into an agreement with Nederlandse Organisatie Voor Toegepast-Natuurwetenschappelijk Onderzoek TNO ("TNO") in December 2010 under which TNO will, subject to formal licence agreement being entered into with the Group, perform a development program as agreed with the Company to bring the electric variable transmission ("EVT") to production for market readiness level. Pursuant to the agreement, the Company will have an option to acquire a global exclusive licence regarding certain intellectual property rights owned or controlled by TNO in EVT. EVT is a compact, multi-functional system that enables full hybrid functionality (including start-stop, regenerative braking and boosting in pure electric driving). TNO is one of the leading independent research companies in Europe. The development, prototyping and validation of automotive systems and controls are the core of TNO's expertise. The Directors believe that, given the EVT is a cutting-edge technology for the new generation hybrid integration system, the development programme performed by TNO will allow the Group to leverage on TNO's expertise in achieving the goal of developing and producing hybrid vehicles at affordable prices for, and promoting confidence among, potential consumers.

Directors' Report

During the Year, the Group had also made the following achievements in relation to the development of its automobile business:

- In April 2010, the Group established a strategic collaboration with Natural Gas Vehicles for America and The American Public Gas Association to promote future mass production and sales of natural gas-powered hybrid passenger vehicles. The alliance is a manifestation of the Group's dedication to advancing hybrid automobile technology and will facilitate the Group's establishing a business presence in the US and the lobbying for incentives from the US state and federal governmental authorities for the development of the automobile industry in the US.

- In August 2010, Hybrid Kinetic Motors Project A, LP ("HK Motors") (a limited partnership organized under the laws of the State of Delaware, the US by, among others, the Group for undertaking a project concerning the development and manufacture of advanced technology vehicles that utilize a multi-fuel electric-drive hybrid propulsion system (the "HK Motors Project") in the US), received a letter from the Alabama Development Office of the State of Alabama, the US signifying the eligibility of HK Motors to apply for and receive statutory incentives which are subject to compliance with the applicable laws of the State of Alabama, the US and the negotiation and execution of a project agreement. As at 31 December 2010 and up to the date of this report, the negotiation of the terms of the project agreement is ongoing. The letter demonstrates the support given by the State of Alabama to HK Motors. If the grant of the statutory incentives is confirmed and obtained, this will be conducive to the realization and development of the Group's HK Motors Project.

- In August 2010, the Group and Anhui Jianghuai Automobile Co., Ltd.（安徽江淮汽車股份有限公司）("JAC") (Stock Code: 600418.SH) entered into a framework agreement for the proposed establishment of an equity joint venture specializing in manufacturing eco-friendly new energy vehicles. At the same time, the Group and JAC also entered into a three-party framework agreement with The Administration Authority of the Hefei Economic Development Zone（合肥經濟技術開發區管理委員會）which has paved the way for further cooperation between the Group and JAC in the eco-friendly new energy automobile industry.

Directors' Report

(b) *Environmental products and related business*

During the Year, Beijing Century Wanyeyuan Bio-Engineering Co., Ltd.,（北京世紀萬業源生物工程有限公司）("Beijing Century"), a 65% owned subsidiary of the Company, recorded a turnover of HK$14.64 million for the Year (2009: HK$10.39 million). This business segment recorded a loss of HK$1.11 million for the Year (2009: HK$3.10 million) which was mainly attributable to the amortisation of intangible assets amounted to HK$4.17 million (2009: HK$4.48 million).

Beijing Century has developed a series of innovative technologies and ecological bacterial fertilizer products to improve soil, enhance land capability, inhibit the growth of plant diseases and insect pests, so as to minimize the use of chemical pesticides and raise the output and quality of crops. Leveraging on the leading research and development technology of biological pesticide products owned by Beijing Century, coupled with the Chinese government's favourable policies towards the development of agricultural industry, the Directors believe that these factors provide room for growth for its bio-organic fertilizer and environmental products business in the long run. At the beginning of 2010, the Group set up a factory in Shandong, the PRC to increase the production capacity of bio-organic fertilizer in order to meet future market demand. With a higher level of production capacity and an increased volume of production, economies of scale can be achieved. The Directors believe that Beijing Century will be readily able to capture more business opportunities in the Chinese organic fertilizer market as and when they arise, and thus help promote steady and sustainable business development for the Group's environmental products and related business.

(c) *Natural resources business*

During the Year, the natural resources business of the Group was mainly carried on through Jilin Shengshi Mining Ltd.（吉林晟世礦業有限公司）("Jilin Shengshi"), a wholly owned subsidiary of the Company. During the Year, Jilin Shengshi recorded no turnover (2009: N/A). This business segment recorded a loss of HK$6.28 million (2009: loss of HK$2.65 million). Currently, a subsidiary of Jilin Shengshi is the holder of two exploration licences which confer the right to conduct exploration work at certain copper mine (valid for the period from 16 December 2010 to 16 December 2012) and certain copper, aluminium and zinc mines (valid for the period from 16 December 2010 to 16 December 2012) located in the Jilin Province, the PRC. Apart from holding and managing its own mines, Jilin Shengshi also entered into management agreements with licence holders of other mine exploration rights for providing mine management services and, in return, Jilin Shengshi is entitled to a management fee which is basically calculated by reference to certain percentage of the distributable profits (if distributable profits have arisen) after tax of the mines (which are the subject of the management agreements). In order to complement its long-term business strategy and optimize its natural resources business, Nevada Gold Holdings Inc., a US subsidiary of the Company, is exploring investment opportunities and evaluating potentials in expanding its natural resources business into the U.S.

Directors' Report

Prospects

With the rise in environmental awareness around the world and the increasingly advanced technologies in the development of power systems for eco-friendly vehicles, new energy eco-friendly motors are expected to gain popularity and become a major trend of development in the global automobile industry. This, in turn, is expected to bring ample business opportunities to the global new energy automobile market.

Many countries have implemented policies which are favourable to the development of new energy eco-friendly motors in recent years. Among these countries, the US and the PRC, which are the largest markets in terms of automobile production and sales in the world, are active in supporting and encouraging the development of the energy-saving eco-friendly automobile industry. The Directors are convinced that the demand for eco-friendly vehicles will increase continuously over the next few years, and the prospect of the Group's new energy automobile business is expected to be bright. Leveraging on its competent and experienced automobile experts from the US and other parts of the world (including Europe and the PRC), the Group is confident in capturing these opportunities so as to maximize returns for the Company and its shareholders in the long run.

As one of its long-term business development strategies, the Group will continue to put great efforts in the development and production of new energy motors and plans to establish production bases in different countries (e.g. the US and the PRC), utilize the most advanced natural gas and multi-fuel electric-hybrid propulsion systems and hybrid integration systems, and strive to become the most competitive manufacturer in new energy motors and vendor of hybrid integration systems.

In addition, with the PRC government's supporting policies and active promotion in development of agricultural product industry, the Group is steadily increasing its productivity in bio-organic fertilizer production and eco-friendly product business in order to fully capture opportunities arising from the growing market of organic fertilizer in the PRC, and further expand the Group's income sources and profitability which, in turn, will promote long-term and stable development of the environmental products and related business of the Group.

The Directors are optimistic that, as the earth's natural resources are finite, there is constant and stable demands for natural resources. In line with its diversified, long-term business strategies and objectives, the Group, (through its subsidiaries, including Nevada Gold Holdings Inc.) has been actively exploring business and investment opportunities in the natural resources business in the US and around the globe, so as to create the greatest return for the Company and its shareholders.

Directors' Report

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

On 8 April 2010, the Company completed the placing of an aggregate of 338,300,000 new shares of HK$0.10 each in the Company through a placing agent to independent placees at a placing price of HK$0.35 per share pursuant to a placing agreement dated 25 March 2010 entered into between the Company and the placing agent. The net proceeds raised from the placing were approximately HK$110 million, of which approximately HK$99 million was utilized for the research and development in automobile-related technology and HK$11 million as general working capital of the Group (which application was in line with the intended use of proceeds as disclosed in the Company's announcement dated 8 April 2010).

On 12 May 2010, the Company completed the placing of an aggregate of 460,000,000 new shares of HK$0.10 each in the Company through a placing agent to independent placees at a placing price of HK$0.375 per share pursuant to a placing agreement dated 5 May 2010 entered into between the Company and the placing agent. The net proceeds raised from the placing were approximately HK$161 million, of which approximately HK$42 million was utilized for the funding of the acquisition, and the injection of working capital to facilitate the expansion of the production capacity, of Zhejiang GBS (a power battery company in the PRC), which acquisition was completed on 26 October 2010, and HK$99 million as general working capital of the Group (which application was in line with the intended use of proceeds as disclosed in the Company's announcement dated 8 April 2010) and the balance of approximately HK$20 million remained unused as at 31 December 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the total equity of the Group amounted to approximately HK$412.76 million (31 December 2009: HK$228.04 million). The gearing ratio of the Group as at 31 December 2010 measured in terms of total liabilities divided by shareholders' equity was approximately 20.44% (31 December 2009: 19.23%). As at 31 December 2010, net current assets of the Group were approximately HK$168.67 million (31 December 2009: HK$162.10 million). The pledged bank deposits were approximately HK$3.14 million (31 December 2009: HK$0.81 million) while the cash and cash equivalents amounted to HK$147.25 million (31 December 2009: HK$114.71 million). The Group also had outstanding borrowings of approximately HK$13.62 million (31 December 2009: HK$1.89 million).

Directors' Report

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 328 employees as at 31 December 2010 (2009:115 employees). It has been the Group's policy to ensure that the remuneration levels of its employees are reviewed and rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to employees of the Group.

RETIREMENT SCHEME

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

PLEDGE OF GROUP ASSETS

As at 31 December 2010, bank deposits of HK$3.14 million (31 December 2009: HK$0.81 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

MATERIAL ACQUISITIONS AND DISPOSALS

Strategic Participation in the development of HK Motors Project in the US

In January 2010, the shareholders of the Company approved the Group's strategic participation in, and collaboration with HKMP GP A, LLC, HKMP SPGP A, LLC, HKMP LPA, LLC on, a greenfield project (the "HK Motors Project") relating to the development and manufacture of advanced technology vehicles that utilize a multi-fuel electric-drive hybrid propulsion system. Details in respect of the HK Motors Project are set out in the circular dated 29 December 2009 and the announcement dated 17 February 2010 of the Company.

Directors' Report

Acquisition of a PRC Power Battery Company

On 18 April 2010, the Company entered into an acquisition agreement (as subsequently varied, modified and/or supplemented by two several supplemental agreements dated 20 April 2010 and 6 June 2010) in relation to the proposed acquisition of Zhejiang GBS Energy Co. Ltd. ("Zhejiang GBS"). Zhejiang GBS is a sino-foreign equity joint venture established in the Zhejiang Province and specializes in the development and manufacturing of LiFeMnPO4（磷酸亞鐵錳鋰）(a kind of lithium-ion power battery（鋰離子動力電池）) and power battery pack.

On 26 October 2010, the acquisition of Zhejiang GBS was completed and Zhejiang GBS has become a wholly-owned subsidiary of the Company. The fair value of the purchase consideration of Zhejiang GBS at the acquisition date was approximately HK$156.18 million.

Save for the above transactions, there were no material acquisitions and disposals of the Group during the Year.

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

RELATED PARTY TRANSACTIONS

Significant balances with related parties and related party transactions entered into by the Group during the year ended 31 December 2010 are disclosed in notes 33 and 39 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the annual report on pages 129 to 130.

Directors' Report

TAX RELIEF AND EXEMPTION

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

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2010, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the directors of the Company, the following parties had an interest or short position in the shares and underlying shares of the Company ("Shares") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Nature of interest	Number of Shares	Percentage (Note 2)
Sun East LLC	Beneficial owner (Note 1)	2,213,268,989	30.28%
Yeung Yung	Interest of controlled corporation (Note 2)	2,213,268,989	30.28%
	Beneficial owner (Note 3)	10,000,000	0.14%
		2,223,268,989	30.42%

Notes:

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

2. These 2,213,268,989 Shares are the same parcel of Shares held by Sun East LLC in which Dr Yeung Yung (as well as his spouse) is deemed interested under Part XV of the SFO.

3. These 10,000,000 Shares are directly held by Dr Yeung Yung, in which his spouse is deemed interested under Part XV of the SFO.

4. The percentage of shareholding is calculated on the basis of 7,309,159,756 Shares in issue as at 31 December 2010 and does not taken into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

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

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 2010, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follow:

(1) Long positions in the ordinary share (each a "Share") of HK$0.10 each in the Company

Name of director	**Capacity**	**Number of Shares held**	**Percentage of the issued share capital of the Company** (Note 1)
Yeung Yung	Interest of controlled corporation	2,213,268,989 (Note 2)	30.28%
	Beneficial owner	10,000,000	0.14%
Liu Stephen Quan	Family interest	241,760,000 (Note 3)	3.31%
	Beneficial owner	40,000,000	0.55%
Hui Wing Sang, Wilson	Beneficial owner	2,000,000	0.03%
Zhu Shengliang	Beneficial owner	5,333,883	0.07%
Li Zhengshan	Beneficial owner	8,700,000	0.12%

Notes:

1. The percentage of shareholding is calculated on the basis of 7,309,159,756 Shares in issue as at 31 December 2010 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

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

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

All the interests stated above represent long positions.

Directors' Report

(2) Interests in share options granted by the Company

Name of Director	Date of grant	Exercisable period	Exercise Price (HK$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Yeung Yung	9 August 2005	29 August 2005 to 8 August 2015	0.114	11,140,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	40,000,000	
				78,140,000	1.07%
Huang Chunhua	24 June 2009	24 June 2009 to 11 June 2013	0.123	20,000,000	
	17 November 2009	17 November 2009 to 11 June 2013	0.295	10,000,000	
				30,000,000	0.41%
Wang Chuantao	24 June 2009	24 June 2009 to 11 June 2013	0.123	15,000,000	
	17 November 2009	17 November 2009 to 11 June 2013	0.295	10,000,000	
				25,000,000	0.34%

Directors' Report

Name of Director	Date of grant	Exercisable period	Exercise Price (HK$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Hui Wing Sang, Wilson	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	21,000,000	
				48,000,000	0.66%
Zhu Shengliang	9 August 2005	29 August 2005 to 8 August 2015	0.102	16,710,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	1,290,000	
	10 July 2009	10 July 2009 to 11 June 2013	0.185	10,000,000	
				28,000,000	0.38%
Wang Wei	17 November 2009	17 November 2009 to 11 June 2013	0.295	7,000,000	0.10%
Zhang Zhenwei	24 June 2009	24 June 2009 to 11 June 2013	0.123	7,500,000	0.10%
Xu Jianguo	15 April 2010	15 April 2010 to 11 June 2013	0.368	5,000,000	0.07%

Directors' Report

Name of Director	Date of grant	Exercisable period	Exercise Price (HK$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Li Zhengshan	9 August 2005	29 August 2005 to 8 August 2015	0.102	5,570,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	5,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	4,430,000	
				15,000,000	0.21%
He Bangjie	6 February 2008	6 February 2008 to 5 February 2018	0.114	2,000,000	
	10 July 2009	10 July 2009 to 11 June 2013	0.185	4,000,000	
				6,000,000	0.08%
Ting Kwok Kit, Johnny	10 July 2009	10 July 2009 to 11 June 2013	0.185	4,000,000	0.05%

Note: The percentage of shareholding is calculated on the basis of 7,309,159,756 Shares in issue as at 31 December 2010.

Save as disclosed above, none of the Directors or the chief executive of the Company had or were deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2010.

Directors' Report

SHARE OPTION SCHEME

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

The following share options were outstanding under the 1995 Scheme and the 2003 Scheme during the period from 1 January to 31 Dece.mber 2010:

Name or Category of Participant	As at 1 January 2010	Reclassification during the period	Share options Granted	Share options Lapsed/ cancelled during the year	Share options Exercised	As at 31 December 2010	Date of Grant	Exercise Price	Exercise Period
Director									
Yeung Yung	11,140,000	–	–	(11,140,000)	–	–	Note 1	Note 1	Note 1
	24,028,980	–	–	(24,028,980)	–	–	Note 2	Note 2	Note 2
	11,140,000	–	–	–	–	11,140,000	Note 4	Note 4	Note 4
	27,000,000	–	–	–	–	27,000,000	Note 5	Note 5	Note 5
	40,000,000	–	–	–	–	40,000,000	Note 6	Note 6	Note 6
Huang Chunhua	–	20,000,000	–	–	–	20,000,000	Note 6	Note 6	Note 6
	–	10,000,000	–	–	–	10,000,000	Note 8	Note 8	Note 8
Liu Stephen Quan	27,000,000	–	–	–	(27,000,000)	–	Note 5	Note 5	Note 5
	13,000,000	–	–	–	(13,000,000)	–	Note 6	Note 6	Note 6
Hui Wing Sang, Wilson	27,000,000	–	–	–	–	27,000,000	Note 5	Note 5	Note 5
	21,000,000	–	–	–	–	21,000,000	Note 6	Note 6	Note 6
Zhu Shengliang	16,710,000	–	–	–	–	16,710,000	Note 4	Note 4	Note 4
	1,290,000	–	–	–	–	1,290,000	Note 6	Note 6	Note 6
	10,000,000	–	–	–	–	10,000,000	Note 7	Note 7	Note 7
Wang Chuantao	15,000,000	–	–	–	–	15,000,000	Note 6	Note 6	Note 6
	10,000,000	–	–	–	–	10,000,000	Note 8	Note 8	Note 8
Wang Wei	–	7,000,000	–	–	–	7,000,000	Note 8	Note 8	Note 8
Zhang Zhenwei	–	7,500,000	–	–	–	7,500,000	Note 6	Note 6	Note 6
Xu Jianguo	–	–	5,000,000	–	–	5,000,000	Note 9	Note 9	Note 9
Li Zhengshan	–	5,570,000	–	–	–	5,570,000	Note 4	Note 4	Note 4
	–	5,000,000	–	–	–	5,000,000	Note 5	Note 5	Note 5
	–	4,430,000	–	–	–	4,430,000	Note 6	Note 6	Note 6

Directors' Report

Name or Category of Participant	As at 1 January 2010	Reclassification during the period	Share options Granted	Share options Lapsed/ cancelled during the year	Share options Exercised	As at 31 December 2010	Date of Grant	Exercise Price	Exercise Period
He Bangjie	2,000,000	–	–	–	–	2,000,000	Note 5	Note 5	Note 5
	4,000,000	–	–	–	–	4,000,000	Note 7	Note 7	Note 7
Ting Kwok Kit, Johnny	4,000,000	–	–	–	–	4,000,000	Note 7	Note 7	Note 7
Hou Junwen	7,500,000	(7,500,000)	–	–	–	–	Note 6	Note 6	Note 6
Sub-Total	271,808,980	52,000,000	5,000,000	(35,168,980)	(40,000,000)	253,640,000			
Employee (in aggregate)	4,678,800	–	–	(4,678,800)	–	–	Note 1	Note 1	Note 1
	9,357,600	–	–	(8,243,600)	(1,114,000)	–	Note 2	Note 2	Note 2
	19,241,008	–	–	–	(19,241,008)	–	Note 3	Note 3	Note 3
	41,917,000	(5,570,000)	–	–	(21,097,000)	15,250,000	Note 4	Note 4	Note 4
	84,800,000	(5,000,000)	–	–	(45,000,000)	34,800,000	Note 5	Note 5	Note 5
	166,724,592	(24,430,000)	–	(5,000,000)	(54,592,592)	82,702,000	Note 6	Note 6	Note 6
	34,000,000	–	–	–	(10,000,000)	24,000,000	Note 7	Note 7	Note 7
	81,000,000	(17,000,000)	–	(10,000,000)	(10,000,000)	44,000,000	Note 8	Note 8	Note 8
	–	–	55,000,000	(1,500,000)	–	53,500,000	Note 9	Note 9	Note 9
Sub-Total	441,719,000	(52,000,000)	55,000,000	(29,422,400)	(161,044,600)	254,252,000			
Other eligible persons: (in aggregate)	23,280,000	–	–	–	(23,280,000)	–	Note 4	Note 4	Note 4
	15,000,000	–	–	–	–	15,000,000	Note 5	Note 5	Note 5
	8,500,000	–	–	–	(1,000,000)	7,500,000	Note 6	Note 6	Note 6
Sub-Total	46,780,000	–	–	–	(24,280,000)	22,500,000			
Total:	**760,307,980**	**–**	**60,000,000**	**(64,591,380)**	**(225,324,600)**	**530,392,000**			

Directors' Report

Notes:

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

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

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

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

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

6. These share options were granted on 24 June 2009 and are exercisable at a subscription price of HK$0.123 per share at any time during the period of 4 years from 24 June 2009 to 11 June 2013.

7. These share options were granted on 10 July 2009 and are exercisable at a subscription price of HK$0.185 per share at any time during the period of 3 years and 11 Months from 10 July 2009 to 11 June 2013.

8. These share options were granted on 17 November 2009 and are exercisable at a subscription price of HK$0.295 per share at any time during the period of 3 years and 7 months from 17 November 2009 to 11 June 2013.

9. These share options were granted on 15 April 2010 and are exercisable at a subscription price of HK$0.368 per share at any time during the period of 3.16 years from 15 April 2010 to 11 June 2013. The fair value of these share options at the date of grant was amounted to HK$8.28 million.

   Fair value of share options granted on 15 April 2010 and assumptions:

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

	measurement date 15/04/2010
Fair value	HK$0.13803
Exercise price	HK$0.368
Expected volatility	112.42%
Life of the Share Option	3.16 years
Risk-free interest rate	1.336%

Directors' Report

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

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

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

The principal terms of the 2003 Scheme, which is currently in force, are briefly summarised below:

1) Purpose of the share option scheme

As incentives and rewards to eligible participants for their contribution to the Group and assistance to the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group

2) Participants of the share option scheme

a) any employee (whether full time or part time, including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest;

Directors' Report

b) any non-executive Directors (including independent non-executive Directors), any of the subsidiaries of the Company or any Invested Entity;

c) any supplier of goods or services to any member of the Group or any Invested Entity;

d) any customer of the Group or any Invested Entity;

e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

f) any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

g) any advisor (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and

Directors' Report

		h) any joint venture partner or business alliance that cooperates with any member of the Group or any Invested Entity in any area of business operation or development.
3)	Maximum entitlement of each participant under the share option scheme	In any 12-month period, shall not exceed 1% of the shares in issue
4)	The period within which the shares must be taken up under an option	The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant
5)	The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Board, no minimum period
6)	The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 21 days from the date of offer
7)	The basis of determining the exercise price	The exercise price is determined by the Board and being not less than the higher of:

Directors' Report

		a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or
		b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or
		c) the nominal value thereof
8)	The remaining life of the share option scheme	The scheme remains in force until 12 June 2013

On 21 September 2010, the shareholders of the Company approved the renewal of the 10% share option scheme limit under the 2003 Scheme ("Renewal"). Following the Renewal, the Company can grant share options to subscribe for up to 679,123,906 shares of HK$0.10 each in the Company under the 2003 Scheme, representing 9.29% of the Company's issued share capital as at 31 December 2010.

DIRECTORS' INTERESTS IN CONTRACTS

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

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

Turnover

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

– The largest customer	15%
– The five largest customers in aggregate	51%

Purchases

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

– The largest supplier	14%
– The five largest suppliers in aggregate	33%

As far as the Directors are aware, none of the Directors, their associates or any shareholder of the Company (who to the Directors' knowledge was interested in or owned more than 5 per cent. of the Company's share capital) had any interest in the customers or suppliers referred to above.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RESERVES

Movements in reserves of the Group and the Company during the Year are set out in Note 38 to the financial statements.

Directors' Report

ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

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

SHARE CAPITAL

Movements in share capital of the Company are shown in note 36 to the financial statements.

PRE-EMPTIVE RIGHTS

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

AUDITORS

The financial statements in respect of the previous financial years since 2002 were audited by Grant Thornton, now known as JBPB & Co. Due to a merger of the businesses of Grant Thornton and BDO Limited ("BDO") to practise in the name of BDO, Grant Thornton resigned on 29 November 2010 and BDO was appointed as auditor of the Company effective from 29 December 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

For and on behalf of the Board

Yeung Yung
Chairman

Hong Kong, 30 March 2011

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance to ensure better transparency and protection of the interests of the Company and its shareholders as a whole and to enhance corporate value and accountability. The Company wishes to highlight that the board of directors of the Company (the "Board") will continue to devote efforts in ensuring effective leadership and control of the Company and the transparency and accountability of all operations.

Throughout the year ended 31 December 2010 (the "Year"), the Company had complied with the code provisions and certain recommended best practices set out in the Code on Corporate Governance Practices ("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") except for the following deviations:

(i) Code Provision A2.1

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

Dr. Yeung Yung, the chairman of the Company and an executive Director, had acted as the chief executive officer of the Company from 23 March 2009 to 22 June 2010.

During such period, the temporary management structure did not impair the balance of power and authority of the Board and the Board's decision had been effectively carried out under the leadership of Dr. Yeung.

To maintain a higher standards of corporate governance, the roles of the chairman and the chief executive officer has been segregated since the appointment of Dr. Wang Chuantao as the chief executive officer of the Company with effect from 23 June 2010 to comply with code A 2.1 of the CG Code.

Corporate Governance Report

(ii) Code Provision E1.2

Pursuant to code E1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (collectively the "Committees") (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any transaction that is subject to independent shareholders' approval.

The chairman of the Board and the chairman of the Committees could not attend the annual general meeting ("AGM") of the Company held on 9 June 2010 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the chairman of the Board and the chairman of the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

BOARD OF DIRECTORS

Board

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

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

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

Corporate Governance Report

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

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

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

During the Year, 16 Board meetings were held, due notice of these meetings were given to or, depending on the circumstances, urgency and/or importance of the matters, agreed to be shortened or waived by all the Directors. Even though the Directors often stay/travel in different time zones, they endeavour to make themselves available for, and participate in the meetings to the extent possible via teleconferencing mechanisms or other electronic means.

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

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

Corporate Governance Report

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

During the Year, the Board comprised the following members (who remained in office as at 31 December 2010 unless otherwise specified below):

Name

Executive Directors
Dr. Yeung Yung *(Chairman)*
Dr. Huang Chunhua *(Deputy Chairman)*
(appointed on 17 June 2010)
Dr. Wang Chuantao *(Chief Executive Officer)*
Mr. Liu Stephen Quan
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang
Dr. Wang Wei *(appointed on 17 June 2010)*
Dr. Zhang Zhenwei *(appointed on 17 June 2010)*
Mr. Xu Jianguo *(appointed on 17 June 2010)*
Mr. Li Zhengshan *(appointed on 17 June 2010)*
Dr. Hong Shuguang *(appointed on 15 July 2010)*
Dr. Hou Junwen *(resigned on 23 June 2010)*

Non-executive Directors
Dr. Xia Tingkang, Tim *(appointed on 17 June 2010)*
Dr. Zhu Guobin *(appointed on 15 July 2010)*

Independent Non-Executive Directors
Mr. He Bangjie
Mr. Ting Kwok Kit, Johnny
Mr. Wong Lee Hing
Dr. Song Jian *(appointed on 14 May 2010)*

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

Corporate Governance Report

By virtue of Bye-law 87(1) of the Bye-laws, Dr Yeung Yung, Dr Wang Chuantao, Mr Liu Stephen Quan, Dr Zhu Shengliang, Mr Ting Kwok Kit Johnny and Mr Wong Lee Hing would retire from office by rotation as Directors at the forthcoming annual general meeting (the "AGM") of the Company and, being eligible, would offer themselves for re-election.

By virtue of Bye-law 86(2) of the Bye-laws, the office of Dr Huang Chunhua, Dr Wang Wei, Dr Zhang Zhenwei, Mr Xu Jianguo, Mr Li Zhengshan, Dr Hong Shuguang, Dr Xia Tingkang, Tim, Dr Zhu Guobin and Dr Song Jian would end at the AGM. They, all being eligible, would offer themselves for re-election at the AGM.

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

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

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

The functions of INEDs include, but not limited to:

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

Chairman, Deputy Chairman and CEO

As at 31 December 2010, the Chairman was Dr Yeung Yung. The Deputy Chairman was Dr. Huang Chunhua and the Chief Executive Officer was Dr. Wang Chuantao.

Corporate Governance Report

Dr. Yeung Yung, the chairman of the Company and an executive Director, had acted as the chief executive officer of the Company from 23 March 2009 to 22 June 2010. During such period, the temporary management structure did not impair the balance of power and authority of the Board and the Board's decision had been effectively carried out under the leadership of Dr. Yeung. For the purpose of maintaining a higher standards of corporate governance, the roles of the chairman and the chief executive officer has been segregated since the appointment of Dr. Wang Chuantao as the chief executive officer of the Company with effect from 23 June 2010 to comply with code A 2.1 of the CG Code.

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

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

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

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

Appointment, Re-election, Retirement and Removal

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

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

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

Committees

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

Corporate Governance Report

Audit Committee

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

The Audit Committee comprises three independent non-executive Directors (namely Mr. Ting Kwok Kit, Johnny, Mr. He Bangjie and Mr. Wong Lee Hing), and the chairman of the Audit Committee is Mr. Ting Kwok Kit, Johnny.

Two meetings of the Audit Committee were held for the year ended 31 December 2010. The individual attendance of each member is set out below:

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

During the Year, the Audit Committee performed the following work:

- Reviewed and discussed with the management regarding the financial statements for the year ended 31 December 2010

- Reviewed with management the unaudited interim financial statement for the six months ended 30 June 2010

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

Auditors' Remuneration

For the year ended 31 December 2010, the Company has paid an audit fee of HK$930,000 in relation to audit services and has paid HK$670,000 in relation to non-audit services. The auditor's remunerations were approved by the audit committee and endorsed by the Board.

Corporate Governance Report

Remuneration Committee

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

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

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

Name of Member	Number of meetings attended
Dr. Yeung Yung	3/3
Mr. He Bangjie	3/3
Mr. Wong Lee Hing	3/3

Nomination Committee

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

Name of Member attended	Number of meetings attended
Dr. Yeung Yung	3/3
Mr. He Bangjie	3/3
Mr. Wong Lee Hing	3/3

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

Corporate Governance Report

Board Meeting Attendance

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

Name of Member attended	Number of meetings attended
Executive Directors	
Dr. Yeung Yung	15/16
Dr. Huang Chunhua *(appointed on 17 June 2010)*	6/16 (a)
Dr. Wang Chuatao	15/16
Mr. Liu Stephen Quan	13/16
Mr. Hui Wing Sang, Wilson	16/16
Dr. Zhu Shengliang	15/16
Dr. Wang Wei *(appointed on 17 June 2010)*	6/16 (b)
Dr. Zhang Zhenwei *(appointed on 17 June 2010)*	6/16 (c)
Mr. Xu Jianguo *(appointed on 17 June 2010)*	6/16 (d)
Mr. Li Zhengshan *(appointed on 17 June 2010)*	6/16 (e)
Dr. Hong Shuguang *(appointed on 15 July 2010)*	2/16 (f)
Dr. Hou Junwen *(resigned on 23 June 2010)*	8/16 (g)
Non-executive Directors	
Dr. Xia Tingkang, Tim *(appointed on 17 June 2010)*	6/16 (h)
Dr. Zhu Guobin *(appointed on 15 July 2010)*	3/16 (i)
Independent Non-executive Directors	
Mr. He Bangjie	13/16
Mr. Ting Kwok Kit, Johnny	15/16
Mr. Wong Lee Hing	14/16
Dr. Song Jian *(appointed on 14 May 2010)*	6/16 (j)

(a) Six meetings were held since Dr. Huang Chunhua was appointed on 17 June 2010.

(b) Six meetings were held since Dr. Wang Wei was appointed on 17 June 2010.

(c) Six meetings were held since Dr. Zhang Zhenwei was appointed on 17 June 2010.

(d) Six meetings were held since Mr. Xu Jianguo was appointed on 17 June 2010.

(e) Six meetings were held since Mr. Li Zhengshan was appointed on 17 June 2010.

(f) Three meetings were held since Dr. Hong Shuguang was appointed on 15 July 2010.

Corporate Governance Report

(g) Dr. Hou Junwen resigned on 23 June 2010 and attended 10 meetings before his resignation.

(h) Six meetings were held since Dr Xia Tingkang, Tim was appointed on 17 June 2010.

(i) Three meetings were held since Dr. Zhu Guobin was appointed on 15 July 2010.

(j) Eight meetings were held since Dr. Song Jian was appointed on 15 July 2010.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, they have confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

Independent Auditors

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

Directors' acknowledgement

The Audit Committee and the Board have reviewed the Company's financial statements for the year ended 31 December 2010. The Directors acknowledge their responsibility for preparing the accounts and presenting a balanced, clear and comprehensive assessment for the Company's performance, position and prospect. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Internal control

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

Independent auditor's report

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To the shareholders of Hybrid Kinetic Group Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hybrid Kinetic Group Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 43 to 128, which comprise the consolidated and company statement of financial position as at 31 December 2010, 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 of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

Independent auditor's report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lam Hung Yun, Andrew
Practising Certificate Number P04092
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

30 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Revenue	7	**28,608**	10,393
Cost of sales		**(13,575)**	(2,761)
Gross profit		**15,033**	7,632
Other income	8	**3,457**	1,823
Distribution costs		**(4,303)**	(1,566)
General operating expenses		**(267,186)**	(122,116)
Impairment of goodwill		**–**	(12,546)
Finance costs	9	**(1,788)**	–
Loss before income tax	10	**(254,787)**	(126,773)
Income tax credit	11	**70**	–
Loss for the year from continuing operations		**(254,717)**	(126,773)
Discontinued operations			
Profit for the year from discontinued operations	12.2	**1,106**	523
Loss for the year		**(253,611)**	(126,250)
Other comprehensive income	13		
– Exchange differences on translation of financial statements of foreign subsidiaries		**2,969**	120
– Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries		**3,824**	–
Other comprehensive income for the year		**6,793**	120
Total comprehensive income for the year		**(246,818)**	(126,130)
Loss for the year attributable to:			
Owners of the Company	14	**(251,471)**	(125,076)
Non-controlling interests		**(2,140)**	(1,174)
		(253,611)	(126,250)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Total comprehensive income for the year attributable to:			
Owners of the Company		**(245,610)**	(124,982)
Non-controlling interests		**(1,208)**	(1,148)
		(246,818)	(126,130)
(Loss)/Earnings per share for loss attributable to owners of the Company during the year	16		
From continuing and discontinued operations			
Loss per share – basic		**HK(3.82) cents**	HK(2.26) cents
Loss per share – diluted		**N/A**	N/A
From continuing operations			
Loss per share – basic		**HK(3.84) cents**	HK(2.27) cents
Loss per share – diluted		**N/A**	N/A
From discontinued operations			
Earnings per share – basic		**HK0.02 cent**	HK0.01 cent
Earnings per share – diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	**73,505**	28,838
Prepaid land lease payments	20	**758**	–
Available-for-sale financial asset	22	**–**	–
Goodwill	23	**97,518**	–
Intangible assets	24	**59,698**	18,063
Prepayments and deposits	25	**19,410**	19,040
		250,889	65,941
Current assets			
Inventories	26	**15,589**	57
Trade receivables	27	**27,683**	1,534
Bills receivable		**2,133**	–
Prepayments, deposits and other receivables	28	**43,973**	84,118
Pledged bank deposits	29	**3,143**	806
Cash and cash equivalents	29	**147,248**	114,714
		239,769	201,229
Current liabilities			
Trade payables	30	**11,214**	99
Accruals and other payables	31	**43,212**	33,750
Amounts due to related parties	33	**–**	2,799
Amounts due to directors	33	**671**	590
Borrowings	34	**13,624**	1,890
Bills payable		**2,336**	–
Tax payable		**45**	–
		71,102	39,128
Net current assets		**168,667**	162,101
Total assets less current liabilities		**419,556**	228,042

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Deferred tax liabilities	35	**6,794**	–
Net assets		**412,762**	228,042
EQUITY			
Equity attributable to owners of the Company			
Share capital	36	**730,916**	582,821
Reserves	38	**(349,783)**	(379,303)
		381,133	203,518
Non-controlling interests		**31,629**	24,524
Total equity		**412,762**	228,042

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	**399**	381
Interests in subsidiaries	21	**21,138**	7,147
		21,537	7,528
Current assets			
Amounts due from subsidiaries	21	**326,707**	44,825
Prepayments, deposits and other receivables	28	**5,111**	70,826
Cash and cash equivalents		**29,009**	20,904
		360,827	136,555
Current liabilities			
Accruals and other payables		**12,415**	12,530
Amounts due to subsidiaries	21	**–**	119
		12,415	12,649
Net current assets		**348,412**	123,906
Net assets		**369,949**	131,434
EQUITY			
Share capital	36	**730,916**	582,821
Reserves	38	**(360,967)**	(451,387)
Total equity		**369,949**	131,434

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Equity attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2009	548,305	306,817	1,455	19,320	(645,180)	230,717	22,332	253,049
Transaction with owners								
Issuance of new shares	27,800	37,680	–	–	–	65,480	–	65,480
Share issue expenses	–	(4,811)	–	–	–	(4,811)	–	(4,811)
Recognition of equity settled share-based compensation	–	–	–	27,516	–	27,516	–	27,516
Proceeds from shares issued under share options scheme	6,716	6,188	–	(3,306)	–	9,598	–	9,598
Capital contribution from non-controlling interests	–	–	–	–	–	–	3,340	3,340
Total transactions with owners	34,516	39,057	–	24,210	–	97,783	3,340	101,123
Comprehensive income								
Loss for the year	–	–	–	–	(125,076)	(125,076)	(1,174)	(126,250)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	–	–	94	–	–	94	26	120
Total comprehensive income	–	–	94	–	(125,076)	(124,982)	(1,148)	(126,130)
At 31 December 2009 and 1 January 2010	582,821	345,874	1,549	43,530	(770,256)	203,518	24,524	228,042
Transaction with owners								
Issuance of new shares	125,562	279,674	–	–	–	405,236	–	405,236
Share issue expenses	–	(19,417)	–	–	–	(19,417)	–	(19,417)
Recognition of equity settled share-based compensation	–	–	–	8,282	–	8,282	–	8,282
Proceeds from shares issued under share options scheme	22,533	14,792	–	(8,201)	–	29,124	–	29,124
Acquisition of a subsidiary (note 43.2)	–	–	–	–	–	–	8,313	8,313
Total transactions with owners	148,095	275,049	–	81	–	423,225	8,313	431,538
Comprehensive income								
Loss for the year	–	–	–	–	(251,471)	(251,471)	(2,140)	(253,611)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	–	–	2,037	–	–	2,037	932	2,969
Amount reclassified to profit or loss on disposal of foreign subsidiaries (note 43.3)	–	–	3,824	–	–	3,824	–	3,824
Total comprehensive income	–	–	5,861	–	(251,471)	(245,610)	(1,208)	(246,818)
At 31 December 2010	**730,916**	**620,923**	**7,410**	**43,611**	**(1,021,727)**	**381,133**	**31,629**	**412,762**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
(Loss)/Profit before income tax			
Continuing operations		**(254,787)**	(126,773)
Discontinued operations		**1,106**	542
Total		**(253,681)**	(126,231)
Adjustments for :			
Gain on disposal of subsidiaries	43.3	**(1,106)**	–
Impairment of other receivables		**–**	8,963
Share-based compensation		**8,282**	27,516
Interest income		**(619)**	(659)
Imputed interest income on long-term interest-free deposits		**(1,207)**	(1,117)
Interest expense		**1,788**	–
Depreciation of property, plant and equipment		**11,367**	8,420
Amortisation of intangible assets		**4,938**	4,479
Amortisation of prepaid land lease payments		**26**	–
Impairment of goodwill		**–**	12,546
Loss on disposal of property, plant and equipment		**22**	162
Research and development expenses	46	**65,870**	–
Operating loss before working capital changes		**(164,320)**	(65,921)
Decrease in inventories		**853**	120
Increase in trade receivables		**(13,568)**	(1,534)
Increase in bills receivable		**(809)**	–
Increase in other receivables, prepayments and deposits		**(14,454)**	(51,411)
Increase in trade payables		**755**	99
(Decrease)/Increase in accruals and other payables		**(11,428)**	4,567
Increase in bills payable		**12**	–
Cash used in operations		**(202,959)**	(114,080)
Interest paid		**(1,788)**	–
Income tax paid		**–**	(19)
Net cash used in operating activities		**(204,747)**	(114,099)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from investing activities of continuing and discontinued operations			
Net cash (outflow)/inflow from acquisition of subsidiaries	43.1, 43.2, 43.4	**(31,382)**	1,079
Purchase of property, plant and equipment		**(31,045)**	(12,220)
Purchase of prepaid land lease payments		**(784)**	–
Interest received		**619**	659
Purchase of intangible assets		**–**	(2,586)
Proceeds from disposal of property, plant and equipment		**–**	896
Net cash used in investing activities		**(62,592)**	(12,172)
Cash flows from financing activities of continuing and discontinued operations			
Proceeds from issuance of share capital		**320,029**	62,598
Share issue expenses		**(19,417)**	(4,811)
(Decrease)/Increase in amounts due to related parties		**(2,799)**	1,704
Repayment of borrowings		**(1,000)**	–
Increase/(Decrease) in amounts due to directors		**81**	(1,189)
Decrease in pledged bank deposits		**(13)**	(1)
Capital contribution from non-controlling interests		**–**	3,340
Net cash generated from financing activities		**296,881**	61,641
Net increase/(decrease) in cash and cash equivalents		**29,542**	(64,630)
Cash and cash equivalents at 1 January		**114,714**	178,809
Effect of exchange rate fluctuation		**2,992**	535
Cash and cash equivalents at 31 December		**147,248**	114,714
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**147,248**	114,714

Notes to the Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION

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

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

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

– environmental products and related business;

– natural resources business;

– development and manufacturing of lithium-ion power battery; and

– development and manufacturing of hybrid vehicles.

The financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 30 March 2011.

Notes to the Financial Statements

For the year ended 31 December 2010

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

2.1 In the current year, the Group has applied for the first time the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of the new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 (Revised) – Business Combinations and HKAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in note 4.1 to the financial statement, which are effective prospectively for business combinations effected in financial periods beginning on or after July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has accounted for the acquisition of subsidiaries in the current year according to the revised standard, details of which are set out in notes 43.1 and 43.2 to the financial statements. The new accounting policies have been applied prospectively according to the transitional provisions in HKFRS 3 (Revised) and have not resulted in material impacts on the Group's results of the year and financial position.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The new accounting policies have been applied prospectively according to the transitional provisions in HKAS 27 (Revised) and have not resulted in material impacts on the Group's results of the year and financial position.

Notes to the Financial Statements

For the year ended 31 December 2010

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[2&3]
Amendments to HKAS 32	Classification of Right Issues[1]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]

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

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Notes to the Financial Statements

For the year ended 31 December 2010

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.2 New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Listing Rules.

3.2 Basis of measurement

The financial statements have been prepared under the historical cost basis. The measurement bases are fully described in the accounting policies below.

3.3 Functional and presentation currency

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.1 Business combination and basis of consolidation *(Continued)*

Business combination from 1 January 2010 *(Continued)*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

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.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised in profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, 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 are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any, unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4.3 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.4 Foreign currency translation

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

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Property, plant and equipment

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Prepaid land lease payments

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 4.12. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

4.7 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

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

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

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

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described in note 4.16.

Research and development costs

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Research and development costs *(Continued)*

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

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

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

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

All other development costs are expensed as incurred.

4.8 Financial assets

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

Financial assets are classified into the following categories:

– Loans and receivables

– Available-for-sale financial assets

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

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

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

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

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

For available-for-sale investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

Impairment of financial assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

(i) *Financial assets carried at amortised cost*

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(iii) Financial assets carried at cost

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

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

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

4.9 Inventories

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.10 Cash and cash equivalents

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

4.11 Financial liabilities

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

Financial liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 4.19).

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial liabilities *(Continued)*

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

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

4.12 Leases

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges as the lessee

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Provisions, contingent liabilities and contingent assets

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

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

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

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

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

4.14 Share capital

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.15 Revenue recognition

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

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

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

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

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

4.16 Impairment of non-financial assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, prepaid land lease payments, interests in subsidiaries, and intangible assets are subject to impairment testing.

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Impairment of non-financial assets *(Continued)*

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.17 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

Short-term employee benefits

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

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

4.18 Share-based employee compensation

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.18 Share-based employee compensation *(Continued)*

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

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

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

4.19 Borrowing costs

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.20 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.20 Accounting for income taxes *(Continued)*

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

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

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

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

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

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

   i. the same taxable entity; or

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

4.21 Segment reporting

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

The Group has identified the following reportable segments:

– Environmental products and related business;

– Natural resources business: and

– Development and manufacturing of lithium-ion power battery.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Segment reporting *(Continued)*

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

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

– expenses related to share-based payments;

– finance costs;

– income tax;

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

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

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

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

No asymmetrical allocations have been applied to reportable segments.

4.22 Discontinued operations

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.22 Discontinued operations *(Continued)*

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

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

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

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

4.23 Related parties

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises the intangible assets (other than goodwill) and prepaid land lease payments in accordance with the accounting policies stated in notes 4.5 and 4.7. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

Impairment of loans and receivables

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

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements

For the year ended 31 December 2010

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Impairment of non-financial assets (other than goodwill)

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

Share-based compensation

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

Research and development costs

In accordance with the accounting policy set out in note 4.7, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as intangible assets provided they meet all the requirements as set out in note 4.7. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement and assumptions regarding the expected progress and outcome of the research and development activities, the future expected cash generation of the assets, discount rates to be applied, and also the expected period of probable future economic benefits. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the projects. Hence research costs are generally recognised as expenses in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2010

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

6. SEGMENT INFORMATION

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

(i) environmental products and related business;

(ii) natural resources business;

(iii) development and manufacturing of lithium-ion power battery, and

(iv) development and manufacturing of hybrid vehicles.

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

The Group had discontinued its operation of indoor game centres and manufacture and sales of automobile axles and these operations had been presented as discontinued operations in the financial statements. Further details regarding the results of these discontinued operations are set out in note 12 to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2010

	Environmental products and related business HK$'000	Natural resources business HK$'000	Lithium-ion power batteries business HK$'000	Hybrid vehicles business HK$'000	Total HK$'000
Revenue					
Sales to external customers	14,641	–	13,967	–	28,608
Segment results	(1,106)	(6,279)	1,388	(166,648)	(172,645)
Unallocated corporate income and expense, net					(73,860)
Share-based compensation					(8,282)
Loss before income tax					(254,787)
Income tax credit					70
Loss for the year from continuing operations					(254,717)
Profit for the year from discontinued operations (note 12.2)					1,106
Loss for the year					(253,611)
Segment assets	29,450	50,370	232,287	31,075	343,182
Unallocated corporate assets					147,476
Total assets					490,658
Segment liabilities	2,218	8,646	15,572	–	26,436
Unallocated corporate liabilities					30,326
Borrowings					13,624
Amounts due to directors					671
Tax payable					45
Deferred tax liabilities					6,794
Total liabilities					77,896
Other segment information					
Interest income	244	2	2	–	248
Depreciation	1,419	647	648	757	3,471
Amortisation	4,193	–	771	–	4,964

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2009

	Environmental products and related business HK$'000	Natural resources business HK$'000	Total HK$'000
Revenue			
Sales to external customers	10,393	–	10,393
Segment results	(3,101)	(2,646)	(5,747)
Unallocated corporate income and expense, net			(80,964)
Share-based compensation			(27,516)
Impairment of goodwill			(12,546)
Loss for the year from continuing operations			(126,773)
Profit for the year from discontinued operations (note 12.2)			523
Loss for the year			(126,250)
Segment assets	26,829	20,954	47,783
Unallocated corporate assets			219,387
Total assets			267,170
Segment liabilities	466	6,239	6,705
Unallocated corporate liabilities			27,144
Borrowings			1,890
Amounts due to related parties			2,799
Amount due to a director			590
Total liabilities			39,128
Other segment information			
Interest income	111	–	111
Depreciation	1,040	638	1,678
Amortisation	4,479	–	4,479
Impairment of receivables	726	–	726

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(Continued)*

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

	Revenue from external customers (including continuing and discontinued operations)		Non-current assets (other than financial assets)	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
– Hong Kong (domicile)	**3,803**	–	**996**	1,379
– PRC	**20,588**	11,213	**190,732**	24,658
– United States ("US")	**3,469**	–	**39,751**	22,218
– Others	**748**	–	**–**	–
Total	**28,608**	11,213	**231,479**	48,255

The geographical location of customers is based on the location at which the services were provided or the goods delivered. For goodwill and intangible assets, the geographical location is based on the entities' areas of operation. The geographical location of other non-current assets (other than financial instruments) is based on the location of the asset.

For the year ended 31 December 2010, revenues from transactions with two customers (2009: a single customer) from the lithium-ion power batteries business segment (2009: environmental products and related business segment) amount to 10% or more of the Group's revenue. The amount of revenue from each of such customers amounted to HK$4,350,000 and HK$3,470,000 respectively (2009: HK$3,184,000).

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

Notes to the Financial Statements

For the year ended 31 December 2010

7. REVENUE

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

	Continuing operations		Discontinued operations		Consolidated	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Sales of lithium-ion power batteries	**13,967**	–	**–**	–	**13,967**	–
Sales of bioorganic fertilizer	**14,641**	10,393	**–**	–	**14,641**	10,393
Revenues from operation of indoor games centres	**–**	–	**–**	820	**–**	820
	28,608	10,393	**–**	820	**28,608**	11,213

8. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Bank interest income	**619**	659	**–**	–	**619**	659
Imputed interest income on long-term interest-free deposits	**1,207**	1,117	**–**	–	**1,207**	1,117
Subsidy income	**673**	–	**–**	–	**673**	–
Other service income	**913**	–	**–**	–	**913**	–
Miscellaneous	**45**	47	**–**	501	**45**	548
	3,457	1,823	**–**	501	**3,457**	2,324

Notes to the Financial Statements

For the year ended 31 December 2010

9. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on borrowings repayable within five years:						
Bank loans	**1,788**	–	**–**	–	**1,788**	–

10. LOSS BEFORE INCOME TAX

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

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Auditor's remuneration	**1,179**	982	**–**	4	**1,179**	986
Share-based compensation	**8,282**	27,516	**–**	–	**8,282**	27,516
Depreciation of property, plant and equipment	**11,367**	8,419	**–**	1	**11,367**	8,420
Amortisation of prepaid land lease payments	**26**	–	**–**	–	**26**	–
Amortisation of intangible assets	**4,938**	4,479	**–**	–	**4,938**	4,479
Impairment of goodwill	**–**	12,546	**–**	–	**–**	12,546
Impairment of other receivables	**–**	8,963	**–**	–	**–**	8,963
Research and development expenses	**148,708**	6,623	**–**	–	**148,708**	6,623
Gain on disposal of subsidiaries (note 43.3)	**–**	–	**(1,106)**	–	**(1,106)**	–
Loss/(Gain) on disposal of property, plant and equipment	**22**	167	**–**	(5)	**22**	162
Cost of inventories recognised as expenses	**13,575**	2,761	**–**	187	**13,575**	2,948
Operating lease charges in respect of land and buildings	**4,328**	2,896	**–**	62	**4,328**	2,958
Operating lease charges in respect of mineral mining lease	**40**	–	**–**	–	**40**	–

Notes to the Financial Statements

For the year ended 31 December 2010

11. INCOME TAX CREDIT/EXPENSE

For the years ended 31 December 2010 and 2009, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the year in Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for those years at the rates of taxation prevailing in the countries in which the Group operates.

	Continuing operations		Discontinued operations		Consolidated	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Current tax						
– PRC	**45**	–	**–**	19	**45**	19
Deferred tax						
– PRC (note 35)	**(115)**	–	**–**	–	**(115)**	–
Income tax (credit)/expense	**(70)**	–	**–**	19	**(70)**	19

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

	2010 HK$'000	2009 HK$'000
(Loss)/Profit before income tax		
Continuing operations	**(254,787)**	(126,773)
Discontinued operations	**1,106**	542
	(253,681)	(126,231)
Tax on (loss)/profit before tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	**(49,934)**	(25,527)
Tax effect of non-deductible expenses	**50,648**	26,321
Tax effect of non-taxable income	**(683)**	(686)
Tax effect of prior years' tax losses utilised this year	**(101)**	(89)
Income tax (credit)/expense	**(70)**	19

Notes to the Financial Statements

For the year ended 31 December 2010

12. DISCONTINUED OPERATIONS

12.1 In 2009, the board of directors had resolved that the Group would discontinue operation of indoor game centre and manufacture and sales of automobile axles business. Operation of indoor game centres and manufacture and sales of automobile axles represent separate major lines of businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, since 2009, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5. Deregistration of the subsidiaries previously engaged in operation of indoor game centre and manufacture and sales of automobile axles business had been completed in 2010. Upon completion of deregistration, the Group has recognised a gain of HK$1,106,000 in respect of disposal of subsidiaries. For the year ended 31 December 2010, no income and expense has been generated from these discontinued operations (2009: profit of HK$523,000).

12.2 The profit for the year from the discontinued operations is analysed as follows:

	2010	2009
	Operation of indoor game centres and manufacture and sales of automobile axles HK$'000	Operation of indoor game centres and manufacture and sales of automobile axles HK$'000
Profit on discontinued operations (note 12.3)	**–**	523
Gain on disposal of subsidiaries (note 43.3)	**1,106**	–
Profit for the year from discontinued operations	**1,106**	523
Attributable to:		
– Owners of the Company	**1,106**	523

Notes to the Financial Statements

For the year ended 31 December 2010

12. DISCONTINUED OPERATIONS *(Continued)*

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

For the year ended 31 December 2009

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

Notes to the Financial Statements

For the year ended 31 December 2010

13. OTHER COMPREHENSIVE INCOME

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

	2010 HK$'000	2009 HK$'000
Exchange differences on translation of financial statements of foreign subsidiaries	**2,969**	120
Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries	**3,824**	–
	6,793	120

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year of HK$251,471,000 (2009: HK$125,076,000) attributable to the owners of the Company, a loss of HK$184,710,000 (2009: HK$159,214,000) has been dealt with in the financial statements of the Company.

15. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2010 (2009: Nil) and the Company did not declare any interim dividend during the year (2009: Nil).

16. (LOSS)/EARNINGS PER SHARE

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

(Loss)/Earnings

	2010 HK$'000	2009 HK$'000
(Loss)/Profit attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share		
Continuing operations	**(252,577)**	(125,599)
Discontinued operations	**1,106**	523
Total loss from continuing and discontinued operations	**(251,471)**	(125,076)

Notes to the Financial Statements

For the year ended 31 December 2010

16. (LOSS)/EARNINGS PER SHARE *(Continued)*

Number of shares

	2010 Number of shares '000	2009 Number of shares '000
Weighted average number of shares for the purpose of basic (loss)/earnings per share	6,590,938	5,534,194

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

17. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	Continuing operations		Discontinued operations		Consolidated	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Wages and salaries	39,569	26,910	–	363	39,569	27,273
Pension costs – defined contribution plans	1,288	144	–	189	1,288	333
Other benefits	902	398	–	4	902	402
Share-based payments	8,282	27,516	–	–	8,282	27,516
	50,041	54,968	–	556	50,041	55,524

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For the year ended 31 December 2010

18. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2010

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contribution to defined contribution plan HK$'000	Equity-settled share-based payment expenses HK$'000	Total HK$'000
Executive directors					
Dr. Yeung Yung	78	3,510	–	–	3,588
Mr. Liu Stephen Quan	78	585	–	–	663
Mr. Hui Wing Sang, Wilson	78	1,470	12	–	1,560
Dr. Zhu Shengliang	78	858	–	–	936
Dr. Wang Chuantao	78	1,040	–	–	1,118
Dr. Huang Chunhua (appointed on 17 June 2010)	78	1,040	–	–	1,118
Dr. Wang Wei (appointed on 17 June 2010)	78	546	–	–	624
Dr. Zhang Zhenwei (appointed on 17 June 2010)	78	468	–	–	546
Mr. Xu Jianguo (appointed on 17 June 2010)	78	585	–	690	1,353
Mr. Li Zhengshan (appointed on 17 June 2010)	78	468	–	–	546
Dr. Hong Shuguang (appointed on 15 July 2010)	–	466	–	–	466
Dr. Hou Junwen (resigned on 23 June 2010)	–	520	–	–	520
Non-executive directors					
Dr. Xia Tingkang Tim (appointed on 17 June 2010)	156	–	–	–	156
Dr. Zhu Goubin (appointed on 15 July 2010)	156	–	–	–	156
Independent non-executive directors					
Mr. He Bangjie	80	–	–	–	80
Mr. Wong Lee Hing	80	–	–	–	80
Mr. Ting Kwok Kit, Johnny	80	–	–	–	80
Dr. Song Jian (appointed on 14 May 2010)	171	–	–	–	171
	1,503	11,556	12	690	13,761

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For the year ended 31 December 2010

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

For the year ended 31 December 2009

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

Five highest paid individuals

For both the years ended 31 December 2010 and 2009, the five highest paid individuals in the Group were all directors whose emoluments are reflected in the analysis presented above.

No emoluments were paid by the Group to any directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2009: Nil).

During the year ended 31 December 2010, there was no arrangement under which the directors waived or agreed to waive their remuneration. During the year ended 31 December 2009, the directors, Dr. Wang Chuantao and Dr. Hou Junwen, have agreed to waive their remuneration amounted to approximately HK$827,000 and HK$517,000 respectively.

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For the year ended 31 December 2010

19. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements, fixture and fittings HK$'000	Furniture and equipment HK$'000	Game equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2008								
Cost	–	–	19,200	4,556	68,688	11,349	43,995	147,788
Accumulated depreciation and impairment	–	–	(17,794)	(3,418)	(68,685)	(11,349)	(20,088)	(121,334)
Net book amount	–	–	1,406	1,138	3	–	23,907	26,454
Year ended 31 December 2009								
Opening net book amount	–	–	1,406	1,138	3	–	23,907	26,454
Additions	–	–	22	257	–	–	11,941	12,220
Disposals	–	–	–	(167)	–	–	(891)	(1,058)
Depreciation	–	–	(276)	(388)	(1)	–	(7,755)	(8,420)
Exchange differences	–	–	(171)	(25)	–	–	(162)	(358)
Closing net book amount	–	–	981	815	2	–	27,040	28,838
At 31 December 2009								
Cost	–	–	4,157	2,998	11,452	–	51,957	70,564
Accumulated depreciation and impairment	–	–	(3,176)	(2,183)	(11,450)	–	(24,917)	(41,726)
Net book amount	–	–	981	815	2	–	27,040	28,838
Year ended 31 December 2010								
Opening net book amount	–	–	981	815	2	–	27,040	28,838
Acquisition of a subsidiary (note 43.1)	–	2,608	257	305	–	20,981	483	24,634
Disposal of subsidiaries (note 43.3)	–	–	(73)	–	(2)	–	–	(75)
Additions	4,007	237	5,154	4,400	–	4,498	12,749	31,045
Disposals	–	–	–	(22)	–	–	–	(22)
Depreciation	(113)	–	(1,058)	(575)	–	(540)	(9,081)	(11,367)
Exchange differences	65	17	7	14	–	173	176	452
Closing net book amount	3,959	2,862	5,268	4,937	–	25,112	31,367	73,505
At 31 December 2010								
Cost	4,073	2,862	8,147	7,596	–	30,614	65,522	118,814
Accumulated depreciation and impairment	(114)	–	(2,879)	(2,659)	–	(5,502)	(34,155)	(45,309)
Net book amount	**3,959**	**2,862**	**5,268**	**4,937**	**–**	**25,112**	**31,367**	**73,505**

Notes to the Financial Statements

For the year ended 31 December 2010

19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture and equipment HK$'000	Leasehold improvements, fixture and fittings HK$'000	Total HK$'000
At 31 December 2008			
Cost	129	607	736
Accumulated depreciation and impairment	(60)	(171)	(231)
Net book amount	69	436	505
Year ended 31 December 2009			
Opening net book amount	69	436	505
Additions	27	–	27
Depreciation	(29)	(122)	(151)
Closing net book amount	67	314	381
At 31 December 2009			
Cost	156	607	763
Accumulated depreciation and impairment	(89)	(293)	(382)
Net book amount	67	314	381
Year ended 31 December 2010			
Opening net book amount	67	314	381
Additions	183	–	183
Disposal	(1)	–	(1)
Depreciation	(42)	(122)	(164)
Closing net book amount	207	192	399
At 31 December 2010			
Cost	336	607	943
Accumulated depreciation and impairment	(129)	(415)	(544)
Net book amount	**207**	**192**	**399**

Notes to the Financial Statements

For the year ended 31 December 2010

20. PREPAID LAND LEASE PAYMENTS – GROUP

The Group's prepaid operating lease payments are located in PRC held under medium term leases, and their net book amounts are analysed as follows:

	2010 HK$'000	2009 HK$'000
Opening net carrying amount	–	–
Addition	784	–
Annual charges of prepaid operating lease payment	(26)	–
Closing net carrying amount	758	–

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	196,083	276,893
Less: Impairment	(174,945)	(269,746)
	21,138	7,147
Amounts due from subsidiaries	683,929	407,873
Less: Impairment	(357,222)	(363,048)
	326,707	44,825
Amounts due to subsidiaries	–	119

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

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For the year ended 31 December 2010

21. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
American Compass Inc.	US, limited liability company	Ordinary US$17,000,000	100*	Investment holding, US
Far East Golden Resources Investment Limited	Hong Kong, limited liability company	Ordinary HK$25,000,000	100*	Investment holding, Hong Kong
吉林晟世礦業有限公司 (Jilin Shengshi Mining Limited)	PRC, limited liability company	RMB20,067,162	100	Exploration and mining of natural resources, PRC
延邊吉達建材經銷有限公司 (Yanbian Jida Construction Material Trading Limited)	PRC, limited liability company	RMB1,000,000	100	Exploration and mining of natural resources, PRC
北京世紀萬業源生物工程有限公司 (Beijing Century Wanyeyuan Bio-Engineering Co., Limited)	PRC, limited liability company	RMB60,000,000	65	Development and sales of bioorganic fertilizer and environmental protected products, PRC
北京平安福生物技術研究所有限公司 (Beijing Green Grow Biotech Engineering Research Institution Limited)	PRC, limited liability company	RMB1,000,000	65	Development and sales of bioorganic fertilizer and environmental protected products, PRC
山東萬德源生物工程有限公司 (Shandong Wandeyuan Bio-Engineering Co., Limited)	PRC, limited liability company	RMB6,000,000	33.15 (note a)	Manufacture of bioorganic fertilizer, PRC
Hybrid Kinetic Motors Corporation ("HKMC")	US, limited liability company	US$1,000	100	Investment holding, US
America's Centre for Foreign Investment, LLC ("ACFI")	US, limited liability company	N/A (note b)	80*	Provision of immigration advisory services, US

Notes to the Financial Statements

For the year ended 31 December 2010

21. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
HKMP LP A, LLC	US, limited liability company	N/A (note b)	100	Investment holding, US
HKMP GP A, LLC	US, limited liability company	N/A (note b)	100	Investment holding, US
Hybrid Kinetic Motors Project A, LP	US, limited partnership	N/A (note c)	100	Not yet commenced business
Zhejiang GBS Energy Co., Ltd ("GBS")	PRC, limited liability company	US$5,653,665	100	Manufacture and sales of lithium-ion power batteries, PRC
Nevada Gold Holdings Inc. ("NGHI")	US, limited liability company	Ordinary US$42,763	70.15%	Exploration and development of gold mines, US

* Shares held directly by the Company.

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

Notes:

a. The Group's subsidiary, Beijing Century Wanyeyuan Bio-Engineering Co., Limited ("Beijing Century"), owns 51% of the equity interests in Shandong Wandeyuan Bio-Engineering Co., Limited ("Shandong Wandeyuan").

b. As at 31 December 2010 and up to the date of this report, the Group has not contributed capital to these subsidiaries. Pursuant to relevant rules and regulations in US, there is no minimum contribution requirement for Limited Liability Company. The voting rights and the control of the Group in these subsidiaries have been determined pursuant to the Articles of Organisation or Limited Liability Company Agreement of the respective subsidiaries.

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For the year ended 31 December 2010

21. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Notes: *(Continued)*

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

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

i. Class A partnership units ("Class A Partnership Units"), which will be offered for subscription to prospective investors. As at 31 December 2010 and up to the date of this report, no Class A Partnership Units have been granted or taken up.

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

Pursuant to the LPA, the Class B Limited Partner shall make a minimal capital contribution of US$5,000. The said contribution has not been made by the Class B Limited Partner as at 31 December 2010 and up to the date of this report.

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

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

22. AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

	2010 **HK$'000**	2009 HK$'000
Available-for-sale financial asset		
Unlisted equity investment in PRC, at cost	**2,231**	2,171
Impairment	**(2,231)**	(2,171)
	–	–

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

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

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For the year ended 31 December 2010

23. GOODWILL – GROUP

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

	HK$'000
At 1 January 2009	
Gross carrying amount	570
Accumulated impairment	(570)
Net carrying amount	–
For the year ended 31 December 2009	
Net carrying amount at beginning of year	–
Acquisition of a subsidiary (note 43.4)	12,546
Provision for impairment (note b)	(12,546)
Net carrying amount	–
At 31 December 2009	
Gross carrying amount	13,116
Accumulated impairment	(13,116)
Net carrying amount	–
For the year ended 31 December 2010	
Net carrying amount at beginning of year	–
Acquisition of subsidiaries (notes 43.1 & 43.2)	97,518
Net carrying amount	97,518
At 31 December 2010	
Gross carrying amount	110,634
Accumulated impairment	(13,116)
Net carrying amount	**97,518**

Notes to the Financial Statements

For the year ended 31 December 2010

23. GOODWILL – GROUP *(Continued)*

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

Notes:

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

(b) The directors have reviewed the performance of the immigration advisory service, and in 2009, they considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of ACFI of HK$12,546,000 (note 43.4).

(c) Goodwill of HK$3,864,000 arose during the year ended 31 December 2010 relates to the acquisition of NGHI (note 43.2) and is allocated to the CGUs that are expected to benefit from the acquisition. The management opines that the recoverable amount of this CGU exceeds its carrying amounts.

(d) Goodwill of HK$93,654,000 arose during the year relates to the acquisition of GBS (note 43.1) and is allocated to the CGUs that are expected to benefit from the acquisition. The carrying amount of the goodwill is allocated to the cash generating units for manufacturing and distribution of lithium-ion power battery.

The recoverable amount of the CGU is determined based on value-in-use calculations. This calculation used cash flow projection based on financial budget approved by management covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated weighted average growth rate of 28% which does not exceed the long-term growth rate for the business in which the CGU operates. The cash flow is discounted using a discount rate of 16.8%. The discount rate used is pre-tax and reflect specific risks relating the CGU. The directors are not currently aware of any other probable changes that would necessitate changes in its key estimates. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the above CGU to exceed its recoverable amount.

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For the year ended 31 December 2010

24. INTANGIBLE ASSETS – GROUP

	Technical know-how HK$'000	Patents HK$'000	Total HK$'000
At 1 January 2009			
Cost	16,684	4,012	20,696
Accumulated amortisation	(576)	(100)	(676)
Net carrying amount	16,108	3,912	20,020
Year ended 31 December 2009			
Opening net carrying amount	16,108	3,912	20,020
Addition	2,586	–	2,586
Amortisation	(3,581)	(898)	(4,479)
Exchange realignment	(49)	(15)	(64)
Closing net carrying amount	15,064	2,999	18,063
At 31 December 2009			
Cost	19,224	3,999	23,223
Accumulated amortisation	(4,160)	(1,000)	(5,160)
Net carrying amount	15,064	2,999	18,063
Year ended 31 December 2010			
Opening net carrying amount	15,064	2,999	18,063
Acquisition of a subsidiary (note 43.1)	–	46,259	46,259
Amortisation	(3,358)	(1,580)	(4,938)
Exchange realignment	242	72	314
Closing net carrying amount	11,948	47,750	59,698
At 31 December 2010			
Cost	19,605	50,372	69,977
Accumulated amortisation	(7,657)	(2,622)	(10,279)
Net carrying amount	**11,948**	**47,750**	**59,698**

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For the year ended 31 December 2010

25. PREPAYMENTS AND DEPOSITS – GROUP

	2010 HK$'000	2009 HK$'000
Deposits for management agreements (note)	**19,410**	17,686
Prepayment for acquisition of land use right and property, plant and equipment	**–**	1,354
	19,410	19,040

Note: The deposits for management agreements are interest-free, unsecured and repayable in 2011. The directors believe that the Group will renew the management agreements and therefore the balances are classified as non-current assets.

26. INVENTORIES – GROUP

	2010 HK$'000	2009 HK$'000
Raw materials	**2,682**	–
Work in progress	**2,006**	–
Finished goods	**10,901**	57
	15,589	57

27. TRADE RECEIVABLES – GROUP

	2010 HK$'000	2009 HK$'000
Trade receivables	**27,683**	1,534

The Group normally applies credit terms to its customers according to industry practice together with consideration of their creditability and repayment history. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. As at 31 December 2010 and 2009, there was no provision for impairment of trade receivables.

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27. TRADE RECEIVABLES – GROUP *(Continued)*

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

The ageing analysis of the trade receivables of the Group as at 31 December 2010, based on the invoice date, is as follows:

	2010 HK$'000	2009 *HK$'000*
0 – 30 days	11,772	1,023
31 – 90 days	9,146	511
91 – 180 days	4,694	–
Over 180 days	2,071	–
	27,683	1,534

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

	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	20,918	1,534
1 – 90 days past due	4,694	–
Over 90 days past due	2,071	–
	6,765	–
	27,683	1,534

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

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Prepayments to suppliers	**6,335**	477	**–**	–
Other receivables	**13,568**	8,530	**302**	324
Prepayment for research and development projects	**20,900**	–	**3,925**	–
Loan receivable	**–**	69,795	**–**	69,795
Other prepayments	**3,170**	5,316	**884**	707
	43,973	84,118	**5,111**	70,826

29. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2010, pledged deposits and cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$40,818,000 (2009: HK$14,629,000). RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

30. TRADE PAYABLES – GROUP

The ageing analysis of the trade payables of the Group as at 31 December 2010, based on the invoice date, is as follows:

	2010 HK$'000	2009 HK$'000
0 – 180 days	**8,145**	26
Over 180 days	**3,069**	73
	11,214	99

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31. ACCRUALS AND OTHER PAYABLES – GROUP

	2010 **HK$'000**	2009 HK$'000
Deposits received from customers	**2,597**	15
Accrued staff costs	**1,573**	1,130
Other payables	**26,267**	17,583
Other accrued expenses	**12,775**	15,022
	43,212	33,750

32. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

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

	2010 **HK$'000**	2009 HK$'000
Current obligations on:		
– pension – defined contribution plans	**14**	332

There were no forfeited contributions during the year (2009: Nil).

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32. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

(Continued)

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

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

The retirement benefit scheme cost charged to the profit or loss represents contributions incurred by the Group. During the year ended 31 December 2010, the Group's contributions were approximately HK$1,288,000 (2009: HK$333,000). There was no (2009: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the reporting dates to reduce the Group's contribution payable in future periods.

33. AMOUNTS DUE TO RELATED PARTIES/DIRECTORS – GROUP

	Notes	**2010 HK$'000**	2009 HK$'000
Amounts due to related parties			
– close family member of a director	(i)	**–**	847
– a company owned by a close family member of a director	(ii)	**–**	1,952
		–	2,799
Amounts due to directors	(i)	**671**	590

Notes:

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

(ii) The balance was unsecured, interest free and repayable on 1 July 2010.

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34. BORROWINGS – GROUP

	2010 **HK$'000**	2009 HK$'000
Bank loans repayable within one year	**11,680**	–
Other loans repayable within one year	**1,944**	1,890
	13,624	1,890

Bank loans are interest bearing at a fixed interest rate of 5.87% (2009: Nil) per annum. Details of the banking facilities granted to the Group are set out note 42. Other loans are non-interest bearing, unsecured and repayable within one year from the reporting date.

35. DEFERRED TAX

	Revaluation of intangible assets HK'000
At 1 January 2009, 31 December 2009 and 1 January 2010	–
Acquisition of subsidiaries (note 43.1)	6,909
Credited to profit or loss (note 11)	(115)
At 31 December 2010	**6,794**

Deferred taxation is calculated on temporary differences under the liability method using the taxation rates prevailing in the jurisdictions in which the Group operates.

As at 31 December 2010, the Group had unused tax losses of HK$6,764,000 (2009: HK$9,339,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Unused tax losses of HK$846,000 (2009: HK$3,368,000) will expire at various dates up to and including 2013. Other tax losses have no expiry date.

Deferred taxation has not been provided for in the financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries amounting to HK$5,682,000 as the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2010

36. SHARE CAPITAL

	2010 Number of shares	2010 Amount HK$'000	2009 Number of shares	2009 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**30,000,000,000**	**3,000,000**	30,000,000,000	3,000,000
Issued and fully paid:				
At 1 January	**5,828,210,464**	**582,821**	5,483,054,464	548,305
Placement of shares during the year (note i)	**798,300,000**	**79,830**	200,000,000	20,000
Issuance of shares for acquisition of a subsidiary (note ii & iii)	**457,324,692**	**45,732**	78,000,000	7,800
Shares issued from the employee share options scheme (note iv)	**225,324,600**	**22,533**	67,156,000	6,716
At 31 December	**7,309,159,756**	**730,916**	5,828,210,464	582,821

Notes:

(i) In April and May 2010, the Company entered into agreements in relation to a placing of 338,300,000 and 460,000,000 new shares at a placing price of HK$0.35 and HK$0.375 per share respectively. The placing of new shares was completed on 1 April and 12 May 2010 respectively. The shares issued from placing during the year have the same rights as other ordinary shares of the Company in issue. An amount of HK$211,075,000 representing the excess of the fair value over the nominal value of the shares issued of HK$79,830,000 has been included in share premium account.

(ii) On 26 October 2010, the Company acquired 100% of the equity interest in GBS by the issuance and allotment of 457,324,692 consideration shares of the Company and cash amounted to RMB36,000,000. The fair value of the shares issued at the date of acquisition amounted to HK$114,331,000 (note 43.1). An amount of HK$68,599,000 representing the excess of the fair value over the nominal value of the shares issued of HK$45,732,000 has been included in share premium account.

(iii) On 9 July 2009, the Company acquired 80% of the equity interest in ACFI by the issue and allotment of 78,000,000 consideration shares of the Company. The fair value of the shares issued at the date of acquisition amounted to HK$12,480,000 (note 43.4). An amount of HK$4,680,000 representing the excess of the fair value over the nominal value of the shares issued of HK$7,800,000 has been included in share premium account.

(iv) During the years ended 31 December 2010 and 2009, the issued share capital of the Company was increased due to the exercise of share options by the directors and employees of the Company and other eligible persons. Details of the share options exercised during the year are summarised in note 37. The shares issued during the year in relation to share options exercised have the same rights as other ordinary shares of the Company in issue.

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE-BASED EMPLOYEE COMPENSATION

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

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

For the year ended 31 December 2010

		Number of share options					
	Share option type	At 1 January 2010	Granted during the year	Exercised during the year	Expired/ cancelled during the year	Reclassification	At 31 December 2010
Directors							
Dr. Yeung Yung	2000 (a)	11,140,000	–	–	(11,140,000)	–	–
	2000 (b)	24,028,980	–	–	(24,028,980)	–	–
	2005	11,140,000	–	–	–	–	11,140,000
	2008	27,000,000	–	–	–	–	27,000,000
	2009 (a)	40,000,000	–	–	–	–	40,000,000
Mr. Liu Stephen Quan	2008	27,000,000	–	(27,000,000)	–	–	–
	2009 (a)	13,000,000	–	(13,000,000)	–	–	–
Mr. Hui Wing Sang, Wilson	2008	27,000,000	–	–	–	–	27,000,000
	2009 (a)	21,000,000	–	–	–	–	21,000,000
Dr. Zhu Shengliang	2005	16,710,000	–	–	–	–	16,710,000
	2009 (a)	1,290,000	–	–	–	–	1,290,000
	2009 (b)	10,000,000	–	–	–	–	10,000,000
Dr. Wang Chuantao	2009 (a)	15,000,000	–	–	–	–	15,000,000
	2009 (c)	10,000,000	–	–	–	–	10,000,000
Dr. Hou Junwen	2009 (a)	7,500,000	–	–	–	(7,500,000)	–
Mr. He Bangjie	2008	2,000,000	–	–	–	–	2,000,000
	2009 (b)	4,000,000	–	–	–	–	4,000,000
Mr. Ting Kwok Kit, Johnny	2009 (b)	4,000,000	–	–	–	–	4,000,000
Mr. Xu Jianguo	2010	–	5,000,000	–	–	–	5,000,000
Mr. Li Zhengshan	2005	–	–	–	–	5,570,000	5,570,000
	2008	–	–	–	–	5,000,000	5,000,000
	2009 (a)	–	–	–	–	4,430,000	4,430,000
Dr. Zhang Zhenwei	2009 (a)	–	–	–	–	7,500,000	7,500,000
Dr. Huang Chunhua	2009 (a)	–	–	–	–	20,000,000	20,000,000
	2009 (c)	–	–	–	–	10,000,000	10,000,000
Dr. Wang Wei	2009 (c)	–	–	–	–	7,000,000	7,000,000
		271,808,980	5,000,000	(40,000,000)	(35,168,980)	52,000,000	253,640,000

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

For the year ended 31 December 2010 *(Continued)*

	Share option type	At 1 January 2010	Granted during the year	Exercised during the year	Expired/ cancelled during the year	Reclassification	At 31 December 2010
		Number of share options					
Employees							
In aggregate	2000 (a)	4,678,800	–	–	(4,678,800)	–	–
	2000 (b)	9,357,600	–	(1,114,000)	(8,243,600)	–	–
	2004	19,241,008	–	(19,241,008)	–	–	–
	2005	41,917,000	–	(21,097,000)	–	(5,570,000)	15,250,000
	2008	84,800,000	–	(45,000,000)	–	(5,000,000)	34,800,000
	2009 (a)	166,724,592	–	(54,592,592)	(5,000,000)	(24,430,000)	82,702,000
	2009 (b)	34,000,000	–	(10,000,000)	–	–	24,000,000
	2009 (c)	81,000,000	–	(10,000,000)	(10,000,000)	(17,000,000)	44,000,000
	2010	–	55,000,000	–	(1,500,000)	–	53,500,000
		441,719,000	55,000,000	(161,044,600)	(29,422,400)	(52,000,000)	254,252,000
Other eligible persons							
In aggregate	2005	23,280,000	–	(23,280,000)	–	–	–
	2008	15,000,000	–	–	–	–	15,000,000
	2009 (a)	8,500,000	–	(1,000,000)	–	–	7,500,000
		46,780,000	–	(24,280,000)	–	–	22,500,000
TOTAL		**760,307,980**	**60,000,000**	**(225,324,600)**	**(64,591,380)**	**–**	**530,392,000**

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

For the year ended 31 December 2009

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

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Details of the share options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
2000 (a)	16 February 2000	16 February 2000 to 15 February 2010	HK$0.619*
2000 (b)	2 November 2000	2 November 2000 to 1 November 2010	HK$0.343*
2004	5 January 2004	26 January 2004 to 4 January 2014	HK$0.144*
2005	9 August 2005	29 August 2005 to 8 August 2015	HK$0.102*
2008	6 February 2008	6 February 2008 to 5 February 2018	HK$0.114
2009 (a)	24 June 2009	24 June 2009 to 11 June 2013	HK$0.123
2009 (b)	10 July 2009	10 July 2009 to 11 June 2013	HK$0.185
2009 (c)	17 November 2009	17 November 2009 to 11 June 2013	HK$0.295
2010	14 April 2010	15 April 2010 to 11 June 2013	HK$0.368

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

Employee compensation expense of HK$8,282,000 (2009: HK$27,516,000) has been included in the profit or loss for the year ended 31 December 2010. It gave rise to an equity compensation reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

The fair values of the share options granted during the years ended 31 December 2010 and 2009 were determined using Binomial Option valuation model. Significant inputs into the model were as follows:

Share option type	2010	2009 (a)	2009 (b)	2009 (c)
Share price	HK$0.368	HK$0.123	HK$0.185	HK$0.295
Exercise price	HK$0.368	HK$0.123	HK$0.185	HK$0.295
Expected volatility	112.42%	110.14%	110.14%	114.75%
Expected option life (year)	3.16	3.97	3.92	3.57
Weighted average annual risk fee interest rate	1.336%	1.949%	1.55%	1.004%
Expected dividend yield	0%	0%	0%	0%
Suboptimal exercise factor	1.5	1.5	1.5	1.5

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

Notes to the Financial Statements

For the year ended 31 December 2010

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

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

	2010		2009	
	Number	Weighted average exercise price HK$	Number	Weighted average exercise price HK$
Outstanding at 1 January	**760,307,980**	**0.164**	407,063,388	0.151
Granted	**60,000,000**	**0.368**	472,400,592	0.169
Exercised	**(225,324,600)**	**0.129**	(67,156,000)	0.143
Expired/cancelled	**(64,591,380)**	**0.387**	(52,000,000)	0.141
Outstanding at 31 December	**530,392,000**	**0.174**	760,307,980	0.164

The share options exercised during the year resulted in an equal number of ordinary shares (see note 36). The weighted average share price of these shares at the date of exercise was HK$0.328 (2009: HK$0.254).

The share options outstanding at 31 December 2010 had exercise price of HK$0.102 to HK$0.368 (2009: HK$0.102 to HK$0.619) and a weighted average remaining contractual life of 3.3 years (2009: 4.7 years).

38. RESERVES

Group

	Share premium HK$'000	Translation reserve HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2010	**620,923**	**7,410**	**43,611**	**(1,021,727)**	**(349,783)**
At 31 December 2009	345,874	1,549	43,530	(770,256)	(379,303)

Notes to the Financial Statements

For the year ended 31 December 2010

38. RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	306,817	94,601	19,320	(776,178)	(355,440)
Loss and total comprehensive income for the year	–	–	–	(159,214)	(159,214)
Issuance of new shares	37,680	–	–	–	37,680
Share issue expense	(4,811)	–	–	–	(4,811)
Recognition of equity settled share-based compensation	–	–	27,516	–	27,516
Proceeds from shares issued under share option scheme	6,188	–	(3,306)	–	2,882
At 31 December 2009 and 1 January 2010	345,874	94,601	43,530	(935,392)	(451,387)
Loss and total comprehensive income for the year	–	–	–	(184,710)	(184,710)
Issuance of new shares	279,674	–	–	–	279,674
Share issue expense	(19,417)	–	–	–	(19,417)
Recognition of equity settled share-based compensation	–	–	8,282	–	8,282
Proceeds from shares issued under share option scheme	14,792	–	(8,201)	–	6,591
At 31 December 2010	**620,923**	**94,601**	**43,611**	**(1,120,102)**	**(360,967)**

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

Notes to the Financial Statements

For the year ended 31 December 2010

38. RESERVES *(Continued)*

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

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

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

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

The directors consider that the Company had no reserves available for distribution to shareholders as at 31 December 2010 (2009: Nil).

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

39. RELATED PARTY TRANSACTIONS

The directors represent the key management of the Group. During the year, the key management personnel compensations amounted to HK$13,761,000 (2009: HK$17,606,000). Further details of the remunerations to the directors of the Group are included in note 18 to the financial statements.

Save as disclosed above and elsewhere in the financial statement, the Group and the Company had no other related party transactions during the year (2009: Nil).

Notes to the Financial Statements

For the year ended 31 December 2010

40. COMMITMENTS

40.1 Capital commitments

	2010 HK$'000	2009 HK$'000
Contracted but not provided for		
Establishment of a subsidiary	**5,840**	5,681
Purchase of property, plant and equipment	**4,255**	–
Research and development projects	**36,036**	–
	46,131	5,681

The Company has no capital commitments as at 31 December 2010 (2009: Nil).

40.2 Lease commitments

As at 31 December 2010 and 2009, the Group lease certain offices and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years. None of the leases include contingent rentals. The total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**6,176**	3,929
After one year but within five years	**13,663**	13,288
After five years	**2,011**	6,110
	21,850	23,327

Notes to the Financial Statements

For the year ended 31 December 2010

40. COMMITMENTS *(Continued)*

40.2 Lease commitments *(Continued)*

As at 31 December 2010, the total future minimum lease payments payable under non-cancellable operating leases in respect of mineral mining leases of the Group are as follows:

	2010 HK$'000	2009 HK$'000
Within one year	350	–
After one year but within five years	2,331	–
	2,681	–

The Company has no lease commitments as at 31 December 2010 (2009: Nil).

41. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2010, the Group has executed a guarantee of RMB5,500,000 with respect to bank loans of a company owned by a director of GBS, a subsidiary of the Company. Under the guarantee, the Group would be liable to pay the bank if the bank is unable to recover the loans. The original loans amounts were RMB10,000,000. At 31 December 2010, the outstanding balances of the bank loans were RMB10,000,000 and the Group's maximum exposure under the financial guarantee contracts was RMB5,500,000 (equivalent to HK$6,424,000). No provision for the Group's obligation under the financial guarantee contracts has been made as the directors considered that it was not probable that the repayment of the loans would be in default.

The Group did not entered into any financial guarantee contracts as at 31 December 2010.

42. BANKING FACILITIES

At 31 December 2010, the banking facilities granted to the Group, were secured by the followings:

(a) pledge of bank deposit of HK$3,143,000 (2009: HK$806,000);

(b) corporate guarantee of RMB10,000,000 executed by a company owned by a director of GBS, a subsidiary of the Company (2009: Nil); and

(c) joint personal guarantee of RMB10,000,000 by a director of GBS and her close family member (2009: Nil).

Notes to the Financial Statements

For the year ended 31 December 2010

43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

43.1 In April 2010, the Group entered into an acquisition agreement (as subsequently supplemented by two supplemental agreements in April and June 2010 respectively) with independent third parties to acquire the entire equity interest of GBS. Pursuant to the agreements, the purchase consideration was satisfied by the issuance and allotment of 457,324,692 ordinary shares (the "Consideration Shares") by the Company and cash of RMB36,000,000. The acquisition was completed on 26 October 2010 and the fair value of the purchase consideration at the date of acquisition was amounted to HK$156,182,000. Following the acquisition, the Group owned the entire equity interest in GBS and obtained the control over GBS through the Group's right to nominate all the members of GBS's board of directors, and GBS becomes a wholly owned subsidiary of the Group. The acquisition of GBS was made with the aim to diversify the Group's business into the automotive sector.

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

	Fair values HK$'000	**Carrying amounts** HK$'000
Net assets acquired:		
Property, plant and equipment (note 19)	24,634	24,634
Intangible assets (note 24)	46,259	201
Inventories	16,385	16,385
Trade receivables	12,581	12,581
Bills receivables	1,324	1,324
Prepayment, deposits and other receivables	11,188	11,188
Pledged bank deposits	2,324	2,324
Cash and cash equivalents	4,705	4,705
Trade payables	(9,385)	(9,385)
Accruals and other payables	(25,472)	(25,472)
Borrowings	(12,782)	(12,782)
Bills payable	(2,324)	(2,324)
Deferred tax liability recognised upon fair value adjustment (note 35)	(6,909)	–
	62,528	23,379
Net cash outflow arising on acquisition:		
Cash consideration paid		(41,851)
Cash and cash equivalents acquired		4,705
Net cash outflow from acquisition of subsidiaries		(37,146)

Notes to the Financial Statements

For the year ended 31 December 2010

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

43.1 *(Continued)*

Details of net assets acquired and goodwill are as follows:

	HK$'000
Total purchase consideration	
Cash consideration paid	41,851
Consideration shares issued	114,331
	156,182
Fair value of net assets acquired	(62,528)
Goodwill (note 23(d))	93,654

Goodwill arose in the acquisition of GBS because the consideration paid for the combination effectively included amounts in relation to the benefit of production and quality control, revenue growth and future market development of GBS.

GBS contributed revenues of HK$13,967,000 and net profit of HK$1,359,000 to the Group for the period from 27 October 2010 to 31 December 2010. If the acquisition of GBS had been completed on 1 January 2010, Group's total revenue for the year would have been HK$62,221,000, and loss for the year would have been HK$254,620,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of what have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

43.2 In October 2010, the Group entered into a share subscription agreement with Nevada Gold Holdings Inc. ("NGHI") to subscribe for 30,000,000 private placement offering unit ("PPO unit") of NGHI, each PPO unit consists of one common shares and one warrant to purchase one share of common share of NGNI at US$0.1 per share, at the consideration of US$3,000,000 in cash. The subscription of NGHI's PPO units was completed on 29 October 2010. Following the completion of subscription, the Group owned 70.15% of the equity interests in NGHI and its subsidiaries (collectively the "NGHI Group") and obtained the control over NGHI through the Group's right to nominate the majority members in NGHI's board of directors, and NGHI Group becomes subsidiaries of the Group. The acquisition of NGHI Group was made with the aim for expansion of the existing natural resources business of the Group.

Notes to the Financial Statements

For the year ended 31 December 2010

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

43.2 *(Continued)*

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

	Fair values HK$'000	**Carrying amounts** HK$'000
Other receivables	294	294
Cash and cash equivalents	29,164	29,164
Trade payables	(975)	(975)
Other payables	(634)	(634)
Net assets	27,849	27,849
Non-controlling interests	(8,313)	
	19,536	
Net cash outflow arising on acquisition:		
Cash consideration paid		(23,400)
Cash and cash equivalents acquired		29,164
Net cash inflow from acquisition of subsidiaries		5,764

Details of net assets acquired and goodwill are as follows:

	HK$'000
Total purchase consideration	23,400
Fair value of net assets acquired	(19,536)
Goodwill (note 23(c))	3,864

Goodwill arose in the acquisition of NGHI Group because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies arising between the NGHI Group and the existing natural resources business of the Group.

Notes to the Financial Statements

For the year ended 31 December 2010

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

43.2 *(Continued)*

NGHI Group did not contribute revenues but net loss of HK$5,902,000 to the Group for the period from 29 October 2010 to 31 December 2010. If the acquisition of NGHI Group had been completed on 1 January 2010, there would be no impact to the Group's total revenue and the Group's loss for the year would have been HK$262,553,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of what have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

43.3 As mentioned in note 12.1, in 2009, the board of directors resolved that the Group would discontinue operation of indoor game centre and manufacture and sales of automobile axles business. Deregistration of the subsidiaries previously engaged in operation of indoor game centres and manufacture and sales of automobile axles (collectively the "Disposal Group") had been completed in 2010. The net liabilities of the Disposal Group at the date of deregistration were as follows:

	Carrying amounts HK$'000
Net assets disposed of:	
Property, plant and equipment (note 19)	75
Prepayment, deposits and other receivables	211
Accruals and other payables	(5,216)
Amount due to remaining group	(87,607)
	(92,537)
Non-controlling interests	–
	(92,537)
Written off of amounts due from the Disposal Group	87,607
Release of translation reserve	3,824
Gain on disposal of subsidiaries (note 12.2)	1,106
	–

Notes to the Financial Statements

For the year ended 31 December 2010

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

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

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

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

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– fair value of the Consideration Shares	12,480
Fair value of the net liabilities acquired	66
Goodwill (note 23(b))	12,546

	HK$'000
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	1,079

Notes to the Financial Statements

For the year ended 31 December 2010

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

43.4 *(Continued)*

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

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Interest rate risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(a) Interest rate risk *(Continued)*

	2010 **HK$'000**	2009 HK$'000
Increase of 50 basis points in interest rate	**Loss for the year decreases HK$736,000**	Loss for the year decreases HK$573,000
Decrease of 50 basis points in interest rate	**Loss for the year increases HK$736,000**	Loss for the year increases HK$573,000

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence for the whole year. The 50 basis points increase or decrease represents management's assessment of reasonably possible change in interest rates over the period until the next annual reporting date. The same basis of analysis was also performed at 31 December 2009.

(b) Credit risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(b) Credit risk *(Continued)*

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

As at 31 December 2010, save as the financial guarantee given by the Group as set out in note 41, the Group did not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the financial guarantee as at 31 December 2010 is disclosed in note 41. The Group did not provide any financial guarantee as at 31 December 2009.

(c) Foreign currency risk

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

(d) Liquidity risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(d) Liquidity risk *(Continued)*

As at 31 December 2010 and 31 December 2009, the Group's financial liabilities have contractual maturities which are summarised below:

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Repayable on demand HK$'000	Within one year HK$'000
At 31 December 2010				
Trade payables	11,214	11,214	–	11,214
Other payables	26,267	26,267	26,267	–
Amount due to a director	671	671	671	–
Borrowings	13,624	13,624	–	13,624
Bills payable	2,336	2,336	–	2,336
	54,112	**54,112**	**26,938**	**27,174**
Financial guarantees issued Maximum amount guaranteed (note 41)	**–**	**6,424**	**6,424**	**–**
At 31 December 2009				
Trade payables	99	99	–	99
Other payables	17,583	17,583	17,583	–
Amounts due to related parties	2,799	2,799	847	1,952
Amount due to a director	590	590	590	–
Borrowings	1,890	1,890	–	1,890
	22,961	22,961	19,020	3,941

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

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(e) Fair value

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

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2010 and 2009 may be categorised as follows. See notes 4.8 and 4.11 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	2010 **HK$'000**	2009 HK$'000
Loans and receivables:		
Deposits for management agreements (note 25)	**19,410**	17,686
Trade receivables	**27,683**	1,534
Bills receivable	**2,133**	–
Other receivables (note 28)	**13,568**	8,530
Loan receivable (note 28)	**–**	69,795
Cash and cash equivalents	**147,248**	114,714
Pledged bank deposits	**3,143**	806
	213,185	213,065

Notes to the Financial Statements

For the year ended 31 December 2010

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

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

(ii) Financial liabilities

	2010	2009
	HK$'000	HK$'000
Financial liabilities at amortised cost:		
Trade payables	**11,214**	99
Other payables (note 31)	**26,267**	17,583
Amounts due to related parties	**–**	2,799
Amounts due to directors	**671**	590
Borrowings	**13,624**	1,890
Bills payable	**2,336**	–
	54,112	22,961

45. CAPITAL MANAGEMENT

The Group's capital management objectives are:

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

(ii) to provide an adequate return to shareholders.

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

For capital management purpose, the management regards the total equity presented in the face of the statement of financial position as capital. The amount of total equity as at 31 December 2010 was HK$412,762,000 (2009: HK$228,042,000).

46. SIGNIFICANT NON-CASH TRANSACTION

For the year ended 31 December 2010, the Group has transferred a loan receivable of HK$69,795,000 to prepayments for research and development projects, of which HK$65,870,000 has been charged as research and development expenses during year. The remaining unutilised balance was included in the prepayment for research and development projects as at 31 December 2010.

Financial Summary

For the year ended 31 December 2010

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

Results

	Year ended 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Revenue					
Continuing operations	121	–	324	10,393	**28,608**
Discontinued operations	864,039	920,305	374,481	820	**–**
	864,160	920,305	374,805	11,213	**28,608**
Operating profit/(loss) before taxation					
Continuing operations	(30,873)	(17,379)	(68,263)	(126,773)	**(254,787)**
Discontinued operations	(84,962)	5,325	94,260	542	**1,106**
	(115,835)	(12,054)	25,997	(126,231)	**(253,681)**
Income tax (expense)/credit					
Continuing operations	(2)	–	(6)	–	**70**
Discontinued operations	(363)	(9,131)	(590)	(19)	**–**
	(365)	(9,131)	(596)	(19)	**70**
Profit/(loss) for the year					
Continuing operations	(30,875)	(17,379)	(68,269)	(126,773)	**(254,717)**
Discontinued operations	(85,325)	(3,806)	93,670	523	**1,106**
	(116,200)	(21,185)	25,401	(126,250)	**(253,611)**
Profit/(Loss) attribute to owners of the Company	(88,163)	(30,687)	35,206	(125,076)	**(251,471)**
Non-controlling interests	(28,037)	9,502	(9,805)	(1,174)	**(2,140)**
	(116,200)	(21,185)	25,401	(126,250)	**(253,611)**

Financial Summary

For the year ended 31 December 2010

Assets, liabilities and equity

	As at 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Total assets	365,458	409,394	285,780	267,170	**490,658**
Total liabilities	481,550	486,796	32,731	39,128	**77,896**
	(116,092)	(77,402)	253,049	228,042	**412,762**
Equity attribute to owners of the Company	(133,125)	(103,410)	230,717	203,518	**381,133**
Non-controlling interests	17,033	26,008	22,332	24,524	**31,629**
	(116,092)	(77,402)	253,049	228,042	**412,762**