



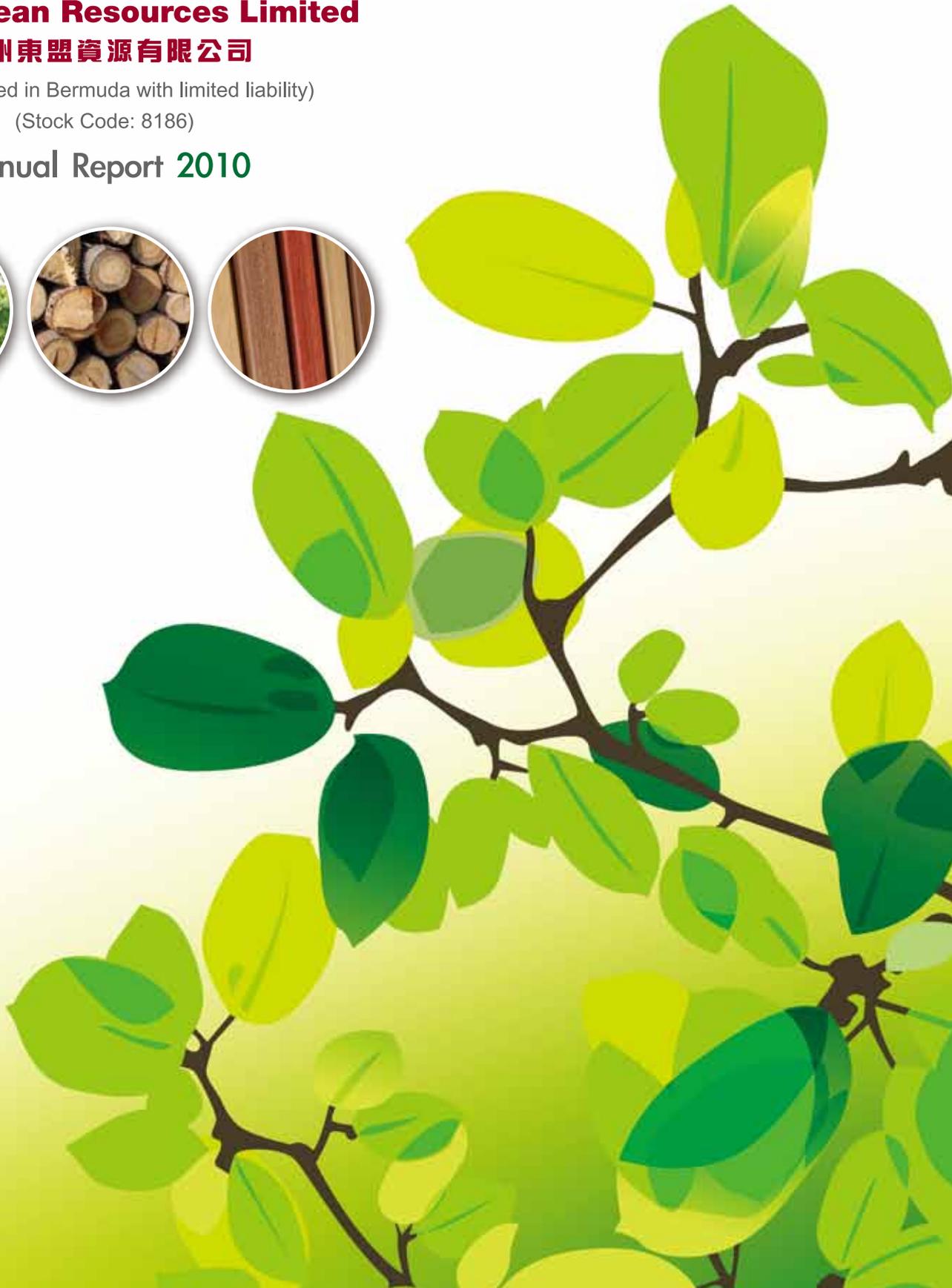
China Asean Resources Limited

神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

Annual Report 2010





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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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Corporate Information

BOARD OF DIRECTORS

Executive directors

LEUNG Sze Yuan, Alan (*Chairman*)
GONG Ting
CHULTEMSUREN Gankhuyag
ZENG Lingchen

Independent non-executive directors

CHAN Kim Chung, Daniel
TAM Wai Leung, Joseph
WEN Huiying
ZHANG Ying

AUDIT COMMITTEE

TAM Wai Leung, Joseph (*Chairman*)
CHAN Kim Chung, Daniel
ZHANG Ying

NOMINATION COMMITTEE

TAM Wai Leung, Joseph (*Chairman*)
LEUNG Sze Yuan, Alan
ZHANG Ying

REMUNERATION COMMITTEE

ZHANG Ying (*Chairman*)
LEUNG Sze Yuan, Alan
TAM Wai Leung, Joseph

COMPLIANCE OFFICER

GONG Ting

COMPANY SECRETARY

LAM Kam Ming, Simon

BERMUDA ASSISTANT SECRETARY

Appleby Services (Bermuda) Ltd.

QUALIFIED ACCOUNTANT

LAM Kam Ming, Simon

AUDITOR

KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor, Teda Building
87 Wing Lok Street, Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Ltd
Rooms 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

GEM STOCK CODE

8186

WEBSITE ADDRESS

www.chinaaseanresources.com

Chairman's Statement

RESULT ANALYSIS

- For the year ended 31 December 2010, the Group recorded turnover of approximately HK\$2,960,000 (2009: HK\$343,000) from sales of wood products in Cambodia. Loss attributable to equity shareholders of the Company was approximately HK\$33,907,000 (2009: Loss of HK\$49,763,000). Changes from the previous year were primarily due to the following reasons:
 - (a) Sales increased as a result of an increase in wood product export volume;
 - (b) Gain of HK\$4,588,000 from the consideration received under the Settlement Agreements in relation to the Medical Equipment Subsidiary in Nanjing, the PRC, as detailed in the Company's announcement on 9 September 2010; and
 - (c) Net gain of HK\$8,460,000 from the disposal of subsidiaries engaged in the medical business in the PRC, as detailed in the Company's announcements of 2 March 2010 and 28 June 2010.
- For the year ended 31 December 2010, loss per share is 6.64 Hong Kong cents (2009: loss per share of 13.05 Hong Kong cents (restated)).
- The directors do not recommend the payment of final dividend for the year 2010 (2009: Nil).

BUSINESS REVIEW

Our principal business is in natural resources, and in the past two years, and during the year under review, we were principally engaged in the forestry and plantation business in Cambodia. In November 2010, we completed the acquisition of an additional forest in close proximity to our two existing forests, and we now hold 70-year economic land concessions measuring approximately 31,000 hectares with timber reserve of approximately 7 million cubic metres in Cambodia. For the year ended 31 December 2010, the Group recorded revenue of approximately HK\$2,960,000 from the sale of sawn timber.

During the year, we also completed the disposal of subsidiaries engaged in the medical business in the PRC, and finalised the Settlement Agreements in relation to the Medical Equipment Subsidiary.

BUSINESS OUTLOOK

Due to the above-mentioned acquisition of the additional forest in Cambodia, the Group has been able to obtain the working capital facility provided by the Vendors, which will be used to construct a wood flooring material factory with annual capacity of at least 10,000 cubic metres, and plant 1,500 hectares of rubber seedlings in the year 2011.

As a result of the Group's commitment shown in expanding its natural resources business and the recruitment of additional experienced management people, favourable market response enabled the Group to raise net proceeds of approximately HK\$62,000,000 in a placement of new shares under the general mandate as detailed in the Company's announcement on 7 January 2011. The proceeds will be used for the Group's future investment in natural resources businesses and as general working capital.

As detailed in the Company's announcement on 23 January 2011, the Group entered into the Strategic Investment Agreement with Poly Longma, a professional asset management company and a group member of China Poly Group Corporation, for Poly Longma's exclusive cooperation with the Company to jointly invest in forest and/or mineral (including but not limited to coal, silver, iron and molybdenum, etc.) resources projects in China, Mongolia, East Asia, South Asia, Southeast Asia, Central Asia, the Commonwealth of Australia and/or New Zealand.

We are also pleased to report to our shareholders that the Group's strategy of expanding our natural resources business has achieved some success. On 28 January 2011, the Group entered into the Acquisition Agreement to acquire the entire registered capital of Inner Mongolia Mining, which is principally engaged in the provision of coal related logistics services (including storage, processing and transportation) in the PRC, with profit guarantee provided by the Vendors as detailed in the Company's announcement on the even date.

The Directors believe that the above initiatives will broaden the Group's income stream and enhance its future financial performance.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2010 amounted to approximately HK\$2,960,000 (2009: HK\$343,000) from sales of wood products in Cambodia. For the year ended 31 December 2010, the Group recorded a loss attributable to equity shareholders of the Company of approximately HK\$33,907,000 (2009: loss of HK\$49,763,000).

Other revenue increased during the year 2010 was mainly due to gain on disposal of Medical Equipment Subsidiary amounted to HK\$4,588,000, which was the consideration received under the Settlement Agreements in relation to the Medical Equipment Subsidiary in Nanjing, the PRC, as detailed in the Company's announcement on 9 September 2010.

Selling, distribution and administrative expenses for the year ended 31 December 2010 increased by 69% to HK\$44,778,000 from HK\$26,502,000 as compared with the previous year. The increase was primarily due to extra administrative expenses incurred for open offer, acquisition of third forest during the year and processing documentation fees for timber-exportation.

Net gain on disposal of subsidiaries engaged in the medical business in the PRC amounted to HK\$8,460,000, as detailed in the Company's announcement of 2 March 2010 and 28 June 2010.

The basic loss per share for the year ended 31 December 2010 was 6.64 Hong Kong cents (2009: loss per share of 13.05 Hong Kong cents (restated), upon the share consolidation by the Company during the year.

At 31 December 2010, the Group did not have any bank borrowing (2009: NIL).

SHARE CONSOLIDATION

At a special general meeting of shareholders of the Company held on 6 October 2010, an ordinary resolution was passed to implement the share consolidation on the basis of every five issued and unissued share of HK\$0.01 each consolidated into one consolidated share of HK\$0.05 each.

CAPITAL STRUCTURE

As at 31 December 2010, the total number of issued ordinary shares and the issued share capital of the Company were approximately 778,540,000 (2009: 381,000,000) and HK\$38,927,000 (2009: HK\$19,050,000) respectively.

CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

Management Discussion and Analysis

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets. The gearing ratios at 31 December 2010 and 2009 are as follows:

	2010	2009
	HK\$	HK\$
Total liabilities	196,367	43,887
Total assets	929,622	589,245
Gearing ratio	21.1%	7.4%

The Board believes the existing gearing ratio is reasonable considering the cost of capital and the risks associated with each class of capital.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 31 December 2010, the Group had total assets of approximately HK\$929,622,000 (2009: HK\$589,245,000) which were financed by current liabilities of approximately HK\$21,559,000 (2009: HK\$40,187,000), total equity of the Company of approximately HK\$733,255,000 (2009: HK\$545,358,000), and convertible bonds of HK\$174,808,000 (2009: Bonds of HK\$3,700,000).

The current assets of the Group amounted to approximately HK\$34,283,000 (2009: HK\$77,984,000) of which approximately HK\$15,441,000 (2009: HK\$9,436,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$21,559,000 (2009: HK\$13,905,000) of which approximately HK\$21,246,000 (2009: HK\$13,603,000) were other payables and approximately HK\$313,000 (2009: HK\$302,000) was provision for income tax. There is no outstanding bank borrowing of the Group as at 31 December 2010 (2009: Nil). During the year, the Group did not enter any banking facility or any of the Group's buildings and leasehold land assets was being pledged to the bank (2009: Nil).

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on short-term deposits.

The net assets value per share as at 31 December 2010 was HK\$0.94 (2009: HK\$1.43).

CAPITAL COMMITMENT, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

In November 2010, we completed the acquisition of an additional forest in close proximity to our two existing forests, and we now hold 70-year economic land concessions measuring approximately 31,000 hectares with timber reserve of approximately 7 million cubic metres in Cambodia. In the year ended 31 December 2010, the Group recorded revenue of approximately HK\$2,960,000 from the sale of sawn timber.

During the year, we also completed the disposal of subsidiaries engaged in the medical business in the PRC, and finalised the Settlement Agreements in relation to the Medical Equipment Subsidiary.

As at 31 December 2010, the Group had outstanding capital commitment of approximately HK\$3,394,000 (2009: HK\$3,922,000).

Management Discussion and Analysis

RISK MANAGEMENT

Risk management is an integral part of the operation management. The Group has put in place an effective risk management framework to ensure risks undertaken are properly managed. Operating in the natural resources business, the Group faces a wide spectrum of risks, the most important types are being credit, liquidity, market and operational risks. The Group's risk management framework includes the establishment of policies and procedures to identify and analyse risks and to set appropriate risk control limits. The risk management policies and major control limits are approved by the board of directors. Risk limits are monitored and controlled continually by internal control department by means of reliable and up-to-date management information systems. The management of various types of risks is well coordinated at the Board level.

CREDIT RISK

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from merger and acquisition as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risk from all such activities.

The internal control department function is mandated to provide centralized management of credit risk through:

- formulating credit policies on approval process, post-disbursement monitoring and collection process;
- issuing guidelines on setting of credit payment terms to customers and acceptability of warranty, undertaking or deposit from customers;
- reviewing the repayment of account receivable by aging analysis;
- monitoring the largest exposures by customers;
- providing advice and guidance to business units on various credit-related issues.

The Group undertakes ongoing credit analysis and monitoring at several levels. Special attention is paid to long-outstanding trade receivable. Provision on impairment loss is made semi-annually. Collection and recovery units are established by the Group to provide customers with intensive support in order to maximize recoveries of long-outstanding trade receivable. Management regularly performs an assessment of the adequacy of the established impairment provisions by conducting a detailed review of the aging analysis, comparing performance and past due statistics against historical trends.

LIQUIDITY RISK

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is the Group's policy to maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably met.

The Group has established policies and procedures to monitor and control its liquidity position on a monthly basis by adopting a cash flow management approach. The approach seeks to forecast committed cash inflows and outflows of the business and results in a monthly net funding requirement which indicates the financing needs for any period within the scope of the forecast conditions.

MARKET RISK

Market risk is the risk that foreign exchange rates, interest rates, market price, natural, political and regulations and equity, and indices will move and result in profits or losses for the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk.

Management Discussion and Analysis

Foreign exchange risk

The Group exposures to market risk primarily arise from the effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with RMB. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group does not hedge its foreign currency risks with US dollar as the rate of exchange between Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

As at 31 December 2010, the Group had no outstanding hedging instruments (2009: Nil).

Interest rate risk

The Group's interest rate risk arises primarily from bank loans chargeable at variable rates that expose the company to uncertainty on interest expenses and bond chargeable at fixed rate that provide a comfortable zone in controlling the overall interest expenses. The Group's policy is to minimize the borrowings at variable interest rates in the interest rate profile.

Market price risk

Market price risk is the risk arises from the wood product such as sawn timber and wood flooring materials have been volatile and are affected by numerous factors that we cannot control, including demand for wood and wood products, supply from illegal logging, changes in currency exchange rates, economic growth rates, foreign and domestic interest rates, trade policies, and prevailing fuel and transportation costs.

In addition, industry-wide increases in the supply of logs during a favourable price period can also lead to downward pressure on prices through oversupply. Oversupply and lower prices may also result from illegal logging activity or decreased government enforcement of logging restrictions. If market prices for wood products were to decline, it could have a material adverse effect on our business, financial condition and results of operation.

Natural risk

The Group owns forest assets and has cultivated rubber tree, acacia and jatropha curcas plantations. Natural disasters, inclement weather conditions and other acts of God which are beyond the Group's control may adversely affect the growing of the plantations and generally our ability to extract value from owning these assets. The Group's business, operating results and financial condition may be adversely affected if natural disasters, contagious disease, bad weather conditions and other acts of God occur.

Political and government regulations risk

Political risk is the risk that any event of the political instability in Cambodia may have an adverse effect toward the Group's business, operating results and financial investment. The recent history of Cambodia has been characterized by political instability and civil war, with fighting between different factions until as recently as 1997. It is only in the past decade that Cambodia has regained some measure of political stability with Prime Minister Samdech Hun Sen and his Cambodian People's Party rising to political dominance.

The Group exposures to government regulation risk primarily arise from the operations in Cambodia to a wide range of environmental laws and regulations, which regulate, among other things, forestry and plantation activities, including harvesting, land clearing for forests, planting in cleared areas and the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Management Discussion and Analysis

Environmental laws and regulations have generally become more stringent in recent years in Cambodia and could become even more stringent in the future. We may be required to obtain additional licenses before we are permitted to occupy certain premises and/or carry out certain activities.

Any tightening of the requirements prescribed by environmental laws and regulations in Cambodia, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on our liquidity and adversely affect our results of operations.

Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries set out in Note 38 to the financial statements. All equities held are more than 50% with controlling interest and are for long term investment. They are not subject to volatility arises from short term fluctuation.

OPERATIONAL RISK

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or from external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

EMPLOYEES' INFORMATION AND BENEFIT SCHEME FOR THE EMPLOYEES

As at 31 December 2010, the Group has 96 (2009: 177) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2010 and 2009 were approximately HK\$10,626,000 and HK\$10,917,000 respectively.

The Company has granted Share Option of approximately 10,286,000 shares, 9,257,000 shares and 13,300,000 shares to employees of the Group on 12 October 2007, 31 March 2008 and 4 June 2010 at exercise prices of HK\$1.75, HK\$0.815 and HK\$0.365 per share respectively. Subsequently, approximately 1,029,000 shares option granted to a former director and approximately 6,529,000 shares option granted to the senior employees have been cancelled after their resignation.

BUSINESS REVIEW

Our principal business is in natural resources, and in the past two years, and during the year under review, we were principally engaged in the forestry and plantation business in Cambodia. In November 2010, we completed the acquisition of an additional forest in close proximity to our two existing forests, and we now hold 70-year economic land concessions measuring approximately 31,000 hectares with timber reserve of approximately 7 million cubic metres in Cambodia. In the year ended 31 December 2010, the Group recorded revenue of approximately HK\$2,960,000 from the sale of sawn timber. During the year, we also completed the disposal of subsidiaries engaged in the medical business in the PRC, and finalised the Settlement Agreements in relation to the Medical Equipment Subsidiary.

Management Discussion and Analysis

Forestry, wood product manufacturing and plantation

The forests owned by the Group in Cambodia have total site area measuring approximately 31,000 hectares with timber reserve of approximately 7 million cubic metres. In 2010, the Group had one sawn timber factory located in the first forest with annual capacity of 6,000 cubic metres. However, the profit margin for sawn timber is low. Additional investment in manufacturing capacity and capability for higher value products such as wood flooring materials are required. In preparation for planting of rubber seedlings in the first half of 2011, we cleared an additional 500 hectares of forest in the last quarter of 2010. To date, we had cleared a total of 950 hectares of forest (all in the first forest).

Mineral resources

As at the date of this Annual Report, the Group has established the platform and the executive committee under the Strategic Investment Agreement with Beijing Poly-LongMa Asset Management Co. Ltd. ("Poly-Longma") and such platform is in active operation. Details refer to the announcement dated on 23 January 2011.

In addition, the Group has announced the acquisition of Inner Mongolia Huayue Mining Company Limited ("Inner Mongolia Mining") which is a company with limited liability incorporated in China and is principally engaged in provision of coal related logistics services (including storage, processing and transportation) in China. Details refer to the announcement dated on 28 January 2011.

OUTLOOK

Due to the above-mentioned acquisition of the additional forest in Cambodia, the Group has been able to obtain the working capital facility provided by the Vendors, which will be used to construct a wood flooring material factory with annual capacity of at least 10,000 cubic metres, and plant 1,500 hectares of rubber seedlings in the year 2011.

As a result of the Group's commitment shown in expanding its natural resources business and the recruitment of additional experienced management people, favourable market response enabled the Group to raise net proceeds of approximately HK\$62,000,000 in a placement of new shares under the general mandate as detailed in the Company's announcement on 7 January 2011. The proceeds will be used for the Group's future investment in natural resources businesses and as general working capital.

As detailed in the Company's announcement on 23 January 2011, the Group entered into the Strategic Investment Agreement with Poly Longma, a professional asset management company and a group member of China Poly Group Corporation, for Poly Longma's exclusive cooperation with the Company to jointly invest in forest and/or mineral (including but not limited to coal, silver, iron and molybdenum, etc.) resources projects in China, Mongolia, East Asia, South Asia, Southeast Asia, Central Asia, the Commonwealth of Australia and/or New Zealand.

Directors and Senior Executives

DIRECTORS

Executive directors

Mr. Leung Sze Yuan, Alan, aged 42, is an Executive Director and Chairman of the Company, and is responsible for the overall strategic development, financial management and investor relationship of the Group. Mr. Leung is a member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of New South Wales, Australia and a master degree in business administration from the Chinese University of Hong Kong. Before joining the Company in 2007, Mr. Leung was an Associate Director of AIG Investment Corporation responsible for private equity investments in Asia. Mr. Leung was appointed as Director of the Company on 23 May 2008.

Mr. Zeng Lingchen, aged 31, joined the Group on 6 October 2010 as the Executive Director of the Company. Mr. Zeng has held management positions in two rubber plantation companies in the People's Republic of China and possesses substantial experience in plantation of rubber trees and sale of rubber products. Mr. Zeng holds a bachelor's degree in environmental engineering from Satakunta Polytechnic, Finland.

Mr. Gong Ting, aged 31, joined the Group on 26 November 2010 as the Executive Director of the Company. Mr. Gong is an entrepreneur with diversified business interests including agricultural, information technology, natural resources and real estate sectors and has extensive networks in the People's Republic of China and Mongolia. Mr. Gong is a director of the Cixi Xiaolin Business Association and was a director of the World Eminence Chinese Business Association in 2006 and was awarded the title of Honoured Citizen of Yixing City in 2008.

Mr. Chultemsuren Gankhuyag, aged 58, joined the Group on 5 January 2011 as the Executive Director of the Company. Mr. Chultemsuren has substantial experience in natural resources business including forestry and mine exploration in Europe and Mongolia. He particularly has substantial work experience and knowledge in coal mine exploration as well as data collection and analysis gained from successful identification and exploration of a number of mega coal mines in Mongolia. Prior to joining the Company, he had been the chief geologist of a coal mining company in Mongolia, the chief geologist of Ulan Bator Geographic Authority of Mongolia, a coal expert of Ethnic Development Department of Mongolia and a senior researcher of Mineral Resources Department of the Geographic and Valuable Mineral Resources Research Institute of Mongolia. Mr. Chultemsuren has published more than 30 mining-related reports and papers which were presented at various occasions including the Mongolian National Geography Conference and the East Asian Geography Logic Seminar. Mr. Chultemsuren has been awarded the "Model Geologist Medal" and the "Glory Medal for Modeled Labour" in Mongolia and holds a bachelor's degree in geology from Eotvos Lorand University in the Republic of Hungary. He is fluent in four languages, namely Mongolian language, Hungarian, Russian and English.

Independent non-executive directors

Mr. Tam Wai Leung, Joseph, aged 45, is an Independent Non-Executive Director of the Company. Mr. Tam is the President to the Executive Committee of the Hong Kong Institute of Business Management and the Macau Association of Higher Education. He holds a Doctor of philosophy degree from Preston University, U.S.A. and is a fellow member of the Institute of Cost and Executive Accountants in the U.K. and the Association of Taxation and Management Accountants in Australia. Mr. Tam was appointed on 30 September 2004.

Mr. Chan Kim Chung, Daniel, aged 47, is an Independent Non-Executive Director of the Company. Mr. Chan is the General Manager of Royal Media Limited that is specialized in the provision of consultancy services in information technology management. He holds a doctor of philosophy degree in computer science from the University of Glasgow, United Kingdom. Mr. Chan was appointed on 16 June 2006.

Mr. Zhang Ying, aged 43, joined the Group on 21 October 2010 as an independent non-executive Director of the Company. Mr. Zhang has 15 years of working experience in financial management and internal control gained from his employment at the national state-owned banks in the People's Republic of China. Mr. Zhang is currently the head of finance of a services company in the PRC. Mr. Zhang holds a bachelor's degree from the Faculty of Economic Management at Shanghai Maritime University (formerly known as Shanghai Maritime Institute), the PRC.

Directors and Senior Executives

Ms. Wen Huiying, aged 72, joined the Group on 6 November 2010 as an independent non-executive Director of the Company. Ms. Wen is a senior accountant in the People's Republic of China (the "PRC") and possesses substantial experience in accounting and financial management. Ms. Wen was the financial controller of a state-owned company listed on the Shenzhen Stock Exchange for more than 10 years. Over the years, Ms. Wen has been awarded the "National Pioneering Accounting Practitioner" by the Ministry of Finance of the PRC, "Guangdong Province Pioneering Accounting Practitioner" by the Department of Finance of Guangdong Province and "Guangzhou City Pioneering Accounting Practitioner" by the Bureau of Finance of Guangzhou City. Her profile has also been registered in the "World's Famous People", the "Dictionary of Chinese Talents" and the "Dictionary of Modern Outstanding Management Experts".

SENIOR MANAGEMENT

Mr. Zhang Zhenzhong, aged 64, is the Co-Chief Executive Officer of the Company, and is responsible for the day-to-day management of the forestry business in Cambodia. Mr. Zhang has extensive business experience in Cambodia, including export of timber products from Cambodia and import of equipment and machinery into Cambodia, and together with his management team, have substantial experience in managing forestry business including rubber plantation, timber logging, the transportation and trading of timber products, financial management and business planning, as well as factory management. Mr. Zhang joined the Group on 23 May 2008.

Mr. Sun Zhen, aged 38, joined the Group on 21 March 2011 as the Co-Chief Executive Officer of the Company. Mr. Sun has substantial experience in natural resources and asset management. Prior to joining the Group, Mr. Sun was the Chief Executive Officer of Poly Longma. Mr. Sun obtained a bachelor's degree in business administration from Zhejiang University.

Mr. Lam Kam Ming, Simon, aged 36, joined the Group in January 2010. He is currently the Company Secretary, Qualified Accountant and authorised representative of the Group, responsible for the overall compliance and financial accounting of the Company. Mr. Lam holds a Bachelor of Business (Accounting) degree from Monash University, Australia. He is a member of the CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam has over ten years of experience in auditing and accounting fields and previously worked in an international CPA firm. Before joining the Group, he worked for several private companies as financial controller.

Mr. Wong Hwang Jen, Dennis, aged 30, joined the Group in October 2010. He is currently the Chief Accountant of (Cambodia) Tong Min, is responsible for the management of the accounting department of the Group's forestry and plantation business. Mr. Wong holds a Bachelor degree of Arts (Hons) in Accounting from INTI College, Malaysia. Before joining the Group, Mr. Wong has three years of experience in auditing and accounting fields with an international CPA firm in Malaysia.

Mr. Zhang Jie, aged 49, the Plantation Department Manager of (Cambodia) Tong Min, is responsible for management of land clearing, timber logging and plantation of rubber trees. Mr. Zhang has 15 years of management experience (including the resources industry) . Mr. Zhang joined the Group in 2008.

Mr. Pan Yongning, aged 55, the Wood Product Manager of (Cambodia) Tong Min, is responsible for guidance for the Group's wood production and processing activities, including flooring material, door plank and fiberboard. Mr. Pan has 35 years of experience in wood production and processing and had worked as the production and technical managers for several wood-processing companies,

Mr. Mai Weizhong, aged 54, the Furniture Factory Manager of (Cambodia) Tong Min, has more than 20 years of experience in producing the rosewood furniture and rosewood products. Mr. Mai joined the Group in 2008.

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and historically the Group has principally been engaged in the pharmaceutical and medical equipment business in the PRC. Through the acquisition of subsidiaries in the year 2007, the Group expanded into the natural resources business in the Kingdom of Cambodia ("Cambodia"). The Group holds 70-year economic land concessions measuring approximately 31,000 hectares with timber reserve of approximately 7 million cubic metres.

The principal activities and other particulars of its subsidiaries are set out in note 39 to the financial statements.

SEGMENT INFORMATION

The Group only operated in a single business segment, that is, natural resources business in Cambodia, after the deconsolidation of Medical Equipment Subsidiary as disclosed in note 2 to the financial statements, and the discontinued operations as disclosed in note 11 to the financial statements. The board of directors of the Company (the "Board") considers that presentation of segment disclosure would not be meaningful in the financial statements and accordingly, no segmental analysis is presented.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 82 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	62%	
Five largest customers in aggregate	100%	
The largest supplier		19%
Five largest suppliers in aggregate		71%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2010 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 27 to 81.

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2010 (2009: Nil).

Report of the Directors

CHARITABLE DONATIONS

During the year, the Group made charitable contributions totalling HK\$302,000.

PROPERTY, PLANT AND EQUIPMENT

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

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 28 to the financial statements.

BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2010 after the deconsolidation of Medical Equipment Subsidiary as set out in note 2 to the financial statements.

APPLICATION OF SHARE ISSUE PROCEEDS

During the year ended 31 December 2010, the Company has issued the following shares:

	Date of issue	No. of shares '000	Share issue price
Open offer	20 April 2010	152,400 (note)	HK\$0.10 (note)
Very substantial acquisition	26 November 2010	217,867	HK\$0.49
Conversion of shares	6 and 28 December 2010	27,273	HK\$0.22

Note: after share consolidation.

The aggregate net share issue proceeds, net of related expenses, of approximately HK\$128 millions, has substantially been used for the acquisition of the third forest in Cambodia, general working capital and further investment in natural resources business.

SHARE CONSOLIDATION

At a special general meeting of shareholders of the Company held on 6 October 2010, an ordinary resolution was passed to implement the share consolidation on the basis of every five issued and unissued share of HK\$0.01 each consolidated into one consolidated share of HK\$0.05 each.

DIRECTORS

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

Executive directors

Mr. Leung Sze Yuan, Alan (*Chairman*) (*appointed on 23 May 2008*)
Mr. Zhang Zhenzhong (*Chief Executive Officer*) (*resigned on 21 March 2011*)
Mr. Zeng Lingchen (*appointed on 6 October 2010*)
Mr. Gong Ting (*appointed on 26 November 2010*)
Mr. Chultemsuren Gankhuyag (*appointed on 5 January 2011*)

Non-executive directors

Mr. Li Nga Kuk, James (*resigned on 13 August 2010*)
Mr. Li Tai To, Titus (*resigned on 20 December 2010*)

Independent non-executive directors

Mr. Fan Wan Tat (*resigned on 21 October 2010*)
Mr. Tam Wai Leung, Joseph (*appointed on 30 September 2004*)
Mr. Chan Kim Chung, Daniel (*appointed on 16 June 2006*)
Mr. Zhang Ying (*appointed on 21 October 2010*)
Ms. Wen Huiying (*appointed on 6 November 2010*)

Report of the Directors

In accordance with Bye-Laws 99 of the Company's Bye-Laws, Mr. Chan Kim Chung shall retire from the Board by rotation at the forthcoming annual general meeting. In accordance with Bye-Laws 102(B) of the Company's Bye-Laws, Mr. Zeng Lingchen, Mr. Gong Ting, Mr. Chultemsuren Gankhuyag, Mr. Zhang Ying and Ms. Wen Huiying shall hold office until the forthcoming annual general meeting. All the retiring Directors being eligible, offer themselves for re-election.

The biographical details of the directors are set out on pages 11 to 12.

DIRECTORS' SERVICE CONTRACTS

On 23 May 2008, Messrs. Leung Sze Yuan, Alan was appointed as executive director and entered into services contract, renewable every three years. Messrs. Leung Sze Yuan, Alan was subsequently appointed as Chairman of the Group on 25 June 2008. On 6 October 2010, 26 November 2010 and 5 January 2011, Mr. Zeng Lingchen, Mr. Gong Ting and Mr. Chultemsuren Gankhuyag were appointed as executive directors respectively and entered into service contracts until next annual general meeting.

The executive directors are committed by the respective service contracts to devote themselves exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of their conduct of business affairs, among other commitments.

The non-executive directors have entered into service contracts with the Company. The service contract of Messrs. Tam Wai Leung, Joseph, Chan Kim Chung, Daniel, Zhang Ying and Wen Huiying were renewed for a term of one year commencing on 30 September 2010, 16 June 2010, 21 October 2010 and 6 November 2010, respectively.

Save as aforesaid, no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation, of any director proposed for re-election at the forthcoming Annual General Meeting).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name	Capacity of interests	Number of ordinary shares held	Number of underlying shares held	Approximate percentage of shareholding in the Company
Mr. Leung Sze Yuan, Alan	Beneficial owner	10,950,917	—	1.41%
		—	9,371,428 (note 1)	1.20%
Mr. Zheng Zhenzhong	Beneficial owner	27,328,000	—	3.51%
		—	9,371,428 (note 2)	1.20%
Jethero International Limited ("Jethero") (note 3)	Beneficial owner	—	465,000,000 (note 4)	59.73%

Report of the Directors

Notes:

1. Mr. Leung Sze Yuan, Alan granted 9,371,428 share option but not yet exercised.
2. Mr. Zheng Zhenzhong granted 9,371,428 share option but not yet exercised.
3. Jethero is wholly and beneficially owned by Mr. Gong Ting, an executive director of the Company.
4. 465,000,000 shares of convertible bonds held by Jethero.

Save as disclosed above, as at 31 December 2010, none of the directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company had conditionally approved and adopted a share option scheme (the "Share Option Scheme").

The principal terms of the Share Option Scheme are set out in the Company's prospectus dated 19 December 2001.

Pursuant to a resolution passed at a meeting of all independent non-executive directors on 12 October 2007, 31 March 2008 and 4 June 2010, the Company has granted approximately 10,286,000, 9,257,000 and 13,300,000 share option to employees of the Group at exercise prices of HK\$1.75, HK\$0.815 and HK\$0.365 per share respectively. Subsequently, approximately 1,029,000 share option granted to a former director and approximately 6,529,000 share option granted to the senior employees have been cancelled after their resignation.

Details of movements in share options during the year are set out in note 34 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company had conditionally approved and adopted a Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

Save as disclosed above, as at 31 December 2010, no other directors or the Chief Executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the Chief Executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2010, so far as is known to any of the directors or the Chief Executive of the Company, the following persons (other than a director or the Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholders	Capacity of interests	Number of ordinary shares held	Number of underlying shares held	Approximate percentage of shareholding in the Company
Jethero International Limited ("Jethero") (note 2)	Beneficial owner	—	465,000,000 (note 1)	59.73%
United Sky Investments Limited ("United Sky") (note 3)	Beneficial owner	105,367,605	—	13.53%
		—	254,545,455 (note 1)	32.70%
Mr. Cai Guosheng	Beneficial owner	55,500,000	—	7.13%
		—	204,545,454 (note 1)	26.27%
Mr. Zhang Feng	Beneficial owner	—	300,000,000 (note 1)	38.53%
Mr. Zhang Shaoxiang	Beneficial owner	57,000,000	—	7.32%

Notes:

1. Number of shares represent respective convertible bonds held.
2. Jethero is wholly and beneficially owned by an executive director Mr. Gong Ting.
3. United Sky is wholly and beneficially owned by Mr. Ruan Mansheng.

Save as disclosed above, as at 31 December 2010, so far as is known to any of the directors or the Chief Executive of the Company, no other person (other than a director or the Chief Executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted at end of the year or during the year ended 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

PENSION SCHEMES

Details of the Group's pension scheme for the year ended 31 December 2010 are set out in note 33 to the financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving and maintaining high standards of corporate governance in managing the business and affairs of the Group as guided by the principles and best practices as set out in the Hong Kong Code on Corporate Governance (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited and developments of recognized best governance practices. These practices are instilled throughout the Group's operations. Further details are set out in the Corporate Governance Report.

In the opinion of the Board, the Company has complied with the Code and adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the year ended 31 December 2010. Having made specific enquiry of all directors of the Company, the Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the year ended 31 December 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the latest practicable date prior to the issue of the annual report.

INDEPENDENCE CONFIRMATION

The Company has received, from each independent non-executive director, an annual confirmation of independence pursuant to the GEM Listing Rules. The Board considers all the independent non-executive directors are independent.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee's primary duties include reviewing Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The Audit Committee comprises of three independent non-executive directors, namely, Messrs. Fan Wan Tat (resigned on 21 October 2010), Tam Wai Leung, Joseph, Chan Kim Chung, Daniel and Zhang Ying (appointed on 21 October 2010), and has held 4 meetings during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2010 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

AUDITOR

KLC Kennic Lui & Co. Ltd. were first appointed as auditor of the Company in 2005.

The financial statements for the year ended 31 December 2010 were audited by KLC Kennic Lui & Co. Ltd. KLC Kennic Lui & Co. Ltd. will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KLC Kennic Lui & Co. Ltd. as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Leung Sze Yuan, Alan
Chairman

Hong Kong, 30 March 2011

Corporate Governance Report

The board of directors of the Company (the "Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

The Board believes that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision making processes are made in a proper and prudent manner.

In the opinion of the directors, the Company has complied with the provisions as set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited for the financial year ended 31 December 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealing in securities of the Company by the directors (the "Code of Conduct"). Having made specific enquiry of all directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2010.

THE BOARD OF DIRECTORS

Board composition

The Board currently comprises eight directors, of whom four are executive directors, and four are independent non-executive directors.

The Board members for the year ended 31 December 2010 and up to the date of this report were:

Executive Directors

Mr. Leung Sze Yuan, Alan (*Chairman*) (*appointed on 23 May 2008*)

Mr. Zeng Lingchen (*appointed on 6 October 2010*)

Mr. Gong Ting (*appointed on 26 November 2010*)

Mr. Chultemsuren Gankhuyag (*appointed on 5 January 2011*)

Independent Non-Executive Directors

Mr. Tam Wai Leung, Joseph (*appointed on 30 September 2004*)

Mr. Chan Kim Chung, Daniel (*appointed on 16 June 2006*)

Mr. Zhang Ying (*appointed on 21 October 2010*)

Ms. Wen Huiying (*appointed on 6 November 2010*)

The directors' biographical information are set out on pages 11 to 12 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Corporate Governance Report

Board meetings

The Board meets at least four times each year at approximately quarterly intervals. The directors attended in person or participated through electronic means of communication. At least 14 days notice of meetings were given to all directors with formal agenda in which a schedule of matters is addressed to the Board. All directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the board meetings. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed.

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing shareholders' value. The Board, led by the Chairman, is responsible for the approval of annual budgets and business plans, evaluation of the Company's performance, formulate the overall strategies of the Group, and decide on other significant matters. Executive of daily operational matters is delegated to management.

During the year, four board meetings were held for the purpose of quarterly, half year and annual result reporting. Details of the attendance of the directors are as follows:

	Members' Attendance
Executive Directors	
Mr. Leung Sze Yuan, Alan	4/4
Mr. Zhang Zhenzhong (resigned on 21 March 2011)	3/3
Mr. Zeng Lingchen (appointed on 6 October 2010)	0/2
Mr. Gong Ting (appointed on 26 November 2010)	1/1
Mr. Chultemsuren Gankhuyag (appointed on 5 January 2011)	0/1
Non-Executive Directors	
Mr. Li Nga Kuk, James (resigned on 13 August 2010)	0/2
Mr. Li Tai To, Titus (resigned on 20 December 2010)	3/3
Independent Non-Executive Directors	
Mr. Fan Wan Tat (resigned on 21 October 2010)	2/2
Mr. Tam Wai Leung, Joseph	4/4
Mr. Chan Kim Chung, Daniel	3/4
Mr. Zhang Ying (appointed on 21 October 2010)	1/2
Ms. Wen Huiying (appointed on 6 November 2010)	0/2

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman, Mr. Leung Sze Yuan, Alan and the Chief Executive Officer ("CEO"), Mr. Zhang Zhenzhong are segregated. This segregation ensures a clear distinction between the Chairman's and CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There is no financial, business, family or other relationship between the Chairman and the CEO.

Mr. Leung, as the Chairman of the Company, has overall responsibility for providing leadership, vision and direction in the development of the business of the Company. He ensures that:

- the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board in a timely manner;
- the responsibilities for drawing up the agenda for each Board meeting and, where appropriate, taking into account any matters proposed by each director for inclusion in the agenda have been duly delegated to the Company Secretary; and
- good corporate governance practices and procedures are established and encourages all directors to make full and active participation to the affairs of the Group.

Corporate Governance Report

Mr. Zhang, as the CEO, is responsible for the day-to-day management of the business of the Group, attends to formulation and implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the executive management team, he ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all directors and keeps them fully informed of all major business developments and issues.

Non-executive directors

The presence of four independent non-executive directors, is considered by the Board to be a reasonable balance between executive and non-executive directors. The Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of shareholders and the Group. The non-executive directors provide to the Group a wide range of expertise and experience and play an important role in the work of the Board, as well as ensure that the interests of all shareholders are taken into account. They contribute significantly to the development of the Group's strategies and policies through their informed comments and criticism. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on Audit, Remuneration and Nomination committees, and scrutinizing the Group's performance and reporting. Through their active participation, they give to the Board the benefit of their skills, expertise and background experience, and the management process can be critically reviewed and controlled.

In full compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed four independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each independent non-executive director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules. No independent non-executive director has served the Group for more than nine years.

All independent non-executive directors are identified as such in all corporate communications containing the names of the directors.

Term of appointment and re-election

All independent non-executive directors were appointed for a term of one year. All directors' appointment is renewable with the Board's approval. Pursuant to the Bye-Laws of the Company, one third of the directors (except the Chairman or Managing Director of the Company) would retire from office by rotation and are subject to re-election at annual general meeting. The director to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. Further, all directors appointed to fill casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Messrs. Zeng Lingchen, Gong Ting, Chultemsuren Gankhuyag, Zhang Ying, Wen Huiying and Chan Kim Chung, Daniel will retire from the Board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee is made available on request. The Remuneration Committee comprises three members, the Chairman of the committee is Mr. Zhang Ying, an independent non-executive director of the Company, and other members include Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan, the majority also being independent non-executive directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The Committee consults with the Chairman and the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties. The terms of reference of the Remuneration Committee is written in compliance with the GEM Listing Rules.

Corporate Governance Report

The Remuneration Committee held a meeting on 30 March 2011 to review the remuneration package of executive directors, non-executive directors and senior management. Mr. Zhang Ying, Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan attended this meeting. The Remuneration Committee proposed to review the existing remuneration package of executive directors, independent non-executive directors and senior management following the acquisition of forest exploitation business and further expansion of operations in Cambodia. Mr. Leung Sze Yuan, Alan is not counted in the quorum on the review of his own remuneration package.

Members' Attendance

Executive Director

Mr. Leung Sze Yuan, Alan 1/1

Independent Non-Executive Directors

Mr. Tam Wai Leung, Joseph 1/1

Mr. Zhang Ying 0/1

NOMINATION COMMITTEE

The Nomination Committee was established in 2005 with specific terms of reference. The Chairman of the committee is Mr. Tam Wai Leung, Joseph, an independent non-executive director of the Company, and other members include Mr. Zhang Ying and Mr. Leung Sze Yuan, Alan, the majority is being independent non-executive directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of directors and board succession. The Committee will also develop selection procedures of candidates for nomination, review the size, structure and composition of the Board, as well as assess the independence of independent non-executive directors. The Committee is provided with sufficient resources enabling it to discharge its duties.

The terms of reference of the Nomination Committee is written in compliance with the GEM Listing Rules.

The Nomination Committee held a meeting on 30 March 2011 to review the structure, size and composition of the Company's Board of Directors. Mr. Tam Wai Leung, Joseph, Mr. Zhang Ying and Mr. Leung Sze Yuan, Alan attended this meeting. Given the expansion of business operation in Cambodia, the Nomination Committee recommended new members with expertise in forestry, wood products business and financial management to be appointed in the near term. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications, experience and background of the relevant candidates for determining the suitability to the Group.

Members' Attendance

Executive Director

Mr. Leung Sze Yuan, Alan 1/1

Independent Non-Executive Directors

Mr. Tam Wai Leung, Joseph 1/1

Mr. Zhang Ying 0/1

Corporate Governance Report

AUDIT COMMITTEE

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, other price-sensitive announcements and other financial disclosures. Management provides all relevant information and record to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures.

In full compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, established in 2002, is currently chaired by Mr. Tam Wai Leung, Joseph, an independent non-executive director, and the other members are Mr. Chan Kim Chung, Daniel and Mr. Zhang Ying, with all being independent non-executive directors of the Company.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year under review.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the independent auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. Other duties of the Audit Committee are set out in its terms of reference, which is written in compliance with the GEM Listing Rules.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee met four times to review the quarterly and annual results of the Group during the year ended 31 December 2010, which were attended by majority of members. Full minutes of the Audit Committee are kept by the Company Secretary.

Members' Attendance

Independent Non-Executive Directors

Mr. Fan Wan Tat (resigned on 21 October 2010)	2/2
Mr. Tam Wai Leung, Joseph	4/4
Mr. Chan Kim Chung, Daniel	3/4
Mr. Zhang Ying (appointed on 21 October 2010)	1/2

AUDITORS' REMUNERATION

As at 31 December 2010, the fees payable to the group and component auditors in respect of audit services are approximately HK\$945,000.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness.

As per the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership, 65% interest in Sinnowa Medical Science and Technology Co., Ltd. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary"). The Company consulted PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and implemented the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish a special investigation committee (the "Special Investigation Committee") (comprising Mr. Leung Sze Yuan, Alan, an executive director, Mr. Tam Wai Leung, Joseph, an independent non-executive director, and Mr. Chan Kim Chung, Daniel, an independent non-executive director) for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's

Corporate Governance Report

ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Company. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants, legal advisers) to assist in the course of its investigation and internal review, and will report to the Board its findings as soon as practicable. As at the date of this report, the Special Investigation Committee intends to appoint Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control system of all relevant financial, operational, compliance controls and risk management functions.

The Company engaged an independent consultancy company (the "Consultant") to conduct a review on the internal control system of the Group and the report thereof was issued in September 2009. The Board and the Special Investigation Committee of the Company agreed with the recommendations made by the Consultant and appointed the Consultant to oversee the implementation of an internal control enhancement program, and the major recommendations have been implemented.

Reference is made to the Company's announcement on 9 September 2010, in relation to the final settlement for the dispute over the Company's ownership in a subsidiary engaged in Medical Equipment business in China. Given the Special Investigation Committee has completed its mandate, it was dissolved on 10 November 2010.

DELEGATION BY THE BOARD

The Board is responsible for decision in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and executive of the strategic business plans are delegated to management.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have their terms of reference clearly defining the powers and responsibilities of the respective committees. All committees are required to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situation, to seek the Board's approval before taking any actions.

The Board reviews, on yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

The Company uses a number of channels to communicate to shareholders and investors for the performance of the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging view with the Board; (iii) key information of the Group available on the website of the Company; and (iv) the Company's share registrars in Hong Kong serving the shareholders on all share registration matters.

The Company aims to provide its shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly and annual reports, dispatching circular, notices, and other announcements.

The Company strives to take into consideration its shareholders' views and inputs, and address shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman as well as chairmen of Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, Directors are available to answer shareholders' questions on the Group's business at the meetings. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda for consideration.

Independent Auditor's Report



To the shareholders of
China Asean Resources Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 27 to 81, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 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 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 affairs of the Company and of the Group as at 31 December 2010, and of the Group's result and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 3(b)(ii) to the financial statements which indicates that the Group has continued recording net losses for several years. This condition, along with other matters as set forth in note 3(b)(ii), indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

KLC Kennic Lui & Co. Ltd.

Certified Public Accountants (Practising)

Choy Po Fong

Practising Certificate No. P04688

Hong Kong, 30 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
CONTINUING OPERATIONS			
Turnover	6	2,960	343
Cost of sales		(2,811)	(890)
Gross profit/(loss)		149	(547)
Net effect of deconsolidation of a subsidiary	2	—	1,044
Other revenue	8	4,591	13
Other net income	8	44	5
Selling and distribution costs		(115)	(104)
Administrative expenses		(44,663)	(26,398)
Other operating expenses	9	(916)	(48)
Impairment loss recognised in respect of construction in progress	17	—	(2,600)
Finance costs	9	(1,457)	(1,381)
Loss before taxation	9	(42,367)	(30,016)
Taxation	10	—	—
Loss for the year from continuing operations		(42,367)	(30,016)
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	11(b)	8,460	(19,747)
LOSS FOR THE YEAR		(33,907)	(49,763)
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries		(52)	(424)
Other comprehensive income for the year, net of tax		(52)	(424)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(33,959)	(50,187)
Basic earnings/(loss) per share			
	15	HK Cents	2009 HK Cents (Restated)
From continuing operations		(8.30)	(7.90)
From discontinued operations		1.66	(5.15)
		(6.64)	(13.05)
Diluted earnings/(loss) per share			
	15	N/A	2009 HK Cents (Restated)
From continuing operations		N/A	(7.90)
From discontinued operations		N/A	(5.15)
		N/A	(13.05)

The notes on pages 33 to 81 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Property, plant and equipment	16	29,514	22,454
Intangible assets	20	865,825	488,807
		895,339	511,261
Current assets			
Inventories	23	1,637	1,796
Trade and other receivables	24	17,205	27,871
Cash at bank and on hand		15,441	9,436
		34,283	39,103
Assets of disposal group classified as held for sale	11(a)	—	38,881
		34,283	77,984
Current liabilities			
Other payables	26	21,246	13,603
Taxation		313	302
		21,559	13,905
Liabilities of disposal group classified as held for sale	11(a)	—	26,282
		21,559	40,187
Net current assets		12,724	37,797
Total assets less current liabilities		908,063	549,058
Non-current liabilities			
Convertible bonds	28	174,808	—
Bonds	29	—	3,700
NET ASSETS		733,255	545,358
CAPITAL AND RESERVES			
Share capital	30	38,927	19,050
Reserves		694,328	526,308
TOTAL EQUITY		733,255	545,358

Approved and authorised for issue by the Board of Directors on 30 March 2011.

Leung Sze Yuan, Alan
Chairman

Gong Ting
Director

The notes on pages 33 to 81 form part of these financial statements.

Statement of Financial Position

At 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Property, plant and equipment	16	37	52
Investments in subsidiaries	18	937,987	498,420
		938,024	498,472
Current assets			
Trade and other receivables	24	187	238
Amounts due from subsidiaries	25	15,005	48,599
Cash at bank and on hand		336	7,685
		15,528	56,522
Current liabilities			
Other payables	26	15,953	10,504
Amounts due to subsidiaries	27	205,964	212,392
		221,917	222,896
Net current liabilities		(206,389)	(166,374)
Total assets less current liabilities		731,635	332,098
Non-current liabilities			
Convertible bonds	28	174,808	—
Bonds	29	—	3,700
NET ASSETS		556,827	328,398
CAPITAL AND RESERVES			
Share capital	30	38,927	19,050
Reserves	31	517,900	309,348
TOTAL EQUITY		556,827	328,398

Approved and authorised for issue by the Board of Directors on 30 March 2011.

Leung Sze Yuan, Alan
Chairman

Gong Ting
Director

The notes on pages 33 to 81 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity share holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
Balance at 1 January 2009	19,050	497,783	5,265	—	6,135	15,805	50,868	594,906	9,651	604,557
Transactions with owners										
Recognition of equity-settled share based payments	—	—	—	—	3,951	—	—	3,951	—	3,951
Lapse of share options	—	—	—	—	(889)	—	889	—	—	—
Total transactions with owners	—	—	—	—	3,062	—	889	3,951	—	3,951
Comprehensive income										
Loss for the year	—	—	—	—	—	—	(49,763)	(49,763)	—	(49,763)
Other comprehensive income	—	—	—	—	—	(424)	—	(424)	—	(424)
Total comprehensive income	—	—	—	—	—	(424)	(49,763)	(50,187)	—	(50,187)
Deconsolidation of a subsidiary	—	—	—	—	—	(3,312)	—	(3,312)	(9,651)	(12,963)
Balance at 31 December 2009	19,050	497,783	5,265	—	9,197	12,069	1,994	545,358	—	545,358

	Attributable to equity share holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
Balance at 1 January 2010	19,050	497,783	5,265	—	9,197	12,069	1,994	545,358	—	545,358
Transactions with owners										
Issue of shares	18,513	103,482	—	—	—	—	—	121,995	—	121,995
Recognition of equity-settled share based payments	—	—	—	—	1,116	—	—	1,116	—	1,116
Lapse of share options	—	—	—	—	(2,070)	—	2,070	—	—	—
Issue of convertible bonds	—	—	—	106,676	—	—	—	106,676	—	106,676
Conversion of convertible bonds	1,364	2,948	—	(2,269)	—	—	—	2,043	—	2,043
Total transactions with owners	19,877	106,430	—	104,407	(954)	—	2,070	231,830	—	231,830
Comprehensive income										
Loss for the year	—	—	—	—	—	—	(33,907)	(33,907)	—	(33,907)
Other comprehensive income	—	—	—	—	—	(52)	—	(52)	—	(52)
Total comprehensive income	—	—	—	—	—	(52)	(33,907)	(33,959)	—	(33,959)
Exchange reserve realised upon disposal of subsidiaries	—	—	—	—	—	(9,974)	—	(9,974)	—	(9,974)
Balance at 31 December 2010	38,927	604,213	5,265	104,407	8,243	2,043	(29,843)	733,255	—	733,255

The notes on pages 33 to 81 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Cash flows from operating activities			
Loss before taxation including discontinued operations		(33,907)	(49,763)
Adjustments for:			
Depreciation		1,628	834
Net gain on disposal of property, plant and equipment		(44)	(5)
Impairment losses recognised in respect of:			
Medical research projects	11(b)	—	1,799
Construction in progress	11(b) & 17	—	20,536
Amortisation of prepaid lease payments		—	91
Amortisation of intangible assets:			
Forest exploitation rights		7,696	7,238
Share based payments	34	1,116	3,951
Impairment loss on trade receivables/bad debts written off		916	48
Gain on disposal of subsidiaries	22(b)	(12,260)	—
Interest received		(3)	(54)
Finance costs		1,457	1,381
Net effect of deconsolidation of a subsidiary	2	—	(1,044)
Operating loss before changes in working capital		(33,401)	(14,988)
(Increase)/decrease in inventories		159	(734)
Decrease in trade and other receivables		10,549	65,319
Increase in other payables		15,040	7,502
Cash generated from/(used in) operations		(7,653)	57,099
Income tax paid outside Hong Kong		—	—
Net cash from/(used in) operating activities		(7,653)	57,099
Cash flows from investing activities			
Capital expenditure:			
Property, plant and equipment		(5,199)	(8,617)
Construction in progress		—	(3,168)
Proceeds from sale of property, plant and equipment		125	—
Net cash and cash equivalents from disposal of subsidiaries	22(c)	7,234	—
Interest received		3	54
Deconsolidation of a subsidiary	2	—	(9,775)
Net cash from/(used in) investing activities		2,163	(21,506)

The notes on pages 33 to 81 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Cash flows from financing activities			
Redemption of bonds		(3,700)	(66,300)
Proceed from issue of shares	30	15,240	—
Net cash from/(used in) financing activities		11,540	(66,300)
Net increase/(decrease) in cash and cash equivalents		6,050	(30,707)
Cash and cash equivalents at beginning of the year		9,436	48,414
Effect of foreign exchange rate changes		(45)	(575)
Cash and cash equivalents at end of the year		15,441	17,132
Analysis of cash and cash equivalents:			
Cash at bank and on hand		15,441	9,436
Cash at bank and on hand classified as assets held for sale	11(a)	—	7,696
		15,441	17,132

The notes on pages 33 to 81 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company. The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 39 to the financial statements.

2. BASIS OF CONSOLIDATION OF THE FINANCIAL STATEMENTS

Deconsolidation of Medical Equipment Subsidiary

As detailed in the Company’s announcements of 26 March 2009 and 9 June 2009 in relation to a potential dispute over the Company’s ownership in Sinnowa Medical Science and Technology Co., Ltd (the “Medical Equipment Subsidiary”), the Company was unable to obtain the management financial statements of the Medical Equipment Subsidiary since 31 December 2008.

Due to the above reason, the Group was unable to exercise its rights as major shareholder either to control the assets and operations or to exercise control over the financial and operating policy decisions of the Medical Equipment Subsidiary, and considered that it is inappropriate to consolidate the financial results of the Medical Equipment Subsidiary into the Group. The Medical Equipment Subsidiary was therefore deconsolidated as from 1 January 2009.

Details of the net effect of deconsolidation of Medical Equipment Subsidiary recognised in 2009 are as follows:

	HK\$'000
Aggregate assets deconsolidated	
Property, plant and equipment	16,339
Prepaid lease payments	1,132
Intangible assets	763
Inventories	12,452
Trade and other receivables	14,716
Cash at bank and on hand	9,775
Amount due from Innova Science & Technology Co., Ltd. (“Innova”)	5,840
	<hr/> 61,017
Aggregate liabilities, non-controlling interests and reserves deconsolidated	
Trade and other payables	18,738
Bank borrowings	13,040
Taxation	1,665
Non-controlling interests	9,651
Exchange reserve	3,312
	<hr/> 46,406
Net deconsolidated amount	14,611
Write-back of provision for a potential loss of control of Medical Equipment Subsidiary at 31 December 2008	(15,655)
Net effect of deconsolidation of Medical Equipment Subsidiary	<hr/> <hr/> (1,044)

Notes to the Financial Statements

For the year ended 31 December 2010

2. BASIS OF CONSOLIDATION OF THE FINANCIAL STATEMENTS (Continued)

Deconsolidation of Medical Equipment Subsidiary (Continued)

Reference is made to the Company's announcements on 2 August 2010 and 9 September 2010, whereas the Company finally settled the dispute with the counterparty, in consideration of the counterparty paying a sum of RMB4,000,000 to the Company pursuant to the settlement agreements. The consideration of RMB4,000,000 paid to the Company from the counterparty has included in other revenue and net income in note 8.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

(i) Measurement basis, judgements, estimates and assumptions

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 3(t)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

(ii) Going concern assumptions

During the financial year ended 31 December 2010, the Group has recorded a loss attributable to equity holders of the Company of approximately HK\$33,907,000. Apart from the income from forestry exploitation business during the financial year ended 31 December 2008, the Group has continued recording net losses for five consecutive financial years, the continuation of the Group as a going concern is dependent upon its ability to generate sufficient cash from operating activities in particular from the forestry. Notwithstanding the continuation of recorded net losses, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements on the following bases:

- (a) As at 31 December 2010, the Group has net current assets of approximately HK\$12,724,000 including cash at bank and on hand of approximately HK\$15,441,000.
- (b) The Group has undergone several fund raising activities during the year and after the end of the reporting period. The Group was also in the course of introducing new business aiming to broaden its income stream as disclosed in note 36.

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders, if any, are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(j), 3(k) and 3(l), depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 3(t)).

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 3(g)):

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

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

Buildings	Shorter of 50 years and the unexpired term of lease
Constructed roads	30 years
Medical equipment	6 years
Motor vehicles	5 years
Plant, machinery and equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 3(s)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 3(g)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(g)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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

Forest exploitation rights	70 years
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Both the period and method of amortisation are reviewed annually.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the shorter of the estimated useful lives and the period of the lease term less impairment losses (see note 3(g)).

(g) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

(i) Impairment of trade and other receivables (Continued)

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

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets; and
- investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 3(t)).

If any such indication exists, the asset's recoverable amount is estimated.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(h) Inventories

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Share-based payments

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

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

(o) Income tax

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

(ii) Service fee income

— Research and development

Revenue is recognised when the outcome on a research and development contract can be measured reliably. Revenue from a fixed price research and development contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a research and development contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable will be recoverable.

— Other service fee income

Other service income is recognised when services are provided.

(iii) Interest income

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

(r) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Borrowing costs

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

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

(t) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries). These assets, even if held for sale, would continue to be measured in accordance with the policies set out in note 3.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Non-current assets held for sale and discontinued operations (Continued)

(ii) Discontinued operations (Continued)

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

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(u) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. CHANGES IN ACCOUNTING POLICIES

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons.

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, and HKFRS 5 have had no material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

Notes to the Financial Statements

For the year ended 31 December 2010

4. CHANGES IN ACCOUNTING POLICIES (Continued)

- If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
- In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

5. ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Notes to the Financial Statements

For the year ended 31 December 2010

5. ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

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 amounts of assets and liabilities within the next financial year.

(i) Impairment of intangible assets

In considering the impairment losses that may be required for the Group's intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available.

In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge in future periods.

(ii) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on the directors' regular review and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would have a significant impact in profit and loss.

(iii) Depreciation and amortisation

The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses charge for the year. The management determines that the useful life of the forest exploitation rights located in Cambodia is 70 years based on management's expertise in the forestry industry. It could change significantly as a result of changes in such market. The useful lives of other assets are based on the Group's historical experience with similar assets. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(iv) Valuation of convertible bonds

The directors use their judgment in selecting an appropriate valuation technique for the Group's convertible bonds which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied. The fair values of the liability and equity components inside the convertible bonds are estimated by an independent professional valuer. The fair values of these components vary with different variables of certain subjective assumptions. Any change in these variables so adopted may materially affect the estimation of the fair values of these components.

Notes to the Financial Statements

For the year ended 31 December 2010

6. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	Continuing operations		Discontinued operations		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Sales of wood products	2,960	343	—	—	2,960	343
Research and development service fees	—	—	1,193	3,612	1,193	3,612
	2,960	343	1,193	3,612	4,153	3,955

7. SEGMENT INFORMATION

The Group only operated in a single business segment, that is, natural resources business in the Kingdom of Cambodia ("Cambodia"), and accordingly, no segmental analysis is presented.

8. OTHER REVENUE AND NET INCOME

	Continuing operations		Discontinued operations		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other revenue						
Bank interest income	3	13	8	41	11	54
Consideration for Medical Equipment Subsidiary (note 2)	4,588	—	—	—	4,588	—
	4,591	13	8	41	4,599	54
Other net income						
Net gain on disposal of property, plant and equipment	44	5	—	—	44	5
	44	5	—	—	44	5

Notes to the Financial Statements

For the year ended 31 December 2010

9. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Continuing operations		Discontinued operations		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Finance costs						
Imputed interest expense (note 28)	1,457	—	—	—	1,457	—
Interest on bonds	—	1,381	—	—	—	1,381
	1,457	1,381	—	—	1,457	1,381
Staff costs						
(including directors' remuneration disclosed in note 12)						
Salaries, wages and other benefits	8,180	6,122	1,197	676	9,377	6,798
Share based payments (note 34)	1,116	3,951	—	—	1,116	3,951
Staff retirement benefits	92	74	41	94	133	168
	9,388	10,147	1,238	770	10,626	10,917
Other operating expenses						
Impairment loss on trade receivables	916	48	—	—	916	48
Other items						
Cost of inventories (note 23)	2,811	145	—	16	2,811	161
Depreciation	1,628	751	36	83	1,664	834
Auditors' remuneration						
— audit services	945	1,153	4	8	949	1,161
— other services	383	—	—	—	383	—
Processing documentation fees for timber-exportation	13,613	—	—	—	13,613	—
Operating lease charges in respect of office premises	619	458	143	41	762	499
Amortisation of prepaid lease payments	—	—	69	91	69	91
Amortisation of forest exploitation rights	7,696	7,238	—	—	7,696	7,238

Notes to the Financial Statements

For the year ended 31 December 2010

10. TAXATION

(a) (i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits in Hong Kong during the year.

(ii) *PRC Income Tax*

No provision for PRC Income Tax has been made as the subsidiaries of the Company did not have any assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) *Cambodia Tax on Profits*

No provision for Cambodia Tax on Profits has been made for the Company's subsidiaries as they did not have any assessable profits for the year determined in accordance with the relevant tax rules and regulations in Cambodia.

(b) **Reconciliation between taxation and loss before taxation at applicable tax rates:**

	2010 HK\$'000	2009 HK\$'000
Profit/(loss) before taxation:		
Continuing operations	(42,367)	(30,016)
Discontinued operations	8,460	(19,747)
	(33,907)	(49,763)
Notional tax on loss before taxation, calculated at the rates applicable to the countries concerned	(6,781)	(8,914)
Tax effect of non-deductible expenses	6,781	8,914
Taxation for the year	—	—

- (c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2009: HK\$ Nil).

Notes to the Financial Statements

For the year ended 31 December 2010

11. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES AND DISCONTINUED OPERATIONS

Disposal of medical research and development of drugs business

The assets and liabilities related to Medical China Technology Limited, China Best Drugs Research (Nanjing) Ltd. and China Best Pharmaceutical (Nanjing) Co., Ltd. (the “disposal group”) for the year ended 31 December 2009 were presented as held for sale following the plan for sale made by the Group’s management during the year ended 31 December 2009 to sell the medical research and development of drugs business. The disposal was completed on 24 June 2010. Details of the disposal of subsidiaries are disclosed in note 22.

(a) Assets and liabilities of disposal group classified as held for sale

	2009 HK\$'000
Property, plant and equipment	224
Construction in progress	13,831
Prepaid lease payments	1,365
Intangible assets – medical research projects	15,597
Inventories	84
Trade and other receivables	84
Cash at bank and on hand	7,696
Assets classified as held for sale	38,881
Trade and other payables	24,010
Amount due to Medical Equipment Subsidiary (note 2)	2,272
Liabilities associated with assets classified as held for sale	26,282
Net assets classified as held for sale	12,599

(b) Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group, is as follows:

	2010 HK\$'000	2009 HK\$'000
Revenue	1,201	3,653
Expenses	(5,001)	(3,665)
Loss before taxation	(3,800)	(12)
Taxation	—	—
	(3,800)	(12)
Loss on re-measurement to fair value less costs to sell		
— Construction in progress (note 17)	—	(17,936)
— Medical research projects (note 20)	—	(1,799)
Gain on disposal of operations (note 22)	12,260	—
	12,260	(19,735)
Profit/(loss) for the year from discontinued operations	8,460	(19,747)

Notes to the Financial Statements

For the year ended 31 December 2010

11. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES AND DISCONTINUED OPERATIONS (Continued)

Disposal of medical research and development of drugs business (Continued)

(c) Cash flows from discontinued operations:

	2010 HK\$'000	2009 HK\$'000
Net cash used in operating activities	(2,942)	(413)
Net cash from/(used in) investing activities	8	(3,177)
Net cash from financing activities	—	—
	(2,934)	(3,590)

12. DIRECTORS' REMUNERATION

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

	Directors' fees		Salaries, allowances and benefits in kind		Discretionary bonuses		Retirement scheme contributions		Sub-Total		Share-based payments (Note)		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors														
Leung Sze Yuan, Alan	—	—	519	420	81	35	12	12	612	467	452	1,099	1,064	1,566
Zhang Zhenzhong	—	—	490	490	—	—	—	—	490	490	452	1,099	942	1,589
Zeng Lingchen	—	—	42	—	—	—	—	—	42	—	—	—	42	—
Gong Ting	—	—	18	—	—	—	—	—	18	—	—	—	18	—
Non-executive directors														
Li Nga Kuk, James	94	152	—	—	58	—	—	—	152	152	—	—	152	152
Li Tai To, Titus	148	152	—	—	131	—	—	—	279	152	—	—	279	152
Independent non-executive directors														
Fan Wan Tat	97	120	—	—	93	—	—	—	190	120	—	—	190	120
Tam Wai Leung, Joseph	120	120	—	—	—	—	—	—	120	120	—	—	120	120
Chan Kim Chung, Daniel	120	120	—	—	—	—	—	—	120	120	—	—	120	120
Zhang Ying	23	—	—	—	—	—	—	—	23	—	—	—	23	—
Wen Huiying	17	—	—	—	—	—	—	—	17	—	—	—	17	—
	619	664	1,069	910	363	35	12	12	2,063	1,621	904	2,198	2,967	3,819

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(n)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 34.

Notes to the Financial Statements

For the year ended 31 December 2010

12. DIRECTORS' REMUNERATION (Continued)

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2010.

Directors are appointed for one year terms and renewal terms are agreed by the Remuneration Committee annually.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: two) are directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the remaining three (2009: three) individuals are as follows:

	2010 HK\$'000	2009 HK\$'000
Basic salaries, allowances and other benefits	1,058	1,868
Discretionary bonuses	42	80
Share based payments	98	3,508
Retirement benefit scheme contributions	12	24
	1,210	5,480

The emoluments of the three (2009: three) individuals with the highest emoluments are within the following bands:

\$	2010 Number of Individuals	2009 Number of Individuals
Nil – \$1,000,000	3	2
\$1,000,001 – \$1,500,000	—	1

14. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of approximately HK\$3,401,000 (2009: Loss of HK\$17,231,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2010 HK\$'000	2009 HK\$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(3,401)	(17,231)
Impairment loss recognised in respect of subsidiaries		
— Investments in subsidiaries (note 18)	—	(26,869)
— Amounts due from subsidiaries (note 25)	—	(84,467)
Company's loss for the year (note 31)	(3,401)	(128,567)

Notes to the Financial Statements

For the year ended 31 December 2010

15. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity shareholders of the Company is based on the following data:

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the loss attributable to the ordinary equity shareholders of the company of approximately HK\$33,907,000 (2009: loss of HK\$49,763,000) and the weighted average of 510,224,000 ordinary shares (2009: 381,000,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2010 '000	2009 '000
Issued ordinary shares at 1 January	381,000	381,000
Effect of issuance of shares from open offer	106,889	—
Effect of consideration shares issued	21,488	—
Effect of conversion shares from convertible bonds	847	—
Weighted average number of ordinary shares at 31 December	510,224	381,000

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share has been presented for the year ended 31 December 2010 as the exercise of share options and the conversion of outstanding convertible bonds would result in an anti-dilutive effect. The diluted earnings/(loss) per share for the year ended 31 December 2009 was the same as the basic earnings/(loss) per share because the exercise price of the Company's share options was higher than the average market price of the shares.

(c) The basic earnings/(loss) per share and diluted earnings/(loss) per share as of 31 December 2009 have been restated as a result of the share consolidation by the Company disclosed in note 30.

Notes to the Financial Statements

For the year ended 31 December 2010

16. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings <i>HK\$'000</i>	Constructed roads <i>HK\$'000</i>	Medical equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1 January 2009	19,020	6,786	424	3,499	7,151	36,880
Additions	2,120	5,763	—	283	451	8,617
Reclassification	—	3,276	—	—	(3,276)	—
Reclassification from intangible assets (<i>note 20</i>)	848	—	—	—	—	848
Disposals	—	—	—	(803)	—	(803)
Exchange adjustments	—	—	—	2	2	4
Deconsolidation of a subsidiary (<i>note 2</i>)	(16,429)	—	—	(615)	(2,441)	(19,485)
Transferred to disposal group classified as assets held for sale (<i>note 11(a)</i>)	—	—	—	(510)	(1,036)	(1,546)
At 31 December 2009	5,559	15,825	424	1,856	851	24,515
At 1 January 2010	5,559	15,825	424	1,856	851	24,515
Additions						
— through acquisition of subsidiaries (<i>note 21</i>)	—	3,565	—	—	—	3,565
— by the Group	697	3,923	—	552	27	5,199
Disposals	—	—	—	(135)	—	(135)
Reclassification	(856)	856	—	—	—	—
Exchange adjustments	3	—	2	24	5	34
At 31 December 2010	5,403	24,169	426	2,297	883	33,178

Notes to the Financial Statements

For the year ended 31 December 2010

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

	Buildings <i>HK\$'000</i>	Constructed roads <i>HK\$'000</i>	Medical equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Accumulated depreciation						
At 1 January 2009	1,396	151	382	2,457	2,109	6,495
Charge for the year	159	124	7	362	182	834
Write-back on disposal	—	—	—	(803)	—	(803)
Exchange adjustments	—	—	—	2	1	3
Deconsolidation of a subsidiary (<i>note 2</i>)	(1,387)	—	—	(616)	(1,143)	(3,146)
Transferred to disposal group classified as assets held for sale (<i>note 11(a)</i>)	—	—	—	(510)	(812)	(1,322)
At 31 December 2009	168	275	389	892	337	2,061
At 1 January 2010	168	275	389	892	337	2,061
Charge for the year	618	540	7	327	136	1,628
Write-back on disposal	—	—	—	(54)	—	(54)
Exchange adjustments	—	—	3	22	4	29
At 31 December 2010	786	815	399	1,187	477	3,664
Net book value						
At 31 December 2010	4,617	23,354	27	1,110	406	29,514
At 31 December 2009	5,391	15,550	35	964	514	22,454

The buildings of the Group are situated as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
PRC	39	41
Cambodia	4,578	5,350
	4,617	5,391

Notes to the Financial Statements

For the year ended 31 December 2010

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2009	803	152	955
Additions	—	37	37
Disposals	(803)	—	(803)
At 31 December 2009 and 31 December 2010	—	189	189
Accumulated depreciation			
At 1 January 2009	803	122	925
Charge for the year	—	15	15
Write-back on disposal	(803)	—	(803)
At 31 December 2009	—	137	137
At 1 January 2010	—	137	137
Charge for the year	—	15	15
At 31 December 2010	—	152	152
Net book value			
At 31 December 2010	—	37	37
At 31 December 2009	—	52	52

Notes to the Financial Statements

For the year ended 31 December 2010

17. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	—	31,950	—	3,400
Additions	—	3,168	—	—
Exchange adjustments	—	49	—	—
Written off				
— Transferred to consolidated statement of comprehensive income	—	(2,600)	—	(2,600)
— Transferred to other payables	—	(800)	—	(800)
Loss on re-measurement to fair value (note 11(b))	—	(17,936)	—	—
Transferred to disposal group classified as assets held for sale (note 11(a))	—	(13,831)	—	—
Balance at end of the year	—	—	—	—

During the year ended 31 December 2009, the management of the Group decided to cease to set up its own telecommunication system but to use the service of an existing telecommunication operator in Cambodia, who can provide the network to cover the forest area. Accordingly, the whole cost of the project of HK\$3,400,000 has been written off and the cash payment of HK\$2,600,000 has been recognised as an expense in the consolidated statement of comprehensive income for the year ended 31 December 2009 and the remaining payable of HK\$800,000 was written off against other payables.

Notes to the Financial Statements

For the year ended 31 December 2010

18. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 HK\$'000	2009 HK\$'000
Unlisted shares, at cost		
At beginning of the year	540,433	540,433
Additions		
— through acquisition (note 21)	388,824	—
— reclassification from amount due from subsidiaries	62,732	—
Disposals	(46,475)	—
Impairment	(7,527)	(42,013)
	937,987	498,420

The principal activities and other particulars of the subsidiaries are set out in note 39.

19. PREPAID LEASE PAYMENTS

	2010		2009	
	HK\$'000		HK\$'000	
Cost				
At beginning of the year	—		3,001	
Exchange adjustments	—		3	
Deconsolidation of a subsidiary (note 2)	—		(1,366)	
Transferred to disposal group classified as assets held for sale (note 11(a))	—		(1,638)	
At end of the year	—		—	
Accumulated amortisation				
At beginning of the year	—		416	
Charge for the year	—		91	
Deconsolidation of a subsidiary (note 2)	—		(234)	
Transferred to disposal group classified as assets held for sale (note 11(a))	—		(273)	
At end of the year	—		—	
Carrying value	—		—	

The prepaid lease payments of Medical Equipment Subsidiary was deconsolidated for the year ended 31 December 2009 as disclosed in note 2.

Notes to the Financial Statements

For the year ended 31 December 2010

20. INTANGIBLE ASSETS

	Forest exploitation rights HK\$'000	Medical research projects HK\$'000	Others HK\$'000	Total HK\$'000
Cost				
At 1 January 2009	508,776	84,285	2,810	595,871
Exchange adjustments	—	3	—	3
Reclassification to				
— property, plant and equipment (<i>note 16</i>)	(848)	—	—	(848)
— other receivables	(1,170)	—	—	(1,170)
Deconsolidation of a subsidiary (<i>note 2</i>)	—	—	(2,810)	(2,810)
Transferred to disposal group classified as assets held for sale (<i>note 11(a)</i>)	—	(84,288)	—	(84,288)
At 31 December 2009	506,758	—	—	506,758
At 1 January 2010	506,758	—	—	506,758
Additions through acquisition of subsidiaries (<i>note 21</i>)	384,714	—	—	384,714
At 31 December 2010	891,472	—	—	891,472
Accumulated amortisation				
At 1 January 2009	10,713	66,892	2,047	79,652
Loss on re-measurement to fair value (<i>note 11(b)</i>)	—	1,799	—	1,799
Charge for the year	7,238	—	—	7,238
Deconsolidation of a subsidiary (<i>note 2</i>)	—	—	(2,047)	(2,047)
Transferred to disposal group classified as assets held for sale (<i>note 11(a)</i>)	—	(68,691)	—	(68,691)
At 31 December 2009	17,951	—	—	17,951
At 1 January 2010	17,951	—	—	17,951
Charge for the year	7,696	—	—	7,696
At 31 December 2010	25,647	—	—	25,647
Carrying value				
At 31 December 2010	865,825	—	—	865,825
At 31 December 2009	488,807	—	—	488,807

Notes to the Financial Statements

For the year ended 31 December 2010

20. INTANGIBLE ASSETS (Continued)

Forest exploitation rights

The Group firstly acquired an exclusive right to exploit the forest located in Kratie District, Kratie Province, Cambodia for a period of 70 years during the year ended 31 December 2007 and acquired additional exclusive right during the year ended 31 December 2008. During the year ended 31 December 2010, the Group further acquired additional exclusive right to exploit the forest located adjacent to the original two forests. Details of the acquisition are set out in note 21.

Amortisation of forest exploitation rights are charged to profit or loss on the straight-line basis over the assets' estimated useful lives of 70 years. At 31 December 2010, the directors of the Company reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on the assessment and the valuation report, the directors are of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

21. ACQUISITION OF SUBSIDIARIES

On 26 November 2010, Forest Glen Group Limited, a wholly-owned subsidiary of the Company, acquired the entire equity interest of Richking Development Limited and its subsidiaries, Mighty Pine Limited and Crops and Land Development (Cambodia) Co. Limited, for a total consideration of approximately HK\$388,824,000.

(a) Assets acquired and liabilities recognised at the date of acquisition

	Fair value to the Group <i>HK\$'000</i>
Intangible assets — Forest exploitation rights (<i>note 20</i>)	384,714
Property, plant and equipment (<i>note 16</i>)	3,565
Deposits and prepayments	799
Other payables	(254)
	388,824
Satisfied by:	
Convertible bonds (<i>note 28</i>)	282,070
Consideration shares (<i>note 30</i>)	106,754
Total consideration	388,824

The above acquisition has been accounted for as acquisition of assets.

(b) Net cash flow on acquisition of subsidiaries

No cash flow movement from the acquisition of subsidiaries as neither cash and cash equivalents acquired from nor paid to the subsidiaries by the Group.

Notes to the Financial Statements

For the year ended 31 December 2010

22. DISPOSAL OF SUBSIDIARIES

On 24 June 2010, the Group disposed of the entire capital of the disposal group at a consideration of HK\$12,000,000 as disclosed in note 11.

(a) Analysis of the net assets disposed of

	24 June 2010 HK\$'000
Property, plant and equipment	174
Construction in progress	10,332
Intangible assets-medical research projects	19,897
Inventories	12
Trade and other receivables	4,284
Cash and cash equivalents	4,766
Trade and other payables	(28,394)
Amount due to Medical Equipment Subsidiary (note 2)	(2,272)
Non-controlling interest	915
Net assets disposed of	9,714

(b) Gain on disposal of subsidiaries

	2010 HK\$'000
Consideration received and receivable	12,000
Net assets disposal of	(9,714)
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss upon disposal	9,974
Gain on disposal	12,260

The gain on disposal was included in the profit for the year from discontinued operations in the consolidated statement of comprehensive income (note 11(b)).

(c) Net cash inflow arising on disposal of subsidiaries

	2010 HK\$'000
Consideration received in cash and cash equivalents	12,000
Cash and cash equivalents disposed of	(4,766)
Net cash inflow arising on disposal of subsidiaries	7,234

Notes to the Financial Statements

For the year ended 31 December 2010

23. INVENTORIES

	2010 HK\$'000	2009 HK\$'000
Raw materials	—	69
Finished goods	1,637	1,811
Transferred to disposal group classified as assets held for sale (note 11(a))	—	(84)
	1,637	1,796

The analysis of the amount of inventories recognised as expense and included in profit or loss is as follows:

	2010 HK\$'000	2009 HK\$'000
Carrying amount of inventories sold	2,811	161

24. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Trade debtors	2,001	169	—	—
Less: Allowance for doubtful debts	(1,085)	(169)	—	—
	916	—	—	—
Other receivables and prepayments	13,850	27,823	155	156
Deposits paid	2,439	132	32	82
Transferred to disposal group classified as assets held for sale (note 11(a))	—	(84)	—	—
	17,205	27,871	187	238

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

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For the year ended 31 December 2010

24. TRADE AND OTHER RECEIVABLES (Continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010 HK\$'000	2009 HK\$'000
Within 3 months from the date of billing	916	—

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (note 3(g)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	169	4,228
Impairment loss recognised	916	—
Amounts written off as uncollectible during the year	—	48
Exchange adjustments	—	(5)
Deconsolidation of a subsidiary (note 2)	—	(4,060)
Transferred to disposal group classified as assets held for sale (note 11(a))	—	(42)
Balance at end of the year	1,085	169

At 31 December 2010, the Group has only one trade debtor and approximately HK\$916,000 (2009: HK\$Nil) was individually determined to be impaired. The individually impaired receivable related to a customer that management assessed that only a portion of the receivable is expected to be recovered. The Group does not hold any collateral over this balance.

(c) Other receivables, prepayments and deposits paid

Other receivables of the Group mainly represented the balance of service fee income amounted to approximately HK\$12,324,000 receivable from an independent third party.

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25. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

26. OTHER PAYABLES

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other payables and accrued liabilities	21,246	9,138	15,953	3,004
Deposits received	—	7,500	—	7,500
Amount due to non-controlling shareholder (note 35)	—	20,975	—	—
Transferred to disposal group classified as liabilities held for sale (note 11(a))	—	(24,010)	—	—
Financial liabilities measured at amortised cost	21,246	13,603	15,953	10,504

Included in other payables are mainly the advance from vendors to the Group as working capital facility, upon the acquisition of subsidiaries as disclosed in note 21.

According to the sale and purchase agreements between the Group and the vendors, as mentioned in the Company's circular dated 17 September 2010, the vendors would provide a total of HK\$30 million to the Group as working capital facility for the development of the forestry business. As of the end of the reporting period, the Group received an advance of HK\$15 million from the vendors for the stated purpose.

The amount of deposits received as at 31 December 2009 represented the first payment received from the potential buyer in relation to the disposal as disclosed in note 11(a) and note 22.

27. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Notes to the Financial Statements

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28 CONVERTIBLE BONDS

On 26 November 2010, the Company issued zero coupon convertible bonds in the principal amount of approximately HK\$282,070,000 as part of the consideration for the acquisition of Richking Development Limited and its subsidiaries (note 21). The convertible bonds did not bear interest and with maturity date of five years from the date of issuance and were repayable after five years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$0.22 per share at any time after the issue date.

At the date of issue, the convertible bonds were valued by BMI Appraisals Limited. The fair value of the liability component of the convertible bonds was based on the discounted cash flow method. These valuation techniques are based on the available observable market data. The major inputs used in the models were as follows:

Principal amount (HK\$'000)	282,070
Coupon rate	0%
Discount rate	9.97%

The fair value of the equity component of the convertible bonds was equal to the residual value of the initial consideration price less the estimated value of the liability component as at the issue date.

The convertible bonds recognised in the consolidated statement of financial position are calculated as follows:

	2010 HK\$'000
Fair value of convertible bonds	282,070
Equity component	(106,676)
Liability component on initial recognition	175,394

The liabilities component of the convertible bonds recognised in the consolidated and company statements of financial position are as follows:

	2010 HK\$'000
Issuance of convertible bonds	175,394
Conversion to shares of the Company	(2,043)
Imputed interest expense (note 9)	1,457
Balance at end of the year	174,808

Imputed interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9.97% per annum to the liability component.

29. BONDS

The bonds outstanding at 31 December 2009 were unsecured, interest bearing at 2% per annum and were fully repaid on 4 January 2010.

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30. SHARE CAPITAL

	Note	No. of shares '000	2010 Amount per share HK\$	Amount HK\$'000	No. of shares '000	2009 Amount per share HK\$	Amount HK\$'000
Authorised							
At beginning of the year		5,000,000	0.01	50,000	5,000,000	0.01	50,000
Increase during the year	(ii)	15,000,000	0.01	150,000	—	—	—
		20,000,000	0.01	200,000	5,000,000	0.01	50,000
Share consolidation	(iii)	(16,000,000)	—	—	—	—	—
At end of the year		4,000,000	0.05	200,000	5,000,000	0.01	50,000
Issued and paid up							
At beginning of the year		1,905,000	0.01	19,050	1,905,000	0.01	19,050
Open offer of shares	(i)	762,000	0.01	7,620	—	—	—
		2,667,000	0.01	26,670	1,905,000	0.01	19,050
Share consolidation	(iii)	(2,133,600)	—	—	—	—	—
		533,400	0.05	26,670	1,905,000	0.01	19,050
Issue of shares	(iv)	217,867	0.05	10,893	—	—	—
Conversion of shares	(v)	27,273	0.05	1,364	—	—	—
At end of the year		778,540	0.05	38,927	1,905,000	0.01	19,050

Note:

- (i) On 20 April 2010, the share capital of the Company was increased to HK\$26,670,000 following the open offer of 762,000,000 new shares.
- (ii) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 6 October 2010, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$200,000,000 by the creation of an additional 15,000,000,000 ordinary shares of HK\$0.01 each.
- (iii) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 6 October 2010, the share capital of the Company was consolidated on the basis that every five issued and unissued shares of HK\$0.01 each into one consolidated share of HK\$0.05 each.
- (iv) On 26 November 2010, the Company increased its issued share capital of HK\$10,893,000 by issuing of approximately 217,867,000 consideration shares for the acquisition of Richking Development Limited and its subsidiaries (note 21).
- (v) On 6 December 2010 and 28 December 2010, the holders of the convertible bonds exercised their conversion rights and converted 9,091,000 and 18,182,000 conversion shares respectively. The amount of share capital of the Company further increased by HK\$1,364,000 to a total of HK\$38,927,000 accordingly.

Notes to the Financial Statements

For the year ended 31 December 2010

31. RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity (other than share capital as disclosed in note 30) between the beginning and the end of the year are set out below:

The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2009	497,783	5,265	—	6,135	(75,219)	433,964
Transactions with owners						
Recognition of equity-settled share based payments	—	—	—	3,951	—	3,951
Lapse of share options	—	—	—	(889)	889	—
Total transactions with owners	—	—	—	3,062	889	3,951
Comprehensive income						
Loss for the year (note 14)	—	—	—	—	(128,567)	(128,567)
At 31 December 2009	497,783	5,265	—	9,197	(202,897)	309,348
At 1 January 2010	497,783	5,265	—	9,197	(202,897)	309,348
Transactions with owners						
Issue of shares	103,482	—	—	—	—	103,482
Recognition of equity-settled share based payments	—	—	—	1,116	—	1,116
Lapse of share options	—	—	—	(2,070)	2,070	—
Issue of convertible bonds	—	—	106,676	—	—	106,676
Conversion of convertible bonds	2,948	—	(2,269)	—	—	679
Total transactions with owners	106,430	—	104,407	(954)	2,070	211,953
Comprehensive income						
Loss for the year (note 14)	—	—	—	—	(3,401)	(3,401)
At 31 December 2010	604,213	5,265	104,407	8,243	(204,228)	517,900

Notes to the Financial Statements

For the year ended 31 December 2010

31. RESERVES (Continued)

(b) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").

(ii) Contributed surplus

Pursuant to a reorganisation in 2001, the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of Section 54 of the Companies Act.

(iii) Capital reserve

Capital reserve comprises the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 3(j).

(iv) Share options reserve

Share options reserve comprises the portion of grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(n)(ii).

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(r).

Notes to the Financial Statements

For the year ended 31 December 2010

32. COMMITMENTS

Capital commitments

Capital commitments outstanding at 31 December 2010 contracted but not provided for in the financial statements were as follows:

	2010 HK\$'000	2009 HK\$'000
Plantation and clearing of forests	3,394	—
Property, plant and equipment	—	3,922
Continuing operation	3,394	—
Discontinued operations	—	3,922
	3,394	3,922

Operating lease commitments

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2010 HK\$'000	2009 HK\$'000
Within 1 year	407	250
After 1 year but within 5 years	36	54
After 5 years	179	252
	622	556
Continuing operations	622	535
Discontinued operations	—	21
	622	556

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one or two years, with options to renew the lease when all terms are renegotiated. The leases do not include contingent rentals.

33. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

Hong Kong

The Group operates a defined contributed Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by a defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.

Notes to the Financial Statements

For the year ended 31 December 2010

33. EMPLOYEE RETIREMENT BENEFITS (Continued)

Defined contribution retirement plan (Continued)

The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to profit or loss as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in profit or loss of the Group is disclosed in note 9 of the financial statements.

34. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 14 December 2001 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 3 June 2014. Under the Scheme, the Board may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 108,000,000 (2009: 57,500,000) and 21,600,000 after the consolidation of shares by the Company on 6 October 2010, representing 2.77% (2009: 3.02%) 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 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 to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant of an option. Options may be exercised on the first or second anniversary of the respective date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Notes to the Financial Statements

For the year ended 31 December 2010

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of specific categories of options are as follows:

Date of grant	Exercise period	Fair value at grant date	Exercise price	Adjusted exercise price	Share consolidation
		HK\$		HK\$	
Directors					
12 October 2007	12 October 2009 to 13 October 2011	0.23	0.45	0.350	1.750
31 March 2008	31 March 2010 to 30 March 2012	0.085	0.21	0.163	0.815
4 June 2010	4 June 2011 to 3 June 2014	0.02482	0.073	—	0.365
Employees					
12 October 2007	12 October 2009 to 13 October 2011	0.23	0.45	0.350	1.750
31 March 2008	31 March 2010 to 30 March 2012	0.085	0.21	0.163	0.815
4 June 2010	4 June 2010 to 3 June 2014	0.02482	0.073	—	0.365

In accordance with the terms of the share-based arrangement, options issued during the financial years ended 31 December 2007 and 2008 vested on the second anniversary of the date of grant, while options issued during the financial year ended 31 December 2010 vested on the first anniversary of the date of grant.

The fair value of the share options granted during the financial year is approximately HK\$1,116,000 (2009: HK\$3,951,000) each. Options were priced using a binomial option pricing model ("Binominal model"). Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was one and a half or two and a half times the respective exercise price.

Inputs in the model:

Date of grant	4/6/2010	31/3/2008	12/10/2007
Grant date share price	0.365	0.206	0.43
Exercise price	0.073	0.210	0.45
Expected volatility	53.70%	18.55%	101.49%
Option life	4 years	2 years	2 years
Vesting period	1 year	2 years	2 years
Risk-free interest rate	1.37%	1.837%	4.17%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Notes to the Financial Statements

For the year ended 31 December 2010

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table shows the movements of the Company's share options held by employees and directors during the year.

Date of Grant	Outstanding at 1/1/2009 '000	Lapsed during the year '000	Outstanding at 31/12/2009 '000	Adjusted numbers (Note (i)) '000	Granted during the year '000	Share consolidation (Note (ii)) '000	Lapsed during the year '000	Outstanding at 31/12/2010 '000
12/10/2007	36,000	(4,000)	32,000	41,143	—	8,229	(2,056)	6,173
31/3/2008	36,000	(10,500)	25,500	32,786	—	6,557	(770)	5,787
4/6/2010	—	—	—	—	66,500	13,300	(1,000)	12,300
	72,000	(14,500)	57,500	73,929	66,500	28,086	(3,826)	24,260

Note:

- (i) As a result of the open offer of 762,000,000 shares by the Company on 20 April 2010 (note 30), the numbers and the exercise price of the share options outstanding were adjusted accordingly. The adjustments were made pursuant to the Scheme and in compliance with the GEM Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005.
- (ii) As a result of share consolidation on the basis of every five shares consolidated into one share on 6 October 2010 (note 30), the numbers and the exercise price of the share options outstanding were adjusted accordingly.

35. MATERIAL RELATED PARTY TRANSACTIONS

Transactions and balances

The Group had the following significant business transactions and balances with connected parties and related companies during the year:

	Note	2010 HK\$'000	2009 HK\$'000
Salary paid to a former director	(i)	34	152
Management fee paid to a related company	(i)	17	19
Rental paid to a related company	(i)	179	156
Amount due to Innova	(ii)	—	(2,371)
Amount due to non-controlling shareholder	(iii)	—	20,975

Note:

- (i) The Group paid salary of approximately HK\$34,000 to a former director, Mr. Li Wo Hing, who is also a substantial shareholder of the Company, during the year ended 31 December 2010. The Group also paid rental and building management fees to a Company of which Mr. Li Wo Hing is a director and has equity interest, during the year ended 31 December 2010.
- (ii) The amount for the year ended 31 December 2009 of approximately HK\$2,371,000 represented the general advance from Innova as disclosed in note 2.
- (iii) The amount for the year ended 31 December 2009 represented the amount payable to non-controlling shareholder of Medical China Technology Ltd., whereas the subsidiary was disposed of during the year ended 31 December 2010 (note 22).

Apart from the above, there were no other material related party transactions entered into by the Group during the year.

Notes to the Financial Statements

For the year ended 31 December 2010

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, are as follows:

	2010 HK\$'000	2009 HK\$'000
Short-term employee benefits	3,165	1,609
Share based payments	1,002	2,198
	4,167	3,807

Total remuneration is included in staff costs (note 9).

36. EVENTS AFTER THE REPORTING PERIOD

- On 7 January 2011, an aggregate of 106,680,000 ordinary shares, being the maximum number of shares allowed to be allotted under the General Mandate of the Company and representing approximately 12.05% of the issued share capital as enlarged by the Placing Shares, have been successfully placed at HK\$0.60 per share.
- On 23 January 2011, the Company has entered into a legally binding strategic investment agreement with Poly Longma, a professional asset management company, and a subsidiary of Poly Communication (a group member of China Poly Group Corporation), for Poly Longma's exclusive cooperation with the Company to jointly invest in forest and/or mineral (including but not limited to coal, silver, iron and molybdenum, etc.) resources projects (which are approved by both parties through the Investment Committee) in China, Mongolia, East Asia, South Asia, Southeast Asia, Central Asia, the Commonwealth of Australia and/or New Zealand.
- On 28 January 2011, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with the vendors, pursuant to which the Group will acquire and the vendors will dispose of the entire registered capital of Inner Mongolia Mining at a consideration of HK\$25,000,000 in cash. Inner Mongolian Mining is principally engaged in the provision of coal related logistics services (including storage, processing and transportation) in China. Upon completion of the acquisition agreement, Inner Mongolia Mining will become a wholly-owned subsidiary of the Company.

Notes to the Financial Statements

For the year ended 31 December 2010

37. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior year.

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness divided by the equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

The gearing ratios at 31 December 2010 and 2009 are as follows:

	2010	2009
	HK\$	HK\$
Total liabilities	196,367	43,887
Total assets	929,622	589,245
Gearing ratio	21.1%	7.4%

The Board believes the existing gearing ratio is reasonable considering the cost of capital and the risks associated with each class of capital.

Notes to the Financial Statements

For the year ended 31 December 2010

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK\$'000	2009 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	30,207	37,307
Financial liabilities		
Amortised cost	196,367	13,603

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash at bank and on hand, trade and other payables, and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

Market risk

(a) Foreign exchange risk

The Group's exposures to market risk primarily arise from the effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with RMB. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group does not hedge its foreign currency risks with US dollar as the rate of exchange between Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on the consolidated financial statements.

As at 31 December 2010, the Group had no outstanding hedging instruments (2009: Nil).

Notes to the Financial Statements

For the year ended 31 December 2010

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(b) Interest rate risk

The Group's exposure to fair value interest rate risk arises primarily from bank loans chargeable at variable rates that expose the company to uncertainty on interest expenses and bond chargeable at fixed rate that provide a comfortable zone in controlling the overall interest expenses. The Group's policy is to minimize the borrowings at variable interest rates in the interest rate profile. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (as defined above) at the end of the reporting period:

	2010		2009	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Net fixed rate borrowings:				
Convertible bonds/Bonds	9.97%	174,808	2.0%	3,700
Total net borrowings		174,808		3,700

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of one per cent in interest rates, with all other variables held constant, would decrease/increase the Group's loss and accumulated losses by approximately HK\$1,460,000 (2009: Nil). Other components of equity would not be affected (2009: Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one per cent increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next end of the reporting period.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances. The Group cash flow interest rate is mainly concentrated on the fluctuation of the saving interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

Notes to the Financial Statements

For the year ended 31 December 2010

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

The carrying amount of trade and other receivables included in the consolidated statement of financial position represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or from external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

Reference is made to the Company's announcement on 9 September 2010, in relation to the final settlement for the dispute over the Company's ownership in a subsidiary engaged in Medical Equipment business in China. Given the Special Investigation Committee has completed its mandate, it was dissolved on 10 November 2010.

Notes to the Financial Statements

For the year ended 31 December 2010

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table shows the details of the Group's expected maturity of the financial instruments.

	Weighted average effective interest rate %	Within 1 year or on demand HK\$'000	2010 More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Convertible bonds	9.97%	—	260,497	260,497	174,808
	Weighted average effective interest rate %	Within 1 year or on demand HK\$'000	2009 More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Bonds	2.00	3,700	—	—	3,700
		3,700	—	—	3,700

(c) Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values at the end of the respective reporting periods.

(d) Other risks

The Group's sales, purchases and expense transactions are generally denominated in USD and RMB and a significant portion of the Group's assets and liabilities is denominated in USD and RMB. The USD is pegged and fixed within a range. The RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittances.

Notes to the Financial Statements

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39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of company	Place of incorporation and operation	Group's effective holding	Proportion of ownership interest		Issued capital/paid in capital	Registered capital	Principal activities
			Held by the Company	Held by a subsidiary			
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	—	US\$20,000	US\$50,000	Investment holding
Tat Lung Medical Treatment Technology Limited	Hong Kong	100%	—	100%	HK\$142,900	HK\$142,900	Investment holding
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	—	US\$300,000	US\$300,000	Development of software for medical equipment
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	—	US\$1,000,000	US\$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage
China Cambodia Resources Limited	B.V.I	100%	100%	—	US\$1	US\$50,000	Investment holding
(Cambodia) Tong Min Group Engineering Co., Ltd.	Cambodia	100%	—	100%	US\$1,000,000	US\$1,000,000	Forestry business and development of rubber plantation for latex production
Forest Glen Group Ltd.	B.V.I	100%	100%	—	US\$1	US\$50,000	Investment holding
Agri-Industrial Crop Development (Cambodia) Co., Ltd.	Cambodia	100%	—	100%	US\$1,000,000	US\$1,000,000	Forestry business and development of rubber plantation for latex production
Mega Ascent Corporation Limited	Hong Kong	100%	100%	—	HK\$10,000	HK\$10,000	Investment holding
Mighty Pine Limited	BVI	100%	—	100%	US\$1	US\$50,000	Investment holding
Corps and Land Development (Cambodia) Co., Ltd.	Cambodia	100%	—	100%	US\$1,000,000	US\$1,000,000	Forestry business and development of rubber plantation for latex production
Richking Development Limited	BVI	100%	—	100%	US\$100	US\$50,000	Investment holding

Five Years Summary

	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
Results					
Turnover	34,979	38,443	47,927	3,955	2,960
Profit/(loss) from operations	(26,472)	(21,630)	89,122	(48,382)	(32,450)
Provision for a potential loss of a subsidiary	—	—	(15,655)	—	—
Finance costs	(271)	(244)	(972)	(1,381)	(1,457)
Profit/(loss) before taxation	(26,743)	(21,874)	72,495	(49,763)	(33,907)
Taxation	(211)	(24)	(1,500)	—	—
Profit/(loss) for the year from continuing operation	(26,954)	(21,898)	70,995	(49,763)	(33,907)
Attributable to:					
Equity holders of the Company	(29,378)	(21,989)	68,665	(49,763)	(33,907)
Non-controlling interests	2,424	91	2,330	—	—
	(26,954)	(21,898)	70,995	(49,763)	(33,907)
Assets and liabilities					
Property, plant and equipment	7,473	7,379	30,385	22,678	29,514
Biological assets	2,426	88	—	—	—
Construction in progress	6,447	18,189	31,950	13,830	—
Prepaid lease payments	2,509	2,563	2,585	1,365	—
Intangible assets	28,090	287,161	516,219	504,404	865,825
Net current assets	53,814	89,760	93,418	6,781	12,724
Bonds	—	—	(70,000)	(3,700)	—
Convertible bonds	—	—	—	—	(174,808)
Net assets	100,759	405,140	604,557	545,358	733,255
Share capital	8,350	17,050	19,050	19,050	38,927
Reserves	86,070	381,215	575,856	526,308	694,328
	94,420	398,265	594,906	545,358	733,255
Non-controlling interests	6,339	6,875	9,651	—	—
Total equity	100,759	405,140	604,557	545,358	733,255
Earnings/(loss) per share (in Hong Kong cents)*					
Basic	(17.6)	(10.6)	19.05	(13.05)	(6.64)
Diluted	(17.6)	(10.6)	19.05	(13.05)	N/A

* Restated to reflect the effect of shares consolidation of the Company on 6 October 2010.