HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(Stock Code: 01188)

Annual Report
2011

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Dr. Yeung Yung *(Chairman)*
Dr. Huang Chunhua *(Deputy Chairman)*
Dr. Wang Chuantao *(Chief Executive Officer)*
Mr. Liu Stephen Quan
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang
Dr. Zhang Zhenwei
Mr. Xu Jianguo
Mr. Li Zhengshan
Dr. Hong Shuguang
(resigned on 9 November 2011)
Dr. Wang Wei *(resigned on 26 May 2011)*

Non-executive Directors
Dr. Xia Tingkang, Tim
Dr. Zhu Guobin

Independent Non-Executive Directors
Mr. He Bangjie
Mr. Wong Lee Hing
Dr. Song Jian
Ms. Chan Fung Yi *(appointed on 7 June 2011)*
Mr. Ting Kwok Kit, Johnny
(retired with effect from 31 May 2011)

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
Wanchai
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 2011 (the "Year").

For the Year, the Group recorded a turnover of approximately HK$70.44 million, representing an increase of approximately 146.21% from HK$28.61 million in last year. Loss attributable to shareholders was approximately HK$191.18 million (loss of approximately HK$251.47 million in 2010). The loss for the Year was mainly attributable to the increased operating expenses in relation to the development of environmental automobile business. As the US and the European economic environment has been highly unstable, the Board expects the year 2012 will be a difficult year for many industries, including automobile industry. In order to survive under such circumstances, the Board decided to postpone the automobile project outside China and consolidate the Group's resources for better utilization. The Group will still explore the possibilities of environmental friendly vehicles and accessories markets.

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. In the coming years and barring any unforeseen circumstances, the Group will focus on the PRC automobile market.

We realize that the capacity on research, development and innovation is the key to reinforcing corporate competitiveness in the global automobile industry. 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. Currently, the Group is undergoing several important negotiations for co-operations in the research and development of certain auto-related technologies, details of which will be announced by the Company as and when appropriate.

Chairman's Statement

On 22 December 2011, the Group entered into a share transfer agreement with a connected person of the Company pursuant to which the Group proposed to dispose of the entire 65% equity interest held by the Group in Beijing Century Wanyeyuan Bio-Engineering Co., Ltd.*（北京世紀萬業源生物工程技術有限公司）(the "**Disposal**") as announced by the Company on 22 December 2011. The Disposal was approved by the independent shareholders of the Company on 16 March 2012. The Group believe that the Disposal will strengthen the cash position of the Group and enable the Group to focus on its environmental automobile business. Details of the Disposal are disclosed in the Company's circular dated 28 February 2012.

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 resources to explore investment opportunities around the globe.

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 2012

* For identification purpose only

Biographical Details of Directors

Below are the biographical detail of the Directors as at the date of this report.

EXECUTIVE DIRECTORS

Dr YEUNG Yung（仰融）, aged 54, 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 48, 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 58, 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 57, 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 44, 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 61, 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 Zhang Zhenwei (張振威), aged 45, 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 20 years' experience in the automotive industry in China.

Mr Xu Jianguo (徐建國), aged 44, 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 42, 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.

NON-EXECUTIVE DIRECTORS

Dr Xia Tingkang, Tim (夏廷康), aged 56, 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 50, 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 49, 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 Wong Lee Hing（王利興）, aged 43, 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 54, 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.

Ms Chan Fung Yi（陳鳳儀）, aged 47, was appointed an independent non-executive Director of the Company in June 2011. Ms Chan holds a Bachelor's degree in commercial accounting from Curtin University of Technology, Australia. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and a Certified Tax Adviser of The Taxation Institution of Hong Kong. Ms Chan has about 18 years of extensive experience in the business accounting and audit fields.

Directors' Report

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

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

The Group's turnover and loss attributable to shareholders for the Year amounted to HK$70.44 million (2010: HK$28.61 million) and HK$191.18 million (2010: loss of HK$251.47 million) respectively. The loss for the Year was mainly attributable to the general operating expenses and impairment of goodwill for the automobile battery business.

The general operating expenses for the Year decreased to HK$171.59 million (2010: HK$267.19 million) which consisted of the research and development expenses of HK$24.68 million (2010: HK$148.71 million), depreciation expenses of HK$12.83 million (2010: HK$4.92 million), share-based compensation of HK$30.89 million for share options granted during the Year (2010: HK$8.28 million) and salary expenses of HK$47.07 million (2010: HK$39.76 million).

(a) Environmental automobile and related business

Automobile Battery Business

The Group engages in the automobile battery business through the Company's wholly owned subsidiary, Zhejiang GBS Energy Co., Ltd.（浙江佳貝思綠色能源有限公司）("GBS"). For the Year, the turnover and the loss of this business segment were approximately HK$48.32 million (2010: HK$13.97 million) and HK$54.80 million (2010: profit of HK$1.39 million) respectively. The loss was mainly attributable to the impairment of goodwill for the business amounted to HK$59.54 million.

During the Year, mounting auto incidents happened in the PRC raised quality and safety concerns over both domestic as well as foreign autos and did affect the domestic market growth. Increasing costs of materials, manufacturing overhead and labour also had an impact on the profit margin and affected the performance of this business segment.

Directors' Report

Our automobile power battery business lacked buoyancy and weakened notably in 2011. The demand for automobile batteries for the Year was not as robust as expected. Although there were advancements in battery technology during the Year, the growth in this line of business of the Group was and would continue to be restrained until significant breakthroughs in battery architecture and technology for electric and hybrid vehicles can be made.

Environmental Automobile Business
For the Year, this business segment recorded a loss of approximately HK$39.57 million (2010: HK$166.65 million). The loss was mainly attributable to research and development expenditures of HK$20.90 million.

Dependence on imported oil exceeds 50% for both the US and China, and both countries are keen to promote the introduction and adoption in the mass market of hybrid and pure electric vehicles in order to reduce their dependence on oil through the grant of different types of purchase incentives for hybrid and electric vehicles such as tax credits, subsidies and other incentives. The overall impact of hybrid and electric vehicles on global automotive industry, however, are yet to be seen as significant. The key obstacle to revolutionize the automobile industry is the lack of suitable batteries to power hybrid and electric vehicles, which the Group has been actively in search for relentlessly.

(b) *Environmental products and related business*
For 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", together with its subsidiaries, the "Beijing Century Group"), a 65% owned subsidiary of the Company, recorded a turnover of approximately HK$22.13 million (2010: HK$14.64 million) and a profit of approximately HK$2.36 million (2010: Loss of HK$1.11 million).

Competition in the bio-organic fertilizer and environmental products business has been intense in the PRC market. The Board had re-evaluated the latest development of this business segment and the overall business environment and concluded that it is in the interests of the Company to discontinue the environmental products and related business of the Group. The business decision was carried out after arm-length's negotiation and the signing of the share transfer agreement by the Group with a connected person of the Company on 22 December 2011 pursuant to which the Group proposed to dispose (the "Disposal") of the Beijing Century Group. The Disposal was endorsed and approved by the independent shareholders of the Company at the special general meeting of the Company held on 16 March 2012. Please refer to the Company's announcements dated 22 December 2011 and 16 March 2012 and the Company's circular dated 28 February 2012 for details. The Disposal is expected to be completed in the first half of 2012 whereupon Beijing Century would cease to be a subsidiary of the Company and the Group would no longer have any interests in the Beijing Century Group.

Directors' Report

(c) Natural resources business

The Group carries on its natural resources business mainly through Jilin Shengshi Mining Ltd.（吉林晟世礦業有限公司）("Jilin Shengshi") and Nevada Gold Holdings, Inc., being the subsidiaries of the Company. For the Year, this business segment recorded no turnover (2010: NIL). This business segment recorded a loss of HK$19.41 million (2010: HK$6.28 million) which was mainly attributable to operating expenses incurred during the Year. 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. The development strategy for the Group's natural resources business and its business potential had been subject to constant review and evaluation by the Group during the Year.

Prospects

The global economic environment is volatile and the pace of recovery is expected to be slow. The economic downturn has great impact on the business development of the Group. With our shareholders' best interests in mind, prudence dictates us to rethink our business strategies, adapt our action plans or implementation timetable. The Group will slow-track the development of its automobile business in the US. Environmental protection is still the trend and greener vehicles like hybrid and electric automobiles are still gaining much attention. Growth will depend on the types of industry and governmental incentives put on the automobiles to encourage customers to buy. As the policies of the US government and the Chinese government towards hybrid and electric vehicles are overall positive and favourable, the Group remains optimistic about the business potential of its environmental automobile business.

There is still much room for improvement for the lithium-ion batteries currently available on the markets (including those made by the Group) as an efficient power source for hybrid or pure electric vehicles. In light of the above, we will postpone the automotive project in Alabama, the US and will reactivate the project when the new-generation hybrid and electric cars is designed or developed by the Group. The management of the Company has been actively searching for new batteries that are safe, cost effective with both high and power density and best suited for our hybrid and pure electric vehicles. We will revisit the Alabama project when suitable batteries are identified. The process of identifying suitable batteries is satisfactory as we have found a couple of potential manufacturers whose power batteries products may meet all the requisite characteristics for our hybrid and electric vehicles. Meanwhile, the Group will continue its efforts in partnering with expertise in the research and development of electric drivetrain systems.

Directors' Report

While the Company will continue its hybrid and electric vehicle development, the Board also considers it commercially sensible for the Company to broaden its business objectives to establish new businesses or acquire businesses with recurrent revenue and profitability and which will provide synergies or is complementary to the long-term business goal of the Company in becoming a pioneer and a market leader in the automobile industry in the world.

For the natural resources business, the Group will constantly review the development strategy for, and evaluate the business potential, of this sector of business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the total equity of the Group amounted to approximately HK$254.17 million (31 December 2010: HK$412.76 million). The gearing ratio of the Group as at 31 December 2011 measured in terms of total liabilities divided by shareholders' equity was approximately 43.95% (31 December 2010: 20.44%). As at 31 December 2011, net current assets of the Group were approximately HK$70.00 million (31 December 2010: HK$168.67 million). The pledged bank deposits were approximately HK$11.74 million (31 December 2010: HK$3.14 million) while the cash and cash equivalents amounted to HK$53.60 million (31 December 2010: HK$147.25 million). The Group also had outstanding borrowings of approximately HK$3.26 million (31 December 2010: HK$13.62 million).

PLEDGE OF THE GROUP ASSETS

As at 31 December 2011, bank deposits of HK$11.74 million and machinery of HK$26.66 million (31 December 2010: bank deposits of HK$3.14 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

Directors' Report

MATERIAL ACQUISITIONS AND DISPOSALS

Except for the entering into of a share transfer agreement on 22 December 2011 by the Group with a connected person for the disposal by the Group of its interests in the Beijing Century Group (which is principally engaged in the research and development in the field of bio-organic fertilizer for use in organic agriculture and the environmental products and related business) which was approved by the independent shareholders of the Company at the Company's special general meeting held on 16 March 2012, there was no material acquisitions and disposals of the Group occurred during the Year.

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.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 313 employees as at 31 December 2011 (2010: 328 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.

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 2011 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 137 to 138.

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 2011, 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	30.27%
Yeung Yung	Interest of controlled corporation (Note 2)	2,213,268,989	30.27%
	Beneficial owner (Note 3)	10,000,000	0.14%
		2,223,268,989	30.41%

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 7,312,159,756 Shares in issue as at 31 December 2011 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.

Directors' Report

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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 2011, 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	Number of Shares	Capacity	Approximate percentage of shareholding (Note 1)
Yeung Yung	2,213,268,989 (Note 2)	Controlled Corporation	
	10,000,000	Beneficial owner	
	2,223,268,989 (Note 3)		30.41%
Liu Stephen Quan	241,760,000 (Note 4)	Family interest	
	40,000,000	Beneficial owner	
	281,760,000		3.85%
Zhu Shengliang	5,333,883	Beneficial owner	0.07%
Hui Wing Sang, Wilson	2,904,000	Beneficial owner	0.04%
Li Zhengshan	8,700,000	Beneficial owner	0.12%

Directors' Report

Notes:

(1) The percentage of shareholding is calculated on the basis of 7,312,159,756 Shares in issue as at 31 December 2011 and did 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 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 the Shares held by Sun East LLC under Part XV of the SFO.

(3) The spouse of Dr Yeung Yung is deemed to be interested in the Shares beneficially held by Dr Yeung Yung By virtue of Part XV of the SFO.

(4) These Shares are held by Fortune Venture Holdings 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 the Shares held by his spouse through Fortune Venture Holdings Limited by virtue of Part XV of the SFO.

(2) Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise price (HK$)	Number of underlying Shares subject to outstanding Options	Approximate percentage of shareholding (Note)
Yeung Yung	9 August 2005	29 August 2005 to 8 August 2015	0.102	11,140,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	40,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	35,000,000	
				113,140,000	1.55%

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)
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	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	35,000,000	
				65,000,000	0.89%
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	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	20,000,000	
				45,000,000	0.62%
Liu Stephen Quan	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	0.14%
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	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	35,000,000	
				83,000,000	1.14%

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)
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	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	
				38,000,000	0.52%
Zhang Zhenwei	24 June 2009	24 June 2009 to 11 June 2013	0.123	7,500,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	15,000,000	
				22,500,000	0.31%
Xu Jianguo	15 April 2010	15 April 2010 to 11 June 2013	0.368	5,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	15,000,000	
				20,000,000	0.27%

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	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	15,000,000	
				30,000,000	0.41%
Xia Tingkang, Tim	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	0.14%
Zhu Guobin	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	0.14%
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%

Note:

The percentage of shareholding is calculated on the basis of 7,312,159,756 Shares in issue as at 31 December 2011.

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 2011.

Directors' Report

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme"), which is still in force, on 12 June 2003.

The following share options were outstanding under the Scheme during the period from 1 January to 31 December 2011:

Name or Category of Participant	As at 1 January 2011	Reclassification during the period	Share options Granted	Share options Lapsed/ cancelled during the year	Share options Exercised	As at 31 December 2011	Date of Grant	Exercise Price	Exercise Period
Director									
Yeung Yung	11,140,000	–	–	–	–	11,140,000	Note 1	Note 1	Note 1
	27,000,000	–	–	–	–	27,000,000	Note 2	Note 2	Note 2
	40,000,000	–	–	–	–	40,000,000	Note 3	Note 3	Note 3
	–	–	35,000,000	–	–	35,000,000	Note 8	Note 8	Note 8
Huang Chunhua	20,000,000	–	–	–	–	20,000,000	Note 3	Note 3	Note 3
	10,000,000	–	–	–	–	10,000,000	Note 5	Note 5	Note 5
	–	–	35,000,000	–	–	35,000,000	Note 8	Note 8	Note 8
Wang Chuantao	15,000,000	–	–	–	–	15,000,000	Note 3	Note 3	Note 3
	10,000,000	–	–	–	–	10,000,000	Note 5	Note 5	Note 5
	–	–	20,000,000	–	–	20,000,000	Note 8	Note 8	Note 8
Liu Stephen Quan	–	–	10,000,000	–	–	10,000,000	Note 8	Note 8	Note 8
Hui Wing Sang, Wilson	27,000,000	–	–	–	–	27,000,000	Note 2	Note 2	Note 2
	21,000,000	–	–	–	–	21,000,000	Note 3	Note 3	Note 3
	–	–	35,000,000	–	–	35,000,000	Note 8	Note 8	Note 8
Zhu Shengliang	16,710,000	–	–	–	–	16,710,000	Note 1	Note 1	Note 1
	1,290,000	–	–	–	–	1,290,000	Note 3	Note 3	Note 3
	10,000,000	–	–	–	–	10,000,000	Note 4	Note 4	Note 4
	–	–	10,000,000	–	–	10,000,000	Note 8	Note 8	Note 8
Zhang Zhenwei	7,500,000	–	–	–	–	7,500,000	Note 3	Note 3	Note 3
	–	–	15,000,000	–	–	15,000,000	Note 8	Note 8	Note 8
Xu Jianguo	5,000,000	–	–	–	–	5,000,000	Note 6	Note 6	Note 6
	–	–	15,000,000	–	–	15,000,000	Note 8	Note 8	Note 8
Li Zhengshan	5,570,000	–	–	–	–	5,570,000	Note 1	Note 1	Note 1
	5,000,000	–	–	–	–	5,000,000	Note 2	Note 2	Note 2
	4,430,000	–	–	–	–	4,430,000	Note 3	Note 3	Note 3
	–	–	15,000,000	–	–	15,000,000	Note 8	Note 8	Note 8

Directors' Report

Name or Category of Participant	As at 1 January 2011	Reclassification during the period	Share options Granted	Share options Lapsed/ cancelled during the year	Share options Exercised	As at 31 December 2011	Date of Grant	Exercise Price	Exercise Period
Xia Tingkang, Tim	–	–	10,000,000	–	–	10,000,000	Note 8	Note 8	Note 8
Zhu Guobin	–	–	10,000,000	–	–	10,000,000	Note 8	Note 8	Note 8
He Bangjie	2,000,000	–	–	–	–	2,000,000	Note 2	Note 2	Note 2
	4,000,000	–	–	–	–	4,000,000	Note 4	Note 4	Note 4
Ting Kwok Kit, Johnny	4,000,000	–	–	(4,000,000)	–	–	Note 4	Note 4	Note 4
Wang Wei	7,000,000	–	–	(7,000,000)	–	–	Note 5	Note 5	Note 5
	–	–	5,000,000	(5,000,000)	–	–	Note 8	Note 8	Note 8
Hong Shuguang	–	–	5,000,000	(5,000,000)	–	–	Note 8	Note 8	Note 8
Sub-Total	253,640,000	–	220,000,000	(21,000,000)	–	452,640,000			
Employee (in aggregate)	15,250,000	–	–	–	–	15,250,000	Note 1	Note 1	Note 1
	34,800,000	–	–	(400,000)	(3,000,000)	31,400,000	Note 2	Note 2	Note 2
	82,702,000	–	–	–	–	82,702,000	Note 3	Note 3	Note 3
	24,000,000	–	–	–	–	24,000,000	Note 4	Note 4	Note 4
	44,000,000	–	–	–	–	44,000,000	Note 5	Note 5	Note 5
	53,500,000	–	–	(2,000,000)	–	51,500,000	Note 6	Note 6	Note 6
	–	–	191,000,000	–	–	191,000,000	Note 8	Note 8	Note 8
	–	–	3,000,000	–	–	3,000,000	Note 9	Note 9	Note 9
Sub-Total	254,252,000	–	194,000,000	(2,400,000)	(3,000,000)	442,852,000			
Other eligible persons: (in aggregate)	15,000,000	–	–	–	–	15,000,000	Note 2	Note 2	Note 2
	7,500,000	–	–	–	–	7,500,000	Note 3	Note 3	Note 3
	–	–	40,000,000	–	–	40,000,000	Note 7	Note 7	Note 7
	–	–	160,000,000	–	–	160,000,000	Note 8	Note 8	Note 8
	–	–	65,000,000	–	–	65,000,000	Note 9	Note 9	Note 9
Sub-Total	22,500,000	–	265,000,000	–	–	287,500,000			
Total:	530,392,000	–	679,000,000	(23,400,000)	(3,000,000)	1,182,992,000			

Directors' Report

Notes:

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. These share options were granted on 12 April 2011 and are exercisable at a subscription price of HK$0.146 per share at any time during the period of 2.17 years from 12 April 2011 to 11 June 2013. The fair value of these share options at the date of grant was approximately amounted to HK$1.82 million.

   Fair value of share options granted on 12 April 2011 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 12/04/2011
Fair value	HK$0.045
Exercise price	HK$0.146
Expected volatility	100.26%
Life of the Share Option	2.17 years
Risk-free interest rate	0.726%

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.

8. These share options were granted on 26 May 2011 and are exercisable at a subscription price of HK$0.1338 per share at any time during the period of 2.05 years from 26 May 2011 to 11 June 2013. The fair value of these share options at the date of grant was approximately amounted to HK$25.88 million.

Fair value of share options granted on 26 May 2011 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 26/05/2011
Fair value	HK$0.045
Exercise price	HK$0.1338
Expected volatility	95.88%
Life of the Share Option	2.05 years
Risk-free interest rate	0.505%

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.

Directors' Report

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

9. These share options were granted on 7 June 2011 and are exercisable at a subscription price of HK$0.136 per share at any time during the period of 2.01 years from 7 June 2011 to 11 June 2013. The fair value of these share options at the date of grant was approximately amounted to HK$3.19 million.

Fair value of share options granted on 7 June 2011 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 07/06/2011
Fair value	HK$0.047
Exercise price	HK$0.136
Expected volatility	92.44%
Life of the Share Option	2.01 years
Risk-free interest rate	0.439%

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.

Directors' Report

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

1) Purpose of the 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 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;

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

h) any joint venture partner or business alliance that cooperates with any member of the Group or any Invested Entity in any area of business operation or development.

Directors' Report

3)	Maximum entitlement of each participant under the 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: 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

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

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

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	23.29%
– The five largest customers in aggregate	47.85%

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

– The largest supplier	11.51%
– The five largest suppliers in aggregate	17.31%

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.

Directors' Report

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.

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 for the year ended 31 December 2011 were audited by BDO Limited. 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 2012

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 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 2011 (the "Year"), the Company had complied with the code provisions and certain recommended best practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviation regarding code E1.2 of the CG Code in which 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 (the "2011 AGM") of the Company held on 31 May 2011 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 2011 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, 7 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 2011 unless otherwise specified below):

Name

Executive Directors

Dr. Yeung Yung *(Chairman)*
Dr. Huang Chunhua *(Deputy Chairman)*
Dr. Wang Chuantao *(Chief Executive Officer)*
Mr. Liu Stephen Quan
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang
Dr. Zhang Zhenwei
Mr. Xu Jianguo
Mr. Li Zhengshan
Dr. Hong Shuguang *(resigned on 9 November 2011)*
Dr. Wang Wei *(resigned on 26 May 2011)*

Non-executive Directors

Dr. Xia Tingkang, Tim
Dr. Zhu Guobin

Independent Non-Executive Directors

Mr. He Bangjie
Mr. Wong Lee Hing
Dr. Song Jian
Ms. Chan Fung Yi *(appointed on 7 June 2011)*
Mr. Ting Kwok Kit, Johnny *(retired with effect from 31 May 2011)*

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/herself 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, (1) Dr Huang Chunhua; (2) Mr Hui Wing Sang, Wilson; (3) Dr Zhang Zhenwei; (4) Mr He Bangjie; and (5) Dr Song Jian (collectively, the "Retiring Directors") will retire. Except for Mr He Bangjie who has indicated to the Company of his intention to retire and not to offer himself for re-election at the forthcoming annual general meeting to be convened and held on 23 May 2012 (the "AGM"), each of the remaining Retiring Directors, being eligible, will offer himself for re-election at the AGM.

The reason for Mr He Bangie's retirement is that he would like to devote more time and efforts in his personal affairs. Mr He has confirmed to the Board that he had no disagreement with the Board and that there is no other matter in relation to his retirement as Director that needs to be brought to the attention of the shareholders of the Company.

By virtue of Bye-law 86(2) of the Bye-laws, the office of Ms Chan Fung Yi would end at the AGM. She being eligible, would offer herself 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 as member of and actively participating on matters delegated by the Board to the committee(s) established by the Board, 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 2011, the Chairman of the Company was Dr Yeung Yung. The Deputy Chairman of the Company was Dr. Huang Chunhua and the Chief Executive Officer ("CEO") of the Company was Dr. Wang Chuantao.

Corporate Governance Report

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 of the Company assists the Chairman of the Company in carrying out his 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 raised 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/she has a proper understanding of the operations and business of the Group and that he/she acquaints himself/herself with the common law duties and responsibilities of acting as a director for a listed company and familiarise himself/herself 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/her 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/she can contribute sufficient time and effort to the corporate affairs of the Company once he/she 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.

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.

Corporate Governance Report

As at 31 December 2011, the Audit Committee comprised three independent non-executive Directors (namely Ms. Chan Fung Yi, Mr. He Bangjie and Mr. Wong Lee Hing), and the chairman of the Audit Committee as at the date of this report was Ms. Chan Fung Yi.

Two meetings of the Audit Committee were held for the year ended 31 December 2011. The individual attendance of each member is set out below:

Name of Member	Number of meetings attended	
Mr. He Bangjie	2/2	
Mr. Wong Lee Hing	2/2	
Ms. Chan Fung Yi *(appointed on 7 June 2011)*	1/2	(a)
Mr. Ting Kwok Kit, Johnny *(retired with effect from 31 May 2011)*	1/2	(b)

(a) One meeting was held since Ms. Chan Fung Yi was appointed on 7 June 2011.

(b) Mr. Ting Kwok Kit, Johnny retired with effect from 31 May 2011 and attended one meeting before his retirement in the Year.

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 2011

- Reviewed with management the unaudited interim financial statement for the six months ended 30 June 2011

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 2011, the Company has paid an audit fee of HK$1.18 million in relation to audit services and has paid HK$0.1 million in relation to non-audit services. The auditor's remunerations were approved by the audit committee and endorsed by the Board.

Remuneration Committee

The Company has set up the Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. As at 31 December 2011, the Remuneration Committee comprised Mr. He Bangjie and Mr. Wong Lee Hing, both being independent non-executive Directors and Dr. Yeung Yung, being the Chairman of the Board and an executive Director, was the Chairman of the Remuneration Committee.

Corporate Governance Report

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/her own remuneration.

Name of Member	Number of meetings attended	
Dr. Yeung Yung	1/1	
Mr. He Bangjie	1/1	
Mr. Wong Lee Hing	1/1	
Ms. Chan Fung Yi	0/1	(c)

(c) No meeting was held since Ms. Chan Fung Yi was appointed as a member of the Remuneration Committee on 30 March 2012.

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. As at 31 December 2011, the Nomination Committee was comprised Mr. He Bangjie and Mr. Wong Lee Hing, both being independent non-executive Directors, and Dr. Yeung Yung, being the Chairman of the Board and an executive Director, was the Chairman of the Nomination Committee.

Name of Member attended	Number of meetings attended	
Dr. Yeung Yung	1/1	
Mr. He Bangjie	1/1	
Mr. Wong Lee Hing	1/1	
Ms. Chan Fung Yi	0/1	(d)

(d) No meeting was held since Ms. Chan Fung Yi was appointed as a member of the Nomination Committee on 30 March 2012.

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	6/7	
Dr. Huang Chunhua	2/7	
Dr. Wang Chuatao	5/7	
Mr. Liu Stephen Quan	4/7	
Mr. Hui Wing Sang, Wilson	7/7	
Dr. Zhu Shengliang	6/7	
Dr. Zhang Zhenwei	6/7	
Mr. Xu Jianguo	5/7	
Mr. Li Zhengshan	4/7	
Dr. Hong Shuguang *(resigned on 9 November 2011)*	1/7	(e)
Dr. Wang Wei *(resigned on 26 May 2011)*	2/7	(f)
Non-executive Directors		
Dr. Xia Tingkang, Tim	5/7	
Dr. Zhu Guobin	5/7	
Independent Non-executive Directors		
Mr. He Bangjie	5/7	
Mr. Wong Lee Hing	7/7	
Dr. Song Jian	5/7	
Ms. Chan Fung Yi *(appoited on 7 June 2011)*	4/7	(g)
Mr. Ting Kwok Kit, Johnny *(retired with effect from 31 May 2011)*	3/7	(h)

(e) Dr. Hong Shuguang resigned on 9 November 2011 and attended one meetings before his resignation in the Year.

(f) Dr. Wang Wei resigned on 26 May 2011 and attended two meetings before his resignation in the Year.

(g) Four meetings were held since Ms. Chan Fung Yi was appointed on 7 June 2011.

(h) Mr. Ting Kwok Kit retired with effect from 31 May 2011 and attended three meetings before his retirement in the Year.

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 39 to 136, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 of the Group as at 31 December 2011 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
Hong Kong

30 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Revenue	7	**70,440**	28,608
Cost of sales		**(41,581)**	(13,575)
Gross profit		**28,859**	15,033
Other income	8	**5,395**	3,457
Distribution costs		**(8,054)**	(4,303)
General operating expenses		**(171,591)**	(267,186)
Impairment of goodwill	10	**(63,406)**	–
Change in fair value of other financial asset	44	**16,000**	–
Finance costs	9	**(496)**	(1,788)
Loss before income tax	10	**(193,293)**	(254,787)
Income tax (expense)/credit	11	**(292)**	70
Loss for the year from continuing operations		**(193,585)**	(254,717)
Discontinued operations			
Profit for the year from discontinued operations	12	**–**	1,106
Loss for the year		**(193,585)**	(253,611)
Other comprehensive income	13		
– Exchange differences on translation of financial statements of foreign subsidiaries		**3,331**	2,969
– Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries		**–**	3,824
Other comprehensive income for the year		**3,331**	6,793
Total comprehensive income for the year		**(190,254)**	(246,818)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Loss for the year attributable to:			
Owners of the Company	14	**(191,178)**	(251,471)
Non-controlling interests		**(2,407)**	(2,140)
		(193,585)	(253,611)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(187,871)**	(245,610)
Non-controlling interests		**(2,383)**	(1,208)
		(190,254)	(246,818)
(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(2.61) cents**	HK(3.82) cents
Loss per share – diluted		**N/A**	N/A
From continuing operations			
Loss per share – basic		**HK(2.61) cents**	HK(3.84) cents
Loss per share – diluted		**N/A**	N/A
From discontinued operations			
Earnings per share – basic		**N/A**	HK0.02 cent
Earnings per share – diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	**68,169**	73,505
Prepaid land lease payments	20	**1,391**	758
Available-for-sale financial asset	22	**–**	–
Goodwill	23	**34,112**	97,518
Intangible assets	24	**51,450**	59,698
Prepayments and deposits	25	**19,097**	19,410
Other financial asset	44	**16,000**	–
		190,219	250,889
Current assets			
Inventories	26	**33,934**	15,589
Trade receivables	27	**31,985**	27,683
Bills receivable		**–**	2,133
Prepayments, deposits and other receivables	28	**29,950**	43,973
Pledged bank deposits	29	**11,735**	3,143
Tax recoverable		**1,405**	–
Cash and cash equivalents	29	**53,595**	147,248
		162,604	239,769
Current liabilities			
Trade payables	30	**26,779**	11,214
Accruals and other payables	31	**39,982**	43,212
Amounts due to directors	33	**723**	671
Borrowings	34	**3,262**	13,624
Bills payable		**21,856**	2,336
Tax payable		**–**	45
		92,602	71,102
Net current assets		**70,002**	168,667
Total assets less current liabilities		**260,221**	419,556

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Deferred tax liabilities	35	**6,056**	6,794
Net assets		**254,165**	412,762
EQUITY			
Equity attributable to owners of the Company			
Share capital	36	**731,216**	730,916
Reserves	38	**(506,722)**	(349,783)
		224,494	381,133
Non-controlling interests		**29,671**	31,629
Total equity		**254,165**	412,762

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	**228**	399
Interests in subsidiaries	21	**8,665**	21,138
		8,893	21,537
Current assets			
Amounts due from subsidiaries	21	**227,906**	326,707
Prepayments, deposits and other receivables	28	**1,143**	5,111
Cash and cash equivalents		**2,747**	29,009
		231,796	360,827
Current liabilities			
Accruals and other payables		**10,796**	12,415
		10,796	12,415
Net current assets		**221,000**	348,412
Net assets		**229,893**	369,949
EQUITY			
Share capital	36	**731,216**	730,916
Reserves	38	**(501,323)**	(360,967)
Total equity		**229,893**	369,949

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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 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
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 and at 1 January 2011	730,916	620,923	7,410	43,611	(1,021,727)	381,133	31,629	412,762
Transaction with owners								
Recognition of equity settled share-based compensation	–	–	–	30,890	–	30,890	–	30,890
Proceeds from shares issued under share options scheme	300	203	–	(161)	–	342	–	342
Capital contribution from non-controlling interests	–	–	–	–	–	–	425	425
Total transactions with owners	300	203	–	30,729	–	31,232	425	31,657
Loss for the year	–	–	–	–	(191,178)	(191,178)	(2,407)	(193,585)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	–	–	3,307	–	–	3,307	24	3,331
Total comprehensive income	–	–	3,307	–	(191,178)	(187,871)	(2,383)	(190,254)
At 31 December 2011	**731,216**	**621,126**	**10,717**	**74,340**	**(1,212,905)**	**224,494**	**29,671**	**254,165**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
(Loss)/Profit before income tax			
Continuing operations		**(193,293)**	(254,787)
Discontinued operations		**–**	1,106
Total		**(193,293)**	(253,681)
Adjustments for :			
Gain on disposal of subsidiaries	43.3	**–**	(1,106)
Share-based compensation		**30,890**	8,282
Interest income		**(452)**	(619)
Imputed interest income on long-term non-interest bearing deposits		**(1,340)**	(1,207)
Interest expense		**496**	1,788
Discount on initial recognition of long-term non-interest bearing deposits		**2,439**	–
Depreciation of property, plant and equipment		**18,049**	11,367
Amortisation of intangible assets		**8,707**	4,938
Amortisation of prepaid land lease payments		**33**	26
Impairment of goodwill		**63,406**	–
Impairment of trade receivables		**6,660**	–
(Gain)/loss on disposal of property, plant and equipment		**(450)**	22
Research and development expenses	47	**20,900**	65,870
Change in fair value of other financial asset	44	**(16,000)**	–
Operating loss before working capital changes		**(59,955)**	(164,320)
(Increase)/Decrease in inventories		**(18,345)**	853
Increase in trade receivables		**(10,962)**	(13,568)
Decrease/(Increase) in bills receivable		**2,133**	(809)
Increase in other receivables, prepayments and deposits		**(6,877)**	(14,454)
Increase in trade payables		**15,565**	755
Decrease in accruals and other payables		**(3,230)**	(11,428)
Increase in bills payable		**19,520**	12
Cash used in operations		**(62,151)**	(202,959)
Interest paid		**(496)**	(1,788)
Income tax paid		**(2,480)**	–

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Net cash used in operating activities		**(65,127)**	(204,747)
Cash flows from investing activities of continuing and discontinued operations			
Net cash outflow from acquisition of subsidiaries	43.1, 43.2	**–**	(31,382)
Purchase of property, plant and equipment		**(19,517)**	(31,045)
Purchase of prepaid land lease payments		**(647)**	(784)
Interest received		**452**	619
Proceeds from disposal of property, plant and equipment		**8,660**	–
Net cash used in investing activities		**(11,052)**	(62,592)
Cash flows from financing activities of continuing and discontinued operations			
Proceeds from issuance of share capital		**342**	320,029
Share issue expenses		**–**	(19,417)
Decrease in amounts due to related parties		**–**	(2,799)
Repayment of borrowings		**(10,362)**	(1,000)
Increase in amounts due to directors		**52**	81
Decrease in pledged bank deposits		**(8,592)**	(13)
Net cash (used in)/generated from financing activities		**(18,560)**	296,881
Net (decrease)/increase in cash and cash equivalents		**(94,739)**	29,542
Cash and cash equivalents at 1 January		**147,248**	114,714
Effect of exchange rate fluctuation		**1,086**	2,992
Cash and cash equivalents at 31 December		**53,595**	147,248
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**53,595**	147,248

Notes to the Financial Statements

For the year ended 31 December 2011

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").

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 2011 were approved for issue by the board of directors on 30 March 2012.

Notes to the Financial Statements

For the year ended 31 December 2011

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 ("HKFRS"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

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 (Amendments) – Business Combinations

As part of the improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

Notes to the Financial Statements

For the year ended 31 December 2011

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.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 27 (2011)	Separate Financial Statements[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
HKFRS 9	Financial Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015

Notes to the Financial Statements

For the year ended 31 December 2011

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

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the 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.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis.

HKFRS 9 – Financial Instruments

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, classification 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 2011

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

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

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements.

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

Notes to the Financial Statements

For the year ended 31 December 2011

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 except for financial instruments at fair value through profit or loss are stated at fair values. The measurement base 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 2011

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.

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 that represent present ownership interest in the subsidiary 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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

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.

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 that represent present ownership interests in the subsidiary 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.

Notes to the Financial Statements

For the year ended 31 December 2011

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 2011

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 2011

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 2011

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Research and development costs

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

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

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

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

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

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

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

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

All other development costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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
- Financial assets at fair value through profit or loss

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

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

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

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

(i) Loans and receivables

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

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

(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.

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.

(iii) Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

(iii) Financial assets at fair value through profit or loss *(Continued)*

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

(i) *Financial assets carried at amortised cost*

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

(iii) Financial assets carried at cost

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 directors. They are included in line items in the statement of financial position as trade payables, accruals and other payables, borrowings, amounts 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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial liabilities *(Continued)*

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.

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 2011

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 2011

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.

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

Subsidy income is recognised when the right to receive payment is established.

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 2011

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 2011

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.20 Accounting for income taxes *(Continued)*

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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:

(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.

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Segment reporting *(Continued)*

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, amounts due to director and deferred tax liabilities.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.23 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.23 Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4.24 Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Notes to the Financial Statements

For the year ended 31 December 2011

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 critical estimates and judgements 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 those 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 at the higher of value-in-use and fair value less costs to sell. The value-in-use 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 2011

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 2011

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.

Fair value of other financial asset

The directors use their judgement in selecting an appropriate valuation technique to measure the fair value of the profit guarantee in relation to a business combination as disclosed in note 44, which is a financial instrument not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

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.

Further details regarding the results of these discontinued operations of indoor game centres and manufacture and sales of automobile axles, which had been fully disposed of during the year ended 31 December 2010, are set out in note 12.

Notes to the Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2011

	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	22,125	–	48,315	–	70,440
Segment results	2,359	(19,405)	(54,796)	(39,573)	(111,415)
Unallocated corporate income and expense, net					(50,988)
Share-based compensation					(30,890)
Loss before income tax					(193,293)
Income tax expense					(292)
Loss for the year					(193,585)
Segment assets	70,035	21,442	198,262	11,700	301,439
Unallocated corporate assets					51,384
Total assets					352,823
Segment liabilities	4,330	9,418	46,922	8,800	69,470
Unallocated corporate liabilities					19,147
Borrowings					3,262
Amounts due to directors					723
Deferred tax liabilities					6,056
Total liabilities					98,658
Other segment information					
Interest income	246	29	–	7	282
Depreciation	(1,710)	(693)	(4,510)	(1,342)	(8,255)
Amortisation	(3,801)	–	(4,939)	–	(8,740)
Impairment of goodwill	–	(3,864)	(59,542)	–	(63,406)
Impairment of trade receivables	–	–	(6,660)	–	(6,660)
Change in fair value of other financial assets	–	–	16,000	–	16,000

Notes to the Financial Statements

For the year ended 31 December 2011

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)					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 2011

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		Non-current assets (other than financial assets)	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
– Hong Kong (domicile)	**–**	3,803	**500**	996
– PRC	**40,455**	20,588	**133,998**	190,732
– United States ("US")	**16,415**	3,469	**20,624**	39,751
– Other locations	**13,570**	748	**–**	–
Total	**70,440**	28,608	**155,122**	231,479

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 physical location of the asset.

For the year ended 31 December 2011, revenues from transactions with one customer (2010: two customers) from the lithium-ion power batteries business segment (2010: environmental products and related business segment) amounted to 10% or more of the Group's revenue. The amount of revenue from this customer amounted to HK$16,405,000 (2010: HK$4,350,000 and HK$3,470,000 from two customers respectively).

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

Notes to the Financial Statements

For the year ended 31 December 2011

7. REVENUE

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

	2011 HK$'000	2010 HK$'000
Sales of lithium-ion power batteries	**48,315**	13,967
Sales of bioorganic fertilizer	**22,125**	14,641
	70,440	28,608

8. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Bank interest income	**452**	619
Gain on disposal of property, plant and equipment	**450**	–
Imputed Interest income on long-term non-interest bearing deposit	**1,340**	1,207
Subsidy income	**539**	673
Other service income	**271**	913
Recovery of bad debts written off	**1,420**	–
Miscellaneous	**923**	45
	5,395	3,457

9. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on borrowings repayable within five years:		
Bank loans	**496**	1,788

Notes to the Financial Statements

For the year ended 31 December 2011

10. LOSS BEFORE INCOME TAX

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

	2011 HK$'000	2010 HK$'000
Auditor's remuneration	**1,443**	1,179
Share-based compensation	**30,890**	8,282
Depreciation of property, plant and equipment	**18,049**	11,367
Amortisation of prepaid land lease payments	**33**	26
Amortisation of intangible assets (included in general operating expenses)	**8,707**	4,938
Impairment of goodwill	**63,406**	–
Change in fair value of other financial asset	**(16,000)**	–
Impairment of trade receivables	**6,660**	–
Research and development expenses	**24,684**	148,708
Gain on disposal of subsidiaries (note 43.3)	**–**	(1,106)
(Gain)/Loss on disposal of property, plant and equipment	**(450)**	22
Discount on initial recognition of long-term non-interest bearing deposits	**2,439**	–
Cost of inventories recognised as expenses	**41,581**	13,575
Operating lease charges in respect of land and buildings	**7,820**	4,328
Operating lease charges in respect of mineral mining lease	**350**	40

Notes to the Financial Statements

For the year ended 31 December 2011

11. INCOME TAX EXPENSE/CREDIT

For the years ended 31 December 2011 and 2010, 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. Income tax expense/(credit) for the year was as follows:

	2011 **HK$'000**	2010 HK$'000
Current Tax – PRC		
– Tax for the year	**1,030**	45
Deferred tax – PRC (note 35)	**(738)**	(115)
Income tax expense/(credit)	**292**	(70)

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

	2011 **HK$'000**	2010 HK$'000
(Loss)/Profit before income tax		
Continuing operations	**(193,293)**	(254,787)
Discontinued operations	**–**	1,106
	(193,293)	(253,681)
Tax on (loss)/profit before tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	**(27,824)**	(49,934)
Tax effect of non-deductible expenses	**31,337**	50,648
Tax effect of non-taxable income	**(3,221)**	(683)
Tax effect of prior years' tax losses utilised this year	**–**	(101)
Income tax expense/(credit)	**292**	(70)

Notes to the Financial Statements

For the year ended 31 December 2011

12. DISCONTINUED OPERATIONS

Since 2009, the Group presented the indoor game centre and manufacture and sales of automobile axles business as discontinued operations in accordance with HKFRS 5. In 2010, deregistration of the subsidiaries previously engaged in operation of indoor game centre and manufacture and sales of automobile axles business had been completed. Upon completion of deregistration, the Group has recognised a gain of HK$1,106,000 in respect of disposal of subsidiaries, which was wholly attributable to owners of the Company. For the year ended 31 December 2010, no income and expense has been generated from these discontinued operations.

13. OTHER COMPREHENSIVE INCOME

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

	2011 HK$'000	2010 HK$'000
Exchange differences on translation of financial statements of foreign subsidiaries	**3,331**	2,969
Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries	**–**	3,824
	3,331	6,793

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year of HK$191,178,000 (2010: HK$251,471,000) attributable to the owners of the Company, a loss of HK$171,288,000 (2010: HK$184,710,000) 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 2011 (2010: Nil) and the Company did not declare any interim dividend during the year (2010: Nil).

Notes to the Financial Statements

For the year ended 31 December 2011

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

	2011 HK$'000	2010 HK$'000
(Loss)/Profit attributable to the owners of the Company for the purpose of basic (loss)/earnings per share		
Continuing operations	**(191,178)**	(252,577)
Discontinued operations	**–**	1,106
Total loss from continuing and discontinued operations	**(191,178)**	(251,471)

Number of shares

	2011 Number of shares '000	2010 Number of shares '000
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**7,311,034**	6,590,938

Diluted (loss)/earnings per share amount for both year's continuing and discontinued operations were 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 increase loss per share from continuing operations attributable to owners of the Company.

After the reporting date in February 2012, the Company has allotted and issued 1,460,000,000 new ordinary shares. Details of the allotment of ordinary shares were set out in note 48(ii).

17. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2011 HK$'000	2010 HK$'000
Wages and salaries	**54,514**	39,569
Pension costs – defined contribution plans	**1,354**	1,288
Other benefits	**1,242**	902
Share-based payments	**18,771**	8,282
	75,881	50,041

Notes to the Financial Statements

For the year ended 31 December 2011

18. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2011

	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	–	1,587	5,175
Mr. Liu Stephen Quan	80	–	–	453	533
Mr. Hui Wing Sang, Wilson	80	1,548	12	1,587	3,227
Dr. Zhu Shengliang	80	936	–	453	1,469
Dr. Wang Chuantao	–	1,560	–	907	2,467
Dr. Huang Chunhua	78	1,560	–	1,587	3,225
Dr. Zhang Zhenwei	78	936	–	680	1,694
Mr. Xu Jianguo	78	936	–	680	1,694
Mr. Li Zhengshan	78	936	–	680	1,694
Dr. Wang Wei (resigned on 26 May 2011)	–	468	–	227	695
Dr. Hong Shuguang (resigned on 9 November 2011)	–	683	–	227	910
Non-executive directors					
Dr. Xia Tingkang Tim	156	–	–	453	609
Dr. Zhu Guobin	156	–	–	453	609
Independent non-executive directors					
Mr. He Bangjie	78	–	–	–	78
Mr. Wong Lee Hing	80	–	–	–	80
Mr. Ting Kwok Kit, Johnny (retired on 31 May 2011)	33	–	–	–	33
Dr. Song Jian	183	–	–	–	183
Ms. Chan Fung Yi (appointed on 7 June 2011)	47	–	–	–	47
	1,363	13,073	12	9,974	24,422

Notes to the Financial Statements

For the year ended 31 December 2011

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

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 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

Five highest paid individuals

For both the years ended 31 December 2011 and 2010, 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 (2010: Nil).

During the year ended 31 December 2011, there was no arrangement under which the directors waived or agreed to waive their remuneration (2010: Nil).

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For the year ended 31 December 2011

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 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
Year ended 31 December 2011								
Opening net book amount	3,959	2,862	5,268	4,937	–	25,112	31,367	73,505
Additions	40	60	2,948	744	–	13,117	2,608	19,517
Disposals	–	–	(30)	–	–	–	(8,180)	(8,210)
Transfers	2,725	(2,725)	–	–	–	–	–	–
Depreciation	(214)	–	(1,723)	(1,420)	–	(3,788)	(10,904)	(18,049)
Exchange differences	160	112	(26)	32	–	842	286	1,406
Closing net book amount	6,670	309	6,437	4,293	–	35,283	15,177	68,169
At 31 December 2011								
Cost	6,998	309	11,095	8,384	–	44,729	53,820	125,335
Accumulated depreciation and impairment	(328)	–	(4,658)	(4,091)	–	(9,446)	(38,643)	(57,166)
Net book amount	**6,670**	**309**	**6,437**	**4,293**	**–**	**35,283**	**15,177**	**68,169**

At 31 December 2011, the Group's machinery with carrying amount of HK$26,656,000 (2010: Nil) was pledged to secure general banking facilities granted to the Group (note 42).

At 31 December 2011, the Group has not yet obtained the title certificates for its leasehold buildings in the PRC with carrying amount of approximately HK$6,670,000 (2010: HK$3,959,000). The directors are now in process of obtaining the title certificates from the relevant government authorities.

Notes to the Financial Statements

For the year ended 31 December 2011

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 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
Year ended 31 December 2011			
Opening net book amount	207	192	399
Additions	5	–	5
Depreciation	(55)	(121)	(176)
Closing net book amount	157	71	228
At 31 December 2011			
Cost	341	607	948
Accumulated depreciation and impairment	(184)	(536)	(720)
Net book amount	**157**	**71**	**228**

Notes to the Financial Statements

For the year ended 31 December 2011

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:

	2011 HK$'000	2010 HK$'000
Opening net carrying amount	758	–
Addition	647	784
Annual charges of prepaid operating lease payment	(33)	(26)
Exchange differences	19	–
Closing net carrying amount	1,391	758

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	196,083	196,083
Less: Impairment	(187,418)	(174,945)
	8,665	21,138
Amounts due from subsidiaries	685,128	683,929
Less: Impairment	(457,222)	(357,222)
	227,906	326,707

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

Notes to the Financial Statements

For the year ended 31 December 2011

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

Movement in the provision for impairment of the investment cost in subsidiaries is as follows:

	2011 HK$'000	2010 HK$'000
At 1 January	**174,945**	269,746
Impairment loss charged to profit or loss	**12,473**	–
Reversal upon deregistration of subsidiaries	**–**	(94,801)
At 31 December	**187,418**	174,945

Movement in the provision for impairment of the amounts due from subsidiaries is as follows:

	2011 HK$'000	2010 HK$'000
At 1 January	**357,222**	363,048
Impairment loss charged to profit or loss	**100,000**	–
Reverse upon deregistration of subsidiaries	**–**	(5,826)
At 31 December	**457,222**	357,222

The directors have assessed impairment for investment cost and amounts due from subsidiaries. Further impairment of HK$12,473,000 and HK$100,000,000 in respect of the investment costs and amounts due from subsidiaries have been identified and recognised in the profit or loss of the Company for the year ended 31 December 2011.

Notes to the Financial Statements

For the year ended 31 December 2011

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

Particulars of the Company's principal subsidiaries as at 31 December 2011 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 protection 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 protection 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

Notes to the Financial Statements

For the year ended 31 December 2011

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
河南萬業源肥業有限公司 (Henan Wanyeyuan Fertilizers Co., Limited)	PRC, limited liability company	RMB1,000,000	65	Distribution 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
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 to the Financial Statements

For the year ended 31 December 2011

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

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 2011 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 a 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.

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 2011 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 2011 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.

Notes to the Financial Statements

For the year ended 31 December 2011

22. AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

	2011 **HK$'000**	2010 HK$'000
Available-for-sale financial asset		
Unlisted equity investment in PRC, at cost	**2,231**	2,231
Impairment	**(2,231)**	(2,231)
	–	–

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.

Notes to the Financial Statements

For the year ended 31 December 2011

23. GOODWILL – GROUP

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

	HK$'000
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 (note a)	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
For the year ended 31 December 2011	
Net carrying amount at beginning of year	97,518
Impairment losses recognised in the year (note b)	(63,406)
Net carrying amount	34,112
At 31 December 2011	
Gross carrying amount	110,634
Accumulated impairment	(76,522)
Net carrying amount	**34,112**

Notes to the Financial Statements

For the year ended 31 December 2011

23. GOODWILL – GROUP *(Continued)*

Notes:

(a) 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 cash-generating unit ("CGU") that are expected to benefit from the acquisition.

Goodwill of HK$93,654,000 arose during the year ended 2010 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.

(b) The recoverable amounts for the CGUs as mentioned in note (a) were determined based on the higher of value-in-use estimation and fair value less costs to sell of the CGUs by the directors of the Company. The key assumptions for value-in-use estimation applied by the Group have been determined by the Group's management based on past performance and its expectations for the industry development.

Goodwill arising from acquisition of GBS (Lithium-ion power batteries business)

The directors have reviewed the impairment for the goodwill generated from the acquisition of GBS. The recoverable amount of that 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 3% (2010: 3%) which does not exceed the long-term growth rate for the business in which GBS operates. The cash flow is discounted using a discount rate of 20.1% (2010: 21.9%). The discount rate used is pre-tax and reflect specific risks relating the CGU. Pursuant to the value-in-use calculations, an impairment loss of HK$59,542,000 is recognised in profit or loss as the carrying amount of the CGU exceeds its recoverable amount. The lithium-ion power batteries business lacked buoyancy and weakened notably during the year ended 31 December 2011.

Goodwill arising from acquisition of NGHI (Natural resources business)

In view of the unpredictable performance of the natural resources business, the directors have determined to impair the goodwill related to the acquisition of NGHI of HK$3,864,000 and such impairment is recognised in the profit or loss for the year ended 31 December 2011.

Notes to the Financial Statements

For the year ended 31 December 2011

24. INTANGIBLE ASSETS – GROUP

	Technical know-how HK$'000	Patents HK$'000	Total HK$'000
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
Year ended 31 December 2011			
Opening net carrying amount	11,948	47,750	59,698
Amortisation	(2,898)	(5,809)	(8,707)
Exchange realignment	347	112	459
Closing net carrying amount	9,397	42,053	51,450
At 31 December 2011			
Cost	20,151	50,541	70,692
Accumulated amortisation	(10,754)	(8,488)	(19,242)
Net carrying amount	**9,397**	**42,053**	**51,450**

Notes to the Financial Statements

For the year ended 31 December 2011

25. PREPAYMENTS AND DEPOSITS – GROUP

	2011 HK$'000	2010 HK$'000
Deposits for management agreements (note)	**19,097**	19,410

Note: The deposits for management agreements are non-interest bearing, unsecured and repayable in 2012 and 2014 respectively. The directors believe that the Group will renew the management agreements and therefore the balances are classified as non-current assets.

26. INVENTORIES – GROUP

	2011 HK$'000	2010 HK$'000
Raw materials	**2,872**	2,682
Work in progress	**11,271**	2,006
Finished goods	**19,791**	10,901
	33,934	15,589

27. TRADE RECEIVABLES – GROUP

	2011 HK$'000	2010 HK$'000
Trade receivables	**38,645**	27,683
Less: Provision for impairment	**(6,660)**	–
Trade receivables, net	**31,985**	27,683

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.

Notes to the Financial Statements

For the year ended 31 December 2011

27. TRADE RECEIVABLES – GROUP *(Continued)*

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

	2011 HK$'000	2010 HK$'000
At 1 January	**–**	–
Impairment loss charged to profit or loss	**6,660**	–
At 31 December	**6,660**	–

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 2011, based on the invoice date, is as follows :

	2011 HK$'000	2010 HK$'000
0 – 30 days	**11,240**	11,772
31 – 90 days	**7,124**	9,146
91 – 180 days	**5,385**	4,694
Over 180 days	**8,236**	2,071
	31,985	27,683

Notes to the Financial Statements

For the year ended 31 December 2011

27. TRADE RECEIVABLES – GROUP *(Continued)*

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

	2011 **HK$'000**	2010 HK$'000
Neither past due nor impaired	**18,364**	20,918
1 – 90 days past due	**5,385**	4,694
Over 90 days past due	**8,236**	2,071
	13,621	6,765
	31,985	27,683

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

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Prepayments to suppliers	**628**	6,335	**–**	–
Other receivables	**22,412**	13,568	**297**	302
Prepayment for research and development projects	**–**	20,900	**–**	3,925
Other prepayments	**6,910**	3,170	**846**	884
	29,950	43,973	**1,143**	5,111

29. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2011, pledged deposits and cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$43,136,000 (2010: HK$40,818,000). 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.

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30. TRADE PAYABLES

The ageing analysis of the trade payables of the Group as at 31 December 2011, based on the invoice date, is as follows :

	2011 HK$'000	2010 HK$'000
0 – 180 days	**12,788**	8,145
Over 180 days	**13,991**	3,069
	26,779	11,214

31. ACCRUALS AND OTHER PAYABLES – GROUP

	2011 HK$'000	2010 HK$'000
Deposits received from customers	**2,415**	2,597
Accrued staff costs	**770**	1,573
Other payables	**34,763**	26,267
Other accrued expenses	**2,034**	12,775
	39,982	43,212

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.

	2011 HK$'000	2010 HK$'000
Current obligations on:		
– pension – defined contribution plans	**83**	14

There were no forfeited contributions during the year (2010: Nil).

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For the year ended 31 December 2011

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 2011, the Group's contributions were approximately HK$1,354,000 (2010: HK$1,288,000). There was no (2010: Nil) forfeited contribution used to offset the Group's contribution during the year and there was no material forfeited contribution available as at the reporting date to reduce the Group's contribution payable in future periods.

33. AMOUNTS DUE TO DIRECTORS – GROUP

	2011 **HK$'000**	2010 HK$'000
Amounts due to directors	**723**	671

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

Notes to the Financial Statements

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34. BORROWINGS – GROUP

	2011 HK$'000	2010 HK$'000
Bank loans repayable within one year	–	11,680
Other loans repayable within one year	3,262	1,944
	3,262	13,624

Bank loans are interest bearing at a fixed interest rate of 5.87% (2010: 5.87%) per annum. 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 2010	–
Acquisition of subsidiaries (note 43.1)	6,909
Credited to profit or loss (note 11)	(115)
At 31 December 2010 and 1 January 2011	6,794
Credited to profit or loss (note 11)	(738)
At 31 December 2011	**6,056**

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 2011, the Group had unused tax losses of HK$5,974,000 (2010: HK$6,764,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. These 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$6,655,000 (2010: 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.

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36. SHARE CAPITAL

	2011 Number of shares	2011 Amount HK$'000	2010 Number of shares	2010 Amount HK$'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	**7,309,159,756**	**730,916**	5,828,210,464	582,821
Placement of shares during the year (note i)	**–**	**–**	798,300,000	79,830
Issuance of shares for acquisition of a subsidiary (note ii)	**–**	**–**	457,324,692	45,732
Shares issued from the share options scheme (note iii)	**3,000,000**	**300**	225,324,600	22,533
At 31 December	**7,312,159,756**	**731,216**	7,309,159,756	730,916

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) During the years ended 31 December 2011 and 2010, the issued share capital of the Company was increased due to the exercise of share options by the directors and employees of the Group 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 2011

37. SHARE-BASED 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 2011

37. SHARE-BASED COMPENSATION *(Continued)*

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

For the year ended 31 December 2011

		Number of share options				
	Share option type	At 1 January 2011	Granted during the year	Exercised during the year	Expired/ forfeited during the year	At 31 December 2011
Directors						
Dr. Yeung Yung	2005	11,140,000	–	–	–	11,140,000
	2008	27,000,000	–	–	–	27,000,000
	2009 (a)	40,000,000	–	–	–	40,000,000
	2011 (b)	–	35,000,000	–	–	35,000,000
Mr. Liu Stephen Quan	2011 (b)	–	10,000,000	–	–	10,000,000
Mr. Hui Wing Sang, Wilson	2008	27,000,000	–	–	–	27,000,000
	2009 (a)	21,000,000	–	–	–	21,000,000
	2011 (b)	–	35,000,000	–	–	35,000,000
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
	2011 (b)	–	10,000,000	–	–	–
Dr. Wang Chuantao	2009 (a)	15,000,000	–	–	–	15,000,000
	2009 (c)	10,000,000	–	–	–	10,000,000
	2011 (b)	–	20,000,000	–	–	20,000,000
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
	2011 (b)	–	15,000,000	–	–	15,000,000
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
	2011 (b)	–	15,000,000	–	–	15,000,000
Dr. Zhang Zhenwei	2009 (a)	7,500,000	–	–	–	7,500,000
	2011 (b)	–	15,000,000	–	–	15,000,000
Dr. Huang Chunhua	2009 (a)	20,000,000	–	–	–	20,000,000
	2009 (c)	10,000,000	–	–	–	10,000,000
	2011 (b)	–	35,000,000	–	–	35,000,000
Dr. Wang Wei	2009 (c)	7,000,000	–	–	(7,000,000)	–
	2011 (b)	–	5,000,000	–	(5,000,000)	–
Dr. Hong Shuguang	2011 (b)	–	5,000,000	–	(5,000,000)	–
Dr. Xia Tingkang, Tim	2011 (b)	–	10,000,000	–	–	10,000,000
Dr. Zhu Guobin	2011 (b)	–	10,000,000	–	–	10,000,000
		253,640,000	220,000,000	–	(21,000,000)	452,640,000

Notes to the Financial Statements

For the year ended 31 December 2011

37. SHARE-BASED COMPENSATION *(Continued)*

For the year ended 31 December 2011 *(Continued)*

		Number of share options				
	Share option type	At 1 January 2011	Granted during the year	Exercised during the year	Expired/ forfeited during the year	At 31 December 2011
Employees						
In aggregate	2005	15,250,000	–	–	–	15,250,000
	2008	34,800,000	–	(3,000,000)	(400,000)	31,400,000
	2009 (a)	82,702,000	–	–	–	82,702,000
	2009 (b)	24,000,000	–	–	–	24,000,000
	2009 (c)	44,000,000	–	–	–	44,000,000
	2010	53,500,000	–	–	(2,000,000)	51,500,000
	2011 (b)	–	191,000,000	–	–	191,000,000
	2011 (c)	–	3,000,000	–	–	3,000,000
		254,252,000	194,000,000	(3,000,000)	(2,400,000)	442,852,000
Other eligible persons						
In aggregate	2005	–	–	–	–	–
	2008	15,000,000	–	–	–	15,000,000
	2009 (a)	7,500,000	–	–	–	7,500,000
	2011 (a)	–	40,000,000	–	–	40,000,000
	2011 (b)	–	160,000,000	–	–	160,000,000
	2011 (c)	–	65,000,000	–	–	65,000,000
		22,500,000	265,000,000	–	–	287,500,000
TOTAL		530,392,000	679,000,000	(3,000,000)	(23,400,000)	1,182,992,000

Notes to the Financial Statements

For the year ended 31 December 2011

37. SHARE-BASED COMPENSATION *(Continued)*

For the year ended 31 December 2010

	Share option type	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	Expired/ forfeited 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 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
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 2011

37. SHARE-BASED 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
2011 (a)	12 April 2011	12 April 2011 to 11 June 2013	HK$0.146
2011 (b)	26 May 2011	26 May 2011 to 11 June 2013	HK$0.1338
2011 (c)	7 June 2011	7 June 2011 to 11 June 2013	HK$0.136

* Following the issue of right shares on 1 February 2008, the exercise prices of share options were adjusted from HK$0.160 and HK$0.114 to 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.

Share-based compensation expense of HK$30,890,000 (2010: HK$8,282,000) has been included in the profit or loss for the year ended 31 December 2011. It gave rise to an equity compensation reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

Notes to the Financial Statements

For the year ended 31 December 2011

37. SHARE-BASED COMPENSATION *(Continued)*

The fair values of the share options granted during the years ended 31 December 2011 and 2010 were determined using Binomial Option valuation model. Significant inputs into the model were as follows:

Share option type	2011 (a)	2011 (b)	2011 (c)	2010
Share price	HK$0.146	HK$0.1310	HK$0.136	HK$0.368
Exercise price	HK$0.146	HK$0.1338	HK$0.136	HK$0.368
Expected volatility	100.26%	95.88%	92.44%	112.42%
Expected option life (year)	2.166	2.045	2.012	3.16
Weighted average annual risk fee interest rate	0.726%	0.505%	0.439%	1.336%
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.

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

	2011		2010	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Outstanding at 1 January	**530,392,000**	**0.174**	760,307,980	0.164
Granted	**679,000,000**	**0.135**	60,000,000	0.368
Exercised	**(3,000,000)**	**0.114**	(225,324,600)	0.129
Expired/forfeited	**(23,400,000)**	**0.211**	(64,591,380)	0.387
Outstanding at 31 December	**1,182,992,000**	**0.142**	530,392,000	0.174

Notes to the Financial Statements

For the year ended 31 December 2011

37. SHARE-BASED COMPENSATION *(Continued)*

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$0.14 (2010: HK$0.328).

The share options outstanding at 31 December 2011 had exercise price of HK$0.102 to HK$0.368 (2010: HK$0.102 to HK$0.368) and a weighted average remaining contractual life of 2.3 years (2010: 3.3 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 2011	**621,126**	**10,717**	**74,340**	**(1,212,905)**	**(506,722)**
At 31 December 2010	620,923	7,410	43,611	(1,021,727)	(349,783)

Notes to the Financial Statements

For the year ended 31 December 2011

38. RESERVES *(Continued)*

Company

	Share premium HK$'000	Translation reserve HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	345,874	94,601	43,530	(935,392)	(451,387)
Loss and total comprehensive loss 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 and 1 January 2011	620,923	94,601	43,611	(1,120,102)	(360,967)
Loss and total comprehensive loss for the year	–	–	–	(171,288)	(171,288)
Recognition of equity settled share-based compensation	–	–	30,890	–	30,890
Proceeds from shares issued under share option scheme	203	–	(161)	–	42
At 31 December 2011	**621,126**	**94,601**	**74,340**	**(1,291,390)**	**(501,323)**

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 2011

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 2011 (2010: 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$24,422,000 (2010: HK$13,761,000). 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 statements, the Group and the Company had no other related party transactions during the year (2010: Nil).

Notes to the Financial Statements

For the year ended 31 December 2011

40. COMMITMENTS

40.1 Capital commitments

Group	2011 HK$'000	2010 HK$'000
Contracted but not provided for		
Establishment of a subsidiary	**6,071**	5,840
Purchase of property, plant and equipment	**97**	4,255
Research and development projects	**36,036**	36,036
	42,204	46,131

The Company has no capital commitments as at 31 December 2011 (2010: Nil).

40.2 Lease commitments

As at 31 December 2011 and 2010, 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:

Group	2011 HK$'000	2010 HK$'000
Within one year	**7,401**	6,176
After one year but within five years	**14,047**	13,663
After five years	**–**	2,011
	21,448	21,850

Notes to the Financial Statements

For the year ended 31 December 2011

40. COMMITMENTS *(Continued)*

40.2 Lease commitments *(Continued)*

As at 31 December 2011, the total future minimum lease payments payable under non-cancellable operating leases in respect of mineral mining leases of the Group are as follows:

Group	2011 HK$'000	2010 HK$'000
Within one year	**466**	350
After one year but within five years	**2,331**	2,331
	2,797	2,681

The Company has no lease commitments as at 31 December 2011 (2010: Nil).

41. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2011, 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. The maximum amount guaranteed under this financial guarantee was equivalent to HK$6,678,000 (2010: HK$6,424,000). As at 31 December 2011, the said bank loans were fully settled and the Group has no exposure under the financial guarantee contract. The financial guarantee contract will expire on 24 June 2012.

Notes to the Financial Statements

For the year ended 31 December 2011

42. BANKING FACILITIES

At 31 December 2011, the general banking facilities granted to the Group were secured by the followings:

(a) pledge of bank deposit of HK$11,735,000 (2010: HK$3,143,000);

(b) corporate guarantee of RMB10,000,000 executed by a company owned by a director of GBS, a subsidiary of the Company (2010: RMB 10,000,000);

(c) joint personal guarantee of RMB10,000,000 by a director of GBS and her close family member (2010: RMB 10,000,000); and

(d) pledge of machinery of HK$26,656,000 (2010: Nil).

43. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group has no acquisition or disposal of subsidiaries during the year ended 31 December 2011.

Details of acquisition and disposal of subsidiaries during the year ended 31 December 2010 are as follows.

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.

Notes to the Financial Statements

For the year ended 31 December 2011

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

43.1 *(Continued)*

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	(6,909)	–
	62,528	23,379

	HK$'000
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 2011

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(a))	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.

Notes to the Financial Statements

For the year ended 31 December 2011

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

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 share and one warrant to purchase one share of common share of NGHI 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.

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	

Notes to the Financial Statements

For the year ended 31 December 2011

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

43.2 *(Continued)*

	HK$'000
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(a))	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. 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.

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For the year ended 31 December 2011

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

43.3 As mentioned in note 12, 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)	1,106
	–

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For the year ended 31 December 2011

44. OTHER FINANCIAL ASSET

	2011 HK$'000	2010 HK$'000
Profit guarantee in relation to the acquisition of GBS	**16,000**	–

As mentioned in note 43.1, in 2010, the Group entered into an acquisition agreement (as subsequently supplemented by two supplemental agreements) with independent third parties (the "GBS Vendors") to acquire the entire equity interest of GBS. Pursuant to the agreements, the GBS Vendors have given a profit guarantee (the "Profit Guarantee") to the Group as follows:

(1) for the financial year ending 31 December 2010, the profit before tax of GBS shall not be less than RMB5 million;

(2) for the financial year ending 31 December 2011, the profit before tax of GBS shall not be less than RMB25 million;

(3) for the financial year ending 31 December 2012, the profit before tax of GBS shall not be less than RMB30 million;

(4) for the financial year ending 31 December 2013, the profit before tax of GBS shall not be less than RMB35 million.

As security for the attainment of the Profit Guarantee, the GBS Vendors have placed 200,000,000 of the Consideration Shares (the "Retained Shares") in a custodian account of the Group.

If the profit before tax of GBS recorded for any of the financial years during the profit guaranteed period is less than the amount of the Profit Guarantee given by the GBS Vendors (the "Shortfall"), the Group shall be at liberty and at such time and in such manner which the directors considered to be in the Group's best interests to dispose of or otherwise deal with the Retained Shares or any part thereof.

Notes to the Financial Statements

For the year ended 31 December 2011

44. OTHER FINANCIAL ASSET *(Continued)*

The number of Retained Shares to be sold is determined at a share price of the issued ordinary shares of the Company which is (i) HK$0.358 each (the contract price as stated in the acquisition agreement) or (ii) the same as the closing price on 31 December of the relevant financial year in which the Profit Guarantee is to be achieved, whichever is the higher. Any shortfall in the Profit Guarantee will be compensated on a dollar-for-dollar basis, subject to a cap equivalent to 100% of the net proceeds derived from the disposal of the Retained Shares. The Group is not entitled to claim beyond the capped amount if such capped amount is not sufficient to cover the shortfall in the Profit Guarantee.

The Profit Guarantee was stated at fair value with the corresponding gain or loss being recognised in profit or loss for the year.

45. 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.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Interest rate risk *(Continued)*

	2011	2010
Increase of 50 basis points in interest rate	**Loss for the year decreases HK$268,000**	Loss for the year decreases HK$736,000
Decrease of 50 basis points in interest rate	**Loss for the year increases HK$268,000**	Loss for the year increases HK$736,000

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 2010.

(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 2011

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(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 2011, 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 is disclosed in note 41.

(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 2011

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

As at 31 December 2011 and 31 December 2010, 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 2011				
Trade payables	**26,779**	**26,779**	–	26,779
Other payables	**34,763**	**34,763**	34,763	–
Amounts due to directors	**723**	**723**	723	–
Borrowings	**3,262**	**3,262**	–	3,262
Bills payable	**21,856**	**21,856**	–	21,856
	87,383	**87,383**	35,486	51,897
Financial guarantees issued Maximum amount guaranteed (note 41)	**–**	**6,678**	6,678	–
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	–

Notes to the Financial Statements

For the year ended 31 December 2011

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

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

(e) Fair value

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

(f) Equity price risk

The Group is exposed to equity price risk arising from using the share price of the Company's issued ordinary share capital as input to measure the fair value of the Profit Guarantee classified under other financial asset.

It is estimated that a general increase/decrease of 30% of the share price of the Company's issued ordinary share capital, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses as below.

	2011 HK$'000	2010 HK$'000
Increase of 30% of the share price of the Company's issued ordinary shares	**Loss for the year decreases HK$4,800,000**	Loss for the year decreases Nil
Decrease of 30% of the share price of the Company's issued ordinary shares	**Loss for the year increases HK$4,800,000**	Loss for the year increases Nil

Notes to the Financial Statements

For the year ended 31 December 2011

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(g) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2011 and 2010 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

	2011 HK$'000	2010 HK$'000
Other financial asset	**16,000**	–
Loans and receivables:		
Deposits for management agreements	**19,097**	19,410
Trade receivables	**31,985**	27,683
Bills receivable	**–**	2,133
Other receivables	**22,412**	13,568
Cash and cash equivalents	**53,595**	147,248
Pledged bank deposits	**11,735**	3,143
	138,824	213,185
	154,824	213,185

(ii) Financial liabilities

	2011 HK$'000	2010 HK$'000
Financial liabilities at amortised cost:		
Trade payables	**26,779**	11,214
Other payables	**34,763**	26,267
Amounts due to directors	**723**	671
Borrowings	**3,262**	13,624
Bills payable	**21,856**	2,336
	87,383	54,112

Notes to the Financial Statements

For the year ended 31 December 2011

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(h) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial assets carried at fair value by level of fair value hierarchy.

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that is not based on observable market data (unobservable inputs).

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
– Other financial asset	16,000	–	–	16,000

	2010			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
– Other financial asset	–	–	–	–

There was no transfer between Levels 1 and 2 of the fair value hierarchy for both years.

Notes to the Financial Statements

For the year ended 31 December 2011

46. CAPITAL MANAGEMENT

The Group's capital management objectives are:

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

(ii) to provide an adequate return to shareholders.

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

For capital management purpose, the management regards the total equity presented in the face of the statement of financial position as capital. The amount of total equity as at 31 December 2011 was HK$254,165,000 (2010: HK$412,762,000). The Group's capital management objectives remain unchanged in both years.

47. SIGNIFICANT NON-CASH TRANSACTION

During the year ended 31 December 2011, the prepayment for research and development projects of HK$20,900,000 has been utilised as research and development expenses and recognised in the profit or loss for the year.

In 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.

Notes to the Financial Statements

For the year ended 31 December 2011

48. POST REPORTING DATE EVENTS

In addition to those disclosed in these financial statements, the Group had the followings events after 31 December 2011:

(i) On 22 December 2011, the Group entered into a conditional agreement with a non-controlling shareholder of its subsidiary, Beijing Century Wanyeyuan Bio-Engineering Co., Limited ("Beijing Century") to propose a disposal of the Group's 65% equity interests in Beijing Century and its subsidiaries (collectively "Beijing Century Group"). The proposed disposal of Beijing Century Group (the "Proposed Disposal") constitutes a major and connected transaction under Listing Rules and subject to approval by the Company's independent shareholders. In the special general meeting held on 16 March 2012, the Company's independent shareholders have approved the Proposed Disposal. Details of the Proposed Disposal were set out in the Company's circular dated 28 February 2012 and announcement dated 16 March 2012.

Beijing Century Group was principally engaged in development and sales of bioorganic fertilizers and environmental protection products, in which its results, assets and liabilities have been classified as environmental products and related business in the Group's segment information for both years.

The gross cash proceeds from disposal of Beijing Century Group was approximately HK$50.4 million. The management expects the aforementioned disposal will be completed in the first half of 2012 whereupon Beijing Century Group would cease to be subsidiaries of the Group.

(ii) On 27 January 2012, the Group entered into agreements with five subscribers (the "Subscribers") pursuant to which the Group has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for, an aggregate of 1,460,000,000 new shares at the subscription price of HK$0.10 per subscription share. The subscription of shares was completed on 20 February 2012 and the gross cash proceeds of HK$146,000,000 have been received by the Group. Details of the subscription of shares were set out in the Company's announcements dated 27 January 2012 and 20 February 2012.

Financial Summary

For the year ended 31 December 2011

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

Results

	Year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011** **HK$'000**
Revenue					
Continuing operations	–	324	10,393	28,608	**70,440**
Discontinued operations	920,305	374,481	820	–	**–**
	920,305	374,805	11,213	28,608	**70,440**
Operating profit/(loss) before taxation					
Continuing operations	(17,379)	(68,263)	(126,773)	(254,787)	**(193,293)**
Discontinued operations	5,325	94,260	542	1,106	**–**
	(12,054)	25,997	(126,231)	(253,681)	**(193,293)**
Income tax (expense)/credit					
Continuing operations	–	(6)	–	70	**(292)**
Discontinued operations	(9,131)	(590)	(19)	–	**–**
	(9,131)	(596)	(19)	70	**(292)**
Profit/(loss) for the year					
Continuing operations	(17,379)	(68,269)	(126,773)	(254,717)	**(193,585)**
Discontinued operations	(3,806)	93,670	523	1,106	**–**
	(21,185)	25,401	(126,250)	(253,611)	**(193,585)**
Profit/(Loss) attribute to owners of the Company	(30,687)	35,206	(125,076)	(251,471)	**(191,178)**
Non-controlling interests	9,502	(9,805)	(1,174)	(2,140)	**(2,407)**
	(21,185)	25,401	(126,250)	(253,611)	**(193,585)**

Financial Summary

For the year ended 31 December 2011

Assets, liabilities and equity

	As at 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011** **HK$'000**
Total assets	409,394	285,780	267,170	490,658	**352,823**
Total liabilities	486,796	32,731	39,128	77,896	**98,658**
	(77,402)	253,049	228,042	412,762	**254,165**
Equity attribute to owners of the Company	(103,410)	230,717	203,518	381,133	**224,494**
Non-controlling interests	26,008	22,332	24,524	31,629	**29,671**
	(77,402)	253,049	228,042	412,762	**254,165**