BIO-DYNAMIC GROUP LIMITED
生 物 動 力 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "Board") of BIO-DYNAMIC GROUP LIMITED (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 together with the comparative amounts for 2009 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	**2010** ***HK$'000***	2009 *HK$'000* (Restated)
REVENUE	6	**439,177**	103,939
Cost of sales		**(426,494)**	(101,850)
Gross profit		**12,683**	2,089
Other income	6	**6,582**	6,521
Selling and distribution costs		**(20,455)**	(13,880)
Administrative expenses		**(46,796)**	(42,278)
Other expenses		**(60,000)**	(10,126)
Finance costs	8	**(5,227)**	(3,007)
LOSS BEFORE TAX	7	**(113,213)**	(60,681)
Income tax expense	9	**938**	543
LOSS FOR THE YEAR		**(112,275)**	(60,138)
Attributable to:			
Owners of the parent		**(105,012)**	(51,824)
Non-controlling interests		**(7,263)**	(8,314)
		(112,275)	(60,138)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	**HK(11.79) cents**	HK(9.00) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
LOSS FOR THE YEAR	**(112,275)**	(60,138)
Exchange differences on translation of foreign operations	**9,470**	14
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**9,470**	14
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(102,805)**	(60,124)
Attributable to:		
Owners of the parent	**(98,058)**	(51,810)
Non-controlling interests	**(4,747)**	(8,314)
	(102,805)	(60,124)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment		**348,878**	335,063	358,131
Prepaid land lease payments		**32,461**	32,370	33,173
Goodwill		**4,073**	–	–
Other intangible assets		**195,121**	75,203	77,939
Loan receivable from a related party		**–**	–	3,855
Prepayments for acquisition of items of property, plant and equipment		**–**	1,442	1,487
Total non-current assets		**580,533**	444,078	474,585
CURRENT ASSETS				
Inventories		**69,313**	26,429	22,878
Trade receivables	12	**10,531**	3,325	6,204
Prepayments, deposits and other receivables		**39,181**	18,489	7,102
Due from related parties		**527**	846	2,122
Pledged deposits		**20,776**	20,776	21,155
Cash and cash equivalents		**38,098**	15,201	7,912
Total current assets		**178,426**	85,066	67,373
CURRENT LIABILITIES				
Trade payables	13	**19,491**	8,937	9,701
Other payables and accruals		**75,765**	102,146	106,060
Interest-bearing bank and other borrowings		**65,781**	82,909	44,864
Due to related parties		**15,832**	9,329	16,470
Due to a non-controlling shareholder of a subsidiary		**31,730**	34,072	34,074
Tax payable		**5,974**	1,268	1,370
Total current liabilities		**214,573**	238,661	212,539
NET CURRENT LIABILITIES		**(36,147)**	(153,595)	(145,166)
TOTAL ASSETS LESS CURRENT LIABILITIES		**544,386**	290,483	329,419
NON-CURRENT LIABILITIES				
Deferred tax liabilities		**27,182**	14,917	15,460
Deferred income		**12,381**	12,426	13,029
Loan payable to a related party		**–**	–	21,216
Total non-current liabilities		**39,563**	27,343	49,705
Net assets		**504,823**	263,140	279,714
EQUITY				
Equity attributable to owners of the parent				
Issued capital		**114,545**	61,351	57,301
Reserves		**324,634**	153,385	165,695
		439,179	214,736	222,996
Non-controlling interests		**65,644**	48,404	56,718
Total equity		**504,823**	263,140	279,714

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1.1 BASIS OF PRESENTATION

At 31 December 2010, the Group had net current liabilities of HK$36,147,000, inclusive of bank and other borrowings of HK$65,781,000 which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated loss of HK$112,275,000 for the year ended 31 December 2010.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, China Enterprise Capital Limited ("CEC"), the substantial shareholder of the Company, has agreed to provide continuous financial support to the Group.

In light of the continuous financial support provided by CEC, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the financial statements.

1.2 CORPORATE REORGANISATION

During the year, the Company acquired 100% equity interests in Rightsouth Limited ("Rightsouth") from China Food and Beverage Group Limited ("China Food") at a consideration of HK$37,000,000 by way of allotment and issue of 78,556,263 shares at HK$0.471 each (the "Rightsouth Acquisition"). Rightsouth and its subsidiaries (the "Rightsouth Group") are mainly engaged in the sales and distribution of alcoholic beverages in the People's Republic of China (the "PRC"). Further details of the Rightsouth Acquisition have been set out in the circular of the Company dated 24 December 2009. The Rightsouth Acquisition was completed on 12 January 2010.

As the Company and China Food were ultimately controlled by CEC, the Rightsouth Acquisition should be regarded as a business combination under common control. As such, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the Rightsouth Acquisition had occurred at the beginning of the year ended 31 December 2009.

In accordance with AG 5, the comparative amounts of the consolidated financial statements of the Group have been restated to include the financial statement items of the Rightsouth Group. The effects of the Rightsouth Acquisition to the Group's comparative financial statements, which extracts the items being restated only, are as follows:

(a) Effect on the consolidated statement of financial position as at 31 December 2009:

	As previously reported	**The Rightsouth Group**	**Total**	**Consolidated adjustments**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	333,714	1,349	335,063		335,063
CURRENT ASSETS					
Inventories	5,854	20,575	26,429		26,429
Trade receivables	48	3,277	3,325		3,325
Prepayments, deposits and other receivables	15,245	3,244	18,489		18,489
Due from related parties	263	1,198	1,461	(615)	846
Pledged deposits	–	20,776	20,776		20,776
Cash and cash equivalents	10,308	4,893	15,201		15,201
CURRENT LIABILITIES					
Trade payables	2,969	5,968	8,937		8,937
Other payables and accruals	99,562	2,584	102,146		102,146
Interest-bearing bank and other borrowings	79,502	3,407	82,909		82,909
Due to related parties	615	9,329	9,944	(615)	9,329
Tax payable	–	1,268	1,268		1,268
EQUITY					
Equity attributable to owners of the parent					
Issued capital	61,351	36,515	97,866	(36,515)	61,351
Reserves	123,510	(6,640)	116,870	36,515	153,385
Non-controlling interests	45,523	2,881	48,404		48,404

(b) Effect on the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2009:

	As previously reported	The Rightsouth Group	Total	Consolidated adjustments	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	2,214	101,725	103,939		103,939
Cost of sales	(13,670)	(88,180)	(101,850)		(101,850)
Other income	1,144	5,377	6,521		6,521
Selling and distribution costs	–	(13,880)	(13,880)		(13,880)
Administrative expenses	(39,071)	(3,207)	(42,278)		(42,278)
Finance costs	(2,941)	(66)	(3,007)		(3,007)
OTHER COMPREHENSIVE INCOME/(LOSS)					
Exchange differences on translation of foreign operations	(2)	16	14		14

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*

HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009 and HK Interpretation 4 (Revised in December 2009)*, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

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

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

  The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [5]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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

Further information about those changes that are expected to significantly affect the Group is as follows:

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the ethanol segment is engaged in the production and sale of ethanol products and ethanol by-products;

(b) the alcoholic beverage segment is engaged in sales and distribution of alcoholic beverages; and

(c) the animal feed segment is engaged in the production and sale of animal feed.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

No intersegment sale and transfer is transacted for the years ended 31 December 2010 and 2009.

	Ethanol	Alcoholic beverage	Animal feed	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2010				
Segment revenue				
Sales to external customers	**321,617**	**117,560**	**–**	**439,177**
Segment results	**(33,560)**	**(66,411)**	**(1,359)**	**(101,330)**
Reconciliation:				
Interest income	**34**	**180**	**–**	**214**
Other unallocated income	**3,471**	**2,897**	**–**	**6,368**
Finance costs	**(5,023)**	**(204)**	**–**	**(5,227)**
	(35,078)	**(63,538)**	**(1,359)**	**(99,975)**
Corporate and other unallocated expenses				**(13,238)**
Loss before tax				**(113,213)**
Segment assets	**535,559**	**127,592**	**84,893**	**748,044**
Reconciliation:				
Elimination of intersegment receivables				**(1,365)**
Corporate and other unallocated assets				**12,280**
Total assets				**758,959**
Segment liabilities	**209,637**	**43,055**	**1,208**	**253,900**
Reconciliation:				
Elimination of intersegment payables				**(1,365)**
Corporate and other unallocated liabilities				**1,601**
Total liabilities				**254,136**
Other segment information:				
Impairment losses recognised/(reversed) in the income statement	**(8,479)**	**60,051**	**–**	**51,572**
Depreciation and amortisation	**29,707**	**3,007**	**1,073**	**33,787**
Capital expenditure*	**22,786**	**71,994**	**70,051**	**164,831**

	Ethanol *HK$'000*	Alcoholic beverage *HK$'000*	Total *HK$'000*
Year ended 31 December 2009 (Restated)			
Segment revenue			
Sales to external customers	2,214	101,725	103,939
Segment results	(46,365)	(3,541)	(49,906)
Reconciliation:			
Interest income	9	471	480
Other unallocated income	1,136	4,905	6,041
Finance costs	(2,941)	(66)	(3,007)
	(48,161)	1,769	(46,392)
Corporate and other unallocated expenses			(14,289)
Loss before tax			(60,681)
Segment assets	472,237	55,312	527,549
Reconciliation:			
Elimination of intersegment receivables			(615)
Corporate and other unallocated assets			2,210
Total assets			529,144
Segment liabilities	240,644	22,556	263,200
Reconciliation:			
Elimination of intersegment payables			(615)
Corporate and other unallocated liabilities			3,419
Total liabilities			266,004
Other segment information:			
Impairment losses recognised in the income statement	18,850	212	19,062
Depreciation and amortisation	14,418	1,610	16,028
Capital expenditure*	1,908	300	2,208

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.*

Geographical information

Revenue from external customers

Over 90% of the Group's customers are located in Mainland China and all revenue of the Group is derived from operations in Mainland China. The management considers that it is impracticable to allocate the revenue and segment results to geographical locations.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Revenue		
Sale of goods	**439,177**	103,939
Other income		
Government grants*	**2,658**	568
Amortisation of deferred income	**468**	603
Interest income	**214**	480
Gain on disposal of a loan receivable from a related party	**–**	1,703
Others	**3,242**	3,167
	6,582	6,521

* *The government grants represent the subsidies received by the Group from the local government for environmental protection and the transformation of new pattern of industrialisation. There are no unfulfilled conditions or contingencies relating to these grants.*

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**434,922**	92,914
Depreciation	**27,376**	12,294
Amortisation of prepaid land lease payments	**1,016**	999
Amortisation of other intangible assets	**5,395**	2,735
Minimum lease payments under operating leases in respect of land and buildings	**4,399**	4,309
Auditors' remuneration	**980**	640
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**21,243**	14,560
Equity-settled share option expense	**5,510**	6,035
Pension scheme contributions	**1,926**	1,190
	28,679	21,785
Foreign exchange differences, net	**411**	166
Write-down of inventories to net realisable value	**296**	8,936
Write-back of provision against inventories	**(8,724)**	–
Other expenses:		
Impairment of property, plant and equipment	**–**	10,126
Impairment of goodwill	**60,000**	–
	60,000	10,126
Interest income	**(214)**	(480)
Gain on disposal of a loan receivable from a related party	**–**	(1,703)
Loss on disposal of items of property, plant and equipment	**102**	132

8. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Interest on bank loans and other loans wholly repayable within five years	**5,227**	4,900
Less: Interest capitalised	**–**	(1,893)
	5,227	3,007

9. INCOME TAX

During the year, no Hong Kong profits tax has been provided as there was no assessable profit arising from Hong Kong.

	2010	2009
	HK$'000	*HK$'000*
Group:		
Current	**1**	–
Deferred	**(939)**	(543)
Total tax credit for the year	**(938)**	(543)

A reconciliation of the tax credit applicable to loss before tax at the statutory rate for Hong Kong in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	2010		2009	
	HK$'000	**%**	*HK$'000* (Restated)	%
Loss before tax	**(113,213)**		(60,681)	
Tax at the statutory tax rate	**(18,680)**	**16.50**	(10,012)	16.50
Expenses not deductible for tax	**9,964**	**(8.80)**	2,641	(4.35)
Tax losses not recognised	**8,951**	**(7.90)**	9,165	(15.11)
Effect of different tax rates of subsidiaries	**(265)**	**0.23**	(1,542)	2.54
Tax losses utilised from previous periods	**(908)**	**0.80**	(795)	1.31
Tax credit at the Group's effective rate	**(938)**	**0.83**	(543)	0.89

Under the new corporate income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. One of the Group's subsidiaries is exempted from PRC corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. Although this subsidiary has no assessable profit since its date of registration, based on the State Council Circular on the Implementation of Transitional Concession Policies for Corporate Income Tax (Guo Fa 2007 No. 39), this subsidiary should be subject to the first year exemption in 2008 whether or not it has assessable profit.

10. DIVIDENDS

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

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 890,361,104 (2009: 575,801,521) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

12. TRADE RECEIVABLES

Other than the cash and credit card sales, the Group allows a credit period which is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit.

None of the trade receivables is impaired. An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Within 1 month	**9,842**	3,325
1 to 2 months	**116**	–
2 to 3 months	**–**	–
Over 3 months	**573**	–
	10,531	3,325

13. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Within 1 month	**8,879**	1,340
1 to 2 months	**4,478**	5,439
2 to 3 months	**562**	9
Over 3 months	**5,572**	2,149
	19,491	8,937

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Results review

For the year ended 31 December 2010, the Group's revenue was approximately HK$439.2 million, representing an increase of 322.5% over last year. Loss attributable to owners of the parent was approximately HK$105.0 million, representing an increase of 102.6% over last year. The substantial increase in loss was mainly due to an impairment of goodwill of approximately HK$60.0 million arising from the acquisition of Power Range Holdings Limited. This impairment is a one-off and non-cash expense and has no impact on the operating results and cash flows of the Group. Loss attributable to owners of the parent before impairment was approximately HK$45.0 million, representing an increase of 7.9% over last year. Loss per share for the year was HK11.79 cents (2009: HK9.00 cents as restated).

The substantial increase in revenue was mainly attributable to the commencement of production of the Group's Harbin production facility in December 2009.

The increase of the overall gross profit margin from 2.0% to 2.9% was mainly due to the enhancement of product mix in alcoholic beverage business.

The substantial decrease in selling and distribution costs to revenue ratio from 13.4% to 4.7% was because the ethanol business has relatively lower selling and distribution costs to revenue ratio than that of the alcoholic beverage business.

The increase in administrative expenses by 10.7% over last year was mainly due to the increase in expenses following the commencement of production of the Group's Harbin production facility in December 2009.

Other expenses amounted to approximately HK$60.0 million, representing an increase of 492.5% over last year. The other expenses for the year represented the impairment of goodwill arising from the acquisition of Power Range Holdings Limited. The consideration for the acquisition of Power Range Holdings Limited was satisfied by allotment and issue of 150,000,000 shares of the Company ("Consideration Shares"). As a result of increase in the quoted share price of the Company's shares during the period from the announcement date to the completion date of the acquisition, the fair value of the Consideration Shares was increased by approximately HK$60.0 million. Such increase contributed to the goodwill arising from the acquisition. The impairment of goodwill mainly represented the increase in fair value of the Consideration Shares.

The increase in finance cost by 73.8% over last year was mainly because there was no interest capitalised by the Group following the commencement of production of the Group's Harbin production facility in December 2009.

Material acquisitions

The Group had three acquisitions in 2010.

On 12 January 2010, the Group acquired Rightsouth Limited and its subsidiaries (the "Rightsouth Group"). The Rightsouth Group is principally engaged in the sales and distribution of alcoholic beverages in Guangzhou, the PRC. The consideration for the acquisition was satisfied by the Company through the allotment and issue of 78,556,263 shares of the Company, at an issue price of HK$0.471 per share.

On 7 September 2010, the Group acquired Keen Vitality Holdings Limited ("Keen Vitality"). Keen Vitality holds an intellectual property which involves a technique and know-how to produce high-protein forages from corn stalks and liquid waste from the ethanol production process. The consideration for the acquisition was satisfied by the Company through the allotment and issue of 60,000,000 shares of the Company, at an issue price of HK$0.60 per share. The consideration shall be adjusted upwards by an amount of HK$18.0 million upon occurrence of certain events.

On 15 September 2010, the Group acquired Power Range Holdings Limited and its subsidiaries (the "Power Range Group"). The Power Range Group is principally engaged in the distribution of alcoholic beverages in Hunan province of the PRC. The brands of liquor being sold mainly include 典藏酒鬼 (Diancang Jiugui) and 小湘泉 (Xiaoxiangquan) under 250ml. The consideration for the acquisition was satisfied by the Company through the allotment and issue of 150,000,000 shares of the Company, at an issue price of HK$0.44 per share.

Details of the acquisitions were set out in the Company's circular dated 24 December 2009, 17 August 2010 and 23 August 2010.

Segmental information

Ethanol business

During the year, the ethanol business recorded revenue of approximately HK$321.6 million and accounted for 73.2% of the total revenue. The Group's Harbin production facility is designed to have an annual production capacity of 60,000 tonnes and has commenced production in December 2009. During the year, the ethanol production output was approximately 48,078 tonnes, representing an utilisation rate of 80.1%. As considerable initial operating costs were incurred to resolve the operational problems and smooth out the teething problems in the first year of operation, the ethanol business recorded a gross loss of approximately HK$5.1 million for the year. The Group will place emphasis to improve the operational efficiency and cost control of this business so as to improve its financial performance and position.

Alcoholic beverage business

The Group developed its downstream in alcoholic beverage business by acquiring the Rightsouth Group and the Power Range Group in January 2010 and September 2010, respectively. Through acquisition of these two groups, the Group gained a retail and distribution network for selling alcoholic beverages in Guangzhou and Hunan province of the PRC. During the year, the alcoholic beverage business recorded revenue of approximately HK$117.6 million (2009: HK$101.7 million as restated) and accounted for 26.8% of the total revenue. Due to change in product mix, the gross profit margin improved from 13.3% to 15.1%. The Group will continue to improve the product mix and focus on higher margin products to grow its business. In addition to the retail and distribution network acquired, the Group is establishing a regional sales and distribution network in the Northeast region of the PRC.

Animal feed business

In September 2010, the Group expanded its business into animal feed business by acquiring Keen Vitality, a company which holds an intellectual property which involves a technique and know-how to produce high-protein forages from corn stalks and liquid waste from the ethanol production process. Construction of a 100,000 tonne forage production facility within the Group's Harbin ethanol production facility was substantially completed in December 2010. Trial runs designed to fine tune the facility has started in January 2011 and will continue until mass production begins. The Group is currently under negotiation with agricultural sectors to establish plants in different regions in the PRC.

Prospects

In year 2010, the Group focused on business expansion involving product diversification so as to strengthen the competitiveness of the Group in the ethanol industry. In year 2011, the Group's expansion continues with fuel ethanol.

In January 2011, the Group has entered into a framework agreement with an independent third party for the formation of a joint venture for carrying on the business of production and sale of cellulosic-based fuel ethanol. It is intended that the ethanol will be produced from kenaf. It is also intended that the operation of the production facility for cellulosic-based fuel ethanol with an annual production capacity of over 10,000 tonnes will commence in 2011 upon completion of construction, and the operation of the production facility with an annual production capacity of 100,000 to 200,000 tonnes will commence in 2012 to 2013 upon completion of construction. At the date of this report, no formal joint venture agreement has been entered into. The formal joint venture agreement is subject to further negotiation and agreement by both parties.

Ethanol is the core products of the Group. The Group's animal feed are the by-products of ethanol. Alcoholic beverages and fuel ethanol are the downstream products of ethanol. The Group's wide-ranging business plan aims to diversify its business, and bring it closer to the target of becoming a leading ethanol specialised group in China.

Liquidity, financial resources and capital structure

Pursuant to an ordinary resolution passed on 26 May 2010, the authorised share capital of the Company was increased from HK$100,000,000 to HK$400,000,000 by the creation of 3,000,000,000 additional shares of HK$0.1 each.

During the year, in order to further improve the Group's financial position, the Company raised a total of approximately HK$116.7 million from three top-up placings. On 25 January 2010, the Company raised net proceeds of approximately HK$40.4 million by way of a top-up placing of 103,000,000 shares at HK$0.40 each. On 6 August 2010, the Company raised net proceeds of approximately HK$42.5 million by way of a top-up placing of 90,000,000 shares at HK$0.48 each. On 15 December 2010, the Company further raised net proceeds of approximately HK$33.8 million by way of a top-up placing of 30,000,000 shares at HK$1.15 each. The net proceeds have been and will be used for the Group's general working capital purposes.

Due to the three acquisitions, the three top-up placings and the exercise of share options by various directors and employees, the issued share capital of the Company increased by 531,939,263 shares to 1,145,446,263 shares during the year. Apart from options to subscribe for shares in the Company, there were no other capital instruments in issue.

With the consolidation of the acquired subsidiaries and the net proceeds raised from the three top-up placings, the Group has enhanced its asset position and liquidity during the year. The Group's equity attributable to owners of the parent increased from approximately HK$214.7 million (as restated) as at 31 December 2009 to approximately HK$439.2 million as at 31 December 2010, while the Group's net current liabilities decreased from approximately HK$153.6 million (as restated) to approximately HK$36.1 million as at 31 December 2010. The Group's unpledged cash and cash equivalents as at 31 December 2010 amounted to approximately HK$38.1 million (2009: HK$15.2 million as restated), which were denominated in Hong Kong dollars and Renminbi.

As at 31 December 2010, the Group's total borrowings amounted to approximately HK$113.3 million (2009: HK$126.3 million as restated). The Group's borrowings included bank loans of approximately HK$62.3 million (2009: HK$56.1 million as restated), other borrowings of approximately HK$3.5 million (2009: HK$26.8 million), amounts due to related parties of approximately HK$15.8 million (2009: HK$9.3 million as restated) and an amount due to a non-controlling shareholder of a subsidiary of approximately HK$31.7 million (2009: HK$34.1 million). All of the borrowings are denominated in Renminbi. The bank loans bear interest rates ranging between 5.31% and 6.37% (2009: 4.86% and 6.37% as restated). Other borrowings bear interest rate of 6.37% (2009: ranging between 0% and 9.72%). The amounts due to related parties and a non-controlling shareholder of a subsidiary are interest-free. The gearing ratio of the Group as at 31 December 2010, calculated as net debt divided by equity attributable to owners of the parent plus net debt, was 28% (2009: 51% as restated).

Considered the Group's current unpledged cash and cash equivalents and bank and other borrowings, and the financial support from the substantial shareholder, the management believes that the Group's financial resources are sufficient for its operations.

The Group did not use financial instruments for financial hedging purposes during the year.

The Group's business transactions, assets and liabilities are principally denominated in Renminbi and Hong Kong dollars. Fluctuations in Renminbi may impact the Group's results and net asset value as the Company's consolidated financial statements are presented in Hong Kong dollars. The Group's treasury policy is to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

Charge on assets and contingent liabilities

As at 31 December 2010, certain of the Group's property, plant and equipment, leasehold land and pledged deposits with aggregate net book value of approximately HK$106.2 million (2009: HK$71.2 million as restated) were pledged to banks to secure the Group's bank loans.

As at 31 December 2010, the Group had no material contingent liabilities (2009: Nil).

Employee and remuneration policy

As at 31 December 2010, the Group had approximately 552 (2009: 438 as restated) employees in Hong Kong and the PRC with total staff costs amounted to approximately HK$28.7 million (2009: HK$21.8 million as restated). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications. The Company has adopted a share option scheme and the purpose of which is to provide incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's annual audited financial statements for the year ended 31 December 2010:

"**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 loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2.1 in the consolidated financial statements which indicates that the Group incurred a consolidated net loss of HK$112,275,000 during the year ended 31 December 2010, and, as at that date, the Group's consolidated current liabilities exceeded its consolidated current assets by HK$36,147,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern."

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2010 have been reviewed by the audit committee.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2010.

By Order of the Board
BIO-DYNAMIC GROUP LIMITED
Peter Lo
Chairman

Hong Kong, 21 March 2011

As at the date hereof, the executive directors are Mr. Peter Lo, Mr. Li Wentao, Mr. David Lee Sun, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Fu Hui; the non-executive director is Mr. Derek Emory Ting-Lap Yeung; and the independent non-executive directors are Dr. Leung Kwan-Kwok, Mr. Sam Zuchowski and Dr. Loke Yu alias Loke Hoi Lam.