泰豐國際集團有限公司*

Sino-Tech International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

Annual Report 2010

*For Identification Purpose Only

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Li Weimin *(Chief Executive Officer)*
Mr. Wang Jianzhi
Mr. Lam Yat Keung
Mr. Huang Hanshui

NON-EXECUTIVE DIRECTORS
Academician Liu Renhuai *(Chairman)*
Mr. Xin Luo Lin

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Ho Chi Fai
Ms. Liu Yanfang
Professor Ma Hongwei

AUDIT COMMITTEE
Mr. Ho Chi Fai
Academician Liu Renhuai
Mr. Xin Luo Lin
Ms. Liu Yanfang
Professor Ma Hongwei

REMUNERATION COMMITTEE
Professor Ma Hongwei
Mr. Ho Chi Fai
Ms. Liu Yanfang

COMPANY SECRETARY
Ms. Lee Wai Yee

LEGAL ADVISOR
Baker & McKenzie

AUDITOR
SHINEWING (HK) CPA Limited

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
32/F., Entertainment Building
30 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
HSBC Securities Services (Bermuda) Limited
(Formerly known as "HSBC Bank Bermuda Limited")
6 Front Street
Hamilton, HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

SHARE LISTING
The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE
www.irasia.com/listco/hk/sinotech

Results Overview and Financial Highlights

RESULTS OVERVIEW

During the year ended 31 December 2010 (the "Reporting Period"), Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") recorded a turnover from continuing operations of approximately HK$785.1 million, representing an increase of 45.7% compared with approximately HK$538.9 million for the year ended 31 December 2009 (the "Corresponding Period"). The increase in turnover was mainly due to higher sales of electronic products and the full-year contribution from logistics services.

Net loss from continuing operations for the Reporting Period was reduced to approximately HK$532.2 million from approximately HK$770.9 million in the Corresponding Period mainly due to decreased impairment loss on goodwill. The loss for the year was mainly attributable to the impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses (collectively, the "Non-cash Items").

The impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses arise as a result of accounting treatment under the provisions of the applicable accounting standards and are of non-cash nature. Before these Non-cash Items, the Group made a marginal loss of HK$0.8 million in 2010, as compared with a profit of HK$22.4 million in 2009.

FINANCIAL HIGHLIGHTS

	2010	2009
	HK$'000	HK$'000
Turnover from continuing operations	**785,121**	538,855
Gross profit from continuing operations	**51,696**	77,694
Loss for the year from continuing operations	**532,180**	770,904
Loss for the year from discontinued operations	**–**	9,087
Loss for the year attributable to owners of the Company	**532,180**	779,991
Impairment loss on goodwill	**98,662**	780,309
Impairment loss on other intangible assets	**211,558**	–
Amortisation of other intangible assets	**143,885**	16,557
Imputed interest on convertible notes	**45,944**	5,573
Share option expenses	**31,310**	–
Net (loss) profit for the year before impairment loss on goodwill and other intangible assets, amortisation of other intangible assets, imputed interest on convertible notes and share option expenses	**(821)**	22,448

Chairman's Statement

On behalf of the board of directors (the "Board") of the Company, I am pleased to present the annual report of the Group for the year ended 31 December 2010.

The year of 2010 was a challenging year to the Group. Like most of the manufacturers in China, the Group suffered from serious labour shortages in the Dongguan area together with relatively high inflationary pressure. These resulted in severe price fluctuations in material costs and substantial rises in labour costs. As such, the Group recorded an increase in turnover while reported a decrease in profit from its electronic products business. While the profit margin of this segment could remain under pressure in 2011, the Group will continue to take a very cautious approach and constantly review its operations to maintain the competitiveness of its electronic products business.

After the acquisition of CITIC Logistics (International) Company Limited ("CITIC Logistics") in late 2009, the Group has diversified its business to logistics industry which laid a solid foundation for our development in the coming years. Revenue contributions from CITIC Logistics, however, were not substantial during the Reporting Period as shipments for the Angola project were temporarily interrupted during the year by a maritime arbitration (the "Angola Arbitration") between CITIC Logistics Company Limited ("CITIC Logistics BJ") and the former handling agent for the Angola project. The Group intends to resume the shipping services after the ruling for the Angola Arbitration has been issued, regardless of the outcome of such ruling. Apart from continuously improving the execution of existing projects in 2011, the Group is striving to expand the revenue sources of its logistics business through acquisitions and gaining new projects.

During the year, CITIC Logistics entered into agreements to acquire the entire equity interest in CITIC Logistics BJ (the "Acquisition"). CITIC Logistics BJ has been granted the exclusive rights for eight years to invest, build and operate some projects in Zhanjiang including the provision of raw materials transportation, specialised tanker transportation, and relating services for the Zhanjiang Steel Base of Guangdong Steel Company. The Acquisition, which is expected to be completed in 2011, will further strengthen the logistics services business of the Group by providing an established platform to participate in large-scale industrial projects in China.

On behalf of the Board, I would like to express my sincere gratitude to my fellow directors and dedicated employees for their commitment and contributions to the Group. I would also take this opportunity to thank all shareholders and business partners for their continued support to the Group.

Liu Renhuai
Chairman

Hong Kong
23 March 2011

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Turnover of the Group (from continuing operations) increased by 45.7% to HK$785.1 million in 2010 from HK$538.9 million in 2009 mainly due to higher sales of electronic products and the full-year contribution from logistics services. Gross profit (from continuing operations) for the year, however, fell by 33.5% to HK$51.7 million from HK$77.7 million in 2009 due to margin squeeze in the electronic products segment. Net loss (from continuing operations) for the year was reduced to HK$532.2 million from HK$770.9 million in 2009 mainly due to decreased impairment loss on goodwill. The loss for the year was mainly attributable to the impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses.

The impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses arise as a result of accounting treatment under the provisions of the applicable accounting standards and are of non-cash nature. Before these Non-cash Items, the Group made a marginal loss of HK$0.8 million in 2010, as compared with a profit of HK$22.4 million in 2009.

In line with the global economic recovery, the electronic products segment recorded an increase in turnover by 40.0% to HK$751.2 million in 2010 from HK$536.5 million in 2009. Segment profit for the year, however, decreased by 62.4% to HK$18.1 million from HK$48.2 million in 2009 mainly due to a significant drop in the gross margin. Labour shortages continued to be a serious issue in 2010, especially in Guangdong Province, the People's Republic of China (the "PRC"). Shortages in workforce resulted in substantial increases in labour cost, which exerted heavy burden on the electronic components manufacturing business. Raw material cost and all other production expenses also rose significantly as a result of the continuing appreciation of Renminbi and the inflation problem.

The logistics services segment reported revenue of approximately HK$33.9 million in 2010. The year-on-year comparison was not applicable as the logistics services business came on board only in November 2009. Revenue contributions from the segment, however, were not considered as substantial, as shipping services for the Angola project were temporarily interrupted during the year as a result of a maritime arbitration between CITIC Logistics BJ and the former handling agent for the Angola project over the termination of the cooperation agreement made between CITIC Logistics BJ and the former handling agent. The Angola Arbitration is still in progress. According to the notice from China Maritime Arbitration Commission dated 28 September 2010, the deadline for the ruling of the Angola Arbitration has been extended to 29 March 2011. Partly helped by a new logistics services project, the segment recorded a marginal loss of HK$0.9 million before the impairment loss on goodwill and other intangible assets, and the amortisation of other intangible assets.

Management Discussion and Analysis

The property investment segment reported a profit of HK$4.9 million in 2010 following gains of HK$6.7 million in the change in fair value of the investment property as at the end of the Reporting Period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 31 December 2010, the Group had bank balances and cash of HK$30.8 million (2009: HK$345.8 million). Working capital of the Group was HK$653.6 million (2009: HK$696.8 million) and the Group's current ratio (measured as total current assets to total current liabilities) was approximately 1.8 times (2009: 7.5 times). The decrease in the Group's current ratio was mainly due to the acquisition of the investment property and the increase in trade and bills payables during the year ended 31 December 2010.

As at 31 December 2010, the secured bank borrowings of the Group amounted to approximately HK$162.6 million (2009: Nil), which were secured by the investment property of the Group with carrying value of approximately HK$300.0 million (2009: Nil) and the corporate guarantee provided by the Company. The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was approximately 15.7% (2009: 0.003%).

As at 31 December 2010, the Company had zero coupon convertible notes due on 15 November 2014 (the "Convertible Notes") in the aggregate principal amount of HK$662.4 million with an initial conversion price of HK$0.12 per conversion share. During the year under review, Convertible Notes in the aggregate principal amount of HK$288.0 million were converted into 2,400 million new ordinary shares of HK$0.01 each in the capital of the Company.

As at 31 December 2010, the Group had capital expenditure commitments amounted to HK$33.8 million (2009: HK$6.4 million) and mainly in respect of the acquisition of property, plant and equipment.

The directors of the Company (the "Directors") believe that existing financial resources will be sufficient for current operations and capital expenditures requirement. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

On 14 March 2010, China LWM Property Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to acquire a residential property for investment purpose at a cash consideration of HK$280.0 million, before transaction costs. The property is located at No. 8 Severn Road, the Peak, Hong Kong with a gross floor area of approximately 4,650 square feet.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 6 October 2010, CITIC Logistics entered into a sale and purchase agreement (as amended by a supplemental agreement dated 14 December 2010) (the "Original 90% Agreement") with Pioneer Blaze Limited and Mr. Li Weimin ("Mr. Li"), an executive Director and a substantial shareholder of the Company, to acquire a total of 90% equity interest in CITIC Logistics BJ. Mr. Li is a connected person (as defined under the Listing Rules) of the Company by virtue of his substantial shareholdings and directorships in the Company and CITIC Logistics BJ. On 11 February 2011, the Original 90% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK$210,393,289. The consideration will be satisfied by the issue and allotment of a maximum of 743,439,182 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company on 25 March 2011.

On 25 November 2010, CITIC Logistics entered into a sale and purchase agreement (the "Original 10% Agreement") with CITIC Automobile Company Limited*(中信汽車公司) to acquire the remaining 10% equity interest in CITIC Logistics BJ. As the acquisition of the entire equity interest in CITIC Logistics BJ (the "Acquisition") would be considered as a whole, this transaction also constitutes a connected transaction under the Listing Rules. On 11 February 2011, the Original 10% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK$46,969,595. The consideration will be satisfied by the issue and allotment of a maximum of 165,970,300 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company on 25 March 2011.

For details of the above transactions, please refer to the circular of the Company dated 28 February 2011. Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

* *For identification purpose only*

Management Discussion and Analysis

CHARGE ON GROUP'S ASSETS

As at 31 December 2010, the Group's investment property, with carrying value of approximately HK$300.0 million (2009: Nil), was pledged to secure the banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURES

The Group mainly earns revenue and incurs costs in Hong Kong dollars, US dollars and Renminbi. The management is aware of the possible exchange rate exposure due to the continuing appreciation of Renminbi and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. With regard to the US dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the US dollars remains in effect.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had the following material contingent liabilities:

On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgment (in the amount of approximately US$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants for the judgement. On 28 September 2009, the Company entered into an agreement to dispose the entire issued share capital of Classic Line and the disposal was completed on 31 October 2009.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had 2,576 (2009: 2,100) fulltime employees in Hong Kong and the PRC. Total staff costs (including directors' remuneration but excluding share option expenses) for the year ended 31 December 2010 amounted to HK$36.8 million (2009: HK$16.0 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package and the mandatory provident fund scheme, the Company also operates a share option scheme of which the Board may, at its discretion, grant options to eligible employees of the Group.

Management Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

Please refer to note 48 to the consolidated financial statements for details of events after the Reporting Period.

FUTURE OUTLOOK

According to the International Monetary Fund (the "IMF"), the world economy is recovering, but it is a two-speed recovery. In an update to its World Economic Outlook report in January 2011, the IMF forecast that the world economy, the emerging economies and China's economy would grow by 4.4%, 6.5% and 9.6%, respectively in 2011. In the report the IMF said that the emerging economies were expected to keep up brisk growth although it warned that inflation pressures were rising. The United States and Germany are leading the recovery among advanced economies. However, the pace of growth is not sufficient to largely reduce unemployment even as private demand recovers. In addition, the Group notices that a slew of other issues may pose risks to the global economic growth, including political turmoil in the Middle East and North Africa, rising energy prices, European sovereign debt crisis, the potential cessation of quantitative easing, potential declines in government spending, China's credit tightening, and the Japanese earthquake and nuclear crisis. According to a report dated 21 February 2011 in the Financial Times ("FT"), many analysts fear that a sharp rise in oil prices would act as a tax on the global economy. Higher energy costs will also add to inflationary pressures, which in turn may further increase political tensions.

China's official Purchasing Managers' Index of 52.2 in February 2011 showed that growth in the manufacturing sector remained robust, though tighter monetary conditions appear to have reduced the pace of activity to a six-month low. The Group continues to believe that China's economy is slowing towards more sustainable growth and the pace will remain steady and fast as domestic consumption will increasingly drive economic growth. Nonetheless, the Group also shares some economists' view that China may continue to face relatively high inflationary pressures at least in the first half of 2011. The central government could be under pressure to accelerate the pace of tightening to curb inflation and property prices. This together with the tightness in the labor market and rising material costs point to potential steeper increases in input costs for mainland-based manufacturers. According to an FT article dated 6 January 2011, the extent to which China will embrace tightening in earnest today has consequences that resonate far beyond China itself, influencing growth and the price of commodities everywhere.

Management Discussion and Analysis

Against this backdrop, the Board believes that the year of 2011 will present both challenges and opportunities to the Group.

China's total logistics revenue (全國社會物流總額) and total logistics costs (全國社會物流總費用) in 2010 increased by 15.0% and 16.7% year-on-year, respectively. Logistics revenue for industrial products in 2010 rose by 14.6% year-on-year and accounted for 90.2% of total logistics revenue. The ratio of total logistics costs against GDP fell slightly to 17.8% in 2010 from 18.1% in 2009. On the back of strong industry data and the belief that the pace of China's economic growth will remain steady and fast, the Group thinks that the logistics industry in China will keep up robust growth and continues to see good development opportunities, particularly in the industrial logistics sector. The Group is, therefore, in the process of acquiring the entire equity interest in CITIC Logistics BJ and the Acquisition may be completed in 2011. While continuing to improve the execution and cost control of existing logistics projects, the Group is also actively sourcing new projects in an effort to expand the revenue stream of its logistics services business. The Group intends to resume shipping services for the Angola project after the ruling of the Angola Arbitration is issued (regardless of the outcome).

The Acquisition, if materialized, will further strengthen the logistics services business of the Group by providing an established platform to participate in large-scale industrial projects in China. It will expand the Group's scope of logistics services to engineering logistics and logistics project management from chemical logistics and shipping services. Through the Acquisition, the Group will take effective control over the logistics projects for the Zhanjiang Steel Base secured by CITIC Logistics BJ. By further leveraging the market position and industry qualifications of CITIC Logistics BJ in China, the Group will gain a better position in entering into prospective logistics projects in China. For more details on the Acquisition, please refer to the circular issued by the Company on 28 February 2011.

The Group expects that operating costs for the electronic products business will continue to increase in the year of 2011 as labour shortages cannot be resolved in a short period of time. The continuous strengthening in labour protection act in China with effect from 1 March 2011 will increase labour cost by approximately 20%, which in turn will increase the cost of operations for the electronic products segment, as labour cost forms a significant portion of the overall production cost. Inflation is another issue which will increase material cost and other input cost. Thus the year of 2011 is expected to be another tough year for the electronic products business. The Group will cautiously review its operations and will focus more on customers with higher profit margins.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Li Weimin, aged 42, was appointed as an executive Director on 24 December 2009 and the Chief Executive Officer of the Company on 26 August 2010. Mr. Li holds a master degree in business administration from The Open University of Hong Kong. He has over 18 years of experience in the logistics industry and worked for Xuchang Automobile Sales Company Limited*（許昌汽車銷售總公司）from 1992 to 1998 as a general manager. He is a director of CITIC Logistics Company Limited（中信物流有限公司）. Mr. Li is currently the sole director of CITIC Logistics, a wholly owned subsidiary of the Company, and the director of certain subsidiaries of the Company.

Mr. Wang Jianzhi, aged 61, was appointed as an executive Director on 24 December 2009. Mr. Wang holds a bachelor degree in corporate management from Beijing Union University. He has over 35 years of experience in automotive and components industry and was a director of CITIC Logistics Company Limited （中信物流有限公司）. Mr. Wang has been a director of CITIC Group（中國中信集團公司）since 2006. Mr. Wang is also the chairman of CITIC Automobile Company Limited*（中信汽車公司）.

Mr. Lam Yat Keung, aged 53, was appointed as President of the Company on 13 December 2003 and stepped down on 2 March 2010 but remained as an executive Director. Mr. Lam has over 30 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. He is mainly responsible for strategic development and operating direction of the Group's electronic business segment. Mr. Lam is currently a director of certain subsidiaries of the Company. He is the husband of Ms. Lam Pik Wah and brother-in-law of Mr. Lam Hung Kit, each of them is a director of certain subsidiaries of the Company.

Mr. Huang Hanshui, aged 40, was appointed as an executive Director on 9 March 2010. Mr. Huang holds an MBA degree from the National University of Singapore. Mr. Huang has some ten years of experience in equity research and corporate finance. He worked as an equity analyst in Nomura Securities and Standard & Poor's. He is currently the chief financial officer of CITIC Logistics, a wholly owned subsidiary of the Company, and the director of certain subsidiaries of the Company.

* For identification purpose only

Biographical Details of Directors

NON-EXECUTIVE DIRECTORS

Academician Liu Renhuai, aged 70, was appointed as a non-executive Director on 26 August 2010. Academician Liu graduated from Lanzhou University in 1963. He has over 40 years' working experience in education and research. He was the author of 7 academic books, the chief editor of 4 books, the author of more than 300 articles and the mentor of 36 persons for doctorate degree and 115 persons for master degree. Academician Liu was elected as Academician of the Division of Mechanical and Vehicle Technology of Chinese Academy of Engineering in 1999 and Academician of the Division of Engineering Management of Chinese Academy of Engineering in 2000. He was the President of Jinan University from 1995 to 2006. Academician Liu is currently a Professor and a board member of Jinan University, Director of Institute of Applied Mechanics, and Director of Research Center of Strategic Management of Jinan University; Director of Public Safety Research Centre; Director of the Division of Management Science to the Committee on Science and Technology, and Director of Guiding Committee on Education of Mechanics of Ministry of Education; Chairman of Chinese Vibration Engineering Society, Vice Chairman of Chinese Mechanics Society and Vice Chairman of Chinese Composite Material Society.

Mr. Xin Luo Lin, aged 61, was appointed as a non-executive Director on 26 August 2010. Mr. Xin is a postgraduate from the Beijing University in the People's Republic of China (the "PRC"). He was a visiting scholar at the Waseda University, Japan between 1980 and 1983, an honorary research associate at the University of British Columbia, Canada during 1983 and 1984 and a visiting fellow at the Australia National University, Australia in 1985. He is an independent investor with over 20 years of experience in investment banking in the PRC, Hong Kong and Australia. He is a Justice of the Peace in New South Wales of Australia. Mr. Xin is currently an independent non-executive director of Enerchina Holdings Limited (Stock Code: 622), an independent non-executive director of Sinolink Worldwide Holdings Limited (Stock Code: 1168), an independent non-executive director of Central China Real Estate Limited (Stock Code: 832), and a non-executive director and honorary chairman of Asian Capital Holdings Limited (Stock Code: 8295), all of which companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He also serves as a director of Mori Denki Mfg. Co., Ltd., a company listed on the Tokyo Stock Exchange, and as a director and vice chairman of Oriental Technologies Investment Limited, a company listed on the Australian Stock Exchange.

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai, aged 54, was appointed as an independent non-executive Director on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Group, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Ms. Liu Yanfang, aged 46, was appointed as an independent non-executive Director on 24 June 2010. Ms. Liu holds a bachelor degree in law from China University of Political Science and Law. She has over 20 years of experience working as a corporate legal counsel and in financial crimes investigations. Ms. Liu is currently a PRC practice attorney and she has been a senior partner with Allbright Law Offices situated in Shanghai since 2004. From 1992 to 2003, Ms. Liu served various positions with the Ministry of Public Security including as director of the securities crime investigation department and as deputy director of the finance department under the economic protection bureau. From 1987 to 1992, she worked as an attorney for a law firm in Hebei province.

Professor Ma Hongwei, aged 44, was appointed as an independent non-executive Director on 26 August 2010. Professor Ma graduated from the Department of Mechanics Engineering of Chengdu Science and Technology University in 1986. He obtained a doctorate degree from the Institute of Applied Mechanics of Taiyuan University of Technology in 1996. Professor Ma has over 20 years' experience in education and research. He is currently a Professor of Jinan University, the President of the College of Science and Engineering, Deputy Director of Public Safety Research Centre, Vice President of the Institute of Nuclear Science and Engineering Technology of Jinan University; and the Chief Secretary of Guiding Committee on Education of Mechanics of Ministry of Education.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2010 are set out in note 47 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 31 and 32 of this report.

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the past five financial years is set out on page 124.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the year are set out in note 33 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the consolidated financial statements on page 112 and the consolidated statement of changes in equity on page 35, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2009: Nil). The Company's share premium account of HK$1,834,074,000 (2009: HK$1,479,480,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company (the "Bye-Laws") or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 6.52% and 22.53%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 16.55% and 58.84%, respectively, of the total purchases of the Group for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers.

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Li Weimin	
Mr. Wang Jianzhi	
Mr. Lam Yat Keung	
Mr. Huang Hanshui	(appointed on 9 March 2010)
Ms. Lam Pik Wah	(resigned on 9 March 2010)
Mr. Lam Hung Kit	(resigned on 9 July 2010)

Non-executive Directors

Academician Liu Renhuai	(appointed on 26 August 2010)
Mr. Xin Luo Lin	(appointed on 26 August 2010)

Independent non-executive Directors

Mr. Ho Chi Fai	
Ms. Liu Yanfang	(appointed on 24 June 2010)
Professor Ma Hongwei	(appointed on 26 August 2010)
Mr. Lo Wah Wai	(resigned on 24 June 2010)
Mr. Pai Te Tsun	(resigned on 26 August 2010)

On 2 March 2010, Mr. Lam Yat Keung stepped down from the post of President and Mr. Li Weimin was appointed as the Chairman of the Board on the same date. On 9 July 2010, Mr. Lam Hung Kit resigned as an executive Director and the Chief Executive Officer of the Company. On 26 August 2010, Mr. Li Weimin was re-designated from Chairman to Chief Executive Officer and Academician Liu Renhuai, a non-executive Director, was appointed as the Chairman on the same date.

In accordance with bye-laws 87 of the Bye-Laws, Mr. Lam Yat Keung, Mr. Ho Chi Fai and Professor Ma Hongwei will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

None of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensations, other than statutory compensation.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Mr. Lam Yat Keung has entered into service contract as an executive Director of the Company.

During the year, Mr. Huang Hanshui entered into a service agreement with the Company for an initial term of three years commencing from 9 March 2010, which will continue thereafter until terminated by either party by giving not less than three months' notice in writing to the other party, and his term of office is subject to retirement by rotation and re-election in accordance with the Bye-Laws and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Under the service agreement, Mr. Huang is entitled to a director's fee of HK$600,000 per annum and a remuneration of HK$1.2 million per annum for his position as the chief financial officer of CITIC Logistics, which was determined by reference to his duties and responsibilities within the Group, the prevailing market rate and the Company's remuneration policy. Mr. Huang is also entitled to discretionary bonus and to participate in the Company's share option scheme at the sole discretion of the Board.

During the year, Mr. Li Weimin entered into a service agreement with the Company for an initial term of three years, which will continue thereafter until terminated by either party by giving not less than three months' notice in writing to the other party, and his term of office is subject to retirement by rotation and re-election in accordance with the Bye-Laws and the Listing Rules. Under the service agreement, Mr. Li is entitled to a director's fee of HK$600,000 per annum and a remuneration of HK$2,600,000 per annum for his position as Chief Executive Officer, which was determined by reference to his duties and responsibilities within the Group, the prevailing market rate and the Company's remuneration policy. Mr. Li is also entitled to discretionary bonus and to participate in the Company's share option scheme at the sole discretion of the Board.

Save as disclosed above, there is no other information regarding Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions are set out on page 21 of this report.

Save as disclosed above, no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their respective associates had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in the shares and underlying shares of the Company:

Name of directors	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note 1)	Beneficial owner	8,701,534,130	100.22%
Mr. Lam Yat Keung (Note 2)	Interest of family	612,400,000	7.05%
Mr. Huang Hanshui (Note 3)	Beneficial owner	86,827,895	1.00%

Notes:

1. Mr. Li Weimin is interested in 8,701,534,130 shares of the Company (the "Shares"), consisting of (i) an interest in 1,620,000,000 Shares beneficially owned and held in his own name; (ii) a derivative interest in 5,520,000,000 conversion shares to be allotted and issued upon full conversion of the convertible notes issued to him by the Company in the principal amount of HK$662,400,000; and (iii) a derivative interest in 1,561,534,130 conversion shares to be allotted and issued upon full conversion of the convertible notes to be issued to him pursuant to a sale and purchase agreement dated 6 October 2010, which was terminated upon signing of a sale and purchase agreement dated 11 February 2011.

2. Mr. Lam Yat Keung is deemed interested in 612,400,000 Shares owned by Smart Number Investments Limited ("Smart Number"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart Number is beneficially owned as to 66.67% by Ms. Lam Pik Wah (the spouse of Mr. Lam Yat Keung) and as to 33.33% by Mr. Lam Hung Kit.

3. Mr. Huang Hanshui has a derivative interest in 86,827,895 Shares pursuant to share options granted to him on 6 December 2010.

Report of the Directors

Save as disclosed above, as at 31 December 2010, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the year under review, the Company has granted share options to Mr. Huang Hanshui, an executive Director, in recognition of his contributions to the Group. Details of the share options are set out in note 37 to the consolidated financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the chief executives of the Company, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and chief executives of the Company, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Report of the Directors

Long positions in the shares and underlying shares of the Company:

Name of substantial shareholders	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Pioneer Blaze Limited (Note 1)	Beneficial owner	3,049,408,922	35.12%
Mr. Lim Chuan Yang (Note 2)	Interest of controlled corporation	3,049,408,922	35.12%
Smart Number (Note 3)	Beneficial owner	612,400,000	7.05%
Ms. Lam Pik Wah (Note 3)	Interest of controlled corporation	612,400,000	7.05%
Mr. Lam Hung Kit (Note 3)	Interest of controlled corporation	612,400,000	7.05%
中信汽車公司 (Note 4)	Beneficial owner	564,926,072	6.51%
中國中信集團公司 (Note 5)	Interest of controlled corporation	564,926,072	6.51%

Notes:

1. Pioneer Blaze Limited has a beneficial interest in 3,049,408,922 conversion shares to be allotted and issued pursuant to a sale and purchase agreement dated 6 October 2010, which was terminated upon signing of a sale and purchase agreement dated 11 February 2011. For details of this transaction, please refer to the announcements of the Company dated 8 October 2010, 14 December 2010 and 11 February 2011, and the circular of the Company dated 28 February 2011.

2. The entire issued share capital of Pioneer Blaze Limited is beneficially and wholly owned by Mr. Lim Chuan Yang.

3. The entire issued share capital of Smart Number is beneficially owned as to 66.67% by Ms. Lam Pik Wah (the spouse of Mr. Lam Yat Keung) and as to 33.33% by Mr. Lam Hung Kit.

4. 中信汽車公司 has a beneficial interest in 564,926,072 consideration shares to be allotted and issued pursuant to a sale and purchase agreement dated 25 November 2010, which was terminated upon signing of a sale and purchase agreement dated 11 February 2011.

5. 中國中信集團公司, the holding company of 中信汽車公司, is deemed interested in 564,926,072 shares.

Report of the Directors

Save as disclosed above, the Company had not been notified any interests 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 as at 31 December 2010.

SHARE OPTION SCHEME

The Company has adopted a share option schemes on 28 November 2002 (the "Share Option Scheme") for which the details are set out in note 37 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

CONNECTED TRANSACTIONS

On 16 August 2010, CITIC Logistics entered into a logistics agreement with SUN International Investment Holdings Limited ("SUN International") in relation to the provision of procurement and integrated logistics services by CITIC Logistics for an aggregate consideration of HK$6,788,462. Mr. Li Weimin, an executive Director and a substantial shareholder of the Company, indirectly holds 40% equity interest in SUN International. For details of this transaction, please refer to the announcement of the Company dated 16 August 2010.

Save as disclosed above and the transactions disclosed under the section headed "MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES" as set out on page 7, the Group has not conducted any other transactions with connected persons (as defined in the Listing Rules) during the Reporting Period.

Report of the Directors

CORPORATE GOVERNANCE PRACTICE

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules during the Reporting Period, however:

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the Bye-Laws and the Listing Rules. Under the Bye-Laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. This means a Director's specific term of appointment cannot exceed three years for a total of nine Directors.

Under the code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Mr. Li Weimin, Mr. Wang Jianzhi and Mr. Huang Hanshui, all of whom are executive Directors, were not re-elected at the first general meeting after their appointment but their directorships will be subject to re-election by shareholders at the special general meeting of the Company on 25 March 2011.

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 24 to 28 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company's principal place of business in Hong Kong has been changed to 32/F., Entertainment Building, 30 Queen's Road Central, Hong Kong with effect from 9 June 2010.

Report of the Directors

AUDITOR

SHINEWING (HK) CPA Limited will retire and, being eligible, will offer themselves for re-appointment as auditor of the Company at the forthcoming annual general meeting.

On behalf of the Board

Li Weimin
Executive Director

Hong Kong, 23 March 2011

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the CG Code as its own code of corporate governance practices. The Company has complied with the code provisions set out in the CG Code during the Reporting Period subject to the explanations provided in the relevant paragraphs below. The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

The Board comprises a balanced composition of Directors who possess a wide spectrum of relevant skills and experience, including four executive Directors, two non-executive Directors and three independent non-executive Directors. All Directors are expressly identified in all corporate communications. The biographical details of each Director are set out on pages 11 to 13. The Board has established two Board Committees, namely the Audit Committee and the Remuneration Committee. The attendance of the Directors at the regular Board meetings and the Board Committees meetings is given below and their respective responsibilities are discussed later in this report.

		No. of meetings attended/held		
		Board meeting	Audit Committee	Remuneration Committee
Executive Directors				
Mr. Li Weimin		4/4		
Mr. Wang Jianzhi		0/4		
Mr. Lam Yat Keung		4/4		
Mr. Huang Hanshui	(appointed on 9 March 2010)	3/4		
Ms. Lam Pik Wah	(resigned on 9 March 2010)	0/4		
Mr. Lam Hung Kit	(resigned on 9 July 2010)	2/4		1/1
Non-executive Directors				
Academician Liu Renhuai	(appointed on 26 August 2010)	1/4	0/2	
Mr. Xin Luo Lin	(appointed on 26 August 2010)	1/4	0/2	
Independent non-executive Directors				
Mr. Ho Chi Fai		4/4	2/2	1/1
Ms. Liu Yanfang	(appointed on 24 June 2010)	3/4	1/2	0/1
Professor Ma Hongwei	(appointed on 26 August 2010)	1/4	0/2	0/1
Mr. Lo Wah Wai	(resigned on 24 June 2010)	1/4	1/2	1/1
Mr. Pai Te Tsun	(resigned on 26 August 2010)	3/4	2/2	1/1

Corporate Governance Report

The Board is accountable to shareholders for the performance and activities of the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. The day-to-day management, operation and administration of the Company are delegated to the management executives while certain key matters such as making recommendation of dividend or other distributions and appointment of Directors are reserved for the approval by the Board.

The Board held meetings from time to time whenever necessary. Notice of at least 14 days has been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent to all Directors within reasonable time before the meeting. Minutes of Board meetings and meetings of the Board Committees are kept by the company secretary of the Company and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

In case a Director has a material interest in the subject matter to be considered by the Board, a Board meeting should be held and such Director must abstain from voting and not being counted towards the quorum in respect of the subject matter of the meeting.

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in discharge of their duties.

During the year, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2010.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is responsible for the leadership and effective running of the Board and ensuring that all significant and key issues are discussed and where required, timely and constructively resolved by the Board.

The Chief Executive Officer is delegated with the authority and responsibility to manage the Group's business in all aspects effectively, implement major strategies, make day-to-day decision and coordinate overall business operation.

On 2 March 2010, Mr. Lam Yat Keung stepped down from the post of President and Mr. Li Weimin was appointed as the Chairman of the Board on the same date. On 9 July 2010, Mr. Lam Hung Kit resigned as an executive Director and the Chief Executive Officer of the Company. On 26 August 2010, Mr. Li Weimin was re-designated from Chairman to Chief Executive Officer and Academician Liu Renhuai, a non-executive Director, was appointed as the Chairman on the same date.

The roles of the Chairman and the Chief Executive Officer were segregated throughout the year.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and the independent non-executive Directors (except Mr. Ho Chi Fai) accepted an appointment letter from the Company for a fixed term of three years, which will continue thereafter until terminated by either party by giving not less than one month notice in writing to the other party, and his/her term of office is subject to retirement by rotation and re-election in accordance with the Bye-Laws and the Listing Rules.

APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has not established any nomination committee but with a formal, considered and transparent procedure for the appointment of new directors by collective decision of the Board.

During the year, Ms. Lam Pik Wah, Mr. Lam Hung Kit, Mr. Lo Wah Wai and Mr. Pai Te Tsun resigned as Directors while Mr. Huang Hanshui, Academician Liu Renhuai, Mr. Xin Luo Lin, Ms. Liu Yanfang and Professor Ma Hongwei were appointed as Directors. All newly appointed directors were given comprehensive and formal induction to ensure that they have proper understanding on the business of the Group and his responsibilities as Directors.

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Directors, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the Bye-Laws and the Listing Rules. According to the Bye-Laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. That means a Director's specific term of appointment cannot exceed three years for a total of nine Directors.

Under the code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Mr. Li Weimin, Mr. Wang Jianzhi and Mr. Huang Hanshui, all of whom are executive Directors, were not re-elected at the first general meeting after their appointment but their directorships are subject to re-election by shareholders at the special general meeting of the Company on 25 March 2011.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors. During the Reporting Period, Mr. Lam Hung Kit, Mr. Lo Wah Wai and Mr. Pai Te Tsun resigned as members of the Remuneration Committee while Professor Ma Hongwei and Ms. Liu Yanfang were appointed as members of the Remuneration Committee. As at 31 December 2010, the Remuneration Committee comprises all independent non-executive Directors, namely, Professor Ma Hongwei (Chairman), Mr. Ho Chi Fai and Ms. Liu Yanfang.

During the year, one Remuneration Committee meeting was held to review the remuneration packages of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee are consistent with the terms set out in the relevant section of the CG Code.

Corporate Governance Report

AUDIT COMMITTEE

During the Reporting Period, Mr. Lo Wah Wai and Mr. Pai Te Tsun resigned as members of the Audit Committee while Ms. Liu Yanfang, Professor Ma Hongwei, Academician Liu Renhuai and Mr. Xin Luo Lin were appointed as members of the Audit Committee. As at 31 December 2010, the Audit Committee comprises two non-executive Directors and three independent non-executive Directors, namely, Mr. Ho Chi Fai (Chairman), Ms. Liu Yanfang, Professor Ma Hongwei, Academician Liu Renhuai and Mr. Xin Luo Lin.

The primary duties of the Audit Committee include to recommend the appointment, re-appointment and removal of external auditor, to review and monitor the independence and objectivity of external auditor and to develop and implement policy on the engagement of non-audit services by external auditor. Apart from reviewing the adequacy of resources, qualifications and experience of staff for performing the Company's accounting and financial reporting functions, the Audit Committee also oversees the Company's financial reporting system and internal control procedures.

During the year, two Audit Committee meetings were held to review the interim and annual results of the Group, the financial reporting matters as well as the internal control systems of the Group. The terms of reference of the Audit Committee are consistent with the terms set out in the relevant section of the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2010, the remuneration paid/payable to the auditor of the Company, SHINEWING (HK) CPA Limited, is set out below:

	HK$'000
Audit services	686
Non-audit services:	
– Taxation services	267
– Acquisition of CITIC Logistics BJ	1,300
– Others	80
	1,647
	2,333

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2010.

ACCOUNTABILITY AND INTERNAL CONTROL

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the financial statements and presenting a balanced, clear and understandable assessment in the Company's annual and interim reports, other financial disclosures required under the Listing Rules and reports to regulators.

The Directors conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The review has also considered the adequacy of resources, qualifications and experience of the Company's staff in accounting and financial reporting function together with their training programmes and budget.

COMMUNICATION WITH SHAREHOLDERS

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

Shareholders are welcome to attend shareholder's meeting where they are fully briefed on the Company's activities and questions can be raised to the Board and the management. The Chairman of the Board had attended the annual general meeting of the Company held on 4 June 2010, where separate resolution has been proposed for each substantive issue. Poll voting has been adopted for decision making at shareholder's meetings pursuant to the Listing Rules. Details of the poll voting procedures are explained at the commencement of the meeting.

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF
SINO-TECH INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 123, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

Independent Auditor's Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
23 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	7	**785,121**	538,855
Cost of sales		**(733,425)**	(461,161)
Gross profit		**51,696**	77,694
Other income	8	**6,418**	1,562
Distribution costs		**(6,934)**	(4,481)
Administrative expenses		**(53,167)**	(28,721)
Impairment loss on goodwill	20	**(98,662)**	(780,309)
Impairment loss on other intangible assets	21	**(211,558)**	–
Amortisation of other intangible assets	21	**(143,885)**	(16,557)
Share option expenses		**(31,310)**	–
Gain arising on change in fair value of investment property	19	**6,652**	–
Impairment loss on trade receivables		**–**	(3,967)
Other expenses		**(60)**	(2,114)
Finance costs	9	**(47,016)**	(5,581)
Loss before taxation	10	**(527,826)**	(762,474)
Taxation	12	**(4,354)**	(8,430)
Loss for the year from continuing operations		**(532,180)**	(770,904)
Discontinued operations			
Loss for the year from discontinued operations	14	**–**	(9,087)
Loss for the year attributable to owners of the Company		**(532,180)**	(779,991)
Loss per share (in Hong Kong cents):	15		
From continuing and discontinued operations			
Basic		**(7.61)**	(19.28)
Diluted		**(7.61)**	(19.28)
From continuing operations			
Basic		**(7.61)**	(19.05)
Diluted		**(7.61)**	(19.05)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Loss for the year	**(532,180)**	(779,991)
Other comprehensive (expenses) income		
Exchange differences arising on translation of foreign operations	**(138)**	1,249
Release of foreign exchange reserve upon disposal of subsidiaries	**–**	(2,346)
Other comprehensive expenses for the year	**(138)**	(1,097)
Total comprehensive expenses for the year attributable to owners of the Company	**(532,318)**	(781,088)

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	18	162,945	138,576
Investment property	19	300,000	–
Goodwill	20	657,895	756,557
Other intangible assets	21	118,000	473,443
Deposits for acquisition of property, plant and equipment		21,202	174
		1,260,042	1,368,750
Current assets			
Deposits paid for potential investments	22	64,500	14,500
Inventories	23	197,052	106,262
Trade and bills receivables	24	272,219	226,067
Prepayments, deposits and other receivables	25	87,024	3,685
Deposits in other financial institutions	26	446	446
Tax recoverable		1,627	–
Bank balances and cash	27	30,767	345,837
		653,635	696,797
Current liabilities			
Trade and bills payables	28	172,707	71,233
Other payables and accruals	29	30,105	14,016
Amount due to a director	30	471	182
Tax payable		–	7,266
Bank borrowings – secured	31	162,593	–
Obligations under finance leases	32	314	14
		366,190	92,711
Net current assets		287,445	604,086
Total assets less current liabilities		1,547,487	1,972,836

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Obligations under finance leases	32	262	25
Convertible notes	33	498,416	664,606
Employee benefits	34	150	107
Deferred tax liabilities	35	11,678	8,298
		510,506	673,036
Net assets		1,036,981	1,299,800
Capital and reserves			
Share capital	36	86,828	61,165
Reserves		950,153	1,238,635
		1,036,981	1,299,800

The consolidated financial statements on pages 31 to 123 were approved and authorised for issue by the board of directors on 23 March 2011 and are signed on its behalf by:

Director
Li Weimin

Director
Lam Yat Keung

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital HK$'000	Share premium HK$'000	Contributed surplus (note) HK$'000	Share-based compensation reserve HK$'000	Foreign exchange reserve HK$'000	Convertible notes reserve (note 33) HK$'000	Other reserve (note 36b) HK$'000	Proposed final dividend HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000
At 1 January 2009	37,975	169,876	5,800	7,340	978	–	–	3,798	192,120	417,887
Loss for the year	–	–	–	–	–	–	–	–	(779,991)	(779,991)
Other comprehensive expenses for the year	–	–	–	–	(1,097)	–	–	–	–	(1,097)
Total comprehensive expenses for the year	–	–	–	–	(1,097)	–	–	–	(779,991)	(781,088)
Payment received in advance for exercise of warrants	–	–	–	–	–	–	53,775	–	–	53,775
Recognition of equity component of convertible notes issued	–	–	–	–	–	291,367	–	–	–	291,367
Issue of shares upon exercise of share options	3,598	48,567	–	(7,340)	–	–	–	–	–	44,825
Issue of shares upon exercise of warrants	3,392	159,437	–	–	–	–	–	–	–	162,829
Issue of shares upon acquisition of a subsidiary	16,200	1,101,600	–	–	–	–	–	–	–	1,117,800
Final 2008 dividend paid	–	–	–	–	–	–	–	(3,798)	–	(3,798)
Interim 2009 dividend paid	–	–	–	–	–	–	–	–	(3,797)	(3,797)
At 31 December 2009 and 1 January 2010	61,165	1,479,480	5,800	–	(119)	291,367	53,775	–	(591,668)	1,299,800
Loss for the year	–	–	–	–	–	–	–	–	(532,180)	(532,180)
Other comprehensive expenses for the year	–	–	–	–	(138)	–	–	–	–	(138)
Total comprehensive expenses for the year	–	–	–	–	(138)	–	–	–	(532,180)	(532,318)
Recognition of equity-settled share option expenses	–	–	–	31,310	–	–	–	–	–	31,310
Issue of shares upon conversion of convertible notes	24,000	276,427	–	–	–	(88,293)	–	–	–	212,134
Issue of shares upon exercise of warrants	1,663	78,167	–	–	–	–	(53,775)	–	–	26,055
At 31 December 2010	**86,828**	**1,834,074**	**5,800**	**31,310**	**(257)**	**203,074**	**–**	**–**	**(1,123,848)**	**1,036,981**

Note: The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Loss before taxation from continuing operations		**(527,826)**	(762,474)
Loss before taxation from discontinued operations		**–**	(8,905)
Loss before taxation		**(527,826)**	(771,379)
Adjustments for:			
Bank interest income		**(36)**	(102)
Interest income from a related company		**(79)**	–
Interest income from advances		**(998)**	–
Finance costs		**47,016**	5,790
Depreciation of property, plant and equipment		**33,171**	27,926
Amortisation of prepaid lease payments		**–**	41
Amortisation of other intangible assets		**143,885**	16,557
Share option expenses		**31,310**	–
Gain arising on change in fair value of investment property		**(6,652)**	–
Gain on disposal of held for trading investment		**–**	(1,444)
Impairment loss on property, plant and equipment		**–**	1,818
Impairment loss on goodwill		**98,662**	780,309
Impairment loss on other intangible assets		**211,558**	290
(Reversal of impairment) impairment loss on trade receivables		**(3,353)**	4,256
Loss on disposal of subsidiaries		**–**	2,945
Gain on disposal of property, plant and equipment		**(42)**	(21)
Write off of property, plant and equipment		**60**	2,011
Allowance of inventories		**3,100**	6,875
Write off of trade receivables		**–**	1,736
Revaluation surplus on leasehold buildings		**–**	(23)
Operating profit before working capital changes		**29,776**	77,585
Increase in inventories		**(93,890)**	(8,086)
Increase in trade and bills receivables		**(42,799)**	(15,086)
Decrease in prepayments, deposits and other receivables		**585**	1,212
Increase (decrease) in trade and bills payables		**101,474**	(26,227)
Increase (decrease) in other payables and accruals		**16,011**	(42,219)
Increase in non-current employee benefits		**43**	16
Cash generated from (used in) operations		**11,200**	(12,805)
Income taxes paid		**(9,867)**	(4,459)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**1,333**	(17,264)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchase of investment property		(137,348)	–
Increase in advances		(82,847)	–
Purchase of property, plant and equipment		(56,768)	(10,616)
Deposits paid for potential investments		(50,000)	(14,500)
Deposits paid for acquisition of property, plant and equipment		(21,202)	(174)
Proceeds from disposal of property, plant and equipment		597	570
Interest received		36	102
Purchase of held for trading investment		–	(14,793)
Net cash flow from acquisition of a subsidiary	39	–	(2,572)
Deposits paid to other financial institutions		–	(446)
Proceeds from disposal of held for trading investment		–	16,237
Net cash flow from disposal of subsidiaries	40	–	10,040
NET CASH USED IN INVESTING ACTIVITIES		(347,532)	(16,152)
FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of warrants		26,055	162,829
New borrowings raised		12,000	–
Advance from a director		289	182
Repayment of borrowings		(5,407)	(1,983)
Interest paid on borrowings		(945)	(89)
Repayment of obligations under finance leases		(354)	(636)
Interest paid on obligations under finance leases		(49)	(128)
Payment received in advance for exercise of warrants		–	53,775
Proceeds from issue of shares upon exercise of share options		–	44,825
Dividends paid		–	(7,595)
NET CASH FROM FINANCING ACTIVITIES		31,589	251,180
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(314,610)	217,764
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		345,837	127,797
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(460)	276
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		30,767	345,837

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Its registered office is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and principal place of business is at 32/F, Entertainment Building, 30 Queen's Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 47.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

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

In current year, the Group has applied the following new and revised standards, amendments and interpretations ("Int") ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvement to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First – time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions from First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Hong Kong (International Financial Reporting Interpretation Committee) ("HK(IFRIC)") – Int 17	Distributions of Non-cash Assets to Owners

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKFRS 3 (Revised) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year and prior year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

HK – Int 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK – Int 5 for the first time in the current year with no retrospective application being made as the Group did not have any term loan with repayment on demand clause at 1 January 2009 and 31 December 2009.

Bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of approximately HK$162,593,000 has been classified as current liabilities in the consolidated statement of financial position as at 31 December 2010. The application of HK Int – 5 has had no impact on the reported profit or loss, total comprehensive income and equity for the current and prior years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities (see note 6).

Standards or interpretations issued but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Standards or interpretations issued but not yet effective *(Continued)*

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

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

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Standards or interpretations issued but not yet effective *(Continued)*

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKAS 24 Related Party Disclosures (Revised) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (Revised) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised standard is applied in future accounting periods. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain investment property and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Business combinations

Business combinations that took place prior to 1 January 2010

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Revenue recognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from sale of goods is recognised when all of the following criteria are met:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of logistics services is recognised when the services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, if any. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Any revaluation increase arising on revaluation of buildings is recognised in other comprehensive income and accumulated in the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits (losses).

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

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Cost comprises the direct costs of construction during the period of construction. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value using the fair value model. Gain or loss arising from change in the fair value of investment property is included in profit or loss for the period in which it arises.

Other intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. (see the accounting policy in respect of impairment losses on tangible and intangible assets below)

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, if any (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Employee benefits

(a) Defined contribution retirement benefit plans

Payments to state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

(b) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(c) Employee entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) Long service payment

The Group's net obligations in respect of long service payment on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that the employees have earned in return for their services in the current and prior periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading on initial recognition.

A financial asset is classified as held for trading if:

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposits paid for potential investments, trade and bills receivables, deposits and other receivables, deposits in other financial institutions, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty;

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

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, amount due to a director, bank borrowings, obligations under finance leases, convertible notes, and employee benefits are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the conversion option is exercised (in which case the balance stayed in convertible notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stayed in convertible notes reserve will be released to the accumulated profits (losses). No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

For warrants issued to subscribers of the Company's shares, the fair value of warrants on the date of issue is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to accumulated profits (losses).

Derecognition

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Equity-settled share-based payment transactions

Share options granted to employees

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share-based compensation reserve.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to suppliers and other eligible persons

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share-based compensation reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Leasing

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

The Group as lessee

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Impairment losses on tangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the foreign exchange reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about 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 Consolidated Financial Statements

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

The followings 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.

Impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment loss on goodwill of approximately HK$98,662,000 (2009: HK$780,309,000) has been recognised for the year. The carrying amount of goodwill at 31 December 2010 and the details of the impairment test are disclosed in note 20.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis at the rate of 2% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of approximately HK$33,171,000 (2009: HK$27,926,000) has been recognised for the year.

Impairment on trade and other receivables

The policy for impairment on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of the trade and other receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. Reversal of impairment loss on trade and other receivables of approximately HK$3,353,000 (2009: impairment loss of HK$4,256,000) has been recognised for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Allowance of inventories of approximately HK$3,100,000 (2009: HK$6,875,000) has been recognised for the year.

Impairment on property, plant and equipment

During the year ended 31 December 2009, impairment loss of approximately HK$1,818,000 on property, plant and equipment was recognised in the consolidated income statement. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

Estimate of fair value of investment property

As described in note 19, the Group's investment property was revalued at the end of the reporting period on an open market value basis by an independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment on other intangible assets

Intangible assets are evaluated for possible impairment based on estimation of the value in use on a specific intangible asset basis. This process requires management's estimate of future cash flows generated from each intangible asset and a suitable discount rate in order to calculate the present value. For any instance where this evaluation process indicates impairment, the relevant intangible asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated income statement. Impairment loss on other intangible assets of approximately HK$211,558,000 (2009: HK$290,000 included in loss for the year from discontinued operations) has been recognised for the year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Income taxes

As at 31 December 2010, a deferred tax asset of approximately HK$32,139,000 (2009: HK$30,498,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$23,877,000 (2009: HK$13,907,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits of taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group's capital risk management objectives are:

– to ensure the Group's ability to continue as a going concern; and

– to maximise the return to shareholders.

The directors of the Company consider the Group's capital comprise debt, which includes bank borrowings, obligations under finance leases and convertible notes, and equity attributable to owners of the Company, comprising share capital and reserves and bank balances and cash. The Group will conduct review to balance its overall capital structure periodically. In order to maintain or adjust the capital structure, the Group may issue new shares as well as share options. The directors of the Company will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

The directors of the Company also endeavour to ensure the steady and reliable cash flow from the normal business operation. The Group's overall strategy remains unchanged from prior year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	453,195	588,346
Financial liabilities		
Other financial liabilities stated at amortised cost	861,445	747,121

(b) Financial risk management objective and policies

The Group's major financial instruments include deposits paid for potential investments, trade and bills receivables, deposits and other receivables, deposits in other financial institutions, bank balances and cash, trade and bills payables, other payables and accruals, amount due to a director, bank borrowings, obligations under finance leases, convertible notes and employee benefits. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, currency risk, interest rate 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.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2010 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables. The turnover by geographic segments are disclosed in note 7. The marketing team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debt with the help from the finance team. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk can be reduced.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objective and policies *(Continued)*

Credit risk (Continued)

The credit risk on liquid funds is limited because the counterparties are banks and other financial institutions with high credit ratings.

The Group has concentration of credit risk as 17% (2009: 21%) and 34% (2009: 43%) of the total trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively which include related companies of the Group.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Currency risk

The functional currencies of certain subsidiaries are United States Dollar ("US$") or Renminbi ("RMB").

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose those subsidiaries and the Group to foreign currency risk. Approximately 76% (2009: 74%) of the Group's sales and 84% (2009: 78%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objective and policies *(Continued)*

Currency risk (Continued)

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

	Assets		Liabilities	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**63,389**	–	**74,866**	–
US$	**47,684**	103,856	**1,610**	5,674
RMB	**128,206**	105,520	**107,376**	48,342
Japanese Yen ("JPY")	**–**	5	**1,062**	77

Sensitivity analysis

The Group is mainly exposed to the currency of HK$/US$/RMB/JPY.

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 5% (2009: 5%) change in foreign currency rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objective and policies *(Continued)*

Currency risk (Continued)

Sensitivity analysis (Continued)

A positive number below indicates a decrease in post-tax loss where the respective functional currencies of the reporting entity strengthen 5% (2009: 5%) against the relevant foreign currencies. For a 5% (2009: 5%) weakening of HK$ against the relevant currency, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK$		US$		RMB		JPY	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit or loss	**479**	–	**(1,924)**	(4,909)	**(870)**	(2,859)	**44**	4

Where the foreign currencies strengthen 5% (2009: 5%) against the relevant functional currency of the reporting entity, the foreign exchange reserve of the Group will increase by HK$1,855,000 (2009: nil). For a 5% (2009: 5%) weakening of foreign currency against the relevant functional currency, there would be an equal and opposite impact on the foreign exchange reserve.

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (see note 31 for details of these borrowings), deposits in other financial institutions, interest-bearing advances and bank balances. The Group's deposits in other financial institutions and bank balances are short-term in nature and the exposure of the interest rate is minimal and no sensitivity analysis to interest rate risk is presented.

The Group's fair value interest rate risk relates primary to the fixed-rate obligations under finance leases. No sensitivity analysis is presented because the risk is considered insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objective and policies *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative bank borrowings and interest-bearing advances at the end of the reporting period. The analysis is prepared assuming the bank borrowings and interest-bearing advances outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2010 would increase/decrease by HK$797,000 (2009: nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's operating cash flows are substantially independent of changes in market interest rates.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the cash, current working capital and the raising of funds from issue of shares of the Company and underlying interests in shares of the Company, subject to approval by the Company's shareholders, if necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objective and policies *(Continued)*

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Repayable on demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2010						
Non-derivative financial liabilities						
Trade and bills payables	172,707	–	–	–	172,707	172,707
Other payables and accruals	26,532	–	–	–	26,532	26,532
Amount due to a director	471	–	–	–	471	471
Obligations under finance leases	337	255	15	–	607	576
Convertible notes	–	–	662,400	–	662,400	498,416
Bank borrowings – secured (note i)	164,203	–	–	–	164,203	162,593
Employee benefits	–	73	86	20	179	150
	364,250	328	662,501	20	1,027,099	861,445
At 31 December 2009						
Non-derivative financial liabilities						
Trade and bills payables	71,233	–	–	–	71,233	71,233
Other payables and accruals	10,954	–	–	–	10,954	10,954
Amount due to a director	182	–	–	–	182	182
Obligations under finance leases	16	16	13	–	45	39
Convertible notes	–	–	950,400	–	950,400	664,606
Employee benefits	–	67	–	126	193	107
	82,385	83	950,413	126	1,033,007	747,121

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objective and policies *(Continued)*

Liquidity risk (Continued)

Notes:

(i) Bank borrowings with a repayment on demand clause are included in the "repayable on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2010, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$162,593,000. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that mortgage loan and term loan will be repaid 20 years and 7 years respectively after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$177,411,000.

(ii) The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value

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

– the fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

– the convertible notes contains two components, liability and equity components which present in convertible notes and convertible notes reserve respectively. The fair value of the convertible notes is carried at amortised cost using the effective interest method. The convertible notes reserve represents the conversion option which is the difference between the gross proceeds from the issue of convertible notes and the fair value assigned to the liability component at the date of issue.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements are not materially different from their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION

The Group's operating and reportable segments, based on information reported to the chief operating decision maker ("CODM"), for the purposes of allocating resources to segments and assessing their performance are as follows:

(a) Electronic products segment engages in the manufacture and trading of electronic and electrical parts and components.

(b) Logistics services segment engages in providing shipping and transportation logistics services.

(c) Property investment segment engages in properties investments.

The logistics services segment was introduced during the year ended 31 December 2009 as a result of the acquisition of CITIC Logistics (International) Company Limited ("CITIC Logistics") as set out in note 39.

Property investment segment was introduced during the year ended 31 December 2010 as a result of the acquisition of investment property as set out in note 19.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

	Continuing operations							
	Electronic products		Logistics services		Property investment		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December								
Segment revenue:								
Sales to external customers	751,196	536,492	33,925	2,363	–	–	785,121	538,855
Other income	3,353	5	267	11	–	–	3,620	16
Total segment revenue	754,549	536,497	34,192	2,374	–	–	788,741	538,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

	Continuing operations							
	Electronic products		Logistics services		Property investment		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Contribution to segment results	**18,062**	48,222	**(901)**	(2,621)	**4,851**	–	**22,012**	45,601
Impairment loss on goodwill	**–**	–	**(98,662)**	(780,309)	**–**	–	**(98,662)**	(780,309)
Impairment loss on other intangible assets	**–**	–	**(211,558)**	–	**–**	–	**(211,558)**	–
Amortisation of other intangible assets	**–**	–	**(143,885)**	(16,557)	**–**	–	**(143,885)**	(16,557)
Segment results	**18,062**	48,222	**(455,006)**	(799,487)	**4,851**	–	**(432,093)**	(751,265)
Unallocated corporate income							**2,798**	1,546
Unallocated corporate expenses							**(52,538)**	(7,174)
Finance costs							**(45,993)**	(5,581)
Loss before taxation							**(527,826)**	(762,474)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the (loss) profit made by each segment without allocation of bank and other interest income, exchange gains/losses, corporate income and expenses, central administration cost, share option expenses and finance costs (except finance costs on borrowings solely obtained to finance the acquisition of investment property). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities

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

	Continuing operations							
	Electronic products		Logistics services		Property investment		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December								
Segment assets	546,851	377,991	879,428	1,326,124	300,156	–	1,726,435	1,704,115
Unallocated assets							187,242	361,432
Total assets							1,913,677	2,065,547
Segment liabilities	193,654	78,126	4,602	6,266	162,705	–	360,961	84,392
Unallocated liabilities							515,735	681,355
Total liabilities							876,696	765,747

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than advances, deposits paid for potential investments, deposits in other financial institutions, tax recoverable, bank balances and cash and assets used jointly by reportable segments.

– all liabilities are allocated to reportable segments other than obligations under finance leases, amount due to a director, tax payable, deferred tax liabilities, convertible notes and liabilities for which reportable segments are jointly liable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Other segment information

The following is an analysis of the Group's other information by reportable segments:

	Continuing operations									
	Electronic products		Logistics services		Property investment		Unallocated		Total	
	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
For the year ended 31 December										
Amounts included in the measure of segment profit or loss or segment assets:										
Capital expenditures (note)	**53,099**	8,175	**16**	–	**293,412**	–	**4,654**	–	**351,181**	8,175
Depreciation of property, plant and equipment	**27,961**	26,114	**4,501**	529	**8**	–	**701**	–	**33,171**	26,643
Allowance of inventories	**3,100**	–	**–**	–	**–**	–	**–**	–	**3,100**	–
(Reversal of impairment) impairment loss on trade receivables	**(3,353)**	3,967	**–**	–	**–**	–	**–**	–	**(3,353)**	3,967
Impairment loss on property, plant and equipment	**–**	1,818	**–**	–	**–**	–	**–**	–	**–**	1,818
Gain on disposal of property, plant and equipment	**–**	–	**(42)**	–	**–**	–	**–**	–	**(42)**	–
Write off of property, plant and equipment	**60**	296	**–**	–	**–**	–	**–**	–	**60**	296
Impairment loss on goodwill	**–**	–	**98,662**	780,309	**–**	–	**–**	–	**98,662**	780,309
Impairment loss on other intangible assets	**–**	–	**211,558**	–	**–**	–	**–**	–	**211,558**	–
Amortisation of other intangible assets	**–**	–	**143,885**	16,557	**–**	–	**–**	–	**143,885**	16,557
Gain arising on change in fair value of investment property	**–**	–	**–**	–	**(6,652)**	–	**–**	–	**(6,652)**	–
Finance costs	**–**	–	**–**	–	**1,023**	–	**–**	–	**1,023**	–
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets										
Interest income	**(3)**	(102)	**(79)**	–	**–**	–	**(1,031)**	–	**(1,113)**	(102)
Finance costs	**49**	8	**45,944**	5,573	**–**	–	**–**	–	**45,993**	5,581

Note: Capital expenditures represent additions to property, plant and equipment, investment property and other intangible assets excluding intangible assets acquired from business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Other segment information *(Continued)*

The Group's operations are mainly located in Hong Kong and the People's Republic of China (the "PRC"), however, the external customers of the Group were located in world-wide, such as Hong Kong, the PRC, Asia Pacific and Latin America etc.

The following tables present the Group's revenue and certain assets and expenditure information according to geographical location.

	Continuing operations											
	Hong Kong		Elsewhere in the PRC		Asia Pacific		Latin America		Others		Total	
	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
For the year ended 31 December												
Segment revenue:												
Sales to external customers	218,758	122,099	443,499	345,137	101,645	61,302	5,216	4,017	16,003	6,300	785,121	538,855
Other income	3,620	16	–	–	–	–	–	–	–	–	3,620	16
Total segment revenue	222,378	122,115	443,499	345,137	101,645	61,302	5,216	4,017	16,003	6,300	788,741	538,871
Other segment information:												
As at 31 December												
Total assets	1,582,663	1,867,821	330,000	196,478	1,014	1,248	–	–	–	–	1,913,677	2,065,547
For the year ended 31 December												
Capital expenditures	303,804	3,081	47,377	5,094	–	–	–	–	–	–	351,181	8,175

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Revenue from major products and services:

The following is an analysis of the Group's turnover from continuing operations from its major products and services:

	2010 HK$'000	2009 HK$'000
Electronic products	751,196	536,492
Logistics services	33,925	2,363
	785,121	538,855

Information about major customer:

During the years ended 31 December 2010 and 2009, none of the Group's individual customer contributed more than 10% to the total turnover of the Group. In the opinion of the directors of the Company, the Group did not rely on any major customers during the years.

8. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Continuing operations		
Reversal of impairment loss on trade receivables	3,353	–
Exchange gain, net	1,679	–
Interest income from a related company	79	–
Interest income from advances	998	–
Gain on disposal of property, plant and equipment	42	–
Bank interest income	36	102
Gain on disposal of held for trading investment	–	1,444
Others	231	16
	6,418	1,562

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For the year ended 31 December 2010

9. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Continuing operations		
Borrowing costs on:		
– bank borrowings not wholly repayable within five years	**1,023**	–
– obligations under finance leases	**49**	8
Imputed interest on convertible notes (note 33)	**45,944**	5,573
	47,016	5,581

10. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	2010 HK$'000	2009 HK$'000
Continuing operations		
Cost of inventories recognised as expenses	**700,849**	457,029
Cost of services provided	**29,476**	4,132
Staff costs (note 11)	**60,971**	15,961
Depreciation of property, plant and equipment		
– owned assets	**32,901**	26,641
– assets held under finance leases	**270**	2
Auditor's remuneration	**686**	523
Allowance of inventories (included in cost of sales)	**3,100**	–
Exchange loss, net	**–**	1,714
Impairment loss on property, plant and equipment (included in other expenses)	**–**	1,818
Impairment loss on trade receivables	**–**	3,967
Write off of property, plant and equipment (included in other expenses)	**60**	296

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2010 HK$'000	2009 HK$'000
Continuing operations		
Salaries, allowances and benefits	35,100	15,884
Retirement benefits scheme contributions	1,117	465
Share option expenses	24,151	–
Provision (reversal of provision) for other employee benefits and long service payments	603	(388)
	60,971	15,961

12. TAXATION

The amount of taxation in the consolidated income statement represents:

	2010 HK$'000	2009 HK$'000
Continuing operations		
Current tax – provision for Hong Kong Profits Tax		
– charge for the year	982	11,724
– over-provision in prior years	(8)	–
	974	11,724
Deferred tax (note 35)		
– current year	3,380	(3,294)
	4,354	8,430

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

12. TAXATION *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Loss before taxation (from continuing operations)	(527,826)	(762,474)
Tax calculated at the domestic income tax rate of 16.5% (2009: 16.5%)	(87,091)	(125,808)
Tax effect of expenses that are not deductible in determining taxable profit	90,184	134,262
Tax effect of income that is not taxable in determining taxable profit	(504)	(130)
Tax effect of utilisation of tax losses not previously recognised	(50)	(100)
Tax effect of tax losses and other deductible temporary differences not recognised	1,823	206
Over-provision in prior years	(8)	–
Taxation (relating to continuing operations)	4,354	8,430

Details of deferred tax are set out in note 35.

13. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Interim dividend of HK nil cent (2009: HK0.10 cent) per share	–	3,797

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

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For the year ended 31 December 2010

14. DISCONTINUED OPERATIONS

On 28 September 2009, the Company entered into an agreement pursuant to which the Company agreed to sell and Mr. Sher Tak Chi, a director of Classic Line International Limited ("Classic Line"), agreed to buy, the entire equity interests of Classic Line and its subsidiaries (collectively referred to as "Classic Line Group") and the interest-free shareholder's loan outstanding and owing as at the completion date of the disposal for an aggregate cash consideration of HK$15,000,000. Classic Line Group was principally engaged in the design, manufacture and sale of cigarette lighters and related accessories. The disposal was completed on 31 October 2009, on which date control of the lighter products business passed to the acquirer and the Group discontinued its lighter products business since then.

The loss from discontinued operations is analysed as follows:

	1.1.2009 to 31.10.2009 HK$'000
Loss of lighter products business for the period	(6,142)
Loss on disposal of lighter products business (note 40)	(2,945)
	(9,087)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. DISCONTINUED OPERATIONS *(Continued)*

The results of the lighter products business for the period from 1 January 2009 to 31 October 2009 (date of disposal), which have been included in the consolidated income statement, were as follows:

	1.1.2009 to 31.10.2009 HK$'000
Turnover	85,560
Cost of sales	(74,140)
Gross profit	11,420
Other income	2,614
Distribution costs	(6,310)
Administrative expenses	(11,064)
Impairment loss on trade receivables	(289)
Other expenses	(2,122)
Finance costs	(209)
Loss before taxation	(5,960)
Taxation	(182)
Loss for the period from discontinued operations	(6,142)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. DISCONTINUED OPERATIONS *(Continued)*

	1.1.2009 to 31.10.2009 HK$'000
Loss for the period from discontinued operations has been arrived at after charging (crediting):	
Cost of inventories recognised as expenses	67,265
Staff costs	10,305
Depreciation of property, plant and equipment	
– owned assets	1,115
– assets held under finance leases	168
Amortisation of prepaid lease payments	41
Auditor's remuneration	320
Allowance of inventories (included in cost of sales)	6,875
Exchange loss, net	69
Research and development costs recognised as expenses	341
Impairment loss on other intangible assets	290
Impairment loss on trade receivables	289
Write off of trade receivables (included in other expenses)	1,736
Gain on disposal of property, plant and equipment	(21)
Write off of property, plant and equipment	1,715
Revaluation surplus on leasehold buildings	(23)
Cash flows from discontinued operations:	
Net cash flows from operating activities	5,975
Net cash flows used in investing activities	(4,351)
Net cash flows used in financing activities	(1,027)
	597

No charge or credit arose on loss on the discontinuance of the operations.

The carrying amounts of the assets and liabilities of Classic Line Group at the date of disposal, and the calculation of the profit or loss on disposal are disclosed in note 40.

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For the year ended 31 December 2010

15. LOSS PER SHARE

From continuing and discontinued operations

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

	2010 HK$'000	2009 HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share	532,180	779,991

	2010 Number of shares '000	2009 Number of shares '000
Number of shares		
Weighted average number of ordinary shares for the calculation of basic and diluted loss per share	6,996,793	4,046,562

The calculation of diluted loss per share for the year ended 31 December 2010 did not assume the exercise of the Company's share options as the exercise price of the share options was higher than the average market price for shares. The calculation of diluted loss per share for the year ended 31 December 2010 did not assume the conversion of the Company's outstanding convertible notes and exercise of the Company's warrants as the conversion of convertible notes and exercise of warrants would result in a decrease in loss per share.

The calculation of diluted loss per share for the year ended 31 December 2009 did not assume the conversion of the Company's outstanding convertible notes and exercise of the Company's warrants as the conversion of convertible notes and exercise of warrants would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. LOSS PER SHARE *(Continued)*

From continuing operations

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

	2010 HK$'000	2009 HK$'000
Loss		
Loss for the year attributable to owners of the Company	532,180	779,991
Less: Loss for the year from discontinued operations	–	(9,087)
Loss for the purpose of basic and diluted loss per share	532,180	770,904

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

From discontinued operations

Basic loss per share from discontinued operations for the year ended 31 December 2009 was the same as the diluted loss per share from discontinued operations for that year, which was based on the loss for the year from discontinued operations of approximately HK$9,087,000 and the denominators detailed above for both basic and diluted loss per share.

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16. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

For the year ended 31 December 2010

Name of director	Fees HK$'000	Salaries, allowances and benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share option expenses HK$'000	Total HK$'000
Executive Directors					
Li Weimin ("Mr. Li")	600	867	4	–	1,471
Wang Jianzhi	600	–	–	–	600
Lam Yat Keung	–	1,627	12	–	1,639
Huang Hanshui (note a)	487	1,200	120	7,159	8,966
Lam Pik Wah (note b)	–	194	2	–	196
Lam Hung Kit (note c)	–	456	6	–	462
Non-Executive Directors					
Liu Renhuai (note d)	105	–	–	–	105
Xin Luo Lin (note d)	52	–	–	–	52
Independent Non-Executive Directors					
Ho Chi Fai	90	–	–	–	90
Liu Yanfang (note e)	47	–	–	–	47
Ma Hongwei (note d)	32	–	–	–	32
Lo Wah Wai (note f)	43	–	–	–	43
Pai Te Tsun (note g)	59	–	–	–	59
	2,115	4,344	144	7,159	13,762

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For the year ended 31 December 2010

16. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2009

Name of director	Fees	Salaries, allowances and benefits	Retirement benefits scheme contributions	Share option expenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Li Weimin (note h)	13	–	–	–	13
Wang Jianzhi (note h)	13	–	–	–	13
Lam Yat Keung	–	1,560	12	–	1,572
Lam Pik Wah (note b)	–	1,076	12	–	1,088
Lam Hung Kit (note c)	–	1,160	12	–	1,172
Independent Non –Executive Directors					
Ho Chi Fai	90	–	–	–	90
Lo Wah Wai (note f)	90	–	–	–	90
Pai Te Tsun (note g)	90	–	–	–	90
	296	3,796	36	–	4,128

Notes:

(a) Appointed on 9 March 2010
(b) Resigned on 9 March 2010
(c) Resigned on 9 July 2010
(d) Appointed on 26 August 2010
(e) Appointed on 24 June 2010
(f) Resigned on 24 June 2010
(g) Resigned on 26 August 2010
(h) Appointed on 24 December 2009

During the years ended 31 December 2010 and 2009, no directors waived or agreed to waive any emoluments.

Notes to the Consolidated Financial Statements

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17. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2009: three) were directors of the Company whose emoluments are disclosed in note 16 above. The emoluments of the remaining three (2009: two) individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries, allowances and benefits	928	2,100
Retirement benefits scheme contributions	20	24
Share option expenses	16,992	–
	17,940	2,124

Their emoluments were within the following band:

	Number of employees 2010	2009
HK$1,000,001 to HK$1,500,000	–	2
HK$2,500,001 to HK$3,000,000	1	–
HK$7,000,001 to HK$7,500,000	1	–
HK$7,500,001 to HK$8,000,000	1	–
	3	2

During the years ended 31 December 2010 and 2009, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) or other directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

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18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Trucks HK$'000	Construction in progress HK$'000	Total HK$'000
COST OR VALUATION						
At 1 January 2009	8,270	209,909	30,585	–	1,039	249,803
Exchange realignment	73	1,181	17	–	–	1,271
Additions	–	7,544	3,113	–	–	10,657
Acquired on acquisition of a subsidiary (note 39)	–	–	1,163	43,004	–	44,167
Deficit on revaluation	(96)	–	–	–	–	(96)
Write off	–	(1,682)	(39)	–	(1,039)	(2,760)
Disposal	–	(13)	(1,198)	–	–	(1,211)
Derecognised on disposal of subsidiaries	(8,247)	(55,655)	(4,375)	–	–	(68,277)
At 31 December 2009 and 1 January 2010	–	161,284	29,266	43,004	–	233,554
Exchange realignment	–	419	–	–	–	419
Additions	–	32,294	25,539	–	–	57,833
Write off	–	(712)	(106)	–	–	(818)
Disposal	–	–	(670)	–	–	(670)
At 31 December 2010	**–**	**193,285**	**54,029**	**43,004**	**–**	**290,318**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	–	106,329	12,530	–	–	118,859
Exchange realignment	–	300	13	–	–	313
Depreciation	119	23,421	3,884	502	–	27,926
Write back on revaluation	(119)	–	–	–	–	(119)
Eliminated on write off	–	(721)	(28)	–	–	(749)
Eliminated on disposal	–	(3)	(659)	–	–	(662)
Eliminated on disposal of subsidiaries	–	(48,304)	(4,104)	–	–	(52,408)
Impairment loss recognised	–	1,818	–	–	–	1,818
At 31 December 2009 and 1 January 2010	–	82,840	11,636	502	–	94,978
Exchange realignment	–	97	–	–	–	97
Depreciation	–	21,765	7,106	4,300	–	33,171
Eliminated on write off	–	(652)	(106)	–	–	(758)
Eliminated on disposal	–	–	(115)	–	–	(115)
At 31 December 2010	**–**	**104,050**	**18,521**	**4,802**	**–**	**127,373**
CARRYING VALUES						
At 31 December 2010	**–**	**89,235**	**35,508**	**38,202**	**–**	**162,945**
At 31 December 2009	–	78,444	17,630	42,502	–	138,576

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For the year ended 31 December 2010

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

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold buildings	2% to 4%
Plant and machinery	10% to 30%
Leasehold improvements and others	10% to 30% or over the term of lease
Trucks	10%

The carrying amount of the Group's office equipment and motor vehicles grouped under leasehold improvements and others includes an amount of approximately HK$660,000 (2009: HK$39,000) in respect of assets acquired under finance leases.

During the year ended 31 December 2009, the directors of the Company conducted a review of the Group's plant and machinery and determined that a number of those assets were impaired due to physical damage and idle, with reference to the valuations valued by Malcolm & Associates Appraisal Limited ("Malcolm") which are independent professional valuers not connected with the Group. Accordingly, impairment loss of approximately HK$1,818,000 had been recognised under other expenses in respect of plant and machinery during the year ended 31 December 2009.

19. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2009, 31 December 2009 and 1 January 2010	–
Addition during the year	293,348
Gain arising on change in fair value	6,652
At 31 December 2010	300,000

The fair value of the Group's investment property at 31 December 2010 has been arrived at on the basis of a valuation carried out at that date by Savills Valuation and Professional Services Limited ("Savills"), an independent qualified professional valuer not connected with the Group. Savills has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

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For the year ended 31 December 2010

19. INVESTMENT PROPERTY *(Continued)*

The investment property is situated in Hong Kong and held under medium-term lease.

The investment property has been pledged to secure bank borrowings of the Group. Details of bank borrowings are set out in note 31.

20. GOODWILL

	HK$'000
COST	
Acquired on acquisition of a subsidiary and at 31 December 2009 and 31 December 2010 (note 39)	1,536,866
IMPAIRMENT	
Impairment loss recognised and at 31 December 2009 and 1 January 2010	780,309
Impairment loss recognised	98,662
At 31 December 2010	**878,971**
CARRYING VALUES	
At 31 December 2010	**657,895**
At 31 December 2009	756,557

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20. GOODWILL *(Continued)*

Goodwill acquired through business combinations has been allocated to CITIC Logistics, the cash-generating units ("CGU") of the logistics services, a reportable segment of the Group, for impairment testing.

The recoverable amount of the CGU has been determined based on a value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rate, growth rate, and budgeted revenue and gross margin. The discount rate used is pre-tax and reflects specific risks relating to CITIC Logistics. The growth rate is determined based on the management's expectation on the relevant industry growth forecast and does not exceed the average long term growth rate for the relevant industry. The budgeted revenues and gross margin are estimated based on past performance of different projects and management's expectations for project and market development.

The value in use calculation as at 31 December 2010 primarily used cash flow projections based on financial budgets covering a 5-year period approved by management of CITIC Logistics. The discount rate applied to the cash flow projections was 16.1% (2009: 14.3%) and cash flows beyond the 5-year period were extrapolated using a steady growth rate of 3% (2009: 3%). With reference to the valuation conducted by LCH (Asia-Pacific) Surveyors Limited ("LCH") (2009: Malcolm), an independent professional valuer not connected with the Group, an impairment loss on goodwill of approximately HK$98,662,000 (2009: HK$780,309,000) was recognised during the year ended 31 December 2010. The directors of the Company are of the opinion that the goodwill impairment for the year ended 31 December 2010 was mainly due to the occurrence of temporary business interruptions and rescheduling resulting in a decrease in the expected revenue that can be derived from the provision of the relevant logistics services.

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21. OTHER INTANGIBLE ASSETS

	Trademark and patents HK$'000	Service agreement HK$'000	Total HK$'000
COST			
At 1 January 2009	5,700	–	5,700
Acquired on acquisition of a subsidiary (note 39)	–	490,000	490,000
Derecognised on disposal of subsidiaries	(5,700)	–	(5,700)
At 31 December 2009, 1 January 2010 and 31 December 2010	–	490,000	490,000
AMORTISATION AND IMPAIRMENT			
At 1 January 2009	5,410	–	5,410
Amortisation	–	16,557	16,557
Impairment loss recognised	290	–	290
Eliminated on disposal of subsidiaries	(5,700)	–	(5,700)
At 31 December 2009 and 1 January 2010	–	16,557	16,557
Amortisation	–	143,885	143,885
Impairment loss recognised	–	211,558	211,558
At 31 December 2010	–	372,000	372,000
CARRYING VALUES			
At 31 December 2010	**–**	**118,000**	**118,000**
At 31 December 2009	–	473,443	473,443

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21. OTHER INTANGIBLE ASSETS *(Continued)*

The above intangible assets have finite useful lives and are amortised on a straight-line basis over their estimated useful lives not exceeding five years.

Service agreement for shipping logistics business arose from the acquisition of CITIC Logistics on 19 November 2009 and was valued as of that date by Malcolm, an independent professional valuer not connected with the Group. The service agreement is amortised over the remaining service period of 3.4 years. The service agreement is attributed to CITIC Logistics, the CGU of the logistics services, a reportable segment of the Group.

As at 31 December 2010, the directors of the Company performed an impairment assessment on the service agreement, and considered that the carrying amount of the service agreement was in excess of the recoverable amount, determined using a value in use calculation. The value in use calculation primarily used cash flow projections based on financial budgets covering a period up to the end of the service agreement approved by management of CITIC Logistics, with a pre-tax discount rate of 21%. Other key assumptions for the value in use calculation are those regarding the budgeted revenue and gross margin, which are estimated based on past performance and management's expectation of the relevant shipping logistics business. The directors of the Company were of the opinion, with reference to the valuation on the service agreement conducted by LCH, that the service agreement was impaired due to the occurrence of temporary interruptions on the shipping services resulting in a decrease in the expected revenue that can be derived from the service agreement. Accordingly, an impairment loss on the service agreement of approximately HK$211,558,000 was recognised during the year ended 31 December 2010.

As there was no indication of impairment, no impairment assessment on the service agreement was performed during the year ended 31 December 2009.

During the year ended 31 December 2009, the directors of the Company conducted a review on the trademarks and patents and considered that the trademarks and patents were fully impaired due to cessation of production for certain products. Accordingly, an impairment loss on the trademarks and patents of approximately HK$290,000 was recognised during the year ended 31 December 2009. The trademarks and patents were attributed to Classic Line Group, the CGU of the lighter products business, a reportable segment of the Group. The Group discontinued its lighter products business upon the disposal of Classic Line Group on 31 October 2009.

Notes to the Consolidated Financial Statements

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22. DEPOSITS PAID FOR POTENTIAL INVESTMENTS

(a) On 8 December 2009, CITIC Logistics entered into a framework agreement with Dai Hongyou (the "Vendor"), an independent third party to the Group, to acquire 24% equity interests in Best Aim (Hong Kong) Limited, a company incorporated in Hong Kong which mainly held a commercial property in Beijing. As at 31 December 2009, CITIC Logistics had paid a total amount of HK$14,500,000 as earnest money (the "Earnest Money") for the acquisition. The payment of the Earnest Money enabled CITIC Logistics to conduct the necessary due diligence investigation and if the deal proceeded, the amount would form part of the total consideration estimated then at approximately HK$25,344,000. If the acquisition did not materialise before 31 July 2010, the framework agreement would lapse and the Vendor would refund the Earnest Money to CITIC Logistics.

After conducting the due diligence investigation, the Group decided not to proceed further with the acquisition. Subsequent to the end of the reporting period, the Earnest Money was fully refunded to the Group.

(b) On 22 October 2010, CITIC Logistics entered into a memorandum of understanding (the "MOU") with Ichihan International Investment Limited ("Ichihan"), a company incorporated in Hong Kong and an independent third party to the Group, for potential investment projects including but not limited to acquiring equity interest in Ichihan or its subsidiaries, or setting up joint venture with Ichihan or its subsidiaries. As at 31 December 2010, CITIC Logistics had paid a refundable deposit of HK$50,000,000 (the "Refundable Deposit") to Ichihan. The payment of the Refundable Deposit enabled CITIC Logistics to conduct the necessary due diligence investigation and if the deal proceeded, the Refundable Deposit would form part of the total consideration. If the deal did not materialise within 180 days from the date of the MOU, the MOU would lapse and Ichihan would refund the Refundable Deposit to CITIC Logistics.

On 21 March 2011, the Group decided not to proceed further with the deal. After negotiation with Ichihan in respect of the refund schedule of the Refundable Deposit, HK$24,000,000 was refunded to the Group before the date of these consolidated financial statements and it was agreed that the balance of the Refundable Deposit will be refunded to the Group in April 2011.

23. INVENTORIES

	2010	2009
	HK$'000	HK$'000
Raw materials	**65,903**	29,771
Work-in-progress	**3,253**	2,017
Finished goods	**127,896**	74,474
	197,052	106,262

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24. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 180 days to its trade customers.

	2010 HK$'000	2009 HK$'000
Trade and bills receivables	274,920	233,169
Less: Accumulated impairment	(2,701)	(7,102)
	272,219	226,067

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. The Group did not hold any collateral over these balances.

The following is an aged analysis of trade and bills receivables net of impairment presented based on the due date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Current	203,073	199,599
Overdue:		
– within 3 months	21,280	22,648
– 4-6 months	204	2,322
– 7-12 months	47,662	1,498
	272,219	226,067

Included in the Group's trade receivables balance are amounts of approximately HK$47,456,000 (2009: HK$47,456,000) and HK$12,302,000 (2009: nil) due from 中信國華國際工程承包有限責任公司 (CITIC International Contracting Co., Ltd.) ("CITIC Contracting") and SUN International Investment Holdings Limited ("SUN International") respectively. CITIC Contracting is an affiliate of CITIC Logistics Company Limited ("CITIC Logistics BJ"). Mr. Li is a director of CITIC Logistics BJ and beneficially holds 30% equity interest in CITIC Logistics BJ. Mr. Li is a director of SUN International and indirectly holds 40% equity interest in SUN International. Except for an amount due from SUN International of approximately HK$5,903,000 which is interest-bearing at 5.346% per annum, the remaining amount due from SUN International was interest-free and has a credit period of 180 days.

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24. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$69,146,000 (2009: HK$26,468,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group did not hold any collateral over these balances. Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Ageing of trade receivables which were past due but not impaired:

	2010 HK$'000	2009 HK$'000
Within 3 months	21,280	22,648
4-6 months	204	2,322
7-12 months	47,662	1,498
	69,146	26,468

Movement in the impairment on trade receivables:

	2010 HK$'000	2009 HK$'000
Balance at beginning of the year	7,102	10,923
Impairment loss (reversed) recognised	(3,353)	4,256
Amount written off as uncollectible	(1,048)	(51)
Eliminated on disposal of subsidiaries	–	(8,026)
Balance at end of the year	2,701	7,102

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For the year ended 31 December 2010

24. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the impairment on trade receivables are individually impaired trade receivables with an aggregate balance of HK$2,701,000 (2009: HK$7,102,000) since the management considered the prolonged outstanding balances were uncollectible. The Group did not hold any collateral over these balances.

During the year ended 31 December 2010, the Group collected settlements from certain debtors for which impairment loss had been recognised in prior years. As a result, impairment loss of HK$3,353,000 (2009: nil) was reversed during the year ended 31 December 2010.

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2010 '000	2009 '000
HK$	48,234	–
US$	6,123	9,208
RMB	108,502	92,197

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Prepayments, deposits and other receivables	106,609	23,270
Less: Accumulated impairment	(19,585)	(19,585)
	87,024	3,685

Included in prepayments, deposits and other receivables are an amount of approximately HK$79,000 due from SUN International and advances of approximately HK$82,847,000 made to three independent third parties. These advances are unsecured, for an initial term of 1 year and bearing interest at 1.3% per annum over 1-month Hong Kong Interbank Offered Rate ("HIBOR"). As at 31 December 2010 , none of these advances were past due or impaired. Subsequent to the end of the reporting period, advances of approximately HK$62,847,000 were settled. The remaining balance of approximately HK$20,000,000 will be settled before its maturity date in August 2011.

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For the year ended 31 December 2010

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Included in the impairment on other receivables are individually impaired other receivables with an aggregate balance of HK$19,585,000 (2009: HK$19,585,000) since the management considered the prolonged outstanding balances were uncollectible. The Group did not hold any collateral over these balances.

There is no movement in the impairment on other receivables during the year ended 31 December 2010 (2009: nil).

Included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2010	2009
	'000	'000
HK$	**609**	–
US$	**22**	45
RMB	**230**	161

26. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

27. BANK BALANCES AND CASH

	2010	2009
	HK$'000	HK$'000
Deposits with maturity at inception of less than one month	**–**	58,767
Cash at bank and in hand	**30,767**	287,070
	30,767	345,837

As at 31 December 2009, deposits with banks with maturity at inception of less than one month carried interest at market rates of 0.2% to 0.4% per annum.

Cash at bank carried interest at floating rates based on daily bank deposits rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

27. BANK BALANCES AND CASH *(Continued)*

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2010	2009
	'000	'000
HK$	**14,356**	–
US$	**29**	4,141
RMB	**–**	108

28. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the due date at the end of the reporting period:

	2010	2009
	HK$'000	HK$'000
Current	**111,320**	56,270
Overdue:		
– within 3 months	**58,353**	10,452
– 4-6 months	**1,423**	3,602
– 7-12 months	**1**	668
– over 12 months	**1,610**	241
	172,707	71,233

The average credit period on purchases is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in trade and bills payables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2010	2009
	'000	'000
HK$	**71,633**	–
US$	**207**	667
RMB	**76,284**	38,408
JPY	**11,113**	916

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29. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2010	2009
	'000	'000
HK$	4,659	–
US$	–	65
RMB	14,668	4,052

30. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest-free and repayable on demand.

31. BANK BORROWINGS – SECURED

	2010	2009
	HK$'000	HK$'000
Bank borrowings (secured) – repayable on demand (note a)		
– mortgage loan (note b)	151,450	–
– term loan (note c)	11,143	–
	162,593	–

Notes:

(a) Based on the facility agreement, the mortgage loan and the term loan will be repaid by 240 and 84 monthly instalments respectively, 233 and 78 instalments of the mortgage loan and the term loan remained outstanding as at 31 December 2010 respectively. The facility agreement contains a repayment on demand clause pursuant to which the bank can at its discretion demand repayment of the entire outstanding balance from the Group in the absence of any defaults.

(b) Mortgage loan carries interest at 0.75% per annum over 1-month HIBOR.

(c) Term loan carries interest at 0.9% per annum over 1-month HIBOR.

The bank borrowings are denominated in HK$ and secured by a mortgage on the Group's investment property (note 19) and the corporate guarantee provided by the Company.

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32. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its office equipment and motor vehicles under finance leases for its business operation. The leases terms ranged from 3 to 5 years (2009: 3 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates and ranged from 2.5% to 4.86% (2009: 4.86%).

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases repayable:				
Within one year	**337**	16	**314**	14
In the second to fifth years inclusive	**270**	29	**262**	25
	607	45	**576**	39
Less: Future finance charges	**(31)**	(6)	**N/A**	N/A
Present value of lease obligations	**576**	39	**576**	39
Less: Amounts due within one year shown under current liabilities			**(314)**	(14)
Amounts due after one year			**262**	25

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets and are denominated in HK$.

33. CONVERTIBLE NOTES

On 19 November 2009, the Company issued unsecured convertible notes for the partial settlement of the consideration for the acquisition of CITIC Logistics. Details of the transaction are set out in the Company's circular dated 16 October 2009. The sole holder of the convertible notes, Mr. Li, was appointed as an executive director of the Company on 24 December 2009.

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33. CONVERTIBLE NOTES *(Continued)*

Details of the Group's convertible notes outstanding as at 31 December 2010 are set out below:

Date of issue	:	19 November 2009
Principal amount	:	HK$950,400,000
Outstanding principal amount at the end of the reporting period	:	HK$662,400,000
Coupon rate	:	Nil
Conversion price	:	HK$0.12 per share
Conversion period	:	The period commencing from the date of issue of convertible notes and ending on the maturity date
Collaterals	:	Nil
Maturity date	:	15 November 2014

At any time after the issue of convertible notes, the Company shall be entitled at its discretion by giving not less than seven days notice to the holder of the convertible notes to redeem outstanding convertible notes.

If an event of default by the Company (as defined in the terms and conditions of the convertible notes) occurs, the noteholder may elect for redemption of the convertible notes. Subject to the occurrence of an event of default (as defined in the terms and conditions of the convertible notes), the convertible notes may be redeemed in amounts of HK$100,000 or integral multiples thereof at the option and in the absolute discretion of the Company on any business day prior to the date falling on the fifth anniversary of the date of issue of convertible notes.

The convertible notes contain two components, liability and equity components. The equity component is presented in equity under the heading of convertible notes reserve. The effective interest rate of the liability component of the convertible notes is 7.60% per annum. The liability and equity components of the convertible notes are measured at fair values at the date of issue and the valuation was determined by Malcolm, an independent professional valuer not connected with the Group.

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33. CONVERTIBLE NOTES *(Continued)*

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2010 and 2009 are set out below.

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
Issue of convertible notes	659,033	291,367	950,400
Effective interest charged to the consolidated income statement (note 9)	5,573	–	5,573
At 31 December 2009 and 1 January 2010	664,606	291,367	955,973
Conversion into shares of the Company (note 36e)	(212,134)	(88,293)	(300,427)
Effective interest charged to the consolidated income statement (note 9)	45,944	–	45,944
At 31 December 2010	498,416	203,074	701,490

No transaction costs related to the issue of convertible notes were allocated to the liability and equity components as the directors of the Company were of the opinion that it was impracticable to quantify the amount.

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34. EMPLOYEE BENEFITS

	2010 HK$'000	2009 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	2,391	1,831
Long service payments accrual (note 44)	150	107
	2,541	1,938
Categorised as:		
Due within one year (included in other payables and accruals)	2,391	1,831
Due after one year (shown under non-current liabilities)	150	107
	2,541	1,938

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35. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities (assets) recognised and movements thereof during the years ended 31 December 2010 and 2009:

	Accelerated tax depreciation HK$'000	Impairment on trade receivables HK$'000	Fair value gain on investment property HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2009	12,227	(526)	–	(39)	11,662
Eliminated on disposal of subsidiaries	(70)	–	–	–	(70)
Acquired on acquisition of a subsidiary	4,433	–	–	(4,433)	–
Credited to profit or loss	(2,088)	(646)	–	(560)	(3,294)
At 31 December 2009 and 1 January 2010	14,502	(1,172)	–	(5,032)	8,298
Charged (credited) to profit or loss	1,925	726	1,000	(271)	3,380
At 31 December 2010	**16,427**	**(446)**	**1,000**	**(5,303)**	**11,678**

As at 31 December 2010, deferred tax assets of HK$5,749,000 (2009: HK$6,204,000) have been presented as an offset against deferred tax liabilities in the consolidated statement of financial position.

At the end of the reporting period, the Group has unused estimated tax losses and other unrecognised deductible temporary differences of approximately HK$56,016,000 (2009: HK$44,405,000) and HK$2,152,000 (2009: nil) respectively available for offsetting against future profits. A deferred tax asset has been recognised in respect of such tax losses of approximately HK$32,139,000 (2009: HK$30,498,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$23,877,000 (2009: HK$13,907,000) due to the unpredictability of future profits streams. Tax losses of the Group can be carried forward indefinitely.

The Company had no significant unprovided deferred taxation for the year or at the end of the reporting period.

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36. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised ordinary shares of HK$0.01 each		
At 1 January 2009	12,000,000	120,000
Increase in authorised share capital (note a)	18,000,000	180,000
At 31 December 2009, 1 January 2010 and 31 December 2010	30,000,000	300,000
Issued and fully paid ordinary shares of HK$0.01 each		
At 1 January 2009	3,797,500	37,975
Issue of shares upon exercise of warrants (note b)	339,227	3,392
Issue of shares upon exercise of share options (note c)	359,750	3,598
Issue of shares upon acquisition of a subsidiary (note d)	1,620,000	16,200
At 31 December 2009 and 1 January 2010	6,116,477	61,165
Issue of shares upon exercise of warrants (note b)	166,313	1,663
Issue of shares upon conversion of convertible notes (note e)	2,400,000	24,000
At 31 December 2010	**8,682,790**	**86,828**

Notes:

(a) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 12 August 2009, the authorised share capital of the Company was increased from HK$120,000,000 to HK$300,000,000 by the creation of an additional 18,000,000,000 ordinary shares of HK$0.01 each totaling HK$180,000,000 in the authorised share capital of the Company.

(b) A bonus issue of warrants on the basis of one warrant for every five shares held was proposed by the board of the Company on 18 December 2007. The condition of the issue of the bonus warrants was fulfilled on 19 December 2007 and 759,500,000 warrants were issued on 3 January 2008. The warrant holders were entitled to subscribe in cash for one fully paid share at an initial subscription price of HK$0.48 per share, subject to adjustment, at any time from 3 January 2008 to 2 January 2010 (or if that day is not a business day, the business day immediately preceding that day) (both days inclusive). Details of the warrants are set out in the Company's circular dated 27 November 2007.

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36. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

During the year ended 31 December 2009, 339,226,700 warrants were exercised with the issue of 339,226,700 ordinary shares of HK$0.01 each at a subscription price of HK$0.48 per share and these new shares issued ranked pari passu with other shares then in issue in all respects. At 31 December 2009, the Company had 420,273,200 warrants outstanding, the exercise in full of which would result in the issue of 420,273,200 ordinary shares of HK$0.01 each.

At 31 December 2009, HK$53,775,000 was received in advance from warrant holders for exercise of 112,032,000 warrants and credited to other reserve. In January 2010, including the warrants for which the subscription money had been received at 31 December 2009, 166,312,700 warrants were exercised with the issue of 166,312,700 ordinary shares of HK$0.01 each at a subscription price of HK$0.48 per share and these new shares issued ranked pari passu with other shares then in issue in all respects.

During the year ended 31 December 2010, the remaining 253,960,500 warrants were expired and there was no outstanding warrant at 31 December 2010.

(c) During the year ended 31 December 2009, the Company allotted and issued 359,750,000 ordinary shares of HK$0.01 each for cash at the exercise price of HK$0.1246 as a result of the exercise of share options. These new shares issued ranked pari passu with other shares then in issue in all respects.

(d) On 19 November 2009, 1,620,000,000 ordinary shares of HK$0.01 each were issued for the partial settlement of the consideration for the acquisition of CITIC Logistics as set out in note 39 at a quoted market price of HK$0.69 per share at the date of completion of the acquisition. These new shares issued ranked pari passu with other shares then in issue in all respects. The premium arising from the issue of these new shares of approximately HK$1,101,600,000 was credited to the share premium account. No direct issue costs related to the issue of these new shares were allocated as the directors of the Company were of the opinion that the amount was insignificant.

(e) During the year ended 31 December 2010, convertible notes of the Company with aggregate principal amount of HK$288,000,000 were converted into 2,400,000,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.12 per share. These new shares issued ranked pari passu with other shares then in issue in all respects. Details of the convertible notes are set out in note 33.

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37. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "Share Option Scheme") for the purpose of providing incentives and rewards to wider classes of person or entity to be the participants (the "Participants") thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Details are set out below:

The Share Option Scheme will expire on 27 November 2012. Pursuant to the terms of the Share Option Scheme, the directors of the Company may, at their absolute discretion, invite any person belonging to any of the following classes of Participants, to take up options to subscribe for shares:

(a) any eligible employee;

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

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

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

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

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

The basis of eligibility of any of the above class of Participants to the grant of any options shall be determined by the directors of Company from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the directors of the Company, but shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares. Options granted are exercisable at any time during a period to be notified by the directors of the Company but limited to a maximum period of ten years after the date the options are granted. Options granted should be accepted within 28 days from the date of offer.

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37. SHARE OPTION SCHEME *(Continued)*

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the Share Option Scheme becomes unconditional.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to Participants specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Unless the directors of the Company otherwise determined and stated in the offer of the grant of options to a Participant, a Participant is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

On 6 December 2010, 379,750,000 share options were granted. The options vested immediately with the grantees on acceptance of the grant of share options by the grantees. The closing share price of the Company on the date of grant was HK$0.305.

At 31 December 2010, the number of shares in respect of which options had been granted, remained outstanding and exercisable under the Share Option Scheme was 379,750,000 (2009: nil) representing 4.4% (2009: nil) of the shares of the Company in issue at that date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

37. SHARE OPTION SCHEME *(Continued)*

The following tables disclosed the movements of the Company's share options for the years ended 31 December 2010 and 2009:

For the year ended 31 December 2010

			Number of share options				
Participants	Date of grant	Exercise price per share	Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 31 December 2010
Director	6 December 2010	HK$0.305	–	86,827,895	–	–	86,827,895
Employees	6 December 2010	HK$0.305	–	206,094,210	–	–	206,094,210
Customers, suppliers and other eligible persons	6 December 2010	HK$0.305	–	86,827,895	–	–	86,827,895
			–	379,750,000	–	–	379,750,000

For the year ended 31 December 2009

			Number of share options					
Participants	Date of grant	Exercise price per share	Outstanding at 1 January 2009	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 31 December 2009	Weighted average closing price
Employees	5 August 2006	HK$0.1246	94,000,000	–	(94,000,000)	–	–	HK$0.7229
Customers, suppliers and other eligible persons	5 August 2006	HK$0.1246	265,750,000	–	(265,750,000)	–	–	HK$0.7229
			359,750,000	–	(359,750,000)	–	–	

The options outstanding at 31 December 2010 had an exercisable period from 6 December 2010 to 5 December 2020 and a remaining contractual life of 9.9 years (2009: n/a).

The fair value of the options granted on 6 December 2010 was HK$31,310,000 as estimated by LCH.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

37. SHARE OPTION SCHEME *(Continued)*

The fair value was calculated using The Black-Scholes option-pricing model. The inputs into the model were as follows:

Date of grant	6 December 2010
Fair value at measurement date	HK$0.082
Closing share price at date of grant	HK$0.305
Exercise price	HK$0.305
Expected volatility	53.22%
Expected life of the option	2 years
Expected dividend yield	Nil
Risk-free interest rate	0.55%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 500 trading days. The expected life of the option used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. Expectations of early exercise are incorporated into The Black-Scholes option-pricing model.

The Group recognised a total expense of HK$31,310,000 for the year ended 31 December 2010 (2009: nil) in relation to share options granted by the Company. The Company's share options granted to the Participants during the year ended 31 December 2010 are measured by reference to the fair value of options estimated by LCH since the fair value of the services provided by all the Participants cannot be estimated accurately.

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 HK$'000	2009 HK$'000
Non-current asset		
Investments in subsidiaries	**46,400**	46,400
Current assets		
Prepayments, deposits and other receivables	**84,734**	648
Amounts due from subsidiaries (note)	**1,207,387**	1,568,567
Bank balances and cash	**722**	188,313
	1,292,843	1,757,528
Current liability		
Other payables and accruals	**4,170**	964
Net current assets	**1,288,673**	1,756,564
Total assets less current liability	**1,335,073**	1,802,964
Non-current liability		
Convertible notes	**498,416**	664,606
	836,657	1,138,358
Capital and reserves		
Share capital	**86,828**	61,165
Share premium	**1,834,074**	1,479,480
Contributed surplus	**62,315**	62,315
Share-based compensation reserve	**31,310**	–
Convertible notes reserve	**203,074**	291,367
Other reserve	**–**	53,775
Accumulated losses	**(1,380,944)**	(809,744)
	836,657	1,138,358

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

39. ACQUISITION OF A SUBSIDIARY

On 19 November 2009, the Group acquired the entire equity interests in CITIC Logistics from Mr. Li, an independent third party at that date and subsequently appointed as an executive director of the Company on 24 December 2009. Accordingly, CITIC Logistics became a wholly-owned subsidiary of the Group thereafter. The acquisition has been accounted for using the purchase method. CITIC Logistics contributed revenue of approximately HK$2,363,000 and loss of approximately HK$2,643,000 to the Group from 19 November 2009 to 31 December 2009. Details of the transaction are set out in the Company's circular dated 16 October 2009.

If the acquisition had been completed on 1 January 2009, the Group's turnover and loss for the year ended 31 December 2009 would have been increased by approximately HK$146,972,000 and decreased by approximately HK$49,866,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2009, or is it intended to be a projection of future results.

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39. ACQUISITION OF A SUBSIDIARY *(Continued)*

The net assets acquired being the fair value, in the transaction and the goodwill on acquisition arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	44,167	–	44,167
Other intangible assets (note 21)	–	490,000	490,000
Trade and bills receivables	50,487	–	50,487
Prepayments, deposits and other receivables	2,227	–	2,227
Bank balances and cash	5,229	–	5,229
Trade and bills payables	(5,894)	–	(5,894)
Other payables and accruals	(47,081)	–	(47,081)
Net assets acquired	49,135	490,000	539,135
Goodwill (note 20)			1,536,866
Total consideration			2,076,001
Satisfied by:			
Shares issued (note 36)			1,117,800
Convertible notes (note 33)			950,400
			2,068,200
Direct cost relating to the acquisition			7,801
			2,076,001

The directors of the Company consider that the carrying amount of the acquired net assets upon the acquisition approximate to its fair value. The goodwill is attributable to the anticipated profitability from the acquired business.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

39. ACQUISITION OF A SUBSIDIARY *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follow:

	HK$'000
Direct cost relating to the acquisition	(7,801)
Bank balances and cash acquired	5,229
	(2,572)

Pursuant to the sale and purchase agreement dated 13 September 2009 ("Agreement") between the Group and Mr. Li, the consideration is subject to adjustment ("Adjustment") if the aggregate net profit ("Aggregate Net Profit") of CITIC Logistics exceeds HK$180,000,000 for the two financial years ending 31 December 2010. The maximum Adjustment to consideration shall not exceed HK$1,594,800,000. The maximum increased amount of up to HK$450,000,000 will be satisfied by the issue of additional convertible notes to Mr. Li. Details of the Adjustment are set out in the Company's circular dated 16 October 2009. Since the Aggregate Net Profit of CITIC Logistics did not exceed HK$180,000,000 for the two financial years ended 31 December 2010, no adjustment to the consideration is required.

40. DISPOSAL OF SUBSIDIARIES

As referred to in note 14, the Group disposed of the entire equity interests in Classic Line Group at a cash consideration of HK$15,000,000 to a director of a subsidiary of the Company, Mr. Sher Tak Chi.

Notes to the Consolidated Financial Statements

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40. DISPOSAL OF SUBSIDIARIES *(Continued)*

The net assets of Classic Line Group at the date of disposal were as follows:

	2009
	HK$'000
Net assets disposed of:	
Property, plant and equipment	15,869
Prepaid lease payments	1,687
Inventories	11,353
Trade and bills receivables	4,534
Prepayments, deposits and other receivables	2,570
Bank balances and cash	4,960
Trade and bills payables	(8,547)
Other payables and accruals	(7,259)
Amount due to the Company	(2,423)
Obligations under finance leases	(251)
Tax payable	(4,238)
Employee benefits	(317)
Deferred tax liabilities	(70)
	17,868
Assignment of amount due to the Company	2,423
Foreign exchange reserve	(2,346)
Net loss on disposal	(2,945)
Total consideration, satisfied by cash	15,000
Net cash inflow arising on disposal	
Cash received	15,000
Bank balances and cash disposed of	(4,960)
	10,040

The impact of Classic Line Group on the Group's results and cash flows for the year ended 31 December 2009 is disclosed in note 14.

41. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2010 and 2009, the Group had the following material non-cash transactions:

(a) During the year ended 31 December 2010, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the lease of approximately HK$891,000 (2009: HK$41,000).

(b) During the year ended 31 December 2010, convertible notes of the Company with aggregate principal amount of HK$288,000,000 were converted into 2,400,000,000 ordinary shares of the Company at a conversion price of HK$0.12 per share.

(c) During the year ended 31 December 2010, 112,032,000 ordinary shares of the Company were issued upon the exercise of 112,032,000 warrants at a subscription price of HK$0.48 per share of which subscription money of HK$53,775,000 were received in December 2009.

(d) As detailed in note 19, the Group acquired an investment property at an aggregate consideration of approximately HK$293,348,000 during the year ended 31 December 2010. The amounts were partially settled by a mortgage loan of approximately HK$156,000,000.

(e) As detailed in note 39, the Group acquired CITIC Logistics at an aggregate consideration of approximately HK$2,076,001,000 during the year ended 31 December 2009. The amounts were settled in the way of issue of consideration shares and convertible notes by the Company during the year ended 31 December 2009.

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42. LEASE COMMITMENTS

The Group as lessee

	2010 HK$'000	2009 HK$'000
Lease payments paid under operating leases in respect of:		
– land and building	**7,328**	4,026
– others	**9,601**	7,065
	16,929	11,091

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**9,240**	10,556
In the second to fifth years inclusive	**8,256**	13,698
	17,496	24,254

Operating lease payments represent rentals payable by the Group for certain of its godowns, office, production plant and motor vehicles. Leases are negotiated for terms ranging from one to eight years. Rentals are fixed over the terms of respective leases.

43. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted but not provided for	**32,978**	5,971
– authorised but not contracted for	**777**	455
	33,755	6,426

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44. RETIREMENT BENEFIT OBLIGATIONS

	2010 HK$'000	2009 HK$'000
Long service payments (note 34)	150	107

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

(a) Movement for the year:

	2010 HK$'000	2009 HK$'000
Balance at beginning of the year	107	408
Derecognised on disposal of subsidiaries	–	(317)
Increase in provision	43	16
Balance at end of the year	150	107

(b) The directors' assumptions used for accounting purposes at 31 December are as follows:

	2010 %	2009 %
Discount rate applied to long service payments obligations	8	8

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45. RELATED PARTY TRANSACTIONS

The remunerations of the directors of the Company and other members of the key management of the Group during the year are disclosed in notes 16 and 17 respectively. The balances with related parties are disclosed in notes 24, 25 and 30. Other related party transactions are as follows:

(a) During the year ended 31 December 2009, the Group disposed of the entire equity interests in Classic Line Group at a cash consideration of HK$15,000,000 to a director of a subsidiary of the Company.

(b) Pursuant to an authorisation letter dated 20 July 2007, CITIC Logistics BJ has granted the use of its trading logo to CITIC Logistics, free of charge for the period from 1 August 2007 to 30 April 2010. The grant was further extended to 30 April 2012 pursuant to an authorisation letter from CITIC Logistics BJ on 17 September 2009.

(c) On 15 April 2009, CITIC Logistics BJ entered into an agreement to transfer its shipping logistics business contracted with CITIC Contracting to CITIC Logistics at zero consideration.

(d) During the year ended 31 December 2010, logistics service income and interest income from SUN International amounted to approximately HK$6,788,000 and HK$79,000 respectively. The logistics service income and interest income were charged according to the logistics agreement entered into.

46. CONTINGENT LIABILITIES

On 15 July 2009, one of the subsidiaries of Classic Line, a former subsidiary of the Company, has been and is the subject of a judgment (in the amount of approximately US$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by that subsidiary of Classic Line. The Company is one of the co-defendants for the judgment. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interests in Classic Line and the disposal was completed on 31 October 2009.

Based on a legal advice received from the legal counsel being appointed by the Company to advise on the above potential dispute, the directors of the Company considered that the Company has valid grounds in defending the case and accordingly, no provision has been made in the consolidated financial statements.

Notes to the Consolidated Financial Statements

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47. PRINCIPAL SUBSIDIARIES

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

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company				Principal activities
				2010		2009		
				Direct %	Indirect %	Direct %	Indirect %	
Sino-Tech International (BVI) Limited (Formerly known as Key Legend Limited)	Corporation	British Virgin Islands	US$2	100	–	100	–	Investment holding
Top Victory Industries Limited	Corporation	British Virgin Islands	US$1	100	–	100	–	Investment holding
Century Talent Limited	Corporation	British Virgin Islands	US$100	–	100	–	100	Investment holding
China LWM Property Limited	Corporation	Hong Kong	HK$1	–	100	N/A	N/A	Property investment
CITIC Logistics	Corporation	Hong Kong	HK$10,000	–	100	–	100	Provision of logistics service
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Provision of management service
Harva Light (ST) Limited (note a)	Corporation	Hong Kong	HK$1	–	100	–	100	Not commenced business yet
LWM Management Limited	Corporation	Hong Kong	HK$1	–	100	N/A	N/A	Provision of management service
Semtech Electronics Limited	Corporation	Hong Kong	HK$1,000,000	–	100	–	100	Trademark holding
Semtech International (BVI) Limited	Corporation	British Virgin Islands	US$1	–	100	–	100	Investment holding
Semtech RFID Limited	Corporation	Hong Kong	HK$100	–	100	–	100	Not commenced business yet
Sharp Technology Limited	Corporation	British Virgin Islands	US$1	–	100	–	100	Investment holding
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Manufacture and trading of electronic and electrical parts and components

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47. PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company				Principal activities
				2010		2009		
				Direct %	Indirect %	Direct %	Indirect %	
Supreme Gold Development Limited (note a)	Corporation	British Virgin Islands	US$100	–	100	–	100	Investment holding
Supreme Gold Enterprises Limited (note a)	Corporation	British Virgin Islands	US$2	–	100	–	100	Investment holding
SV Semiconductors Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Inactive
東莞泰豐射頻識別有限公司 (note b)	Corporation	PRC	US$1,500,000	–	100	–	100	Not commenced business yet

Notes:

(a) The Group had effective control over these subsidiaries. During the year ended 31 December 2009, the Group had acquired minority interest in these subsidiaries at nominal value of shares. There was no significant impact on the Group's result as the net asset value was insignificant to the Group.

(b) The company is a wholly owned foreign enterprise in the PRC.

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

None of the subsidiaries had any debt securities subsisting at the end of both years or at any time during the years.

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48. EVENTS AFTER THE REPORTING PERIOD

(a) On 6 October 2010, CITIC Logistics entered into a sale and purchase agreement (as amended by a supplemental agreement dated 14 December 2010) (the "Original 90% Agreement") with Pioneer Blaze Limited, an independent third party, and Mr. Li, an executive director and a substantial shareholder of the Company, to acquire a total of 90% equity interest in CITIC Logistics BJ. Mr. Li is a connected person (as defined under the Listing Rules) of the Company by virtue of his substantial shareholdings and directorships in the Company and CITIC Logistics BJ. On 11 February 2011, the Original 90% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK$210,393,289. The consideration will be satisfied by the issue and allotment of a maximum of 743,439,182 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company on 25 March 2011.

On 25 November 2010, CITIC Logistics entered into a sale and purchase agreement (the "Original 10% Agreement") with 中信汽車公司 to acquire the remaining 10% equity interest in CITIC Logistics BJ. As the acquisition of the entire equity interest in CITIC Logistics BJ would be considered as a whole, this transaction also constitutes a connected transaction under the Listing Rules. On 11 February 2011, the Original 10% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK$46,969,595. The consideration will be satisfied by the issue and allotment of a maximum of 165,970,300 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company on 25 March 2011.

The acquisition was not completed at the date of these consolidated financial statements. Details of the above transactions are set out in the Company's circular dated 28 February 2011.

(b) On 18 January 2011, convertible notes of the Company with aggregate principal amount of HK$108,000,000 were converted into 900,000,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.12 per share.

Summary of Financial Information

A summary of the published results, assets and liabilities of the Group prepared on the bases set out in the note below is as follows. This summary does not form part of the audited consolidated financial statements.

RESULTS

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			Restated		
Turnover	**785,121**	538,855	588,294	795,909	636,237
(Loss) profit before taxation	**(527,826)**	(762,474)	26,416	86,617	76,803
Net (loss) profit attributable to owners of the Company	**(532,180)**	(779,991)	6,399	70,485	62,197

ASSETS AND LIABILITIES

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,913,677**	2,065,547	553,408	575,520	509,347
Total liabilities	**(876,696)**	(765,747)	(135,521)	(157,175)	(139,174)
Net assets	**1,036,981**	1,299,800	417,887	418,345	370,173
Capital	**86,828**	61,165	37,975	37,975	37,975
Reserves	**950,153**	1,238,635	379,912	380,370	332,198
Total equity	**1,036,981**	1,299,800	417,887	418,345	370,173

Note: The results of the Group for the years ended 31 December 2010, 31 December 2009, 31 December 2008, 31 December 2007 and 31 December 2006 have been extracted from the audited consolidated financial statements for the years ended 31 December 2010, 31 December 2009, 31 December 2008, 31 December 2007 and 31 December 2006.