Fulbond Holdings Limited
福邦控股有限公司*
(Stock Code: 1041)

Annual Report 2010

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Mr. Zhang Xi
(Chairman)
Ms. Catherine Chen
(Managing Director)
Mr. Yeung Kwok Yu
Mr. Chiu Kong
(appointed on 2 July 2010, retired on 20 July 2010 and re-appointed on 20 July 2010)
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Lee Sun Man
(passed away on 18 March 2011)
Mr. Chen Guang Lin
(appointed on 28 March 2011)

Independent Non-executive Directors:
Mr. Hong Po Kui, Martin
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

BOARD COMMITTEES

Audit Committee
Ms. Ma Yin Fan
(Chairlady)
Mr. Hong Po Kui, Martin
Mr. Leung Hoi Ying
Mr. Yu Pan

Remuneration Committee
Mr. Hong Po Kui, Martin
(Chairman)
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan
Mr. Zhang Xi

COMPANY SECRETARY

Mr. Chow Kim Hang

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER

Messrs. Tung & Co.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2807, 28th Floor
The Center
99 Queen's Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE

1041

WEBSITE

www.fulbond.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the financial results of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for the financial year ended 31 December 2010.

FINANCIAL RESULTS

For the year ended 31 December 2010, the Group's revenue from timber business ("continuing operations") and food processing and distribution business ("discontinued operations") decreased to approximately US$15,387,000 from approximately US$53,661,000 in last year, such a tumble was mainly due to the exclusion of revenue generated from the food processing business since its being disposed of by the Group at early of the year.

Net loss in the fair value on derivative financial instruments and warrants through profit or loss reflected a loss of approximately US$94,019,000. Because of this, the Group recorded an overall loss of approximately US$100,845,000 in the financial year ended 31 December 2010.

Loss for the year attributable to owners of the Company amounted to approximately US$100,630,000, increased by approximately US$46,753,000 or 86.78% from US$53,877,000 in last year.

BUSINESS REVIEW

During the year under review, given the unfolding of European debt crisis and the continued shrinkage in demand from the international market, major economic entities such as Europe and the United States were generally impeded by a weak internal growth. With the rise in domestic labour costs and material costs, the Group was left little room to adjust product price and was forced to bear the extra costs. The squeezes on gross profit as well as operating profit resulted from the inflexibility to adjust selling price contributed part of the Group's loss for the year.

A Remarkable Year

The year 2010 did not only represent a year of difficulties but also a year of change for the Group.

Besides the cutting off of the loss business in the food process industry, we also extended our scope to include property development business. On 13 August 2010, the Group acquired the entire issued share capital in and the shareholder's loan of Allywing Investments Limited ("Allywing") for a consideration of approximately RMB285 million (equivalent to approximately US$42 million). Allywing owns 60% equity interests in Xi'an Yuansheng Enterprises Limited ("Xi'an Yuansheng") which in turn holds the land use and development rights of two pieces of land (the "Land") located at Caotan Nongchang Dong Qu, Weiyang District, Xi'an City, the People's Republic of China ("PRC").

CHAIRMAN'S STATEMENT

FUTURE PLANS AND PROSPECTS

Upon completion of the acquisition of Allywing and Xi'an Yuansheng, we commenced our groundwork on the new business immediately. With the few months of operations, we are glad to see the potential growth in value of the development site as recent district development plans indicates that the surrounding areas of the Land will have substantial developments including commercial areas, exhibition centre, luxury hotel and other high class buildings.

For property development business, the Group expects that PRC government will maintain a rather stringent control policy on property sector within a certain period in the future. However, having considered such long-term factors as the continuous growth in the economy of PRC, unceasing acceleration of urbanization and the appreciation in value of RMB, the Group remains cautious yet positive view towards the prospects of property development business in PRC.

Looking forward, we keep our eyes on the Greater China market, especially those industries encouraged by various measures of the PRC government while at the same time we will put possible efforts to advance the Group's portfolio to extensively enhance our number of growth engines. In February 2011, the Company announced its proposed diversification of businesses into the new energy vehicles business through the acquisition of the Lithium Energy Group Limited.

Committed to the two-prong growth strategy, we are confident to deliver fruitful returns to our shareholders.

APPRECIATION

On behalf of the Board, my sincere thank to our loyal shareholders, suppliers and customers for their continuous support to the Group. I would also extend my gratitude and appreciation to our management and all staff for their hard works and dedication throughout the year.

On behalf of the Board,

Zhang Xi
Chairman
Hong Kong, 30 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL RESULTS

Revenue

For the year ended 31 December 2010, the Group's revenue from continuing and discontinued operations decreased to approximately US$15,387,000 from approximately US$53,661,000 in last year, representing a decrease of approximately 71.33%.

Segmental Results

In the current year, the operations of investment in securities and property development were introduced to the Group but the operation of food processing and distribution was discontinued.

The turnover of the timber business for the year decreased to approximately US$13,106,000 from approximately US$15,605,000 in last year, representing a drop of approximately 16.01%. The segment result of the timber business had improved to a profit of approximately US$651,000 from a loss of approximately US$948,000 in 2009.

There was no revenue generated from the operation of property development for the year and its segmental result suffered a loss of approximately US$510,000.

There was no revenue generated from the operation of investment in securities for the year and its segmental result suffered a loss of approximately US$1,145,000.

The turnover of food processing and distribution business for the year decreased to approximately US$2,281,000 from approximately US$38,056,000 in 2009, representing a decrease of approximately 94.01%. Such a decrease was due to only 19 days sales figures before completion of disposal of Prowealth Holding Group Ltd ("Prowealth") on 19 January 2010. The segment result of the food processing and distribution business had suffered a loss of approximately US$101,000 from loss of approximately US$130,000 in 2009, as a result of deteriorating performance in the food processing and distribution business in 2010.

Cost of Sales

The Group's cost of sales from continuing and discontinued operations for the year dropped to approximately US$14,557,000 from approximately US$49,522,000 in last year, representing a decline of approximately 70.60%.

Gross Profit

The Group's gross profit from continuing and discontinued operations for the year decreased to approximately US$830,000 from approximately US$4,139,000 in last year, representing a drop of approximately 79.95%. Accordingly, the gross profit margin dropped to approximately 5.39% for the year from approximately 7.71% in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

The Group's other income from continuing and discontinued operations for the year decreased to approximately US$1,640,000 from approximately US$2,580,000 of last year, representing a decrease of approximately 36,43%.

Other Gains and Losses

Other losses of the Group from continuing and discontinued operations amounted to approximately US$90,174,000 for the year while the Group recorded a loss of approximately US$42,377,000 in last year. The significant loss was mainly due to (i) the net losses in fair values on derivative financial instruments and warrants of approximately US$94,019,000 (2009: approximately US$47,035,000) which comprised loss on initial recognition of convertible notes of approximately US$83,443,000 (2009: approximately US$16,086,000), net losses in fair value of embedded conversion option and early redemption option of convertible notes of approximately US$17,868,000 (2009: approximately US$16,770,000) and net gain on fair value of warrants of approximately US$7,292,000 (2009: approximately US$14,179,000); (ii) net gain on early redemption of convertible notes of approximately US$4,768,000 (2009: approximately US$5,083,000) and (iii) the net loss on held-for-trading investments of approximately US$1,141,000 (2009: Nil).

Selling and Distribution Costs

The Group's selling and distribution costs from continuing and discontinued operations for the year decreased to approximately US$1,122,000 from approximately US$2,389,000 in last year, representing a decrease of approximately 53.03%.

Administrative Expenses

The Group's administrative expenses from continuing and discontinued operations for the year slightly increased to approximately US$8,156,000 from approximately US$7,686,000 in last year, representing an increase of approximately 6.12%.

Impairment Loss Recognised in Respect of Intangible Assets

During the year ended 31 December 2009, impairment loss of approximately US$2,009,000 had been recognised in respect of customer relationship and license which were attributable to the food processing and distribution segment. However, there was no such impairment loss recognised in respect of intangible assets in the current year.

Finance Costs

The Group's finance cost from continuing and discontinued operations for the year dropped to approximately US$3,863,000 from approximately US$7,604,000 in last year, representing an improvement of approximately 49.20%. The improvement was mainly resulted from redemption of the Sun Boom Convertible Note and the Wise Virtue Convertible Note.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the Year and Loss Per Share

The Group's loss for the year attributable to owners of the Company increased to approximately US$100,630,000 from approximately US$53,877,000 in last year, representing an increase of approximately 86.78%. Basic loss per share from continuing and discontinued operations of the Group was decreased from US0.41 cent for the year ended 31 December 2009 to US0.29 cent for the year ended 31 December 2010. Meanwhile diluted loss per share was US0.31 cent for the year under review while that for the last year was US0.41 cent.

BUSINESS REVIEW

The Company reviewed the existing businesses of the Group and considered to consolidate certain of its operations. Restructuring of certain of its existing businesses, disposal of under-performing operations of the Group as well as exploration of other business and potential investment opportunities are under consideration.

Timber Business

During the year, timber business resumed to be the core business of the Group. The turnover of the timber business decreased to approximately US$13,106,000 from approximately US$15,605,000 in last year, representing a drop of approximately 16.01%. The segment result of the timber business had recorded a profit of approximately US$651,000 as compared to a loss of approximately US$948,000 in 2009.

Food Processing and Distribution Business

In December 2009, the Company entered into an agreement with a party connected to the Group, to dispose all of its entire interests in Prowealth and its subsidiaries (the "Disposal"), which carried out all of the Group's food processing and distribution business. The Disposal was subsequently approved by its shareholders on 18 January 2010 and completed on 19 January 2010. It resulted in a gain on the disposal of approximately US$212,000.

A loss of approximately US$101,000 together with the shrunken turnover of approximately US$2,281,000 represented the segment result for the 19 days period before the completion of the Disposal.

Property Development

During the year under review, the Group acquired the entire equity interest and shareholder's loan in Allywing for a consideration of RMB284,848,920 (approximately US$41,916,000) (the "Acquisition"). Allywing owns 60% equity interest in Xi'an Yuansheng. The Acquisition symbolizes the Group's diversification of business into the business of property development.

According to the latest development plan, the Group will develop the Land as an area which consists of luxury residential buildings and commercial buildings by several phases. For the past few months, the Group commenced certain groundworks on this new business of the Group.

Since the Group did not recorded any revenue from the property development business, a loss of approximately US$510,000 was resulted for the period between the completion date of the Acquisition and 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December, 2010, the Group's cash and bank balances amounted to approximately US$18,438,000 (as at 31 December 2009: approximately US$30,633,000), representing a decline of approximately US$12,195,000. As at 31 December 2010, the bank and other borrowing amounted to approximately US$10,280,000 (as at 31 December 2009: approximately US$23,083,000).

During the year, net cash used in operating activities was approximately US$22,932,000. The net cash used in investing activities was approximately US$39,893,000, which was mainly due to settlement of purchase consideration for the Acquisition amounting to approximately US$38,215,000. The net cash generated from financing activities was approximately US$51,170,000, which was mainly due to net proceeds from the issue of convertible notes of approximately US$64,432,000. As a result, the net decrease in cash and cash equivalents during the year was approximately US$11,655,000.

Exercise of Warrants

During the year, registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares in the Company at HK$0.026 per share. The fair value gain of approximately US$881,000 was recognized in respect of fair value changes of the warrant from 1 January 2010 to the dates immediately prior to each exercise dates. A gain of approximately US$6,411,000 was recorded upon the expiry of the remaining outstanding 1,980,923,092 warrants on 20 July 2010.

Issue of Convertible Notes

On 6 August 2009, the Company announced that a placing agreement (the "Fulbond CN Placing Agreement") was entered between the Company and a placing agent (the "Placing Agent"), whereby the Placing Agent conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (equivalent to approximately US$103,226,000) (the "Fulbond Convertible Notes") which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. All the Fulbond Convertible Notes will mature on 28 December 2012 and can only be redeemed at par at the discretion of the issuer in whole or in part anytime before the maturity date.

The resolution approving the Fulbond CN Placing Agreement was passed at the special general meeting of the Company held on 16 October 2009. The placing of the First Tranche Convertible Notes in the aggregate principal amount of HK$450,000,000 took place in 2 tranches on 29 December 2009 and 14 January 2010. Total fair value of the remaining portion of the First Tranche Convertible Notes in an aggregate principal amount of HK$250,000,000 at 14 January 2010 was approximately US$92,626,000, representing a loss on initial recognition of US$60,395,000 recognised in profit or loss. During the year ended 31 December 2010, an aggregate fair value gain of approximately US$18,040,000 in respect of the outstanding First Tranche Fulbond Convertible Notes was recognised in the profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS

The resolution approving the placing of the Second Tranche Convertible Notes was passed at the special general meeting of the Company held on 20 July 2010. On 2 August 2010, the Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), upon application by the Company, granted on a conditional basis the listing of and permission to deal in the Conversion Shares (as defined in circular dated 28 June 2010) which may fall to be issued on exercise of the conversion rights attaching to the Second Tranche Convertible Notes in an aggregate principal amount of HK$250,000,000 (the "HK$250 million CN"). The placing of the HK$250 million CN was completed on 10 August 2010. The total fair value of the note at 10 August 2010 is approximately US$55,249,000, representing a loss on initial recognition of approximately US$23,048,000 recognised in profit or loss. During the year ended 31 December 2010, an aggregate fair value loss of approximately US$7,663,000 in respect of the outstanding Second Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The remaining unissued tranche of Fulbond Convertible Notes of HK$100,000,000 (equivalent to US$12,849,000) expired in October 2010.

In view of its strong liquidity and financial position, we will have sufficient resources to fund the daily operations and capital expenditure commitments and potential investment.

Redemption of Convertible Notes

On 10 December 2009, Sun Boom Limited and Wise Virtue Holdings Limited transferred the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note to a private investment institution independent of the Company.

On 14 January 2010, the conversion price of Sun Boom Convertible Note and Wise Virtue Convertible Note was adjusted from HK$0.047 to HK$0.044 per share as a result of the completion of the placing of the remaining First Tranche Fulbond Convertible Notes. As a result of the adjustment of conversion price, a net gain of approximately US$650,000 was recognised in the profit or loss in the year.

On 4 March 2010, the holder of Sun Boom Convertible Note and Wise Virtue Convertible Note exercised their options to require the Company to redeem the remaining of Sun Boom Convertible Note and Wise Virtue Convertible Note at the principle amount of approximately US$6,440,000 and approximately US$10,339,000, respectively. During the period up to the date of redemption, a fair value gain of approximately US$4,443,000 was recognised in the profit and loss account. An aggregate gain on early redemption of these convertible notes of approximately US$4,768,000 was recognised in the profit or loss.

Conversion of Convertible Notes

During the year, the holders of the First Tranche Fulbond Convertible Notes exercised its option to convert the convertible note in the aggregate principle amount of HK$270,000,000 to ordinary shares of the Company. The aggregate loss on fair value change of the First Tranche Fulbond Convertible Notes being converted during the year of approximately US$32,108,000 was recognised in profit or loss.

During the year, the holders of the Second Tranche Fulbond Convertible Notes exercised its option to convert the convertible note in the aggregate principle amount of HK$34,000,000 to ordinary shares of the Company. The aggregate loss on fair value change of the Second Tranche Fulbond Convertible Notes being converted during the year of approximately US$1,230,000 was recognised in profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL DISPOSAL OF SUBSIDIARIES

The Disposal was approved by the shareholders of the Company and completed on 19 January 2010. Upon completion of the Disposal, the Prowealth has ceased to be subsidiaries of the Company. Part of the consideration in the sum of HK$122,000,000 was received in December 2009, the remaining balance of the consideration in the sum of HK$43,000,000 shall be receivable on or before 20 July 2011.

MATERIAL ACQUISITION AND CONNECTED TRANSACTIONS

Property development project in Xi'an city, PRC

The Acquisition was completed on 13 August 2010. Following the completion of the Acquisition, Allywing has become a wholly-owned subsidiary of the Company and Xi'an Yuansheng has become a non-wholly owned subsidiary of the Company. Referring to the announcement dated on 13 August 2010, the payment of the consideration amounting to RMB284,848,920 was arranged as (i) an amount of RMB260,848,920 was paid in cash to Mr. Zhang Xi on 13 August 2010; (ii) the remaining balance of RMB24,000,000 shall be retained and applied to satisfy the Second Stage Capital Increase (as defined in the circular dated 28 June 2010) after completion of the Acquisition.

With reference to the announcement dated 29 November 2010 and the circular dated 20 December 2010, on 29 November 2010, Allywing entered into a management agreement with Harvest Day Limited ("Harvest Day"), a company of which 60% issued share capital is owned by sister of Mr. Zhang Xi, the chairman and executive Director of the Company. Pursuant to the agreement, Harvest Day would provide management and consultancy services to Allywing in connection with the property development project in Xi'an city, PRC. Allywing would pay to Harvest Day an inclusive management fee of HK$50,000,000 by 3 installments.

The resolution approving the management agreement and the annual cap of management fee payable to Harvest Day was passed at the special general meeting of the Company held on 6 January 2011. The first installment of HK$23,000,000 was paid on 7 January 2011 according to terms and conditions of the management agreement.

ACQUISITION OF LITHIUM ENERGY AND ELECTRIC VEHICLE BUSINESSES

After the year-end date, the Group entered into an acquisition agreement, pursuant to which the Group has conditionally agreed to acquire the entire issued shares and shareholders' loan of Lithium Energy Group Limited ("LEG") at the consideration of HK$900,000,000. HK$370,000,000 of the consideration shall be settled in cash while the remaining HK$530,000,000 shall be settled by way of allotment and issue of shares.

LEG holds 100% of the issued share capital of China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"). Upon completion of reorganization, Lithium HK will hold 100% equity interests in a group of PRC companies that engaged in the research and manufacturing of Lithium-ion battery, production of power motor and controller, and research and manufacturing of vehicle electronics and controller system.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2010.

CAPITAL STRUCTURE

As at 31 December 2010, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$112,044,000 (as at 31 December 2009: approximately US$106,613,000) and total assets of approximately US$117,496,000 (as at 31 December 2009: approximately US$80,190,000), was approximately 48.81% (as at 31 December 2009: approximately 57.07%).

PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of approximately US$1,201,000 (2009: approximately US$10,588,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

There have been no significant changes in the Group's policy in terms of exchange rate exposure. The Group operates mainly in Hong Kong and Mainland China. Most of the transactions are denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars ("USD"). The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollars. The exchange rate of USD against HKD is relatively stable and the related foreign currency risk is considered insignificant. The Group currently does not have a foreign currency hedging policy. However, the management continuously monitors the Group's foreign exchange risk exposure and will consider to hedge significant currency risk exposure should the need arise.

HUMAN RESOURCES

The Group highly values its human resources and aims to attract, retain and develop high caliber individual committed to attaining our objectives. As at 31 December 2010, the Group had approximately 510 employees in HK and PRC. Employees of the Group are remunerated according to their qualifications, experience, job nature, performance and with reference to market conditions. Apart from discretionary performance bonus, the Group also provides other benefits such as medical insurance. The Company also operates a share option scheme for granting of options to eligible employees and Directors.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR EXECUTIVES

Biographical details of the Directors and senior executives are set out as follows:

EXECUTIVE DIRECTORS

Mr. Zhang Xi ("Mr. Zhang"), aged 42, is the Group's chairman and a member of the remuneration committee of the Company. Mr. Zhang joined us in December 2006. He obtained a bachelor degree in economics from the University of Xiamen, PRC in 1990. He has extensive experience in private equity investments in the PRC. Mr. Zhang set up Great Time Holdings Limited in Hong Kong in 1999, the principal business of which includes investments in a mechanical electrical engineering company in Fuzhou, China, which is engaged in manufacturing of power machine equipment, electrical equipment, food processing equipment, the design and process of the relevant components and after-sale services and in a high technology company in Beijing, which is engaged in research, development and manufacturing of smart construction materials.

Ms. Catherine Chen ("Ms. Chen"), aged 51, is the managing director of the Group. Ms. Chen joined us in December 2006. She has extensive experience in project investment, marketing research and the provision of consultancy services in relation to businesses of foreign enterprises in the PRC. She obtained a master of business administration (marketing) degree from The University of Liverpool in 2001.

Mr. Chiu Kong ("Mr. Chiu"), aged 53, joined us in July 2010. Mr. Chiu has over 15 years of experience in import and export trading and business development. He was an executive director of CST Mining Group Limited ("CST") for the period from 6 June 2002 to 25 June 2010, of which shares are listed on the main board of the Stock Exchange. Mr. Chiu is the brother-in-law of Mr. Yeung Kwok Yu, an executive Director of the Company.

Mr. Yeung Kwok Yu ("Mr. Yeung"), aged 59, joined us in July 2009. Mr. Yeung had held management positions in trading companies which were based in the PRC and Hong Kong. He was also engaged as senior management in various listed companies in Hong Kong. Mr. Yeung has extensive experience in general trading, strategic investment planning and business development. Mr. Yeung is currently an executive director of CST, of which shares are listed on the main board of the Stock Exchange. Mr. Yeung is the brother-in-law of Mr. Chiu, an executive Director of the Company.

Mr. Kwan Kam Hung, Jimmy ("Mr. Kwan"), aged 49, joined the Company in November 2009. He has been engaged as a senior manager with various listed companies in Hong Kong. Mr. Kwan has over 15 years of experience in the fields of finance and accounting and corporate management. Mr. Kwan is currently an executive director of CST and G-Resources Group Limited ("G-Resources"), companies whose shares are listed on the main board of the Stock Exchange.

Mr. Wah Wang Kei, Jackie ("Mr. Wah"), aged 44, joined us in November 2009. Mr. Wah graduated from The University of Hong Kong in 1990. He is a practising solicitor in Hong Kong and was qualified as a solicitor in 1992. Mr. Wah was a partner of Vivien Chan and Company, a law firm in Hong Kong, until 1997 and was a consultant of Messrs. Beiten Burkhardt, an international law firm until 16 December 2010. Mr. Wah is currently an executive director of CST and G-Resources, of which shares are listed on the main board of the Stock Exchange.

Mr. Chen Guang Lin ("Mr. Chen"), aged 39, was appointed as an executive Director of the Company on 28 March 2011. He is currently a general manager of an enterprise in the PRC. Mr. Chen has extensive experience in operating and managing enterprises in the PRC. In addition, Mr. Chen has acquainted himself with matters such as administration, management and tax issues in PRC enterprises. He is also familiar with the operation, management and operating environments in the PRC.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR EXECUTIVES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hong Po Kui, Martin ("Mr. Hong"), aged 61, joined us in December 2006. He has been practising as a solicitor of the High Court of the Hong Kong Special Administrative Region for over 34 years and is a notary public in Hong Kong. Mr. Hong is now the senior partner of Messrs. Lau Chan Ko, Solicitors & Notaries. Mr. Hong is also an independent non-executive director of Sau San Tong Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, and Modern Beauty Salon Holdings Limited, a company listed on the main board of the Stock Exchange. He was also an independent non-executive director of Simsen International Corporation Limited, Victory Group Limited and BEP International Holdings Limited, companies whose shares are listed on the Stock Exchange, from 26 November 2004 to 23 April 2010, from 10 June 2009 to 11 January 2010, and from 9 October 2007 to 3 June 2009 respectively.

Ms. Ma Yin Fan ("Ms. Ma"), aged 47, joined us in August 2009. She obtained a bachelor's degree with honours in accountancy at Middlesex University in the United Kingdom. She also holds an MBA and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and Hong Kong Polytechnic University, respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation for more than 20 years. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong, Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. She is also an associate member of the Institute of Chartered Accountant in the England and Wales and a Certified Tax Advisor in Hong Kong. Ms Ma is currently an independent non-executive director of China Strategic Holdings Limited ("China Strategic") and G-Resources, companies whose shares are listed on the main board of the Stock Exchange.

Mr. Leung Hoi Ying ("Mr. Leung"), aged 60, joined us in August 2009. He graduated from Guangdong Foreign Trade School in PRC. He has over 30 years of experience in the international trading and business development. Mr. Leung is currently an independent non-executive director of China Strategic and G-Resources, companies whose shares are listed on the main board of the Stock Exchange.

Mr. Yu Pan ("Mr. Yu"), aged 56, joined us in August 2009. He has over 20 years of experience in management positions of multinational trading companies in Hong Kong and the Mainland China. Mr. Yu is currently an independent non-executive director of CST, of which shares are listed on the main board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR EXECUTIVES

SENIOR EXECUTIVES

Mr. Tang Kam Shing ("Mr. Tang"), is the group financial controller of the Group and joined the Group in May 2010. He graduated with a bachelor (honour) degree in Accountancy and a master degree in Corporate Governance from the Hong Kong Polytechnic University. Mr. Tang is an associate member of The Hong Kong Institute of Certified Public Accountants and fellow member of The Association of International Accountants. He is also an associate member of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators, and The Taxation Institute of Hong Kong. He is a Certified Tax Adviser in Hong Kong. Mr Tang has over 15 years of experience in finance, accounting, auditing and taxation. Prior to joining the Group, Mr. Tang had been the senior finance executive of several listed group of companies and multinational companies in Hong Kong.

Ms. Lai Ngai Ping ("Ms. Lai"), is the group finance manager of the Group and joined the Group in June 2008. She holds a bachelor of administration degree from the University of Regina in Canada, majoring in finance and accountancy. She is an associate member of the Hong Kong Institute of Certified Public Accountants as well as The Taxation Institute of Hong Kong. Ms. Lai has over 9 years' experience in accounting, taxation and financial management.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is crucial to safeguard the interests of the Shareholders and to enhance the performance of the Group. The Board and management of the Company are committed to enhancing corporate governance standard, in compliance with the principles set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has, throughout the year, complied with the relevant provisions of the Code, save for the deviation disclosed below.

This report summarises the Company's corporate governance practices and structures that were in place during the financial year.

1. THE BOARD

The Directors, individually and collectively, are committed to act in good faith in the best interests of the Company and its shareholders. As at the date of this report, the Board comprised seven executive Directors and four independent non-executive Directors.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholders value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual and interim reports, and of other price-sensitive announcements and accounting policies, and reports to regulators any information required to be disclosed pursuant to the relevant statutory requirements.

The Board has fiduciary duty and statutory responsibility towards the Company and the Group. Other responsibilities include, formulation of the Group's overall strategy and policies, setting corporate and management targets and key operational initiatives, monitoring and control of operational and financial performance, and approval of budgets and major capital expenditures, major investments, material acquisitions and disposals of assets, corporate or financial restructuring, significant operational, financial and management matters.

The Board delegates day-to-day management of the business of the Group to the management of the relevant principal subsidiaries and certain specific responsibilities to audit committee and remuneration committee. The composition and functions of each committee are described below. These committees have specific functions and authority to examine issues and report to the Board with their recommendations (if appropriate). The final decision rests with the Board, unless otherwise provided for in the terms of reference of the relevant committee.

CORPORATE GOVERNANCE REPORT

1. THE BOARD (CONTINUED)

The company secretary of the Company ("Company Secretary") provides the Directors with updates on developments regarding the Listing Rules and other applicable regulatory requirements. Any Director may request the Company Secretary to organise independent professional advice at the expense of the Company to assist the Directors to effectively discharge their duties to the Company.

The independent non-executive Directors of the Company serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the independent non-executive Directors provides an annual confirmation of his independence to the Company. The Board considers that each of the independent non-executive Directors is independent in character and judgment and that they all meet the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

All Directors have access to the advice and services of the Company Secretary in respect of compliance with board procedures, and all applicable rules and regulations. All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent advice where necessary at the expense of the Company in discharging of their duties to the Company.

The Board meets at least four times each year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Additional meetings may be convened to approve any discloseable or major transaction and shares issuance. Notice of at least fourteen days is served for regular board meetings. Reasonable notice would be given for all other special board meetings which are not held regularly. The Chairman is primarily responsible for drawing up and approving the agenda for each board meetings in consultation with all Directors and ensure that all Directors are properly briefed on issues arising at board meetings. Agenda and accompanying board papers in respect of board meetings are sent out in full to all Directors within a reasonable time before the date of every board meetings to allow them to review these documents in advance. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee are kept by the Company Secretary and the Directors may inspect these minutes at any time during office hours upon giving reasonable notice. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee, have recorded in sufficient detail the matters considered by the Board and the board committees, including any concerns raised by Directors or dissenting view expressed. Draft and final versions of these minutes were sent to all Directors for their comment and records respectively, normally within 10 days after the relevant meeting was held.

CORPORATE GOVERNANCE REPORT

1. THE BOARD (CONTINUED)

The following is an attendance record of the Board meetings held by the Board during the year:

Name of Board member	Number of meetings attended	Attendance Rate
Executive Directors		
Mr. Zhang Xi	19/19	100%
Ms. Catherine Chen	19/19	100%
Mr. Chiu Kong (appointed on 2 July 2010, retired on 20 July 2010 and re-appointed on 20 July 2010)	8/8	100%
Mr. Yeung Kwok Yu	19/19	100%
Mr. Lee Sun Man (passed away on 18 March 2011)	16/19	84%
Mr. Kwan Kam Hung, Jimmy	18/19	95%
Mr. Wah Wang Kei, Jackie	18/19	95%
Mr. Chen Guang Lin (appointed on 28 March 2011)	N/A	N/A
Independent Non-executive Directors		
Mr. Hong Po Kui, Martin	18/19	95%
Mr. Yu Pan	19/19	100%
Ms. Ma Yin Fan	19/19	100%
Mr. Leung Hoi Ying	16/19	84%

The Directors acknowledge that they are responsible for preparing accounts for each financial period on a going concern basis, with supporting assumptions or qualification as necessary.

2. CHAIRMAN AND MANAGING DIRECTOR

Mr. Zhang Xi is the Chairman of the Company ("Chairman") and Ms. Catherine Chen is the managing director of the Company ("Managing Director"). Under Code Provision A.2.1., the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. However, the Company does not name any officer with the title of "Chief Executive Officer" at present. Nevertheless, Ms. Catherine Chen assumed the position of "Chief Executive Officer" and is responsible for managing and smoothing the business operations of the Group while the Chairman is responsible for leading the Board in the overall strategic development of the Group. The Chairman and the Managing Director are two separate individuals with segregated roles and have no relationship with each other. The Board believes that there is an effective segregation of duties between the Chairman and the Managing Director.

CORPORATE GOVERNANCE REPORT

3. BOARD COMPOSITION

The Board currently comprises the following seven executive Directors and four independent non-executive Directors:

Executive Directors
Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen *(Managing Director)*
Mr. Chiu Kong (appointed on 2 July 2010, retired on 20 July 2010 and re-appointed on 20 July 2010)
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Lee Sun Man (passed away on 18 March 2011)
Mr. Chen Guang Lin (appointed on 28 March 2011)

Independent Non-executive Directors
Mr. Hong Po Kui, Martin
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

All independent non-executive Directors are expressly identified as such in all of the Company's corporate communications that disclose the names of Directors.

4. APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws, any new Director appointed by the Board, whether to fill a casual vacancy or as an addition to the existing Board, is subject to retirement and re-election by shareholders at the next following general meeting of the Company following his appointment. At every annual general meeting of the Company, one-third of the Directors for the time being shall retire from office and being eligible for re-election.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. All of the independent non-executive Directors, except Mr. Hong Po Kui, Martin, are not appointed for a specific term. However, all Directors are subject to the retirement and rotation once every three years in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

Under Code Provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Mr. Chiu Kong was appointed by the Board on 2 July 2010 and shall hold office only until the next following general meeting and be eligible for re-election at such meeting. Mr. Chiu subsequently retired as an executive Director at the special general meeting of the Company held on 20 July 2010 and he was re-appointed as an executive Director on the same day, and shall hold office until and be eligible for re-election at the next following general meeting of the Company. Mr. Chiu did not subject to election by shareholders at the next following general meeting of the Company after his reappointment. At the forthcoming general meeting of the Company, resolution will be put forth to approve his re-election.

All Directors retire from office by rotation and are subject to re-election at an annual general meeting of the Company at least once every three years. Details of the re-election of Directors have been set out in the circular of the Company dated 29 April 2011 (the "Circular").

CORPORATE GOVERNANCE REPORT

5. NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board as a whole is responsible for the procedure of the appointment of its members and for nominating appropriate person for election by shareholders at the general meeting, either to fill casual vacancy or as an addition to the existing Directors. The Board will consider and assess the qualification, ability and potential contribution of candidates for directorships on the Board.

According to the Bye-laws of the Company, any Directors appointed by the Board should hold office until the next following general meeting of the Company, and shall then be eligible for re-election at that meeting.

On 2 July 2010, Mr. Chiu Kong was nominated and appointed as an executive Director of the Company.

6. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following committees which are all chaired by independent non-executive Directors with defined terms of reference.

6.1 Audit Committee

The Board considers that each audit committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the audit committee. The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted in 1998 with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The written terms of reference of the audit committee have included the duties as set out in Code Provisions.

The members met twice during the year to review the reporting of financial and other information to shareholders, the systems of internal control, risk management and the effectiveness and objectivity of the audit process. The audit committee also provides an important link between the Board and the Company's auditor in matters coming within the scope of its terms of reference and keeps the independence and objectivity of the auditor under review.

The following is an attendance record of the audit committee meeting for the year ended 31 December 2010:

Name of audit committee member	Number of meetings attended	Attendance Rate
Ms. Ma Yin Fan *(Chairlady)*	2/2	100%
Mr. Hong Po Kui, Martin	2/2	100%
Mr. Yu Pan	2/2	100%
Mr. Leung Hoi Ying	2/2	100%

CORPORATE GOVERNANCE REPORT

6. BOARD COMMITTEES (CONTINUED)

6.1 Audit Committee (continued)

The audit committee oversees the financial reporting process. In this process, management is responsible for the preparation of the Group's financial statements. External auditor are responsible for auditing the Group's financial statements. The members of the audit committee assist the Board in fulfilling its responsibilities by providing an independent review of the financial statements, supervising the system of financial reporting and satisfying themselves as to the effectiveness of the Group's internal controls. Audit committee presents a report to the Board on its findings after each audit committee meeting.

The audit committee reviewed and discussed with the management and external auditor the 2010 consolidated financial statements included in the 2010 Annual Report. In this regard, the audit committee held discussions with management with regard to new or changes in accounting policies that had been applied, and significant judgments of the management which affected the Group's financial statements. The audit committee received reports and met with the external auditor to discuss the general scope of their audit work, including the impact of new or changes in accounting policies that had been applied and their assessment of the Group's internal controls. Based on these review and discussions, and the report of the external auditor, the audit committee recommended the Board to approve the consolidated financial statements for the year ended 31 December 2010 and the Auditor's Report.

During the year, the audit committee reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2010 and recommended the Board to approve the unaudited condensed consolidated financial statements.

The members of the audit committee considered the appointment of external auditor, their audit fees and recommended the Board to seek shareholders' approval for the re-appointment of Messrs. Deloitte Touche Tohmatsu as the Group's external auditor for 2011.

6.2 Remuneration Committee

The Company has established a remuneration committee to deal with matters of remuneration and compensation arrangement of Directors and senior management. The remuneration committee comprises chairman of the Company and four independent non-executive Directors, namely Mr. Hong Po Kui, Martin, Ms. Ma Yin Fan, Mr. Leung Hoi Ying, Mr. Yu Pan and Mr. Zhang Xi.

The written terms of reference of the remuneration committee have included the duties as set out in the Code Provisions.

CORPORATE GOVERNANCE REPORT

6. BOARD COMMITTEES (CONTINUED)

6.2 Remuneration Committee (continued)

The principal role and function of the remuneration committee includes:

– give recommendations on the establishment of the Company's policy and structure for all remuneration of all Directors, senior management and employees;

– review and determine the remuneration packages and compensation arrangements for loss of office of all executive Directors and senior management; and

– review of performance-based remuneration policy of the Group.

The remuneration committee meets once during the year.

The following is an attendance record of the remuneration committee meeting for the year ended 31 December 2010:

Name of remuneration committee member	Number of meetings attended	Attendance Rate
Mr. Hong Po Kui, Martin *(Chairman)*	3/3	100%
Ms. Ma Yin Fan	3/3	100%
Mr. Leung Hoi Ying	2/3	67%
Mr. Yu Pan	3/3	100%
Mr. Zhang Xi	3/3	100%

Details of Directors' emoluments and share options are set out in notes 14 and 37 to the consolidated financial statements respectively.

The Directors' fees are subject to shareholders' approval at general meeting. In determining the emolument payable to Directors, the remuneration committee takes into consideration factors such as their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration. No Director is involved in determining his/her own remuneration.

The remuneration package for each employee is structured to attract, retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. The remuneration package contains a combination or modifications of some or all of the three main components: basic salary, performance bonus and share options.

During the year ended 31 December 2010, the remuneration committee held three meetings and dealt with the following matters at the said meetings or by way of written resolutions:

– reviewed and approved the discretionary bonus to the Directors and management of the Company for 2010;

– reviewed and approved the fees for Directors and/or members of certain Board committees; and

– reviewed and approved the remuneration of Mr. Chiu Kong.

CORPORATE GOVERNANCE REPORT

7. INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness on an annual basis under Code Provision C.2.1. The Group's internal control systems comprise an established organizational structure and comprehensive policies and standards. Procedures have been designed to safeguard assets against unauthorized use or disposition, to maintain proper accounting records, for the reliability of financial information used within the business or for publication, and to ensure compliance with applicable laws and regulations. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material statement or loss and manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Group's internal control system includes following major components:

(1) Review an organizational and governance structure with defined responsibility and delegated authority;

(2) Set up stringent policies and procedures for the appraisal, review and approval of major capital and recurrent expenditures; and

(3) Review report of operations results against budgets to the Board regularly.

8. EXTERNAL AUDITOR

It is the external auditor's responsibility to form an independent opinion, based on their audit, on the consolidated financial statements and to report their opinion solely to the shareholders of the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the content of the auditor's report.

For the year ended 31 December 2010, Messrs. Deloitte Touche Tohmatsu is appointed as the external auditor of the Group and provided annual audit services to the Group for the remuneration of approximately HK$1,700,000 and non-audit services to the Group for the remuneration of approximately HK$1,698,000. The Board has accepted the recommendation from the audit committee on re-appointing Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The responsibilities of the Directors are to prepare the financial accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors also acknowledge that the publication of the financial statements should be distributed to the Shareholders of the Company in a timely manner. In preparing the accounts for the year ended 31 December 2010, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent, fair and reasonable and prepared accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

CORPORATE GOVERNANCE REPORT

10. MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out by the Stock Exchange in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, all Directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct during the review year.

11. INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is responsible for ensuring that shareholders' rights are protected. In order to fulfill this responsibility, the Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors with the relevant information on its business in a timely and accurate manner, subject to the relevant regulatory requirements. In order to ensure effective, clear and accurate communication with investors, all corporate communications are arranged and handled by the executive Directors and designated senior executives according to established practices and procedures of the Company.

The Board uses annual general meetings and other general meetings as the principal channel to meet and communicate with the shareholders. Registered shareholders are notified by post for these general meetings, and the notice of meeting contains the agenda and the proposed resolutions. Any registered shareholder is entitled to attend the annual and special general meetings, provided that their shares have been recorded in the register of shareholders. The Board also encourages shareholders to participate in these general meetings to maintain an on-going dialogue with the shareholders.

Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and other interested parties. The Company's news releases, announcements and publications are circulated to all major news media in a timely and accurate manner.

Separate resolutions will be proposed by the chairman of the Board in respect of each substantially separate issue at the Company's forthcoming annual general meeting. The chairman of the Board, and the chairperson of the audit committee and remuneration committee will attend the forthcoming annual general meeting to answer questions of Shareholders.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its associates and principal subsidiaries are set out in notes 20 and 42 to the consolidated financial statements respectively.

FINANCIAL STATEMENTS

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

The financial position as of 31 December 2010 of the Group are set out in the consolidated statement of financial position.

The cash flows of the Group during the year is set out in the consolidated statement of cash flows.

CONVERTIBLE NOTES, SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's warrants, convertible notes, share capital and share options during the year, together with the reasons therefor, are set out in notes 32, 33, 35 and 37 to the consolidated financial statements, respectively.

During the year, registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares of the Company at HK$0.026 per share. The outstanding warrants to subscribe for the ordinary shares in the Company was expired on 20 July 2010. At the end of the reporting period, the Company had no outstanding warrants.

DIVIDEND

The Board does not recommend payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2010.

EMOLUMENT POLICY

The remuneration policy of the employees of the Group is formulated on the basis of their merit, qualifications and competence.

DIRECTORS' REPORT

The emoluments of the Directors are decided, with regard to their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration.

The Company and its subsidiaries have adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in note 37 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the applicable law of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

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

Executive Directors
Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen *(Managing Director)*
Mr. Chiu Kong (appointed on 2 July 2010, retired on 20 July 2010 and re-appointed on 20 July 2010)
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Chen Guang Lin (appointed on 28 March 2011)
Mr. Lee Sun Man (passed away on 18 March 2011)

Independent Non-executive Directors
Mr. Hong Po Kui, Martin
Mr. Yu Pan
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

In accordance with Bye-law 87(1) of the Company, Mr. Hong Po Kui, Martin, Ms Ma Yin Fan and Mr Leung Hoi Ying will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company, Mr. Chen Guang Lin and Mr. Chiu Kong will retire at the forthcoming general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR EXECUTIVES' BIOGRAPHIES

Biographical details of the Directors and the senior executives of the Group are set out on pages 12 to 14 of this annual report.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

At 31 December 2010, the interest of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in the Shares and Underlying Shares
Ordinary shares of US$0.001 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares in respect of the options granted under the share option scheme *(Note 1)*	Approximated percentage of the issued share capital of the Company *(Note 2)*
Mr. Zhang Xi	Beneficial owner	1,592,826,000	91,617,000	3.69%
Ms. Catherine Chen	Beneficial owner	–	91,617,000	0.20%

Note 1: Details of the options granted by the Company are set out below.

Note 2: The percentages were calculated based on the Company's issued share capital of 45,642,927,432 shares as at 31 December 2010.

	Date of grant	Exercise period	Exercise price HK$	Number of share options at 1 January 2010	Lapsed during the year	Number of share options at 31 December 2010
Directors						
Mr. Zhang Xi	14 July 2008	14 July 2008 – 13 July 2011	0.041 *(Note)*	91,617,000	–	91,617,000
Ms. Catherine Chen	14 July 2008	14 July 2008 – 13 July 2011	0.041 *(Note)*	91,617,000	–	91,617,000
Sub-total				183,234,000	–	183,234,000
Executives and employees						
	14 July 2008	14 July 2008 – 13 July 2011	0.041 *(Note)*	64,132,000	(45,809,000)	18,323,000
Grand total				247,366,000	(45,809,000)	201,557,000

Note: The average closing price of the Company's shares immediately before 14 July 2008, the date of grant of the above options, was HK$0.037.

Other than as disclosed above, none of the Directors nor the chief executive of the Company has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2010.

DIRECTORS' REPORT

SHARE OPTIONS

Share options to subscribe Company's shares

Pursuant to the Company's share option scheme adopted on 19 November 2001, the Directors may, at their discretion, grant options to any Directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the Company's share option scheme are set out in note 37 to the consolidated financial statements.

During the year, there is no movement in the number of options outstanding which have been granted, exercised, cancelled or lapsed by the Company to the Directors, and lapsed of 45,809,000 options granted to executives and employees of the Company under the Company's share option scheme.

Apart from the options granted to Mr. Zhang Xi and Ms. Catherine Chen as set out in the section headed "Directors' Interest in Shares and Underlying Shares" above, as at 31 December 2010, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' SERVICE CONTRACTS

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year under review, Good Base Investments Limited, a wholly owned subsidiary of the Company, acquired the entire issued shares in Allywing Investments Limited from Mr. Zhang Xi, the chairman and executive Director of the Company. Details of the transaction are disclosed in note 36 to the consolidated financial statements for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed in note 36 to the consolidated financial statements, no contracts of significance to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2010, the register of the substantial shareholders other than a Director of the Company maintained under section 336 of the SFO shows that the Company had been notified of the following shareholder's interests or short positions, being 5% or more of the issued shares and underlying shares of the Company:

Long positions in the Underlying Shares

Name of shareholder	Capacity	Number of Underlying Shares interested	Approximate percentage of the issued Share capital of the Company *(Note 2)*
Chau Lai Him	Beneficial owner	2,714,196,000	5.95%
Ng Leung Ho *(Note 1)*	Beneficial owner	6,000,000,000	13.15%
Wong Hip Keung, Jimmy	Beneficial owner	3,500,000,000	7.66%
Wong Lap Hop	Beneficial owner	3,105,000,000	6.80%
So Chi Ming *(Note 1)*	Beneficial owner	10,000,000,000	21.91%
Ho Kam Hung	Beneficial owner	3,000,000,000	6.57%

Note:

(1) All these underlying shares can be converted into an aggregate of 16,000,000,000 ordinary shares of the Company upon exercise of the conversion rights under the convertible notes in the aggregate principal amount of HK$160,000,000 at a conversion price of HK$0.01 per share.

(2) The percentages were calculated based on the Company's issued share capital of 45,642,927,432 shares as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, the Company has not been notified by any persons (other than Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major suppliers and customers during the year are set out below:

During the year, the aggregate amount of turnover attributable to the Group's five largest customers represented 34.7% (2009: 45.5%) of the Group's total turnover. In 2010, our largest customer accounted for 12.0% (2009: 1.1%) of the Group's total turnover.

In both years, the aggregate amount of purchases received attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

Save as disclosed above, none of the Directors, their associates or any shareholders which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had a beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 41 to the consolidated financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as of 31 December 2010 are set out in note 42 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Other than the warrants, convertible notes and share options as set out in notes 32, 33 and 37 to the consolidated financial statements respectively, the Company had no outstanding convertible securities, options or other similar rights as at 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company strived to maintain high corporate governance standard and complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. Further information of the corporate governance practice of the Company is set out from page 15 to page 23 in the Corporate Governance Report.

CONFIRMATION OF INDEPENDENT STATUS

The Company received the letters of confirmation of independency issued by all the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board of Directors was satisfied with the independent status of all the independent non-executive Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float under the Listing Rules as at the date of this report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

ZHANG XI
Chairman

Hong Kong, 30 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FULBOND HOLDINGS LIMITED
福邦控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 113, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation 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 and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2010 and of the loss and cash flows of the Group 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	2010 US$'000	2009 US$'000
Continuing operations			
Turnover	8	13,106	15,605
Cost of sales		(12,356)	(13,773)
Gross profit		750	1,832
Other income	9	1,552	835
Other gains and losses	10	(90,386)	(42,026)
Selling and distribution costs		(1,104)	(1,283)
Administrative expenses		(7,151)	(4,208)
Finance costs	11	(3,828)	(6,803)
Loss before taxation		(100,167)	(51,653)
Taxation	12	–	(84)
Loss for the year from continuing operations		(100,167)	(51,737)
Discontinued operation			
Loss for the year from discontinued operation	13	(678)	(2,371)
Loss for the year	14	(100,845)	(54,108)
Other comprehensive income			
Exchange differences arising on translation to presentation currency		2	(557)
Total comprehensive expense for the year		(100,843)	(54,665)
Loss for the year attributable to:			
Owners of the Company		(100,630)	(53,877)
Non-controlling interests		(215)	(231)
		(100,845)	(54,108)
Total comprehensive expense attributable to:			
Owners of the Company		(100,907)	(54,434)
Non-controlling interests		64	(231)
		(100,843)	(54,665)
LOSS PER SHARE	15		
From continuing and discontinued operations			
– Basic		US(0.29) cent	US(0.41) cent
– Diluted		US(0.31) cent	US(0.41) cent
From continuing operations			
– Basic		US(0.29) cent	US(0.40) cent
– Diluted		US(0.31) cent	US(0.40) cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	NOTES	2010 US$'000	2009 US$'000
Non-current assets			
Property, plant and equipment	16	478	857
Intangible assets	17	–	–
Prepaid lease payments	18	556	636
Goodwill	19	–	–
Interests in associates	20	–	–
Other investments	21	–	–
Club debenture	22	–	–
Deferred taxation	23	–	–
		1,034	1,493
Current assets			
Inventories	24	5,830	5,876
Properties under development	25	65,588	–
Held-for-trading investments	26	12,206	–
Trade and other receivables	27	9,693	2,982
Deposits and prepayments		4,707	1,585
Bank balances and cash	28	18,438	29,183
		116,462	39,626
Assets classified as held for sale	13	–	39,071
		116,462	78,697
Current liabilities			
Trade and other payables	29	11,437	27,631
Amounts due to associates	30	57	76
Amounts due to directors of subsidiaries	30	473	473
Taxation payable		331	319
Obligation under finance lease	31	10	10
Warrants	32	–	10,430
Convertible notes	33	–	26,727
Bank and other borrowings – amount due within one year	34	10,280	10,364
		22,588	76,030
Liabilities associated with assets classified as held for sale	13	–	17,278
		22,588	93,308
Net current assets (liabilities)		93,874	(14,611)
Total assets less current liabilities		94,908	(13,118)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	NOTES	2010 US$'000	2009 US$'000
Non-current liabilities			
Convertible notes	33	**101,764**	46,373
Obligation under finance lease	31	**10**	20
		101,774	46,393
		(6,866)	(59,511)
Capital and reserves			
Share capital	35	**45,643**	14,013
Reserves		**(81,048)**	(74,005)
Equity attributable to owners of the Company		**(35,405)**	(59,992)
Non-controlling interests		**28,539**	481
		(6,866)	(59,511)

The consolidated financial statements on pages 33 to 113 were approved and authorised for issue by the Board of Directors on 30 March 2011 and are signed on its behalf by:

YEUNG KWOK YU
Director

CATHERINE CHEN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the Company										
	Share capital US$'000	**Share premium** US$'000	**Capital reserve** US$'000 (Note a)	**General reserve** US$'000 (Note b)	**Exchange translation reserve** US$'000	**Share option reserve** US$'000	**Capital redemption reserve** US$'000	**Accumulated losses** US$'000	**Sub-total** US$'000	**Non-controlling interests** US$'000	**Total** US$'000
At 1 January 2009	12,954	53,078	551	1,670	2,651	524	4	(84,309)	(12,877)	1,198	(11,679)
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	–	(557)	–	–	–	(557)	–	(557)
Loss for the year	–	–	–	–	–	–	–	(53,877)	(53,877)	(231)	(54,108)
Total comprehensive expense for the year	–	–	–	–	(557)	–	–	(53,877)	(54,434)	(231)	(54,665)
Exercise of warrants	1,059	6,260	–	–	–	–	–	–	7,319	–	7,319
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(486)	(486)
Transfer	–	–	–	270	–	–	–	(270)	–	–	–
At 31 December 2009	14,013	59,338	551	1,940	2,094	524	4	(138,456)	(59,992)	481	(59,511)
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	–	(277)	–	–	–	(277)	279	2
Loss for the year	–	–	–	–	–	–	–	(100,630)	(100,630)	(215)	(100,845)
Total comprehensive expense for the year	–	–	–	–	(277)	–	–	(100,630)	(100,907)	64	(100,843)
Exercise of warrants	1,230	5,989	–	–	–	–	–	–	7,219	–	7,219
Issue of shares upon conversion of convertible notes	30,400	87,875	–	–	–	–	–	–	118,275	–	118,275
Lapse of share options	–	–	–	–	–	(97)	–	97	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	27,994	27,994
Reserve released upon disposal of subsidiaries	–	–	–	(448)	648	–	–	(200)	–	–	–
At 31 December 2010	**45,643**	**153,202**	**551**	**1,492**	**2,465**	**427**	**4**	**(239,189)**	**(35,405)**	**28,539**	**(6,866)**

Notes:

(a) Capital reserve represents the reserve arising from the group restructuring which took place in 1996.

(b) General reserve comprises Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in the People's Republic of China (the "PRC") in accordance with the memorandum and articles of association of those subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	2010 US$'000	2009 US$'000
OPERATING ACTIVITIES			
Loss before taxation from continuing and discontinued operations		(100,845)	(54,995)
Adjustments for:			
Amortisation of prepaid lease payments		42	52
Amortisation of intangible assets		–	530
Net losses on derivative financial instruments and warrants		94,019	47,035
Depreciation of property, plant and equipment		1,136	2,347
Interest income		(124)	(100)
Finance costs		3,863	7,604
Gain on disposal of property, plant and equipment		–	(4)
Gain on disposal of subsidiaries	13	(212)	–
Gain on early redemption of convertible notes		(4,768)	(5,083)
Loss on held-for-trading investments		1,141	–
Allowance for bad and doubtful debts		–	85
Impairment loss recognised in respect of intangible assets		–	2,009
Operating cash flows before movements in working capital		(5,748)	(520)
Decrease in inventories		622	1,256
(Increase) decrease in trade and other receivables		(1,549)	6,034
Increase in deposits and prepayments		(2,204)	(4,042)
Net increase in held-for-trading investments		(13,368)	–
Decrease in trade and other payables		(685)	(641)
Cash (used in) generated from operations		(22,932)	2,087
PRC Enterprise Income Tax paid		–	(84)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		(22,932)	2,003
INVESTING ACTIVITIES			
Interest received		124	100
Acquisition of subsidiaries	36	(38,215)	–
Disposal of subsidiaries	13	(1,063)	–
Purchases of property, plant and equipment		(739)	(1,690)
Proceeds from disposal of property, plant and equipment		–	8
Deposit received from proposed disposal of subsidiaries		–	15,742
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(39,893)	14,160

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 US$'000	2009 US$'000
FINANCING ACTIVITIES		
Interest paid	(579)	(1,379)
Advance from directors of subsidiaries	–	1,600
New bank loans raised	9,553	16,805
Repayments of bank loans	(9,553)	(16,227)
Repayment to associates	–	(49)
Repayment of obligation under finance lease	(10)	–
Redemption of convertible notes	(16,779)	(23,267)
Dividends paid to minority shareholders of a subsidiary	–	(486)
Repayment to a shareholder	–	(162)
Proceed from issue of convertible notes	64,432	25,290
Proceed from exercise of warrants	4,106	3,552
NET CASH GENERATED FROM FINANCING ACTIVITIES	51,170	5,677
Net (decrease) increase in cash and cash equivalents	(11,655)	21,840
Cash and cash equivalents at 1 January	30,633	8,882
Effect of foreign exchange rate changes	(540)	(89)
Cash and cash equivalents at 31 December, represented by bank balances and cash	18,438	30,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at 31 December 2010 and 31 December 2009, the Company did not have immediate and ultimate holding company. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in United States dollar while the functional currency of the Company is Renminbi and the functional currencies of the Company's principal subsidiaries are Renminbi and Hong Kong dollars. The directors consider the presentation currency in United States dollars is more useful for its current and potential investors.

The Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 December 2010 are investment in securities, manufacture of and trading in timber products and property development business. The Group was also engaged in the food processing and distribution business but which was discontinued in the current year as disclosed in note 13.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss of US$100,845,000 during the year ended 31 December 2010 and as of that date, the Group had net liabilities of US$6,866,000. The Group has obtained undertaking from a shareholder and Chairman of the Company, Mr. Zhang Xi ("Mr. Zhang"), that Mr. Zhang will provide the Group with financial support in meeting the Group's financial obligations as they fall due in the foreseeable future. The directors of the Company are of the opinion that the Group can continue to refinance its bank borrowings and raise additional bank borrowings, if required, to finance its property development business through the pledge of its land use rights, and on this basis, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

In the current year, the Group has applied all the new and revised Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for 2010 financial year ends. The application of the new and revised Standards and Interpretations in the current year has had no effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC*) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

* IFRIC represents the IFRS Interpretations Committee.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013 and that the application of the new Standard has no significant impact on Group's financial assets and liabilities.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain derivative financial instruments, which are measured at fair values as explained in the accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition and up to the effective date 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.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are 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 interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations

Business combinations that took place on or after 1 January 2010

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Business combinations that took place on or after 1 January 2010 (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units or groups of 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 indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional share of losses is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Dividend income from held-for-trading investments is recognised when the Group's rights to receive payment have been established.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Properties under development

Properties under development for sale in the ordinary course of business is included in current assets and are stated at the lower of cost and net realisable value. Costs relating to the development of properties include land cost, construction cost and other direct development expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any identified impairment loss. Construction in progress is classified to other appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, takes place on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to 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 a straight-line basis over their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instrument other than those financial assets classified as at FVPTL, of which interest income is include in net gains or losses.

The Group's financial assets at FVTPL represent financial assets held-for-trading. A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or

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

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividends or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities include convertible notes, warrants and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to associates/directors of subsidiaries, bank and other borrowings and the liability component of convertible notes) are subsequently measured at amortised cost, using the effective interest method.

Convertible notes that contains liability component, conversion option derivative and early redemption option derivatives

Convertible notes issued by the Group that contain host liability and embedded derivatives (conversion option and early redemption option which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. At the date of issue, the liability and embedded derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

The embedded derivatives are remeasured at their fair value immediately prior to the date of redemption or conversion of the convertible notes with changes in fair value being recognised in profit or loss. For redemption of convertible notes, the resulting gain or loss (calculated at the difference between the redemption amount paid and the carrying amount of the convertible notes, being the aggregate amount of the liability component, conversion option derivative and early redemption option derivative) is recognised in profit or loss. For conversion of convertible notes, the carrying amount of the convertible notes is transferred to equity with the resulting shares issued being recorded as additional share capital at nominal value of the shares and the excess of the carrying amount of the convertible notes over the nominal value of the shares being recorded in share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and embedded derivatives in proportion to the allocation of the proceeds. Transaction costs relating to the embedded derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and the exchange translation reserve.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange translation reserve.

Retirement benefits

Payments to Mandatory Provident Fund ("MPF") scheme are charged as an expense when employees have rendered services entitling them to the contribution. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Fair value of embedded conversion option and early redemption option of convertible notes and warrants

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of embedded conversion option and early redemption option of the convertible notes and warrants which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial liabilities are determined at the end of the reporting period with movements in fair value recognised in profit or loss. In estimating the fair value of these derivative financial liabilities, the Group uses independent valuation which is based on various inputs and estimates based on quoted market rates and adjusted for specific features of the instrument (see notes 32 and 33). If the inputs and estimates applied in the model are different, the carrying amount of these derivative financial liabilities will change. The carrying value of the embedded conversion option and early redemption option of convertible notes at 31 December 2010 were US$62,241,000 (2009: US$45,591,000). The carrying value of the warrants at 31 December 2009 was US$10,430,000 and there were no outstanding warrants at 31 December 2010.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible notes, bank balances and cash as disclosed in respective notes and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annually basis. As part of this review, the directors consider the cost of capital and will balance its overall capital structure through the new shares issues as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 US$'000	2009 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	28,131	43,220
Financial assets at FVTPL	12,206	–
	40,337	43,220
Financial liabilities		
Amortised cost	59,459	66,420
Derivative financial liabilities	62,241	56,021
	121,700	122,441

Financial risk management objectives and policies

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

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and certain assets and liabilities (details are disclosed in respective notes) are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at end of the reporting period are as follows:

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
	US$'000	US$000	US$'000	US$'000
United States Dollars	534	–	7,183	420
Hong Kong Dollars	14,718	40,626	19,240	28,620
	15,252	40,626	26,423	29,040

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of United States Dollars and Hong Kong Dollars. The following table details the Group's sensitivity to a 5% (2009: 5%) increase in RMB against the relevant foreign currency while all other variables are held constant. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2009: 5%) change in foreign currency rates.

The sensitivity analysis includes monetary items where the denomination of the balances is in a currency other than the functional currency of the respective group entities. A positive number below indicates an increase in loss for the year where RMB strengthen 5% (2009: 5%) against the relevant currency while a negative number represents a decrease in loss for the year. For a 5% (2009: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the result for the year.

	2010	2009
	US$'000	US$'000
United States Dollars	27	338
Hong Kong Dollars	(1,295)	(1,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

At 31 December 2009, the Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, convertible notes and a three-year loan note. At 31 December 2010, the Group is exposed to cash flow interest rate risk in relation to its variable rate bank borrowings and fair value interest rate risk in relation to fixed rate other borrowings, convertible notes and a three-year loan note. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fixed-rate short-term bank deposits is subject to cash flow interest rate risk as the fixed deposits are renewed every one to three months.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly related to the fluctuation of the best lending rate offered by the People's Bank of China arising from the Group's variable rate bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and variable rate bank borrowings at the end of the reporting period. For short-term bank deposits and variable rate bank borrowings, the analysis is prepared assuming the amount of deposits and borrowings at the end of the reporting period was existing for the whole year. A 50 (2009: 50) basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 50 (2009: 50) basis points higher and all other variables were held constant, the Group's loss for the year ended 31 December 2010 would decrease by US$33,000 (2009: US$153,000). There would be an equal and opposite impact on the result for the year where there had been 50 (2009: 50) basis points lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk

The Group was exposed to equity price risk arising from the conversion option derivative and early redemption option (derivative components) of the convertible notes and warrants. The fair values of the conversion option derivative and early redemption option were calculated using the Black-Scholes Option Pricing Model and the binomial option pricing model, and the fair value of the warrants were calculated using the Black-Scholes Option Pricing Model. Details of these derivative financial instruments are set out in notes 32 and 33.

If the input of share price to the valuation models of the derivative components of the convertible notes and warrants had been 5% higher/lower while all other variables were held constant, the loss for the year would increase (decrease) as follows:

	2010 US$'000	2009 US$'000
Higher by 5%		
– Derivative components	4,765	3,000
– Warrants	–	919
	4,765	3,919
Lower by 5%		
– Derivative components	(4,911)	(2,954)
– Warrants	–	(906)
	(4,911)	(3,860)

The Group is also exposed to equity security price risk through its held-for-trading investments. The management of the Group manages this exposure by maintaining a portfolio of investments with different risk profiles and the directors of the Company will monitor the price risk and will consider hedging the risk exposure should the need arise. If the market prices of the held-for-trading investments had been 10% higher/lower, the Group's loss for the year would decrease/increase by US$1,221,000 (2009: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers.

At 31 December 2010, the Group has concentration risk on its held-for-trading investments with 32% of the total held-for-trading investments concentrated in a single entity which is listed in Hong Kong.

The credit risk on bank deposits and bank balances is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the board of directors of the Company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its short and long term liquidity requirements.

At 31 December 2010, the Group had net liabilities of US$6,866,000 as outlined in note 2, the Group has obtained undertaking from a shareholder and Chairman of the Company to provide the Group with financial support in meeting the Group's financial obligations as they fall due in the foreseeable future. The directors of the Company are of the opinion that the Group can continue to refinance its bank borrowings and raise additional bank borrowings, if required, to finance its property development business through the pledge of its land use rights, and on this basis, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's contractual maturity of its major financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flow	Carrying amount
	%	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2010								
Trade and other payables	–	6,400	2,706	–	–	–	9,106	9,106
Amounts due to associates	–	57	–	–	–	–	57	57
Amounts due to directors of subsidiaries	–	473	–	–	–	–	473	473
Obligation under finance lease	8.8	–	3	3	6	12	24	20
Convertible notes	–	–	–	–	–	50,880	50,880	39,523
Bank and other borrowings	3.7	–	1,489	2,668	6,136	–	10,293	10,280
		6,930	4,198	2,671	6,142	50,892	70,833	59,459
At 31 December 2009								
Trade and other payables	–	10,138	4,777	–	–	–	14,915	14,915
Amounts due to associates	–	76	–	–	–	–	76	76
Amounts due to directors of subsidiaries	–	837	–	–	–	–	837	837
Obligation under finance lease	8.8	–	3	3	6	22	34	30
Convertible notes	–	16,808	–	–	–	25,807	42,615	30,546
Bank and other borrowings	3.6	–	2,382	5,333	16,199	–	23,914	23,083
		27,859	7,162	5,336	16,205	25,829	82,391	69,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

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

- the fair value of financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input; and

- the fair value of the warrants and the embedded conversion option and early redemption option of the convertible notes are estimated using option models and discounted cash flow analysis and the inputs into the models are disclosed in notes 32 and 33.

Fair value measurements recognised in the consolidated statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is determined based on observable inputs.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value (continued)

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

	At 31 December 2010			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Held-for-trading investments	12,206	–	–	12,206
Financial liabilities at FVTPL				
Embedded conversion option and early redemption option of convertible notes	–	–	62,241	62,241

	At 31 December 2009			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Financial liabilities at FVTPL				
Warrants	–	–	10,430	10,430
Embedded conversion option and early redemption option of convertible notes	–	–	45,591	45,591

There is no transfer between level 1 and level 2 in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value (continued)

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

Reconciliation of Level 3 fair value measurement of financial liabilities

	Warrants	Embedded derivatives of convertible notes	Total
	US$'000	US$'000	US$'000
At 1 January 2009	15	11,457	11,472
Currency realignment	3	5	8
Exercised during the year	(3,767)	–	(3,767)
Issued during the year	–	25,016	25,016
Total gains or losses	14,179	16,770	30,949
Redeemed during the year	–	(7,657)	(7,657)
At 31 December 2009	10,430	45,591	56,021
Currency realignment	(25)	(311)	(336)
Exercised during the year	(3,113)	–	(3,113)
Issued during the year	–	100,578	100,578
Adjustment	–	(650)	(650)
Total gains or losses	(7,292)	18,518	11,226
Redeemed during the year	–	(10,987)	(10,987)
Converted during the year	–	(90,498)	(90,498)
At 31 December 2010	**–**	**62,241**	**62,241**

8. TURNOVER AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. Reported segment information is based on internal management reporting information that is regularly reviewed by the board of directors, being the CODM of the Group. The measurement policies the Group used for segment reporting are the same as those used in its HKFRS financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

The Group's operations are organised based on the following four business activities. Similarly, the information reported to the CODM is also prepared on such basis.

- Timber – manufacture of and trading in wooden products including blockboard and particle board, door skin and other wooden products;
- Investments in securities – trading of securities;
- Property development – development of properties held for sale; and
- Food processing and distribution – processing and distribution of frozen seafood products.

The operations of investment in securities and property development were introduced to the Group in the current year and the operation of food processing and distribution was discontinued in the current year.

(a) Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable operating segment.

For the year ended 31 December 2010

	Continuing operations				Discontinued operation	
	Timber US$'000	Investment in securities US$'000	Property development US$'000	Total US$'000	Food processing and distribution US$'000	Total US$'000
TURNOVER						
External sales	13,106	–	–	13,106	2,281	15,387
RESULT						
Segment result	651	(1,145)	(510)	(1,004)	(101)	(1,105)
Unallocated corporate income				124	–	124
Unallocated corporate expenses				(6,214)	(754)	(6,968)
Other gains and losses				(89,245)	212	(89,033)
Finance costs				(3,828)	(35)	(3,863)
Loss for the year				(100,167)	(678)	(100,845)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(a) Segment turnover and results (continued)

For the year ended 31 December 2009

	Continuing operation	Discontinued operation	
	Timber US$'000	Food processing and distribution US$'000	Total US$'000
TURNOVER			
External sales	15,605	38,056	53,661
RESULT			
Segment result	(948)	(130)	(1,078)
Unallocated corporate income	94	6	100
Unallocated corporate expenses	(1,970)	(57)	(2,027)
Other gains and losses	(42,026)	(351)	(42,377)
Finance costs	(6,803)	(801)	(7,604)
Impairment loss recognised in respect of intangible assets	–	(2,009)	(2,009)
Loss before taxation	(51,653)	(3,342)	(54,995)
Taxation	(84)	971	887
Loss for the year	(51,737)	(2,371)	(54,108)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment result represents the profit or loss from each segment without allocation of interest income, central administration costs, directors' emoluments, other gains and losses (excluding gains or losses on held-for-trading investments), finance costs and impairment losses recognised in respect of intangible assets. This is the measure reported to the board of directors for the purpose of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segments:

At 31 December 2010

	Continuing operations			
	Timber US$'000	Investment in securities US$'000	Property development US$'000	Total US$'000
ASSETS				
Segment assets	13,299	12,231	66,147	91,677
Unallocated corporate assets				25,819
Consolidated total assets				117,496
LIABILITIES				
Segment liabilities	2,564	–	31	2,595
Unallocated corporate liabilities				121,767
Consolidated total liabilities				124,362

At 31 December 2009

	Continuing operation	Discontinued operation	
	Timber US$'000	Food processing and distribution US$'000	Total US$'000
ASSETS			
Segment assets	9,348	36,864	46,212
Unallocated corporate assets	31,771	2,207	33,978
Consolidated total assets	41,119	39,071	80,190
LIABILITIES			
Segment liabilities	3,119	3,792	6,911
Unallocated corporate liabilities	119,304	13,486	132,790
Consolidated total liabilities	122,423	17,278	139,701

The Group's unallocated corporate assets at the end of the reporting period mainly consist of other investments, club debentures, bank balances and cash and certain other receivables and prepayments. The Group's unallocated corporate liabilities at the end of the reporting period mainly consist of amounts due to associates/directors of subsidiaries, warrants, convertible notes, bank and other borrowings and certain other creditors and accrued charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(c) Other segment information

For the year ended 31 December 2010

	Continuing operations					Discontinued operation	
	Timber US$'000	Investment in securities US$'000	Property development US$'000	Unallocated US$'000	Total US$'000	Food processing and distribution US$'000	Total US$'000
Information included in segment results/segment assets:							
Additions to property, plant and equipment	294	–	273	172	739	–	739
Amortisation of prepaid lease payments	42	–	–	–	42	–	42
Depreciation of property, plant and equipment	1,074	–	18	44	1,136	–	1,136

For the year ended 31 December 2009

	Continuing operations			Discontinued operation	
	Timber US$'000	Unallocated US$'000	Total US$'000	Food processing and distribution US$'000	Total US$'000
Information included in segment results/segment assets:					
Additions to property, plant and equipment	536	178	714	1,006	1,720
Amortisation of prepaid lease payments	30	–	30	22	52
Depreciation of property, plant and equipment	1,415	46	1,461	886	2,347
Gain on disposal of property, plant and equipment	–	4	4	–	4
Impairment loss recognised in respect of intangible assets	–	–	–	2,009	2,009

Substantially all of the Group's operations are located in the People's Republic of China (the "PRC") (country of domicile) and Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(c) Other segment information (continued)

The Group's turnover from continuing operations from external customers based on the geographical location of customers are detailed below:

	Turnover from external customers	
	2010	2009
	US$'000	US$'000
PRC (country of domicile)	**8,213**	8,800
Middle East	**3,163**	5,434
Asia excluding the PRC	**1,123**	1,001
Others	**607**	370
	13,106	15,605

Included in the Group's non-current assets are amount of US$45,000 (2009: US$48,000) of property, plant and equipment which are located in Hong Kong and all the remaining non-current assets are located in the PRC (place of domicile of the group entities that hold such assets).

(d) Information about major customers

Turnover from customers of the corresponding years contributing 10% of the total sales of the Group are as follows:

	2010	2009
	US$'000	US$'000
Customer A[1]	**N/A[3]**	5,938
Customer B[1]	**N/A[3]**	5,323
Customer C[2]	**1,868**	N/A[3]

1 Turnover from the food processing and distribution segment

2 Turnover from the timber segment

3 The corresponding turnover does not contribute over 10% of the total sales of the Group in the current year

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

9. OTHER INCOME

	Continuing operations		Discontinued operation		Total	
	2010	2009	**2010**	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Value added tax refund (note a)	**858**	117	**–**	–	**858**	117
Interest income	**124**	94	**–**	6	**124**	100
Sales of scrap materials	**–**	–	**38**	802	**38**	802
Sub-contracting income	**159**	212	**–**	–	**159**	212
Government grants (note b)	**261**	261	**–**	710	**261**	971
Others	**150**	151	**50**	227	**200**	378
	1,552	835	**88**	1,745	**1,640**	2,580

Notes:

(a) Certain subsidiaries of the Company established in the PRC are engaged in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT"), such subsidiaries were entitled to a VAT refund totalling US$858,000 (2009: US$117,000) for the year ended 31 December 2010.

(b) Government grants represents compensation received for expenditures incurred in relation to energy saving and waste reduction for the Group's timber related business and other subsidies granted for the Group's food processing and distribution business. There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants as income upon receipts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

10. OTHER GAINS AND LOSSES

	Continuing operations		Discontinued operation		Total	
	2010	2009	**2010**	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Allowance for bad and doubtful debts	**–**	(85)	**–**	–	**–**	(85)
Gain on disposal of property, plant and equipment	**–**	4	**–**	–	**–**	4
Net loss on derivative financial instruments and warrants (notes 32 and 33)	**(94,019)**	(47,035)	**–**	–	**(94,019)**	(47,035)
Gain on early redemption of convertible notes (note 33)	**4,768**	5,083	**–**	–	**4,768**	5,083
Gain on disposal of subsidiaries (note 13)	**–**	–	**212**	–	**212**	–
Net loss on held-for-trading investments	**(1,141)**	–	**–**	–	**(1,141)**	–
Net exchange gain (loss)	**6**	7	**–**	(351)	**6**	(344)
	(90,386)	(42,026)	**212**	(351)	**(90,174)**	(42,377)

11. FINANCE COSTS

	Continuing operations		Discontinued operation		Total	
	2010	2009	**2010**	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Interest on:						
– borrowings from banks and other financial institutions wholly repayable within five years	**544**	546	**35**	801	**579**	1,347
– other borrowings	**32**	32	**–**	–	**32**	32
Effective interest expense on convertible notes wholly repayable within five years	**3,252**	6,225	**–**	–	**3,252**	6,225
	3,828	6,803	**35**	801	**3,863**	7,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

12. TAXATION

Tax charge (credit) comprises:

	Continuing operations		Discontinued operation		Total	
	2010	2009	**2010**	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
PRC Enterprise Income Tax	**–**	–	**–**	171	**–**	171
Under(over)provision in prior years	**–**	35	**–**	(689)	**–**	(654)
	–	35	**–**	(518)	**–**	(483)
Withholding tax on distributed profit	**–**	49	**–**	–	**–**	49
Deferred taxation (note 23)	**–**	–	**–**	(453)	**–**	(453)
	–	84	**–**	(971)	**–**	(887)

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both years.

PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of subsidiaries.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of PRC subsidiaries is 25%. Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

12. TAXATION (CONTINUED)

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

	2010 US$'000	2009 US$'000
Loss before taxation (from continuing operations)	**(100,167)**	(51,653)
Tax at the domestic income tax rate of 25% (2009: 25%) (note)	**(25,042)**	(12,913)
Tax effect of expenses not deductible for tax purpose	**23,906**	11,970
Tax effect of income not taxable for tax purpose	**(1,370)**	(1,750)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	99
Tax effect of tax losses not recognised	**2,506**	2,594
Underprovision in prior years	**–**	35
Withholding tax on distributed profit	**–**	49
Taxation for the year (relating to continuing operations)	**–**	84

Note: The domestic income tax rate of 25% (2009: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries (the "Disposal Group"), which carried out all of the Group's food processing and distribution operation (the "Disposal"). Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue Holdings Limited ("Wise Virtue"). Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The Disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010.

The loss for the period from discontinued operation is analysed as follows:

	1.1.2010 to 19.1.2010 US$'000	1.1.2009 to 31.12.2009 US$'000
Loss of food processing and distribution operation for the year	**(890)**	(2,371)
Gain on disposal of food processing and distribution operation	**212**	–
	(678)	(2,371)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (CONTINUED)

The results of the Disposal Group for the period from 1 January 2010 to 19 January 2010, which have been included in the consolidated statement of comprehensive income and presented as discontinued operation were as follows:

	1.1.2010 to 19.1.2010 US$'000	1.1.2009 to 31.12.2009 US$'000
Turnover	2,281	38,056
Cost of sales	(2,201)	(35,749)
Gross profit	80	2,307
Other income	88	1,745
Selling and distribution costs	(18)	(1,106)
Administrative expenses	(1,005)	(3,478)
Impairment loss recognised in respect of intangible assets	–	(2,009)
Finance costs	(35)	(801)
Loss before taxation	(890)	(3,342)
Taxation	–	971
Loss for the period/year	(890)	(2,371)

During the current year, the Disposal Group contributed an outflow of US$491,000 (2009: inflow of US$590,000) to the Group's net operating cash flows, paid US$88,000 (2009: US$821,000) in respect of investing activities and contributed US$8,000 (2009: US$1,727,000) in respect of financing activities.

	US$'000
Consideration received:	
Deposits received in 2009 (note 29)	15,742
Cash consideration receivable (note 27)	5,519
Total consideration	21,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (CONTINUED)

Analysis of assets and liabilities of the Disposal Group at the date of disposal and 31 December 2009 were as follows:

	19.1.2010 US$'000	31.12.2009 US$'000
Property, plant and equipment	9,621	9,649
Prepaid lease payment	2,424	2,429
Inventories	8,981	9,557
Trade and other receivables	16,303	15,986
Tax recoverable	222	–
Bank balances and cash	1,063	1,450
Total assets	38,614	39,071
Trade and other payables	3,989	1,825
Other creditors and accrued charges	358	1,908
Amounts due to directors	365	364
Bank loans	12,746	12,719
Others	107	462
Total liabilities	17,565	17,278
Net assets disposed of	21,049	21,793
Gain on disposal of subsidiaries:		
Consideration received and receivable	21,261	
Net assets disposed of	(21,049)	
Gain on disposal	212	
Net cash outflow arising on disposal:		
Cash and cash equivalent disposed of	(1,063)	

The assets and liabilities attributable to the Disposal Group were classified as disposal group held for sale and are presented separately in the consolidated statement of financial position at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. LOSS FOR THE YEAR

	Continuing operations		Discontinued operation		Total	
	2010	2009	**2010**	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Loss for the year has been arrived at after charging:						
Directors' remuneration (note a)						
– Fees	**319**	548	**–**	–	**319**	548
– Salaries and other benefits	**337**	–	**–**	–	**337**	–
– Bonus	**1,544**	–	**–**	–	**1,544**	–
– Other emoluments	**5**	6	**–**	–	**5**	6
	2,205	554	**–**	–	**2,205**	554
Employees' salaries and benefits expenses	**1,332**	1,437	**56**	1,411	**1,388**	2,848
Retirement benefits scheme contributions for staff other than directors (note b)	**206**	272	**1**	18	**207**	290
Total employees' benefits expenses	**3,743**	2,263	**57**	1,429	**3,800**	3,692
Amortisation of prepaid lease payments	**42**	30	**–**	22	**42**	52
Amortisation of intangible assets	**–**	–	**–**	530	**–**	530
Auditor's remuneration	**218**	232	**–**	–	**218**	232
Cost of inventories recognised as expense	**12,356**	13,773	**2,201**	35,749	**14,557**	49,522
Depreciation of property, plant and equipment	**1,136**	1,461	**–**	886	**1,136**	2,347
Impairment loss recognised in respect of intangible assets	**–**	–	**–**	2,009	**–**	2,009
Minimum lease payments under operating leases in respect of rented premises	**207**	238	**–**	–	**207**	238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

14. LOSS FOR THE YEAR (CONTINUED)

Notes:

(a) Emoluments of directors and highest paid employees

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

	Zhang Xi US$'000	Catherine Chen US$'000	Lee Sun Man US$'000	Kwan Kam Hung, Jimmy US$'000	Wah Wang Kei, Jackie US$'000	Yeung Kwok Yu US$'000	Chiu Kong* US$'000	Ma Yin Fan US$'000	Leung Hoi Ying US$'000	Hong Po Kui, Martin US$'000	Yu Pan US$'000	Total US$'000
For the year ended 31 December 2010												
Fees	100	100	–	–	–	–	39	23	13	31	13	319
Salaries and other benefits	–	267	–	–	–	–	70	–	–	–	–	337
Bonus (note a)	1,544	–	–	–	–	–	–	–	–	–	–	1,544
Share-based payments	–	–	–	–	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	2	2	–	–	–	–	1	–	–	–	–	5
	1,646	369	–	–	–	–	110	23	13	31	13	2,205

	Zhang Xi US$'000	Catherine Chen US$'000	Chen Wyman, Paul# US$'000	Lee Sun Man** US$'000	Yeung Kwok Yu** US$'000	Kwan Kam Hung, Jimmy** US$'000	Wah Wang Kei, Jackie** US$'000	Chiu Sui Keung# US$'000	Hong Po Kui, Martin US$'000	Ma Yin Fan** US$'000	Yu Pan** US$'000	Leung Hoi Ying** US$'000	Wong Man Hin, Raymond# US$'000	Yam Tak Fai, Ronald# US$'000	Total US$'000
For the year ended 31 December 2009															
Fees	77	313	44	–	–	–	–	27	31	9	5	5	18	19	548
Salaries and other benefits	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonus	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	2	2	2	–	–	–	–	–	–	–	–	–	–	–	6
	79	315	46	–	–	–	–	27	31	9	5	5	18	19	554

Note:

* The director was appointed in 2010.

** The directors were appointed in 2009.

The directors were resigned in 2009.

(a) The bonus paid to Mr. Zhang Xi during the year ended 31 December 2010 is determined on a one off basis approved by the board of directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

14. LOSS FOR THE YEAR (CONTINUED)

Notes: (continued)

(a) Emoluments of directors and highest paid employees (continued)

(ii) Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2009: two) individuals are as follows:

	2010 US$'000	2009 US$'000
Salaries and other benefits	**121**	422
Retirement benefit scheme contributions	**4**	4
	125	426

Their emoluments were within the following band:

	2010 Number of individuals	2009 Number of individuals
Not exceeding HK$1,000,000 (equivalent to US$128,816)	**2**	–
HK$1,000,001 – HK$1,500,000 (equivalent to US$129,032 to US$193,548)	**–**	1
HK$2,000,001 – HK$2,500,000 (equivalent to US$258,065 to US$322,581)	**–**	1
	2	2

(b) Retirement benefits schemes

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

In addition, pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the basic staff wages to certain retirement benefit schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. LOSS PER SHARE

For continuing and discontinued operations

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

	2010 US$'000	2009 US$'000
Loss:		
Loss for the purpose of basic loss per share	(100,630)	(53,877)
Effect of dilutive potential ordinary shares:		
– Interest on convertible notes	176	–
– Change in fair value of embedded conversion option and early redemption option	(14,573)	–
– Change in fair value of warrants	(7,292)	–
– Currency realignment of convertible notes	(19)	–
Loss for the purpose of diluted loss per share	(122,338)	(53,877)

Number of shares:

	2010	2009
Weighted average number of ordinary shares for purposes of calculation of basic loss per share	34,965,167,169	13,011,979,501
Effect of dilutive potential ordinary shares in respect of:		
– Convertible notes	3,844,837,796	–
– Warrants	284,634,735	–
Weighted average number of ordinary shares for the purpose of calculation of diluted loss per share	39,094,639,700	13,011,979,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

15. LOSS PER SHARE (CONTINUED)

From continuing operations

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

	2010 US$'000	2009 US$'000
Loss for the year attributable to owners of the Company	(100,630)	(53,877)
Less: Loss for the year from discontinued operation	(678)	(2,371)
Loss for the purpose of basic loss per share from continuing operations	(99,952)	(51,506)
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	176	–
– Change in fair value of embedded conversion option and early redemption option	(14,573)	–
– Change in fair value of warrants	(7,292)	–
– Currency realignment of convertible notes	(19)	–
Loss for the purpose of diluted loss per share from continuing operations	(121,660)	(51,506)

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

From discontinued operation

Basic loss per share for the discontinued operation is US0.0019 cent per share (2009: US0.02 cent per share), based on the loss for the year from the discontinued operation of US$678,000 (2009: US$2,371,000) and the denominator is detailed above for basic loss per share. Diluted loss per share for the discontinued operation is US0.0017 cent (2009: US0.02 cent) and the denominator as detailed above for diluted loss per share.

The computation of diluted loss per share for the years ended 31 December 2010 and 31 December 2009 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years. It does not assume the conversion of certain convertible notes for the year ended 31 December 2010 since their assumed conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding warrants and conversion of all convertible notes for the year ended 31 December 2009 since their exercise and conversion would result in a decrease in the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and equipment	Furniture and fittings	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST							
At 1 January 2009	15,096	82	43,724	112	1,306	1,644	61,964
Currency realignment	6	–	16	–	–	–	22
Additions	2	–	1,042	37	53	586	1,720
Reclassification	1,675	–	555	–	–	(2,230)	–
Reclassified as held-for-sale	(6,329)	–	(4,397)	(104)	(414)	–	(11,244)
Disposals	(13)	–	–	–	–	–	(13)
At 31 December 2009	10,437	82	40,940	45	945	–	52,449
Currency realignment	405	7	1,595	1	40	–	2,048
Additions	–	258	258	50	173	–	739
At 31 December 2010	**10,842**	**347**	**42,793**	**96**	**1,158**	**–**	**55,236**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2009	10,576	12	39,378	28	837	–	50,831
Currency realignment	3	–	15	–	–	–	18
Provided for the year	616	27	1,597	39	68	–	2,347
Eliminated on disposal	(9)	–	–	–	–	–	(9)
Reclassified as held-for-sale	(913)	–	(575)	(31)	(76)	–	(1,595)
At 31 December 2009	10,273	39	40,415	36	829	–	51,592
Currency realignment	403	–	1,587	1	39	–	2,030
Provided for the year	166	34	791	13	132	–	1,136
At 31 December 2010	**10,842**	**73**	**42,793**	**50**	**1,000**	**–**	**54,758**
CARRYING VALUES							
At 31 December 2010	**–**	**274**	**–**	**46**	**158**	**–**	**478**
At 31 December 2009	164	43	525	9	116	–	857

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis and the rates per annum are as follows:

	Rate per annum (%)
Buildings on land held under short term leases outside Hong Kong	5 to 10
Plant and equipment and furniture and fittings	10 to 33
Motor vehicles	20

Leasehold improvement are depreciated over the remaining unexpired terms of the leases or five years, whichever is shorter.

The net book value of motor vehicle of US$158,000 includes an amount of US$28,000 (2009: US$30,000) in respect of assets held under finance leases.

17. INTANGIBLE ASSETS

	Customer relationship US$'000	**License** US$'000	**Total** US$'000
COST			
At 1 January 2009 and 31 December 2009	2,579	70	2,649
Disposal of subsidiaries	(2,579)	(70)	(2,649)
At 31 December 2010	–	–	–
AMORTISATION AND IMPAIRMENT			
At 1 January 2009	107	3	110
Charge for the year	516	14	530
Impairment loss recognised	1,956	53	2,009
At 31 December 2009	2,579	70	2,649
Disposal of subsidiaries	(2,579)	(70)	(2,649)
At 31 December 2010	–	–	–
CARRYING VALUES			
At 31 December 2010 and 31 December 2009	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

17. INTANGIBLE ASSETS (CONTINUED)

The intangible assets were purchased as part of a business combination in 2008 have definite useful lives and are amortised on straight-line basis over the estimated useful life of five years.

During the year ended 31 December 2009, impairment losses of US$1,956,000 and US$53,000, have been recognised to write down fully the carrying amount of customer relationship and license, respectively, which are attributable to the food processing and distribution segment.

During the year ended 31 December 2010, the Group disposed of Prowealth and its subsidiaries which these intangible assets were related and all relevant intangible assets were derecognised upon disposal.

18. PREPAID LEASE PAYMENTS

	2010 US$'000	2009 US$'000
The Group's prepaid lease payments comprise:		
Short term lease in the PRC	556	636

The prepaid lease payments are amortised over the term of the leases.

19. GOODWILL

	US$'000
COST	
At 1 January 2009 and 31 December 2009	21,340
Disposal of subsidiaries	(21,340)
At 31 December 2010	–
ACCUMULATED IMPAIRMENT LOSSES	
At 1 January 2009 and 31 December 2009	21,340
Disposal of subsidiaries	(21,340)
At 31 December 2010	–
CARRYING VALUES	
At 31 December 2010 and 31 December 2009	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

19. GOODWILL (CONTINUED)

In 2008, the Group acquired 100% of the issued share capital in Prowealth, the subsidiaries of which are engaged in the processing and distribution of frozen seafood products business. The goodwill was attributable to the CGU of food processing and distribution segment.

During the year ended 31 December 2010, the Group disposed of Prowealth and its subsidiaries and related goodwill and accumulated impairment loss on goodwill were derecognised.

20. INTERESTS IN ASSOCIATES

	US$'000
Cost of unlisted investments	2,000
Share of other comprehensive income	463
Share of post-acquisition losses	(2,463)
At 1 January 2009, 31 December 2009 and 31 December 2010	–

Particulars of the Group's associates at 31 December 2009 and 31 December 2010 are as follows:

Name of associate	Place of registration/ operation	Percentage of issued share capital/registered capital held by the Group 2010 %	2009 %	Issued share capital/ registered capital	Principal activities
瀋陽福陽人造板有限公司 Shenyang Fuyang Wood-Basal Panel Ltd. (Note)	PRC	**40.0**	40.0	US$5,000,000	Manufacture and sale of wooden products and inactive since 2007
天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. (Note)	PRC	**49.5**	49.5	US$17,453,021	Manufacture and sale of wooden products and inactive since 2007

Note: Such companies are Sino-foreign equity joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

20. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the Group's associates is set out below:

	2010 US$'000	2009 US$'000
Total assets	1,118	1,118
Total liabilities	(1,028)	(1,028)
Net assets	90	90
Group's share of net assets	–	–
Revenue	–	–
Result for the year	–	–
Group's share of result for the year	–	–

21. OTHER INVESTMENTS

The investments are classified as available-for-sale investments comprise:

	US$'000
Equity securities	
Costs of investments	1,142
Less: Impairment loss recognised	(1,142)
At 1 January 2009, 31 December 2009 and 31 December 2010	–

The balance represents investments in unlisted equity securities issued by private entities incorporated in Taiwan and the PRC. It is measured at cost less impairment at the end of the reporting period because the directors of the Company are of the opinion that their fair values cannot be measured reliably as there is no active market information available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

22. CLUB DEBENTURE

	US$'000
Cost	37
Less: Impairment loss recognised	(37)
At 1 January 2009, 31 December 2009 and 31 December 2010	–

The fair value of the Group's club debenture as at 31 December 2009 and 31 December 2010 was nil. The valuation was determined by reference to recent market prices for similar debentures.

23. DEFERRED TAXATION

The following are the major deferred tax (asset) liability recognised and movements thereon during the year:

	Difference in depreciation US$'000	**Intangible assets** US$'000	**Total** US$'000
At 1 January 2009	(182)	635	453
Charge for the year	182	(635)	(453)
At 31 December 2009 and 31 December 2010	–	–	–

At the end of the reporting period, the Group had unused tax losses of US$37,138,000 (2009: US$27,122,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$5,206,000 (2009: US$3,178,000) that will expire before 2012. Other losses can be carried forward indefinitely.

In addition, the Group has unrecognised deductible temporary differences of US$33,200,000 (2009: US$33,200,000) arising from allowance for bad and doubtful debts and slow moving inventories, as well as the difference between the tax written down value and carrying value of property, plant and equipment and prepaid lease payments for certain PRC subsidiaries at the end of the reporting period. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit for these subsidiaries will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of the PRC, a withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits amounting to US$2,971,000 (2009: US$2,320,000) of the PRC subsidiaries for the year ended 31 December 2010 as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

24. INVENTORIES

	2010 US$'000	2009 US$'000
Raw materials	1,901	2,209
Finished goods	3,929	3,667
	5,830	5,876

25. PROPERTIES UNDER DEVELOPMENT

Properties under development are situated in the PRC and are held for sales after completion. The properties under development at the end of the reporting period represents development cost incurred for construction and land use rights for terms expiring in year 2048. The project is expected to be completed in 2012.

26. HELD-FOR-TRADING INVESTMENTS

	2010 US$'000	2009 US$'000
Held-for-trading investments include:		
Equity securities listed in Hong Kong	12,206	–

Fair values are determined with reference to quoted market bid prices.

27. TRADE AND OTHER RECEIVABLES

	2010 US$'000	2009 US$'000
Trade receivables, net of allowance	1,962	1,159
Bills receivables	172	–
Other receivables	2,040	1,823
Consideration receivable for disposal of subsidiaries (note 13)	5,519	–
	9,693	2,982

Payment terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days after issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

27. TRADE AND OTHER RECEIVABLES (CONTINUED)

The consideration receivable for disposal of subsidiaries is due in July 2011.

The following is an aged analysis of trade receivables based on invoice date at the end of the reporting period:

	2010	2009
	US$'000	US$'000
0 – 90 days	**1,962**	1,088
91 – 180 days	**–**	71
	1,962	1,159

All bills receivables of the Group are aged within 60 days at the end of the reporting period.

Before accepting any new customers, the Group reviews the financial ability and assess the potential customers' credit quality and the board of directors has delegated the management to be responsible for determination of the credit limits and credit approvals for any customers. Limits granted to each customer are reviewed every year.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$52,000 (2009: US$60,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the management considered these debts are of good quality and good repayment history. The Group does not hold any collateral over these balances. The average age of these receivables is 53 days (2009: 102 days).

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	2010	2009
	US$'000	US$'000
91-180 days	**52**	60

The Group has provided fully for all receivables that are past due beyond 1 year because historical experience is such that these receivables are generally not recoverable. Allowance on trade receivables over 270 days are fully provided by reference to past default experience and objective evidences of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

27. TRADE AND OTHER RECEIVABLES (CONTINUED)

In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period. The directors of the Company considered that the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Movement in the allowance for doubtful debts

	2010 US$'000	2009 US$'000
At beginning of the year	1,359	1,274
Impairment losses recognised	–	85
At end of the year	1,359	1,359

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of US$1,359,000 (2009: US$1,359,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Included in the trade and other receivables are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2010 US$'000	2009 US$'000
Hong Kong Dollars	5,712	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term bank deposits with original maturity of three months or less, and carry interest ranging from 0.01% to 1.17% (2009: 0.01% to 2.25%) per annum.

At 31 December 2009 and 31 December 2010, the Group had bank balances and cash that were in RMB, which is not freely convertible into other currencies or were subject to exchange controls in the PRC amounting to approximately US$9,643,000 and US$8,621,000, respectively.

Included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2010 US$'000	2009 US$'000
United States Dollars	534	300
Hong Kong Dollars	9,006	19,240

29. TRADE AND OTHER PAYABLES

	2010 US$'000	2009 US$'000
Trade payables	2,706	2,949
Amounts due to minority shareholders of subsidiaries	1,235	896
Dividend payable to minority shareholder of a subsidiary	2,653	2,653
Amount due to former director of a subsidiary	634	–
Deposit received from disposal of Prowealth (note 13)	–	15,742
Other payables	4,209	5,391
	11,437	27,631

The amount(s) due to minority shareholders of subsidiaries/former director of a subsidiary and dividend payable to minority shareholder of a subsidiary are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

29. TRADE AND OTHER PAYABLES (CONTINUED)

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	2010 US$'000	2009 US$'000
0 – 90 days	1,258	1,527
91 – 180 days	–	–
More than 180 days	1,448	1,422
	2,706	2,949

Included in the trade and other payables are the following amounts denominated in currencies other than the functional currency of the group entities to which they relate:

	2010 US$'000	2009 US$'000
Hong Kong Dollars	628	630

30. AMOUNTS DUE TO ASSOCIATES/DIRECTORS OF SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

31. OBLIGATION UNDER FINANCE LEASE

During the year ended 31 December 2009, the Group has leased certain of its motor vehicle under finance leases. The lease term is 3 years. Interest rates obligation under finance leases is fixed at 8.84% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
Amounts payable under finance lease				
Within one year	**12**	12	**10**	10
In more than one year but not more than two years	**10**	22	**10**	20
	22	34	**20**	30
Less: Future finance charges	**(2)**	(4)	**–**	–
Present value of lease obligations	**20**	30	**20**	30
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(10)**	(10)
Amount due for settlement after 12 months			**10**	20

The Group's obligation under a finance lease is secured by the lessor's charge over the leased assets and is denominated in Hong Kong Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

32. WARRANTS

On 28 January 2008, the Company issued 1,500,000,000 unlisted warrants at price of HK$0.001 per warrant to six placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of US$0.001 each of the Company ("Subscription Share") at the initial subscription price of HK$0.074 per Subscription Share at any time during the period of 30 months commencing from the date of issue of the warrants.

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 with effect from 6 August 2009 as a result of the proposed placing of the Fulbond Convertible Notes (see note 33) and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, in 2009, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share.

At 31 December 2009, the Company had outstanding 3,210,461,548 warrants and their aggregate fair value was approximately US$10,430,000.

During the year ended 31 December 2010, registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares in the Company at HK$0.026 per share. The fair value gain, representing the fair value changes of the warrants from 1 January 2010 to the dates immediately prior to each respective exercise dates, was approximately US$881,000 and had been recognised in profit and loss in the current year. The remaining outstanding 1,980,923,092 warrants expired on 20 July 2010.

At 31 December 2009, the fair value of the outstanding warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follows:

	31.12.2009
Exercise price	HK$0.026
Share price	HK$0.044
Expected volatility	90.36%
Remaining life	7 months
Risk free rate	0.167%

During the year ended 31 December 2010, an aggregate fair value gain of US$6,411,000 in respect of the warrants expired on 28 July 2010 has been recognised in profit or loss (2009: fair value loss of US$14,179,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. CONVERTIBLE NOTES

(i) Sun Boom CN and Wise Virtue CN

On 17 October 2008, the Company issued convertible notes to Sun Boom Limited ("Sun Boom"), an independent third party with principal amount of HK$80,646,500 (equivalent to US$10,389,000) ("Sun Boom CN") and to Wise Virtue with the principal amount of HK$80,265,260 (equivalent to US$10,339,000) ("Wise Virtue CN"). Both Sun Boom CN and Wise Virtue CN bear coupon interest at 6% per annum payable semi-annually. Sun Boom CN and Wise Virtue CN are denominated in Hong Kong dollars with a conversion period of 60 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. Sun Boom CN and Wise Virtue CN will mature on 16 October 2013 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

Both Sun Boom CN and Wise Virtue CN contain three components, the liability component, conversion option and early redemption option. The conversion option gives the holder's right to convert the Sun Boom CN and Wise Virtue CN into ordinary shares of the Company. However since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability. The early redemption option gives the holder the right to require the issuer to redeem the note at par any time before maturity. Both conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the notes were calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 21.4% represents the cost of debt applicable to the Company at the issue date. The effective interest rate of the liability component is 21.4%.

On 10 December 2009, Sun Boom and Wise Virtue transferred Sun Boom CN and Wise Virtue CN to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the Sun Boom CN and Wise Virtue CN was adjusted to HK$0.047 per share as a result of the issue of Fulbond Convertible Notes (see note 33(ii)). Subsequent to the adjustment, on 30 December 2009, the holder of the Sun Boom CN exercised the option to require the Company to redeem part of the Sun Boom CN at principal amount of HK$30,646,500 (equivalent to US$3,954,000).

As at 31 December 2009, the liability components of Sun Boom CN and Wise Virtue CN together with the embedded conversion options and early redemption options with the aggregate carrying amount of US$26,727,000 are classified as current liability as the early redemption option gives the holder the right to require the issuer to redeem the note at par any time before maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33. CONVERTIBLE NOTES (CONTINUED)

(i) Sun Boom CN and Wise Virtue CN (continued)

On 14 January 2010, the conversion price of Sun Boom CN and Wise Virtue CN was further adjusted to HK$0.044 per share as a result of the partial conversion of Fulbond Convertible Notes (see note 33(ii)). As a result of the change in term of the notes, a gain of US$650,000 was recognised in the profit or loss in the current year.

On 4 March 2010, the holders of Sun Boom CN and Wise Virtue CN have exercised the option to require the Company to redeem the remaining portion of Sun Boom CN at the principal amount of HK$50,000,000 (equivalent to US$6,440,000) and full portion of Wise Virtue CN at the principal amount of HK$80,265,260 (equivalent to US$10,339,000). During the period up to the date of redemption, a fair value gain on embedded conversion option and early redemption option of US$4,443,000 was recognised in the profit or loss. The aggregate carrying value of the liability components and fair value of the conversion option derivative and early redemption options of the remaining portion of Sun Boom CN and Wise Virtue CN at the date of redemption amounted to US$21,547,000. A gain on early redemption of US$4,768,000 was recognised in profit or loss in the current year.

The fair values of the embedded conversion options and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	(Date of redemption) 4.3.2010	31.12.2009
Conversion price	HK$0.044	HK$0.047
Share price	HK$0.033	HK$0.049
Expected volatility	98.55%	98.47%
Remaining life	3.62 years	3.8 years
Risk-free rate	1.167%	1.459%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note

On 6 August 2009, the Company entered into a placing agreement (the "Fulbond CN Placing Agreement") with a placing agent whereby the Company agreed, subject to conditions (including the Stock Exchange's and shareholders' approval) issue zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (equivalent to approximately US$103,226,000) (the "Fulbond Convertible Notes") which can be converted into ordinary shares of the Company at a conversion price of HK$0.01 per share. The placing shall proceed in two tranches namely, the First Tranche Fulbond Convertible Notes and the Second Tranche Fulbond Convertible Notes. Both the First Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing and are subject to the same terms and conditions under the Fulbond CN Placing Agreement.

The Fulbond Convertible Notes are denominated in Hong Kong dollars with a conversion period of 36 months from the first issue date and can be converted into ordinary shares of the Company at HK$0.01 per share, and may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or grant of options or warrants to subscribe for new shares at a price which is less than 60% of the market price, issue for cash of securities which are convertible into or exchangeable for or carry rights of subscription for new shares or modification of rights of conversion or exchange or subscription attached to such securities such that the total effective consideration per share initially receivable for such securities is less than 80% of the market price, issue shares for cash at a price per share which is less than 80% of the market price, issue shares for the acquisition of assets at a total effective consideration per share which is less than 80% of the market price, and will in any event not be adjusted below the par value of the share.

The Fulbond Convertible Notes contain three components, the liability component, conversion option and issuer's early redemption option. The conversion option gives the holder's right at any time to convert the Fulbond Convertible Notes into ordinary shares of the Company. However since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability. The early redemption option gives the issuer the right to redeem the note at par at any time before maturity. Both conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

The fair value of the liability component upon the issuance of the note was calculated at the present value of the principal amount. The Fulbond Convertible Notes can only be redeemed at par at the discretion of the issuer in whole or in part anytime before the maturity date. All tranches of the Fulbond Convertible Notes will mature on 28 December 2012.

First Tranche Fulbond Convertible Notes

On 29 December 2009, the Company partially issued the First Tranche Fulbond Convertible Notes with the principal amount of HK$200,000,000 (equivalent to US$25,806,000) (the "1st HK$200M Fulbond CN") to an independent third party. The effective interest rate of the liability component and discount rate used is 15.24% which represents the cost of debt applicable to the Company at the issue date.

On 14 January 2010, the Company issued the remaining portion of the First Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (equivalent to US$32,231,000) (the "2nd HK$250M Fulbond CN") to an independent third party. The effective interest rate of the liability component and discount rate used is 12.66% which represents the cost of debt applicable to the Company at the issue date. The total fair value of the note on 14 January 2010 is approximately US$92,626,000, representing a loss on initial recognition of US$60,395,000 recognised in the profit or loss.

On 12 January 2010 and 11 August 2010, certain holders of the 1st HK$200M Fulbond CN, gave notice to the Company to convert the 1st HK$200M Fulbond CN in aggregate principal amount of HK$140,000,000 (equivalent to US$18,038,000) to ordinary shares of the Company. During the period up to each respective date of conversion, a loss on fair value change of embedded conversion option and early redemption option in aggregate of US$41,245,000 was recognised in the profit or loss. On 12 January 2010 and 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option are approximately US$64,104,000 and US$10,060,000, respectively, and were transferred to equity.

On 5 May 2010, 18 May 2010 and 11 August 2010, certain holders of the 2nd HK$250M Fulbond CN gave notice to the Company to convert the 2nd HK$250M Fulbond CN in aggregate principal amount of HK$130,000,000 (equivalent to US$16,694,000) to ordinary shares of the Company. During the period up to each respective date of conversion, a gain on fair value change of embedded conversion option and early redemption option in aggregate of US$9,137,000 was recognised in the profit or loss. On 5 May 2010, 18 May 2010 and 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option are approximately US$7,990,000, US$19,741,000 and US$7,644,000, respectively, and were transferred to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

First Tranche Fulbond Convertible Notes (continued)

The aggregate principal amount under the First Tranche Fulbond Convertible Notes outstanding at 31 December 2010 amounts to HK$180,000,000 (equivalent to US$23,127,000) and the carrying amount of the liability components and the fair values of the embedded conversion option and early redemption option in aggregate are approximately US$46,361,000. During the year ended 31 December 2010, an aggregate far value gain on embedded conversion option and early redemption option of US$18,040,000 in respect of the outstanding First Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The fair values of the embedded conversion option and the issuer's early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	31.12.2010	(Date of conversion) 11.8.2010	(Date of conversion) 18.5.2010	(Date of conversion) 5.5.2010	14.1.2010	(Date of conversion) 12.1.2010	31.12.2009	29.12.2009
Conversion price	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01
Share price, after adjusting for dilution	HK$0.020	HK$0.019	HK$0.020	HK$0.024	HK$0.028	HK$0.050	HK$0.019	HK$0.017
Expected volatility	45.37%	64.09%	66.10%	65.87%	69.03%	68.80%	62.01%	62.01%
Remaining life	1.99 years	2.38 years	2.62 years	2.65 years	2.96 years	2.96 years	2.99 years	3 years
Risk-free rate	0.585%	0.409%	0.81%	0.984%	0.995%	1.004%	1.117%	1.136%

Second Tranche Fulbond Convertible Notes

On 10 August 2010, the Company issued the first portion of the Second Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (equivalent to US$32,201,000) (the "3rd HK$250M Fulbond CN") to an independent third party. The effective interest rate of the liability component and the discount rate used is 10.61% which represents the cost of debt applicable to the Company at the issue date. The total fair value of the notes on 10 August 2010 is approximately US$55,249,000, representing a loss on initial recognition of US$23,048,000 recognised in profit or loss.

On 11 August 2010, certain holders of the 3rd HK$250M Fulbond CN, have given notice to the Company to convert certain the 3rd HK$250M Fulbond CN in aggregate principal amount of HK$34,000,000 (equivalent to US$4,379,000) to ordinary shares of the Company. During the period up to the date of conversion, a loss on fair value change of embedded conversion option and early redemption option in aggregate of US$1,230,000 was recognised in the profit or loss. On 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option is approximately US$8,736,000 and was transferred to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33. CONVERTIBLE NOTES (CONTINUED)

(ii) Fulbond Convertible Note (continued)

Second Tranche Fulbond Convertible Notes (continued)

The aggregate principal amount under the Second Tranche Fulbond Convertible Notes outstanding at 31 December 2010 amounts to HK$216,000,000 (equivalent to US$27,753,000) and their carrying amount of the liability components and the fair values of the embedded conversion option and early redemption option in aggregate are approximately US$55,403,000. During the year ended 31 December 2010, an aggregate far value loss of US$7,663,000 in respect of the outstanding Second Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The remaining unissued tranche of Fulbond Convertible Notes of HK$100,000,000 (equivalent to US$12,849,000) expired in October 2010.

The fair values of the embedded conversion option and the issuer's early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

		(Date of conversion)	
	31.12.2010	**11.8.2010**	**10.8.2010**
Conversion price	HK$0.010	HK$0.010	HK$0.010
Share price, after adjusting for dilution	HK$0.020	HK$0.019	HK$0.016
Expected volatility	45.37%	64.09%	64.16%
Remaining life	1.99 years	2.38 years	2.39 years
Risk-free rate	0.585%	0.409%	0.448%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. CONVERTIBLE NOTES (CONTINUED)

The movements of the components of Sun Boom CN, Wise Virtue CN and First and Second Tranche Fulbond Convertible Notes during the year are set out below:

	Liability component US$'000	Embedded conversion option US$'000	Early redemption option US$'000	Total US$'000
At 1 January 2009	27,597	219	11,238	39,054
Currency realignment	–	6	(1)	5
Issued during the year	16,876	26,213	(1,197)	41,892
Change in fair value	–	21,975	(5,205)	16,770
Interest charged (net of interest paid)	3,729	–	–	3,729
Redeemed during the year	(20,693)	(5,859)	(1,798)	(28,350)
At 31 December 2009	27,509	42,554	3,037	73,100
Currency realignment	(198)	(306)	(5)	(509)
Issued during the year	47,297	101,400	(822)	147,875
Adjustment	–	232	(882)	(650)
Change in fair value	–	17,789	729	18,518
Interest charged (net of interest paid)	3,252	–	–	3,252
Redeemed during the year	(10,560)	(7,649)	(3,338)	(21,547)
Converted during the year	(27,777)	(91,740)	1,242	(118,275)
At 31 December 2010	**39,523**	**62,280**	**(39)**	**101,764**

Analysed for reporting purpose as:

	2010 US$'000	2009 US$'000
Current liabilities	–	26,727
Non-current liabilities	101,764	46,373
	101,764	73,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

34. BANK AND OTHER BORROWINGS

	2010 US$'000	2009 US$'000
Secured loans from banks and other financial institutions (note a)	9,825	9,913
Unsecured three-year loan notes (note b)	455	451
	10,280	10,364

All bank and other borrowings at 31 December 2010 and 31 December 2009 are repayable within one year.

Notes:

(a) The loans from banks and other financial institutions carry interests at variable rates at best lending rate of People's Bank of China per annum (2009: fixed rate ranging from 3.2% to 8.0% per annum).

(b) According to the corporate restructuring of the Company and its subsidiaries which was completed on 30 March 2001, the creditors of the Group received three-year loan notes from the Company with an aggregate face value of US$4,400,000 which carry fixed interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual instalments. The repayment of the remaining outstanding installment of the loan notes amounting to US$455,000 has been extended to March 2011.

Included in the borrowings are the following amounts which are denominated in currencies other than the functional currency of the group entities to which they relate:

	2010 US$'000	2009 US$'000
Hong Kong Dollars	455	451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

35. SHARE CAPITAL

	Number of shares		Share capital	
	31.12.2010	31.12.2009	**31.12.2010**	31.12.2009
			US$'000	US$'000
Ordinary share of US$0.001 each				
Authorised:				
At 1 January 2009, 31 December 2009 and 31 December 2010	**100,000,000,000**	100,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**14,013,388,976**	12,954,619,755	**14,013**	12,954
Issue of shares upon conversion of convertible notes	**30,400,000,000**	–	**30,400**	–
Exercise of warrant subscription rights	**1,229,538,456**	1,058,769,221	**1,230**	1,059
At end of the year	**45,642,927,432**	14,013,388,976	**45,643**	14,013

The new shares issued during the year rank pari passu in all respects with the existing shares in issue.

36. ACQUISITION OF SUBSIDIARY

On 1 June 2010, a wholly-owned subsidiary of the Company, Good Base Investments Limited (the "Good Base") has entered into an agreement with a shareholder and Chairman of the Company, Mr. Zhang, to acquire the entire equity interest in Allywing Investments Limited ("Allywing") from Mr. Zhang (the "Allywing Acquisition Agreement"). Pursuant to the Allywing Acquisition Agreement, Good Base has conditionally agreed to acquire the entire issued share capital of Allywing and the shareholder's loan owing to Mr. Zhang for a total cash consideration of RMB284,848,920 (approximately US$41,916,000).

On 13 August 2010, Good Base entered into a supplemental agreement (the "Supplemental Agreement") with Mr. Zhang, pursuant to which the settlement of the cash consideration paid to Mr. Zhang was reduced to RMB260,848,920 (approximately US$38,384,000) and the reduced amount of RMB24,000,000 (approximately US$3,532,000), pursuant to the Supplemental Agreement, was retained by the Purchaser and applied to satisfy the remaining amount of capital injection agreed to be made by Mr. Zhang pursuant to the Allywing Acquisition Agreement as part of the precedent conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

36. ACQUISITION OF SUBSIDIARY (CONTINUED)

Upon fulfillment of the precedent conditions pursuant to the Allywing Acquisition Agreement as summarised in the Company's announcement dated 9 June 2010 and the Supplemental Agreement, the acquisition was completed on 13 August 2010. At the date of acquisition, Allywing had 60% equity interest in Xian Yuansheng Enterprises Limited ("Xian Yuansheng"), a company established in the PRC (Allywing and Xian Yuansheng together collectively referred to as the "Allywing Group"), which principally holds a piece of land located in Xian, the PRC (the "Land") and the Allywing Group has no other business or operations, therefore the acquisition had been accounted for as acquisition of assets. The Group intends to engage in the business of property development upon the acquisition of the Land.

Consideration transferred

	US$'000
Cash	38,384

The net assets acquired and liabilities recognised at the date of acquisition are as follows:

	US$'000
Property under development	65,588
Other receivables and prepayments	920
Bank balances and cash	169
Other payables	(5)
Amount due to a shareholder	(888)
Amount due to a director of a subsidiary	(294)
	65,490
Less: Non-controlling interest	(27,994)
	37,496
Assignment of shareholder's loan to the Group	888
	38,384
Net cash outflow arising on acquisition:	
Cash consideration paid	38,384
Less: Cash and cash equivalent acquired	(169)
	38,215

The Allywing Group has no revenue and contributed a loss of approximately US$510,000 to the Group's loss for the year for the period between the date of acquisition and 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. SHARE OPTION SCHEMES

A share option scheme was adopted by the Company on 19 November 2001 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

(i) The closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the options;

(ii) The average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) The nominal value of the shares of the Company on the date of grant.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 201,557,000 (31 December 2009: 247,366,000), representing 0.44% (31 December 2009: 1.76%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 14 days of that date of grant, upon payment of HK$1 in aggregate as consideration for the options granted. Vesting periods are determined by the board of directors on each grant date. Options are lapsed if the employee leaves the Group before the option vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

37. SHARE OPTION SCHEMES (CONTINUED)

Details of the movements of the share options granted under the Share Option Scheme during the year are as follows:

				Number of share options		
Date of grant	**Vesting period**	**Exercise price**	**Exercise period**	**Outstanding at 1 January 2009 and 31 December 2009**	**Lapsed during the year**	**Outstanding at 31 December 2010**
		HK$			(Note 2)	
Directors						
14 July 2008	– (Note 1)	0.041	14 July 2008 – 13 July 2011	183,234,000	–	183,234,000
Executives and employees						
14 July 2008	– (Note 1)	0.041	14 July 2008 – 13 July 2011	64,132,000	(45,809,000)	18,323,000
Grand Total				247,366,000	(45,809,000)	201,557,000

Notes:

1. The share options are exercisable immediately after the grant.

2. The share options were lapsed upon resignation of eligible executives and employees.

No additional option was granted during the years ended 31 December 2009 and 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

38. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had outstanding commitment of future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2010 US$'000	2009 US$'000
Within one year	99	47
In the second to fifth year inclusive	34	–
	133	47

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for lease term of 1 to 2 years.

39. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of US$1,201,000 (2009: US$10,588,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

40. RELATED PARTY TRANSACTIONS

The key management personnel are the directors of the Company. The details of their remunerations are set out in note 14.

The Group also had balances with related parties at the end of the reporting period which are set out in other notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

41. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2010, the Company has issued an announcement on 2 February 2011 (the "Announcement") in connection with the proposed very substantial acquisition ("VSA") and summary of details of the Announcement were as follows:

(a) On 13 January 2011, a wholly-owned subsidiary of the Company (the "Purchaser") and Hefu Limited (the "Vendor"), an independent third party, had entered into an acquisition agreement (the "Lithium Group Acquisition Agreement"), pursuant to which the Purchaser has conditionally agreed to acquire the sale shares, which represents the entire issued share capital of Lithium Energy Group Ltd. (the "Target Company"), and the shareholder's loan at a consideration of HK$900 million (the "Consideration") of which (i) HK$370 million shall be paid by the Purchaser in cash to the Vendor and (ii) HK$530 million shall be paid by way of allotment and issue of shares of the Company (or those corresponding shares of the Company after Capital Reorganisation becoming effective, as defined in note (d) below) as consideration shares (the "Consideration Shares") to the Vendor in 5 stages in the manner set forth in the section headed "Consideration" of the Announcement.

(b) On 13 January 2011, the Company has entered into a placing agreement, respectively with Kingston Securities Limited and Guangdong Securities Limited, as placing agents (the "Share Placing Agreements") and pursuant to the Share Placing Agreements, the Company has conditionally agreed to place in aggregate, 8,823,000,000 new shares after the Capital Reorganisation (the "Reorganised Share") (the "Placing"). The estimated net proceeds from the Placing will be approximately HK$1,484,910,000. The Group intends to use the net proceeds arising from the Placing to satisfy the Consideration in respect of the proposed VSA; provide general working capital for the Group and/or as funds for the Group's future investment opportunities; and for the future development of the Target Group in the northeastern region of the PRC.

(c) On 13 January 2011, the Company has entered into a placing agreement (the "CN Placing Agreement") with a placing agent and pursuant to the CN Placing Agreement, the Company has conditionally agreed to place convertible notes of principal amount of HK$500,000,000 and will carry a right to convert into conversion shares of the Company at the conversion price of, subject to adjustment, HK$0.17 per Reorganised Share. The Group intends to apply the net proceeds obtained from the placing for the future development of the Target Group in the northern region of the PRC in which certain subsidiaries of the Target Company in Tangshan and/or as funds for future investment opportunities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(d) The Company intends to put forward for approval by the shareholders of the Company to the proposed reorganisation of the share capital of the Company as set out in the section headed “Proposed Capital Reorganisation and Change of Board Lot Size” of the Announcement (the “Capital Reorganisation”), which involves the following:

- Share consolidation: every 10 existing shares of US$0.001 each in the issued share capital of the Company will be consolidated into one consolidated share of par value US$0.01;

- Capital reduction: upon the Share Consolidation becoming effective, the par value of each issued consolidated share will be reduced from US$0.01 to US$0.001 by cancellation of US$0.009 of the paid-up capital of each issued consolidated share; and

- Share premium reduction: upon the share consolidation and the capital reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company as at the date of the Capital Reorganisation becomes effective will be reduced and cancelled.

The proposed VSA and other transactions are subject to approval by the Stock Exchange and the shareholders of the Company. Up to the date when the consolidated financial statements of the Group were authorised for issue, the proposed VSA and other transactions above have not been approved by the Stock Exchange and the shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2010 and 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/registered capital held		Issued and fully paid capital/ registered capital	Principal activities
			2010 %	2009 %		
Able Force Investments Limited#	Hong Kong	Hong Kong	100	–	HK$1	Investment in securities
Allyway Investments Limited#	British Virgin Islands	Hong Kong	100	–	US$1	Investment holding
Fulbond Business Services Limited	Hong Kong	Hong Kong	100	100	HK$2	Provision of management services
Fulbond Corporate Management Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$10,000	Provision of management services
Fulbond Digital Systems Limited	Hong Kong	Hong Kong	100	100	HK$2	Trading of electronic products
Fulbond Investment Limited	British Virgin Islands	Hong Kong	100	100	US$1	Investment holding
Good Base Investments Limited#	Hong Kong	Hong Kong	100	–	HK$100	Investment holding
Senbond Building Materials Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$200 and deferred* HK$10,000	Provision of management services
Ta Fu Flooring Company Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$200 and deferred* HK$1,000,000	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/registered capital held 2010 %	2009 %	Issued and fully paid capital/ registered capital	Principal activities
Ta Fu Furniture Co., Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$20 and deferred* HK$20	Investment holding
Ta Fu Properties Co., Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$20 and deferred* HK$20	Property investment
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	100	100	US$10,000	Investment holding
Ta Fu Timber Company Limited	Hong Kong	Hong Kong	100	100	Ordinary HK$200 and deferred* HK$5,000,000	Investment holding
Wood Art International Corporation	British Virgin Islands	Hong Kong	100	100	US$10,000	Investment holding
吉林福敦木業有限公司 Jilin Fudun Timber Co., Ltd. (Note 1)	PRC	PRC	67	67	RMB223,158,165	Manufacture of and trading in wooden products
茂名嘉興食品有限公司 Maoming Jiaxing Foods Co., Ltd. (Note 2)	PRC	PRC	100	100	RMB6,487,920	Inactive
瀋陽福升中密度板有限公司 Shenyang Fusheng Wood Clipboard Co., Ltd. (Note 1)	PRC	PRC	51	51	US$3,000,000	Manufacture and sale of wooden products
西安遠聲實業有限公司 Xi'an Yuangsheng Enterprises Limited#	PRC	PRC	60	–	RMB50,000,000	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/registered capital held 2010 %	2009 %	Issued and fully paid capital/ registered capital	Principal activities
Prowealth Holdings Group Limited##	British Virgin Islands	Hong Kong	–	100	US$10,000	Investment holding
Yield On International Limited##	Hong Kong	Hong Kong	–	100	HK$100	Trading in processed seafood products
海南佳德信食品有限公司 Hainan Jiadexin Foodstuff Co., Ltd. (Note 2)##	PRC	PRC	–	100	RMB5,000,000	Processing and distribution of frozen seafood products
茂名長興食品有限公司 Maoming Changxing Foods Co., Ltd. (Note 2)##	PRC	PRC	–	100	US$5,000,000	Processing and distribution of frozen seafood products

* The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK$100,000,000,000,000,000.

\# Acquired/set up during the year ended 31 December 2010.

\## Disposed during the year ended 31 December 2010.

Notes:

1. The companies are Sino-foreign equity joint ventures.

2. The companies were established in the form of Wholly Foreign-owned Enterprises.

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

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

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000
Turnover	**15,387**	53,661	36,308	24,016	26,308
Loss before taxation	**(100,845)**	(54,995)	(31,552)	(8,180)	(7,238)
Taxation	**–**	887	(702)	(586)	(1,059)
Loss for the year	**(100,845)**	(54,108)	(32,254)	(8,766)	(8,297)
Attributable to:					
Owners of the Company	**(100,630)**	(53,877)	(29,174)	(7,455)	(7,017)
Non-controlling interest	**(215)**	(231)	(3,080)	(1,311)	(1,280)
	(100,845)	(54,108)	(32,254)	(8,766)	(8,297)

ASSETS AND LIABILITIES

	At 31 December				
	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000
Total assets	**117,496**	80,190	66,063	31,336	33,970
Total liabilities	**(124,362)**	(139,701)	(77,742)	(21,353)	(20,030)
Net (liabilities) assets	**(6,866)**	(59,511)	(11,679)	9,983	13,940
Attributable to:					
Owners of the Company	**(35,405)**	(59,992)	(12,877)	6,508	8,957
Non-controlling interests	**28,539**	481	1,198	3,475	4,983
	(6,866)	(59,511)	(11,679)	9,983	13,940