泰豐國際集團有限公司*

Sino-Tech International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 00724)

Annual Report 2009

*For Identification Purpose Only

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Li Weimin *(Chairman)*
Mr. Lam Hung Kit *(Chief Executive Officer)*
Mr. Wang Jianzhi
Mr. Lam Yat Keung
Mr. Huang Hanshui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai
Mr. Ho Chi Fai
Mr. Pai Te-Tsun

COMPANY SECRETARY

Ms. Yu Miu Yee, Iris

AUDIT COMMITTEE

Mr. Lo Wah Wai
Mr. Ho Chi Fai
Mr. Pai Te-Tsun

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

26/F, CCT Telecom Building,
11 Wo Shing Street, Fotan, Shatin, Hong Kong

LEGAL ADVISOR

Conyers Dill & Pearman,
2901, One Exchange Square,
8 Connaught Place, Central,
Hong Kong

AUDITORS

SHINEWING (HK) CPA Limited
16/F., United Centre,
95 Queensway, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street, Hamilton HM11, 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.semtech.com.hk
www.irasia.com/listco/hk/sinotech

Chairman's Statement & Performance Review

RESULT OVERVIEW

Turnover of the Group from continuing operations has decreased to approximately HK$538.9 million in 2009 from approximately HK$588.3 million in 2008, a decrease of 8.4% compare with last year. Loss for the year from continuing operations after taxation was approximately HK$770.9 million (2008: profit of HK$19.4 million). Loss from discontinued operations was approximately HK$9.1 million (2008: HK$13.0 million). Loss from continuing operations and discontinued operations for the year was approximately HK$780.0 million (2008: profit of HK$6.4 million). The loss for this year was mainly attributable to the impairment loss on goodwill, amortisation of other intangible assets and the imputed interest on convertible notes. The table below is the financial highlights of the Group for the year ended 31 December 2009.

Financial Highlights

Audited results for the year ended 31 December

	2009 HK$'000	2008 HK$'000 (restated)	% change
Turnover from continuing operations	538,855	588,294	–8.4%
Gross profit from continuing operations	77,694	76,673	+1.3%
(Loss) profit for the year from continuing operations	(770,904)	19,355	N/A
Loss for the year from discontinued operations	(9,087)	(12,956)	–29.9%
(Loss) profit for the year	(779,991)	6,399	N/A
Impairment loss on goodwill	780,309	–	N/A
Amortisation of other intangible assets	16,557	–	N/A
Imputed interest on convertible notes	5,573	–	N/A
Net profit before the effect of impairment loss on goodwill, amortisation of other intangible assets and imputed interest on convertible notes	22,448	6,399	+250.8%

Chairman's Statement & Performance Review

DIVIDEND

The Board of Directors does not recommend the payment of final dividend for the year ended 31 December 2009 (2008: HK0.1 cent per share). An interim dividend of HK0.1 cent per share has been declared and paid to the shareholders during the year 2009. Total dividend for the financial year 2009 was HK0.1 cent per share (2008: HK0.2 cent per share).

BUSINESS REVIEW

2009 was a milestone to Sino-Tech, during the year, the Group has successfully acquired a new line of business – the logistics services segment and disposed of the loss making lighter business segment.

The turnover for the electronic products segment has dropped from approximately HK$588.3 million in 2008 to approximately HK$536.5 million in 2009, a decrease of 8.8%. Segment profit for the year after deducting directors' salaries and allowances was approximately HK$44.4 million for the year 2009, a drop from approximately HK$46.8 million when excluding the exceptional impairment loss on other receivables in the year 2008. The impact of the global financial crises in 2008 was still affecting the world economy in 2009. Demand for consumer goods was weak and the cost pressure was increasing, especially labour cost and overhead. Labour shortage was another problem encountered by manufacturers in Dongguan, Guangdong Province, the PRC.

During the year, the lighter business segment was disposed of. The segment has been recording losses since the financial year 2005, such continue losses were attributable to the severe competition in the lighter business and the increase in the production cost due to the significant increase in the price of plastic materials in the past few years. Prior to disposal during 2009, the lighter business segment sustained a loss of approximately HK$6.1 million and the Group recognized a loss on disposal of approximately HK$3.0 million. The Directors considered that the disposal will enable the Group to better allocate resources, effort and time for management of other operations of the Group.

In November 2009, the Group completed its acquisition of CITIC Logistics (International) Company Limited ("CITIC Logistics"). CITIC Logistics was established in 2007 and is principally engaged in logistics services by providing whole solutions and services for supply chain management. The acquisition represents an excellent opportunity for the Group to enter into a promising industry. CITIC Logistics has obtained an exclusive right of logistics services from a global energy and petrochemical company to provide transportation of petroleum products for around 200 locations in Hong Kong. It also participates in the provision of shipping services for transporting construction material to Angola from China. Due to the nature of uneven distribution of revenue and cost for logistic business throughout the year, an approximate of HK$2.4 million was included in the Group's turnover and a loss of approximately HK$2.6 million was recognized (before the effect of impairment loss on goodwill and amortisation of other intangible assets) since the completion of the acquisition. If the completion were to be taken place on 1 January 2009, the Group's turnover and loss would have been increased by approximately HK$146.9 million and decreased by approximately HK$49.8 million respectively.

Chairman's Statement & Performance Review

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a healthy financial position. The outstanding borrowings refer to bank and other borrowings of approximately HK$Nil (2008: HK$1,983,000) and finance leases obligations of approximately HK$39,000 (2008: HK$885,000). The gearing ratio (defined as total interest bearing borrowings divided by total equity) was 0.003% (2008: 0.69%).

The Group's bank balances and cash amounted to approximately HK$345.8 million (2008: HK$127.8 million) and its current ratio at year end had increased from 3.42 to 7.52. The Group generally finances its operations with internally generated cash flows. At the present moment, the Directors believe that the Group has sufficient financial resources to satisfy its current operations and capital expenditures requirement.

Charges on Group's Assets

The Group did not have any asset pledged at the reporting date (2008: Nil).

Foreign Exchange Exposure

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 to 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

The Group did not have any significant contingent liabilities at the reporting date (2008: Nil).

Chairman's Statement & Performance Review

FUTURE OUTLOOK

It is expected that worldwide interest rate will rise later in 2010, inflation may be resulted, raw material, production cost and overhead will rise eventually. All these may affect the performance of the business segment engaged in the manufacturing of electronic components. The Board will take a very cautious approach and continuously review its operations to safeguard the returns to the Group.

Following the disposal of the lighter business and the completion of the acquisition of CITIC Logistics during the year 2009, Sino-Tech has moved forward to a new era from 2010 onwards with strengthened and stable sources of revenue.

In February 2009, the Chinese Government included logistics in its plan to revitalize 10 key industries, together with continuous emphasis on the urbanization and industrialization, this presents good development opportunities for the logistics industry. While continuing to improve the execution and cost control of existing projects, the Group will capitalize on its strong expertise and industry contacts to strive to secure more logistics projects in order to provide a rewarding return to our shareholders as a whole.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my sincere gratitude to my fellow directors, 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.

Li Weimin
Chairman

Hong Kong
26 March 2010

Directors and Senior Management

Executive Directors

Mr. LI Weimin, aged 41, was appointed Director of the Company on 24 December 2009 and the Chairman of the Company on 2 March 2010. Mr. Li holds a master degree in business administration from The Open University of Hong Kong. He has over 17 years of experience in the logistics industry and worked for 許昌汽車銷售總公司 (Xuchang Automobile Sales Company Limited) from 1992 to 1998 as a general manager. He is also the chief executive officer of 中信物流有限公司 (CITIC Logistics Company Limited) in PRC.

Mr. WANG Jianzhi, aged 60, was appointed Director of the Company 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 has been a director for 中國中信集團公司 (CITIC Group) since 2006. Mr. Wang is also the chairman of 中信汽車公司 (CITIC Automotive Company Limited) and 中信物流有限公司 (CITIC Logistics Company Limited) in PRC.

Mr. LAM Yat Keung, aged 52, was appointed as President of the Company on 13 December 2003 and stepped down on 2 March 2010 but remained as executive Director of the Company. He has over 29 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 Hung Kit, aged 43, was appointed as Director (Chief Executive Officer) of the Company on 13 December 2003. He has over 20 years of experience in sales and marketing function for overseas markets in a number of manufacturing companies in Hong Kong and the PRC. During the same period, he was also involved in the materials control and logistic management in those companies. He is mainly responsible for market development of the Group's electronic business segment. He is the brother-in-law of Mr. Lam Yat Keung.

Mr. HUANG Hanshui, aged 39, was appointed as Director of the Company on 9 March 2010. He has some 10 years of experience in equity research and corporate finance. He worked as an equity analyst in Nomura Securities and Standard & Poor's. He is also currently the chief financial officer of CITIC Logistics (Int'l) Company Limited, a wholly owned subsidiary of the Company.

Directors and Senior Management

Independent Non-executive Directors

Mr. LO Wah Wai, aged 46, was appointed as Independent Non-Executive Director of the Company on 27 September 2004. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has over 20 years of experience in the accounting and finance industry. He is currently a director of Lo & Kwong C.P.A. Company Limited.

Mr. HO Chi Fai, aged 53, was appointed as Independent Non-Executive Director of the Company on 15 January 2004. He 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.

Mr. PAI Te Tsun, aged 59, was appointed as Independent Non-Executive Director of the Company on 15 January 2004. Mr. Pai has over 30 years of operational experiences, with industry expertise ranging from raw materials production, logistic management and transportation. He is currently the Chief Executive Officer of United Highway Bus Co., Ltd., the largest long-range bus transportation company in Taiwan.

Senior Management

Ms YU Miu Yee, Iris, aged 41, is the Company Secretary of the Group. She holds a Master of Business Administration Degree and is a fellow member of the Association of the Chartered Certified Accountants, associate member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Company Secretaries. She has over 15 years working experience in the financial and company secretarial field. She joined the Group in January 2004.

Mr. Alphonso G. SOONG, aged 57, is the Vice President of the Group's RFID business section. He holds a Bachelor of Science Degree in Computer Science and a Master of Science Degree in Electronic Engineering. He has over 30 years working experience in various IT and telecommunication corporations like AT&T, Tandem, One.Tel and Sunday. He joined the Group in February 2006.

Mr. AI Chuang Ping, aged 34, is the General Manager of the Quality Control and Marketing Department of the electronic segment in PRC of the Group. He holds a Diploma in Mechanical Technology from the Hunan University. He has over 15 years experience in quality control and is a qualified auditor for the ISO9000 accreditation since 2000. He has been working in various electronics manufacturing companies in the quality control and administration area prior to joining the Group in 2004.

Report of the Directors

The Board of Directors (the "Board") presents their report and the audited consolidated financial statements of Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2009 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 2009 are set out in the consolidated income statement on pages 26.

An interim dividend of HK0.10 cent per share amounting to HK$3,798,000 was paid to the shareholders during the year. The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2009 (2008: HK0.1 cent per share). The dividend paid for the year ended 31 December 2009 was HK0.1 cent per share (2008: HK0.2 cent per share)

BOOK CLOSE DATE

The register of members of the Company will be closed from 2 June 2010 to 4 June 2010, both days inclusive, during which period no transfer of share will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 1 June 2010.

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 110.

Report of the Directors

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 37 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 39 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's did not have any reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (2008: reserve of HK$71,880,000). The Company's share premium account of HK$1,479,480,000 (2008: HK$169,876,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 9.09% and 29.64% 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 14.49% and 51.90% 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.

DIRECTORS

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

Executive directors

Mr. Li Weimin	(appointed on 24 December 2009)
Mr. Wang Jianzhi	(appointed on 24 December 2009)
Mr. Lam Yat Keung	
Mr. Lam Hung Kit	
Ms. Lam Pik Wah	(resigned on 9 March 2010)
Mr. Huang Hanshui	(appointed on 9 March 2010)

Independent non-executive directors

Mr. Lo Wah Wai
Mr. Ho Chi Fai
Mr. Pai Te Tsun

Report of the Directors

In accordance with clause 87 of the Company's bye-laws, Mr. Lam Hung Kit, Mr. Lo Wah Wai and Mr. Pai Te Tsun will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company is of the opinion that the independent status of them remains intact as at 31 December 2009 and as at the date of this report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lam Yat Keung, Mr. Lam Hung Kit and Ms. Lam Pik Wah (resigned on 9 March 2010) have entered into service contracts as executive Directors of the Company. Mr. Li Weimin, Mr. Wang Jianzhi, Mr. Huang Hanshui and the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws. Mr. Huang Hanshui has entered into a service contact with a subsidiary of the Company as chief financial officer, details of its terms can be referred to the Company's announcement dated 9 March 2010.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2009, 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 ("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 ("Model Code") were as follows:

Long Positions in Shares of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of shareholding	Amount of convertible notes held
Li Weimin	Beneficial owner	1,620,000,000	26.49%	950,400,000 (Note 1)
Lam Pik Wah (resigned on 9 March 2010)	Held by controlled corporation	608,400,000 (Note 2)	9.95%	–
Lam Hung Kit	Held by controlled corporation	608,400,000 (Note 2)	9.95%	–
Lam Yat Keung	Held by family	608,400,000 (Note 3)	9.95%	–

Note 1: Assuming full conversion of the convertible notes, 7,920,000,000 new shares will be allotted and issued by the Company.

Note 2: These ordinary shares are 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 and as to 33.33% by Mr. Lam Hung Kit.

Note 3: These ordinary shares are owned by Smart Number, a controlled company of Ms Lam Pik Wah, the wife of Mr. Lam Yat Keung.

Save as disclosed above, none of the directors, chief executives 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.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 of the Company 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, 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company 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 A COMPETING BUSINESS

During the year and up to the date of this report, except Mr. Li Weimin, none of the directors is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules.

Mr. Li Weimin, the Chairman of the Company, is also the Chief Executive Officer of and a shareholder holding 30% equity interest in CITIC Logistics Company Limited (CITIC Logistics PRC), a company incorporated in the PRC. The principal business of CITIC Logistics Company Limited is the provision of logistics services. The Company and CITIC Logistics Company Limited are two companies which are supervised by separate management teams, the Directors do not consider Mr. Li's interest in CITIC Logistics PRC will compete directly or indirectly with the business of the Group. The two companies are able to operate independently of each other.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, 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, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in Shares of the Company

Shareholders	Capacity	Number of issued ordinary shares held	Percentage of Shareholding	Amount of convertible notes held
Li Weimin	Beneficial owner	1,620,000,000	26.49%	950,400,000 (Note 1)
Smart Number Investments Limited (Note 2)	Beneficial owner	608,400,000	9.95%	–

Note 1: Assuming full conversion of the convertible notes, 7,920,000,000 new shares will be allotted and issued by the Company. The above interests in the name of Li Weimin was also disclosed as interests of certain directors under the heading "Directors' Interests in Shares".

Note 2: The above interests in the name of Smart Number was also disclosed as interests of certain directors under the heading "Directors' Interests in Shares".

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 2009.

Report of the Directors

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had 2,100 (2008: 1,573) employees spreading from Hong Kong to the PRC and industrial relationship had been well maintained. Remuneration policy of the Group is reviewed regularly, making reference to the legal framework, market condition, performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive Directors and members of the senior management are reviewed by the Remuneration Committee, the composition and responsibilities of which are detailed in "Corporate Governance Report" below.

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all employees under Hong Kong employment. The MPF Scheme is a defined contribution scheme administered by independent trustees and pursuant to which the Group and its employees have to contribute 5% of the relevant income of the employees to the MPF Scheme subject to the minimum and maximum levels of income of HK$5,000 and HK$20,000 respectively with a statutory cap of HK$1,000 per month. The Group's contributions are 100% vested in the employees' account once they are paid into the MPF Scheme until the employee reaches the retirement age of 65 subject to a few exceptions.

Details of the Group's staff cost and MPF Scheme contribution are set out in Note 11 to the consolidated financial statement.

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 38 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in note 46 to the consolidated financial statements. These transactions were not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

Report of the Directors

CORPORATE GOVERNANCE

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

Li Weimin
Chairman

Hong Kong, 26 March 2010

Corporate Governance Report

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which became effective on 1 January 2005 as its own code of corporate governance practices. In the opinion of the Directors, the Company has met the code provisions set out in the CG Code for the year ended 31 December 2009. 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.

CORPORATE GOVERNANCE PRACTICES

A Directors

A.1 The Board

The Board should assume responsibility for leadership and control of the Company, direct and supervise the Company's affairs. During the financial year ended 31 December 2009, the Board held thirty four meetings.

The attendance of the Directors at the board meetings are as follows:

	Attendance
Executive Directors:	
Mr. Li Weimin	0/2 (Note)
Mr. Wang Jianzhi	0/2 (Note)
Mr. Lam Yat Keung	34/34
Mr. Lam Hung Kit	34/34
Ms. Lam Pik Wah	34/34
Independent Non-executive Directors:	
Mr. Lo Wah Wai	30/34
Mr. Ho Chi Fai	32/34
Mr. Pai Te-Tsun	32/34

Note: The two directors were appointed on 24 December 2009 and they were not in Hong Kong at the end of the year after their appointment.

Corporate Governance Report

All Directors are given an opportunity to include matters in the agenda for regular board meetings. Notices of 14 days are given of a regular meeting and reasonable notice are given for other meetings. The Directors have access to the advice and services of the Company Secretary and agreed procedure for them to seek independent professional advice at the Company's expenses. Minutes of the board meetings in sufficient details are being kept by the Company Secretary and open for inspection by the Directors.

In case a substantial shareholder or a Director has a conflict of interest in a material matter, a board meeting should be held and such Director must abstain from voting and not be counted in quorum.

A.2 Chairman and Chief Executive Officer ("CEO")

A clear division of responsibilities helps to ensure a balance of power and authority, as a result the role of the President (i.e. the "Chairman" in the CG Code) and the CEO are separated. Mr. Lam Yat Keung has been appointed President of the Company to manage the Board while Mr. Lam Hung Kit has been appointed CEO to assume the responsibilities in the day-to-day management of the Company's business.

The President has briefed all Directors on issue arising at the board meetings and ensured that all Directors have received adequate information in a timely manner.

Subsequent to the year end 2009, Mr. Lam Yat Keung stepped down from the post of President on 2 March 2010 and remained as executive Director of the Company. Mr. Li Weimin was appointed Chairman of the Company on the same date.

A.3 Board Composition

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company and a balanced composition of executive and non-executive directors which can effectively exercise independent judgment. The independent non-executive Directors, representing half of the Board, are expressly identified in all corporate communications.

Three of the executive Directors of the Company have family relationship with one and other. Ms. Lam Pik Wah is the wife of Mr. Lam Yat Keung (the President) and also the elder sister of Mr. Lam Hung Kit (the Chief Executive Officer).

Corporate Governance Report

A.4 Appointments, Re-election and Removal

The Company has established a formal, considered and transparent procedure for the appointment of new directors to the Board. According to the Bye-law of the Company, one-third of the Directors (including the Independent non-executive Directors) shall retire from office by rotation at each annual general meeting. That means that a Director's specific term of appointment cannot exceed three years for a total of eight Directors.

A.5 Responsibilities of Directors

Every Director is required to keep abreast of his responsibilities, conduct, business activities and development of the Company. In case there is newly appointed director, a comprehensive, formal induction will be given to ensure that he has a proper understanding of the business and his responsibilities.

The non-executive Directors are required to bring an independent judgment at board meetings; take the lead where potential conflicts of interest arise; serve on committees if invited; and scrutinize the Company's performance. Every Director should ensure that he can give sufficient time and attention to the affairs of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company (the "Model Code"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standard as set out in the Model Code for the year ended 31 December 2009.

A.6 Supply of and Access to Information

An agenda of the board meeting is sent to Directors at least 3 days before the intended date of a meeting or such other period as agreed and they have separate and independent access to the Company's senior management to supply adequate information as board papers and related materials and for them to make an informed decision.

Corporate Governance Report

B. Remuneration of Directors and Senior Management

B.1 The Level and Make Up of Remuneration and Disclosure

The Company has established a Remuneration Committee with specific written terms of reference. All the Independent Non-Executive Directors and the CEO are the members of the committee and Mr. Lo Wah Wai was elected chairman of the committee. The purpose of the committee is to set out its recommendation on the remuneration package of the executive Directors. The Committee has met in 2009 to review and recommend the remuneration package of the executive Directors and senior management.

C. Accountability and Audit

C.1 Financial Reporting

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 balance, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules and reports to regulators.

C.2 Internal Control

The directors conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries. 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.

Corporate Governance Report

C.3 Audit Committee

Currently, all members of the Audit Committee are Independent Non-executive Directors of the company and Mr. Lo Wah Wai was elected chairman of the committee.

Clear terms of reference of the Audit Committee has been established in regarding the recommendation to the Board for appointment or removal of the Company's external auditor, to review and monitor its independence and objectivity and to develop and implement policy on the engagement of non-audit services by external auditor. Apart from monitoring the integrity of financial statement, the committee also reviews significant financial reporting judgments on the Company's annual report and interim reports and overseeing the Company's financial reporting system and internal control procedures.

During the financial year 2009, two meetings were held, the attendance of the members at the meetings are as follows:

Mr. Lo Wah Wai	2/2
Mr. Ho Chi Fai	2/2
Mr. Pai Te-Tsun	2/2

Full minutes of the meetings are being kept by the Company Secretary after receiving comments from the members on the draft. The committee had also held a meeting with the Company's external auditors during the year.

The amount of external auditors' remuneration has been disclosed in Note 10 to the consolidated financial statements.

The committee has recommended to the Board that the shareholders be asked to re-appoint SHINEWING (HK) CPA Limited as the Group's external auditor for 2010.

Corporate Governance Report

D. Delegation by the Board

D.1 Management Function

A clear direction to management is given as to the matters that must be approved by the board before decisions are made on behalf of the Company. The daily operation of the Company is delegated to the management, with division heads responsible for different aspects of the business. Major corporate matters that require Board decision includes long-term objectives and strategies; extension of group activities into new business areas; implementation of adequate systems of internal control and risk management procedures and compliance with relevant statutory requirements and rules and regulations.

D.2 Board Committees

The Company currently has two Board Committees, the Audit Committee and the Remuneration Committee. All Board Committees have clear and specific written terms of reference and they report their work to the Board after each meeting.

E. Communication with Shareholders

E.1 Effective Communication

Separate resolution has been proposed by the chairman of that meeting in respect of each substantially separate issue at a general meeting. The President of the Board, the Chairman of the audit and remuneration committee had attended the 2009 Annual General Meeting of the Company to answer questions at the meeting. Notice of the 2010 Annual General Meeting has been sent to shareholders in accordance with the Listing Rules.

E.2 Voting by Poll

The Company has informed the shareholders in its circulars convening general meetings the procedures for conducting a poll and the chairman of a meeting has, at the commencement of the meeting, ensured that an explanation is provided of the detailed procedures conducting a poll.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS 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 26 to 109, which comprise the consolidated statement of financial position as at 31 December 2009, 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 and true and fair presentation of the consolidated financial statements 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 2009 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
26 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Continuing operations			
Turnover	7	538,855	588,294
Cost of sales		(461,161)	(511,621)
Gross profit		77,694	76,673
Other income	8	1,562	1,090
Distribution costs		(4,481)	(5,324)
Administrative expenses		(28,721)	(23,881)
Impairment loss on goodwill	20	(780,309)	–
Amortisation of other intangible assets	21	(16,557)	–
Impairment loss on trade and other receivables	25	(3,967)	(21,713)
Other expenses		(2,114)	(400)
Finance costs	9	(5,581)	(29)
(Loss) profit before taxation	10	(762,474)	26,416
Taxation	12	(8,430)	(7,061)
(Loss) profit for the year from continuing operations		(770,904)	19,355
Discontinued operations			
Loss for the year from discontinued operations	14	(9,087)	(12,956)
(Loss) profit for the year		(779,991)	6,399
(Loss) profit for the year attributable to			
Owners of the Company		(779,991)	6,399
Minority interests		–	–
		(779,991)	6,399
(Loss) earnings per share (in Hong Kong cents):	15		
From continuing and discontinued operations			
Basic		(19.28)	0.17
Diluted		(19.28)	0.16
From continuing operations			
Basic		(19.05)	0.51
Diluted		(19.05)	0.49

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
(Loss) profit for the year	**(779,991)**	6,399
Other comprehensive (expenses) income		
Exchange differences arising on translation of foreign operations	**1,249**	398
Release of foreign exchange reserve upon disposal of subsidiaries	**(2,346)**	909
Loss on revaluation of leasehold buildings	**–**	(569)
Other comprehensive (expenses) income for the year	**(1,097)**	738
Total comprehensive (expenses) income for the year	**(781,088)**	7,137
Total comprehensive (expenses) income attributable to		
Owners of the Company	**(781,088)**	7,137
Minority interests	**–**	–
	(781,088)	7,137

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	18	138,576	130,944
Prepaid lease payments	19	–	1,672
Goodwill	20	756,557	–
Other intangible assets	21	473,443	290
Interest in a jointly controlled entity	22	–	–
Deposits for acquisition of property, plant and equipment		174	–
		1,368,750	132,906
Current assets			
Deposits paid for acquisition of available-for-sale investment	23	14,500	–
Inventories	24	106,262	116,404
Trade and bills receivables	25	226,067	171,020
Prepaid lease payments	19	–	41
Prepayments, deposits and other receivables	26	3,685	5,240
Deposits in other financial institution	27	446	–
Bank balances and cash	28	345,837	127,797
		696,797	420,502
Current liabilities			
Trade and bills payables	29	71,233	100,113
Other payables and accruals	30	14,016	16,413
Amount due to a director	31	182	–
Tax payable		7,266	4,057
Borrowings – unsecured	32	–	1,769
Obligations under finance leases – due within one year	33	14	444
		92,711	122,796
Net current assets		604,086	297,706
Total assets less current liabilities		1,972,836	430,612

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Borrowings – unsecured	32	–	214
Obligations under finance leases – due after one year	33	25	441
Convertible notes	34	664,606	–
Employee benefits	35	107	408
Deferred tax liabilities	36	8,298	11,662
		673,036	12,725
		1,299,800	417,887
Capital and reserves			
Share capital	37	61,165	37,975
Reserves		1,238,635	379,912
Equity attributable to owners of the Company		1,299,800	417,887
Minority interests		–	–
		1,299,800	417,887

The consolidated financial statements on pages 26 to 109 were approved and authorised for issue by the board of directors on 26 March 2010 and are signed on its behalf by:

Director
Lam Yat Keung

Director
Li Weimin

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	Share premium	Contributed surplus (Note)	Share-based compensation reserve	Leasehold buildings revaluation reserve	Foreign exchange reserve	Convertible notes reserve (Note 34)	Other reserve (Note 37b)	Proposed final dividend	Accumulated profits (losses)	Equity attributable to owners of the Company	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	37,975	169,876	5,800	7,748	569	(329)	–	–	3,798	192,908	418,345	–	418,345
Profit for the year	–	–	–	–	–	–	–	–	–	6,399	6,399	–	6,399
Other comprehensive income for the year	–	–	–	–	(569)	1,307	–	–	–	–	738	–	738
Total comprehensive income for the year	–	–	–	–	(569)	1,307	–	–	–	6,399	7,137	–	7,137
Final 2007 dividend paid	–	–	–	–	–	–	–	–	(3,798)	–	(3,798)	–	(3,798)
Interim 2008 dividend paid	–	–	–	–	–	–	–	–	–	(3,797)	(3,797)	–	(3,797)
Final 2008 dividend proposed	–	–	–	–	–	–	–	–	3,798	(3,798)	–	–	–
Share options forfeited by employee	–	–	–	(408)	–	–	–	–	–	408	–	–	–
At 31 December 2008 and 1 January 2009	37,975	169,876	5,800	7,340	–	978	–	–	3,798	192,120	417,887	–	417,887
Loss for the year	–	–	–	–	–	–	–	–	–	(779,991)	(779,991)	–	(779,991)
Other comprehensive expense for the year	–	–	–	–	–	(1,097)	–	–	–	–	(1,097)	–	(1,097)
Total comprehensive expense for the year	–	–	–	–	–	(1,097)	–	–	–	(779,991)	(781,088)	–	(781,088)
Payment received in advance for exercise of warrants	–	–	–	–	–	–	–	53,775	–	–	53,775	–	53,775
Recognition of equity component of convertible notes issued	–	–	–	–	–	–	291,367	–	–	–	291,367	–	291,367
Issue of shares upon exercise of share options	3,598	48,567	–	(7,340)	–	–	–	–	–	–	44,825	–	44,825
Issue of shares upon exercise of warrants	3,392	159,437	–	–	–	–	–	–	–	–	162,829	–	162,829
Issue of shares upon acquisition of a subsidiary	16,200	1,101,600	–	–	–	–	–	–	–	–	1,117,800	–	1,117,800
Final 2008 dividend paid	–	–	–	–	–	–	–	–	(3,798)	–	(3,798)	–	(3,798)
Interim 2009 dividend paid	–	–	–	–	–	–	–	–	–	(3,797)	(3,797)	–	(3,797)
At 31 December 2009	**61,165**	**1,479,480**	**5,800**	**–**	**–**	**(119)**	**291,367**	**53,775**	**–**	**(591,668)**	**1,299,800**	**–**	**1,299,800**

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to the 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 2009

	Notes	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation from continuing operations		(762,474)	26,416
Loss before taxation from discontinued operations		(8,905)	(12,886)
(Loss) profit before taxation		(771,379)	13,530
Adjustments for:			
Interest income		(102)	(635)
Finance costs		5,790	121
Depreciation of property, plant and equipment		27,926	25,962
Amortisation of prepaid lease payments		41	41
Amortisation of other intangible assets		16,557	357
Gain on disposal of held for trading investment		(1,444)	–
Impairment loss on property, plant and equipment		1,818	2,938
Impairment loss on goodwill		780,309	–
Impairment loss on other intangible assets		290	–
Impairment loss on trade receivables		4,256	8,347
Impairment loss on other receivables		–	19,585
Loss (gain) on disposal of subsidiaries		2,945	(478)
Gain on disposal of property, plant and equipment		(21)	–
Waiver of long outstanding trade payables		–	(654)
Write off of property, plant and equipment		2,011	102
Write-down of inventories		6,875	917
Write off of trade receivables		1,736	400
Revaluation (surplus) deficit on leasehold buildings		(23)	2,131
Reversal of impairment loss on trade receivables		–	(54)
Operating profit before working capital changes		77,585	72,610
(Increase) decrease in inventories		(8,086)	42,168
(Increase) decrease in trade and bills receivables		(15,086)	27,861
Decrease in prepayments, deposits and other receivables		1,212	4,642
Decrease in trade and bills payables		(26,227)	(12,440)
Decrease in other payables and accruals		(42,219)	(5,615)
Increase in employee benefits		16	14
Cash (used in) generated from operations		(12,805)	129,240
Income taxes paid		(4,459)	(11,599)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(17,264)	117,641

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Purchase of held for trading investment		**(14,793)**	–
Deposits paid for acquisition of available-for-sale investment		**(14,500)**	–
Purchase of property, plant and equipment		**(10,616)**	(43,083)
Net cash flow from acquisition of a subsidiary	40	**(2,572)**	–
Deposits paid to other financial institution		**(446)**	–
Deposits paid for acquisition of property, plant and equipment		**(174)**	–
Proceeds from disposal of held for trading investment		**16,237**	–
Net cash flow from disposal of subsidiaries	41	**10,040**	(14)
Proceeds from disposal of property, plant and equipment		**570**	–
Interest received		**102**	635
Purchase of other intangible assets		**–**	(15)
NET CASH USED IN INVESTING ACTIVITIES		**(16,152)**	(42,477)
FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of warrants		**162,829**	–
Payment received in advance for exercise of warrants		**53,775**	–
Proceeds from issue of shares upon exercise of share options		**44,825**	–
Advance from a director		**182**	–
Dividends paid		**(7,595)**	(7,595)
Repayment of borrowings		**(1,983)**	(17)
Repayment of obligations under finance leases		**(636)**	(474)
Interest paid on obligations under finance leases		**(128)**	(76)
Interest paid on borrowings		**(89)**	(45)
New borrowings raised		**–**	2,000
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**251,180**	(6,207)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**217,764**	68,957
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**127,797**	59,374
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**276**	(534)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		**345,837**	127,797

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 HM11, Bermuda and principal place of business is at 26/F, CCT Telecom Building, 11 Wo Shing Street, Fotan, Shatin, 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 and its subsidiaries (the "Group").

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

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

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Interpretation ("Int") 9 & HKAS 39 (Amendment)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

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)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 July 2010.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under the standard, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company have anticipated that the application of other new or 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 leasehold buildings 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 2009

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is 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 meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisition is 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 exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interests in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. 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.

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 the 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) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

Other intangible assets

Intangible assets acquire separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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 (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.

Research and development expenditure

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 to 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

(i) Defined contribution retirement benefit plans

Payments to defined contribution retirement plan are recognised as an expense when employees have rendered services entitling them to the contributions.

(ii) 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.

(iii) 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.

Inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is 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 acquisition of available-for-sale investment, trade and bills receivables, deposits and other receivables, deposits in other financial institution, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each 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.

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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 120 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

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.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

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

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 stated in convertible notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Equity instruments

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

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. The cash received for exercise of warrants is included in equity (other reserve).

Derecognition

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

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 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that 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).

Share-based payments transactions

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 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments transactions *(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 charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Prepaid lease payments

Prepaid lease payments in respect of leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and amortised over the period of the lease on a straight-line basis to the consolidated income statement.

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 each 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 (the foreign exchange reserve).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Impairment of 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$780,309,000 (2008: nil) has been recognised for the year. The carrying amount of goodwill at 31 December 2009 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 reflects 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$27,926,000 (2008: HK$25,962,000) has been recognised for the year.

Impairment on trade and other receivables

The policy for impairment of 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. Impairment loss on trade and other receivables of approximately HK$4,256,000 (2008: HK$27,932,000) has been recognised for the year.

Write-down on 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. Write-down on inventories of approximately HK$6,875,000 (HK$917,000) has been recognised for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Estimate of fair value of leasehold buildings

As described in note 18, the Group's leasehold buildings were revalued at the end of the reporting period on an open market value basis by 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.

Estimated impairment of property, plant and equipment

During the year, impairment loss of approximately HK$1,818,000 (2008: HK$2,938,000) 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.

Impairment assessment of other intangible assets

Intangible assets are evaluated for possible impairment on a specific intangible asset basis. This process requires management's estimate of future cash flows generated by each intangible asset. 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$290,000 (2008: nil) has been recognised for the year.

5. CAPITAL RISK MANAGEMENT

The Group's capital risk management objectives are:

– to ensure the Group's ability to continue as a going concern
– to maximise the return to shareholders

The directors of the Company consider the Group's capital comprise debt, which includes 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 adjust the amount of dividend paid to shareholders, new shares issue 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 2009

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**588,346**	300,813
Financial liabilities		
Other financial liabilities stated at amortised cost	**747,121**	113,162

(b) Financial risk management objective and policies

The Group's major financial instruments include deposits paid for acquisition of available-for-sale investment, trade and bills receivables, deposits and other receivables, deposits in other financial institution, bank balances and cash, trade and bills payables, other payables and accruals, amount due to a director, 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 2009 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 as they spread all over the world. 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 2009

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.

Other than concentration of credit risk on liquid funds which are deposited with several banks and other financial institutions with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse geographical areas.

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

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 74% (2008: 76%) of the Group's sales and 78% (2008: 85%) of 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 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk (Continued)

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

	Assets		Liabilities	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollar ("USD")	**103,856**	91,744	**5,674**	6,945
Renminbi ("RMB")	**105,520**	93,441	**48,342**	66,801
Euro ("EUR")	**127**	125	**–**	–
Japanese Yen ("JPY")	**5**	5	**77**	665

Sensitivity analysis

The Group is mainly exposed to the currency of USD/RMB/EUR/JPY.

The following table details the Group's sensitivity to a 5% (2008: 10%) increase and decrease in HK$ against the relevant foreign currencies. 5% (2008: 10%) 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. As a result of the less volatile financial market in 2009, the management adjusted the sensitivity rate from 10% to 5% for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 5% (2008: 10%) change in foreign currency rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 HK$ strengthen 5% (2008: 10%) against the relevant currency. For a 5% (2008: 10%) 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.

	USD		RMB		EUR		JPY	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit or loss	**(4,909)**	(8,480)	**(2,859)**	(2,664)	**(6)**	(13)	**4**	66

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (see note 32 for details of these borrowings), deposits in other financial institution and bank balances. The Group's bank borrowings, deposits in other financial institution 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.

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 2009

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.

	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 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**
31 December 2008						
Non-derivative financial liabilities						
Trade and bills payables	100,113	–	–	–	100,113	100,113
Other payables and accruals	9,773	–	–	–	9,773	9,773
Obligations under finance leases	498	243	303	–	1,044	885
Borrowings	1,857	221	–	–	2,078	1,983
Employee benefits	–	–	77	434	511	408
	112,241	464	380	434	113,519	113,162

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

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 component 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 is calculated by the difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. TURNOVER AND SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating and reportable segments 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) Lighter products segment engages in the design, manufacture and sale of cigarette lighters and related accessories.

The logistics services segment was introduced in the current year as a result of the acquisition of CITIC Logistics (International) Company Limited ("CITIC Logistics") as set out in note 40.

On 28 September 2009, the Company entered into an agreement pursuant to which the Company agreed to sell the entire issued share capital of Classic Line International Limited and its subsidiaries (collectively referred to as the "Classic Line Group") and the interest-free shareholder's loan outstanding and owing as at the completion date of the disposal to dispose of its business of lighter products. Accordingly, the business segment of lighter products was classified as discontinued operation, and the comparative figures of this segment were re-classified from continuing operations to discontinued operation. The disposal was completed on 31 October 2009. Details of which are disclosed in the Company's announcement dated 13 October 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(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		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
For the year ended 31 December						
Segment revenue:						
Sales to external customers	**536,492**	588,294	**2,363**	–	**538,855**	588,294
Other income	**5**	465	**11**	–	**16**	465
Total segment revenue	**536,497**	588,759	**2,374**	–	**538,871**	588,759
Segment results	**48,222**	27,251	**(799,487)**	–	**(751,265)**	27,251
Unallocated corporate income					**1,546**	625
Unallocated expenses					**(7,174)**	(1,431)
Finance costs					**(5,581)**	(29)
(Loss) profit before taxation					**(762,474)**	26,416

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the (loss) profit made by each segment without allocation of corporate income and expenses, central administration cost and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 segment:

	Continuing operations						Discontinued operations			
	Electronic products		Logistics services		Total		Lighter products		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
As at 31 December										
Segment assets	**377,991**	376,620	**1,326,124**	–	**1,704,115**	376,620	**–**	48,424	**1,704,115**	425,044
Unallocated assets					**–**	–			**361,432**	128,364
Total assets					**1,704,115**	376,620			**2,065,547**	553,408
Segment liabilities	**78,126**	96,668	**6,266**	–	**84,392**	96,668	**–**	21,438	**84,392**	118,106
Unallocated liabilities					**–**	–			**681,355**	17,415
Total liabilities					**84,392**	96,668			**765,747**	135,521

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

- all assets are allocated to reportable segments other than deposits paid for acquisition of available-for-sale investment, deposits in other financial institution, bank balances and cash and assets used jointly by reportable segments.

- all liabilities are allocated to reportable segments other than borrowings, 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 2009

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Other segment information

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

	Continuing operations						Discontinued operations			
	Electronic products		Logistics services		Total		Lighter products		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	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)	**8,175**	58,386	**–**	–	**8,175**	58,386	**2,482**	1,076	**10,657**	59,462
Depreciation of property plant, and equipment	**26,114**	22,673	**529**	–	**26,643**	22,673	**1,283**	3,289	**27,926**	25,962
Amortisation of prepaid lease payments	**–**	–	**–**	–	**–**	–	**41**	41	**41**	41
Write-down of inventories	**–**	245	**–**	–	**–**	245	**6,875**	672	**6,875**	917
Impairment loss on trade receivables	**3,967**	2,128	**–**	–	**3,967**	2,128	**289**	6,219	**4,256**	8,347
Impairment loss on other receivables	**–**	19,585	**–**	–	**–**	19,585	**–**	–	**–**	19,585
Write off of trade receivables	**–**	400	**–**	–	**–**	400	**1,736**	–	**1,736**	400
Reversal of impairment loss on trade receivables	**–**	–	**–**	–	**–**	–	**–**	(54)	**–**	(54)
Impairment loss on property, plant and equipment	**1,818**	–	**–**	–	**1,818**	–	**–**	2,938	**1,818**	2,938
Revaluation (surplus) deficit on leasehold buildings										
– (credited) charged to consolidated income statement	**–**	–	**–**	–	**–**	–	**(23)**	2,131	**(23)**	2,131
– charged to consolidated statement of comprehensive income	**–**	–	**–**	–	**–**	–	**–**	569	**–**	569
Gain on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	–	**(21)**	–	**(21)**	–
Write off of property, plant and equipment	**296**	–	**–**	–	**296**	–	**1,715**	102	**2,011**	102
Loss (gain) on disposal of subsidiaries	**–**	–	**–**	–	**–**	–	**2,945**	(478)	**2,945**	(478)
Impairment loss on goodwill	**–**	–	**780,309**	–	**780,309**	–	**–**	–	**780,309**	–
Amortisation of other intangible assets	**–**	–	**16,557**	–	**16,557**	–	**–**	357	**16,557**	357
Impairment loss on other intangible assets	**–**	–	**–**	–	**–**	–	**290**	–	**290**	–
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets										
Interest income	**(102)**	(625)	**–**	–	**(102)**	(625)	**–**	(10)	**(102)**	(635)
Finance cost	**8**	29	**5,573**	–	**5,581**	29	**209**	92	**5,790**	121

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Other segment information *(Continued)*

The following tables present revenue and certain assets and expenditure information for the Group's geographical segments.

	Continuing operations											
	Hong Kong		Elsewhere in the People's Republic of China (the "PRC")		Asia Pacific		Latin America		Others		Consolidated	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
For the year ended 31 December												
Segment revenue:												
Sales to external customers	122,099	121,249	345,137	389,812	61,302	52,487	4,017	–	6,300	24,746	538,855	588,294
Other income	16	465	–	–	–	–	–	–	–	–	16	465
Total segment revenue	122,115	121,714	345,137	389,812	61,302	52,487	4,017	–	6,300	24,746	538,871	588,759
Other segment information:												
As at 31 December												
Total assets	1,867,821	280,339	196,478	219,793	1,248	1,482	–	–	–	–	2,065,547	501,614
For the year ended 31 December												
Capital expenditures	3,081	513	5,094	57,873	–	–	–	–	–	–	8,175	58,386

Revenue from major products and services:

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

	2009 HK$'000	2008 HK$'000
Electronic products	536,492	588,294
Logistics services	2,363	–
	538,855	588,294

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Information about major customer:

During the years ended 31 December 2009 and 2008, none of the Group's customer contribute to more than 10% of the Group's turnover. In the opinion of the directors of the Company, the Group did not rely on any major customers during the years.

8. OTHER INCOME

	2009	2008
	HK$'000	HK$'000
Continuing operations		
Interest income	**102**	625
Gain on disposal of held for trading investment	**1,444**	–
Others	**16**	465
	1,562	1,090

9. FINANCE COSTS

	2009	2008
	HK$'000	HK$'000
Continuing operations		
Borrowing costs on:		
Obligations under finance leases	**8**	29
Imputed interest on convertible notes	**5,573**	–
	5,581	29

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

10. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging (crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost of inventories sold	461,161	511,376	67,265	123,340	528,426	634,716
Staff costs (note 11)	15,961	13,874	10,305	10,773	26,266	24,647
Depreciation of property, plant and equipment						
– owned assets	26,641	22,212	1,115	3,038	27,756	25,250
– assets held under finance leases	2	461	168	251	170	712
Amortisation of prepaid lease payments	–	–	41	41	41	41
Amortisation of other intangible assets	16,557	–	–	357	16,557	357
Auditor's remuneration	523	410	320	250	843	660
Write-down of inventories (included in cost of sales)	–	245	6,875	672	6,875	917
Exchange losses, net	1,714	257	69	–	1,783	257
Research and development costs recognised as an expense	–	–	341	412	341	412
Impairment loss on property, plant and equipment (included in other expenses)	1,818	–	–	2,938	1,818	2,938
Revaluation (surplus) deficit on leasehold buildings						
– (credited) charged to consolidated income statement	–	–	(23)	2,131	(23)	2,131
– charged to consolidated statement of comprehensive income	–	–	–	569	–	569
Impairment loss on other intangible assets (included in other expenses)	–	–	290	–	290	–
Impairment loss on trade receivables	3,967	2,128	289	6,219	4,256	8,347
Reversal of impairment loss on trade receivables	–	–	–	(54)	–	(54)
Impairment loss on other receivables	–	19,585	–	–	–	19,585
Write off of trade receivables (included in other expenses)	–	400	1,736	–	1,736	400
Gain on disposal of property, plant and equipment	–	–	(21)	–	(21)	–
Write off of property, plant and equipment (included in other expenses)	296	–	1,715	102	2,011	102

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. STAFF COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Staff costs (including directors' emoluments) comprise:						
Salaries, allowances and benefits	**15,884**	13,056	**10,191**	10,660	**26,075**	23,716
Retirement benefits scheme contributions	**465**	314	**114**	113	**579**	427
(Reversal of) provision for other employee benefits and long service payments	**(388)**	504	**–**	–	**(388)**	504
	15,961	13,874	**10,305**	10,773	**26,266**	24,647

12. TAXATION

The amount of taxation in the consolidated income statement represents:

	2009	2008
	HK$'000	HK$'000
Continuing operations		
Current tax – provision for Hong Kong Profits Tax		
– charge for the year	**11,724**	5,778
– over-provision in prior years	**–**	(24)
	11,724	5,754
Deferred tax (Note 36)		
– current year	**(3,294)**	1,895
– attributable to a change in tax rate	**–**	(588)
	8,430	7,061

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. TAXATION *(Continued)*

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the both years.

Under the New Law and Implementation Regulation, the Enterprise Income Tax of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

No provision for taxation in other jurisdictions for both years has been made in the consolidated financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

Taxation for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	2009 HK$'000	2008 HK$'000
(Loss) profit before taxation (from continuing operations)	**(762,474)**	26,416
Tax calculated at the domestic income tax rate of 16.5% (2008: 16.5%)	**(125,808)**	4,359
Tax effect of expenses that are not deductible in determining taxable profit	**134,262**	3,611
Tax effect of income that is not taxable in determining taxable profit	**(130)**	(291)
Tax effect of utilisation of tax losses not previously recognised	**(100)**	(6)
Tax effect of tax losses and other deductible temporary differences not recognised	**206**	–
Decrease in opening deferred tax liability resulting from an decrease in Hong Kong Profits tax rate	**–**	(588)
Over-provision in prior years	**–**	(24)
Taxation (relating to continuing operations)	**8,430**	7,061

Details of deferred tax are set out in note 36.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

13. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim dividend of HK0.10 cent (2008: HK0.10 cent) per share	3,797	3,797
Nil proposed final dividend (2008: HK0.10 cent) per share	–	3,798
	3,797	7,595

The directors do not recommend the payment of final dividend for the year ended 31 December 2009 (2008: HK0.10 cent per share).

14. DISCONTINUED OPERATIONS

During the year ended 31 December 2009, the Group discontinued its lighters products business upon the disposal of Classic Line Group. The loss for the period/year from the discontinued operations is analysed as follows:

	1.1.2009 to 31.10.2009 HK$'000	2008 HK$'000
Loss of lighters products business for the period/year	(6,142)	(12,956)
Loss on disposal of lighter products business (note 41)	(2,945)	–
	(9,087)	(12,956)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

14. DISCONTINUED OPERATIONS *(Continued)*

The results of the lighters 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$'000	2008 HK$'000
Turnover	85,560	140,751
Cost of sales	(74,140)	(124,012)
Gross profit	11,420	16,739
Other income	2,614	3,733
Other expenses	(2,122)	(2,938)
Distribution costs	(6,310)	(8,773)
Administrative expenses	(11,064)	(15,336)
Impairment loss on trade and other receivables	(289)	(6,219)
Finance costs	(209)	(92)
Loss before taxation	(5,960)	(12,886)
Taxation	(182)	(70)
Loss for the period/year from discontinued operations	(6,142)	(12,956)
Cash flows from discontinued operations:		
Net cash flows from (used in) operating activities	5,975	(215)
Net cash flows used in investing activities	(4,351)	(1,081)
Net cash flows (used in) from financing activities	(1,027)	1,695
	597	399

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

The carrying amounts of the assets and liabilities of the Classic Line Group at the date of disposal are disclosed in note 41.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

15. (LOSS) EARNINGS PER SHARE

For continuing and discontinued operations

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

	2009 HK$'000	2008 HK$'000
(Loss) earnings		
(Loss) profit for the purpose of basic (loss) earnings per share	(779,991)	6,399

	2009 Number of shares '000	2008 Number of shares '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	4,046,562	3,797,500
Effect of deemed issue of shares under the Company's share option scheme for the year	–	137,368
Weighted average number of ordinary shares for the calculation of diluted (loss) earnings per share	4,046,562	3,934,868

The calculation of diluted earnings per share for the year ended 31 December 2008 did not assume the exercise of the Company's warrants as the exercise price of the warrants was higher than the average market price for shares.

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 exercise of convertible notes and warrants would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements
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15. (LOSS) EARNINGS PER SHARE *(Continued)*

For continuing operations

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

	2009 HK$'000	2008 HK$'000
(Loss) earnings		
(Loss) profit for the year attributable to the owners of the Company	(779,991)	6,399
Add: Loss for the year from the discontinued operations	9,087	12,956
(Loss) earnings for the purpose of basic (loss) earnings per share from the continuing operations	(770,904)	19,355

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

For discontinued operations

Basic loss per share for the discontinued operations is HK$0.23 cents per share (2008: HK$0.34 cents per share) and diluted loss per share for the discontinued operations is HK$0.23 cents per share (2008: HK$0.33 cents per share), based on the loss for the year from the discontinued operations of approximately HK$9,087,000 (2008: HK$12,956,000) and the denominators detailed above for both basic and diluted (loss) earnings per share.

Notes to the Consolidated Financial Statements

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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:

Name of director	Fees HK$'000	Salaries, allowances and benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
For the year ended 31 December 2009				
Executive Directors				
Lam Yat Keung	–	1,560	12	1,572
Lam Pik Wah (note 1)	–	1,076	12	1,088
Lam Hung Kit	–	1,160	12	1,172
Li Weimin (note 2)	13	–	–	13
Wang Jianzhi (note 2)	13	–	–	13
Independent Non –Executive Directors				
Lo Wah Wai	90	–	–	90
Ho Chi Fai	90	–	–	90
Pai Te Tsun	90	–	–	90
	296	3,796	36	4,128

Notes:

(1) Resigned on 9 March 2010.

(2) Appointed on 24 December 2009.

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For the year ended 31 December 2009

16. DIRECTORS' EMOLUMENTS *(Continued)*

Name of director	Fees	Salaries, allowances and benefits	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2008				
Executive Directors				
Lam Yat Keung	–	1,413	12	1,425
Lam Pik Wah	–	1,166	12	1,178
Lam Hung Kit	–	814	12	826
Independent Non-Executive Directors				
Lo Wah Wai	90	–	–	90
Ho Chi Fai	90	–	–	90
Pai Te Tsun	90	–	–	90
	270	3,393	36	3,699

During the two years ended 31 December 2009 and 2008, no directors waived or agreed to waive any emoluments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

17. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company whose emoluments are included in the disclosures in note 16 above. The emoluments of the remaining two (2008: two) individuals were as follows:

	2009	2008
	HK$'000	HK$'000
Salaries and other benefits	2,100	2,480
Retirement benefits scheme contributions	24	16
	2,124	2,496

Their emoluments were within the following band:

	Number of employees	
	2009	2008
HK$1,000,001 to HK$1,500,000	2	2

During the two years ended 31 December 2009 and 2008, 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.

Notes to the Consolidated Financial Statements

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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 2008	10,651	156,730	23,650	–	1,084	192,115
Exchange realignment	556	474	193	–	57	1,280
Additions	–	52,705	6,742	–	–	59,447
Write off	–	–	–	–	(102)	(102)
Deficit on revaluation	(2,937)	–	–	–	–	(2,937)
At 31 December 2008 and 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 40)	–	–	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	**–**	**161,284**	**29,266**	**43,004**	**–**	**233,554**
Comprising:						
At cost						
– at 31 December 2009	**–**	**161,284**	**29,266**	**43,004**	**–**	**233,554**
– at 31 December 2008	–	209,909	30,585	–	1,039	241,533
At valuation						
– at 31 December 2008	8,270	–	–	–	–	8,270
DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	–	81,809	7,952	–	–	89,761
Exchange realignment	–	342	93	–	–	435
Depreciation charged for the year	237	21,278	4,447	–	–	25,962
Write back on revaluation	(237)	–	–	–	–	(237)
Impairment loss recognised	–	2,900	38	–	–	2,938
At 31 December 2008 and 1 January 2009	–	106,329	12,530	–	–	118,859
Exchange realignment	–	300	13	–	–	313
Depreciation charged for the year	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	**–**	**82,840**	**11,636**	**502**	**–**	**94,978**
CARRYING VALUES						
At 31 December 2009	**–**	**78,444**	**17,630**	**42,502**	**–**	**138,576**
At 31 December 2008	8,270	103,580	18,055	–	1,039	130,944

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 improvement and others	10% to 30%
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$39,000 (2008: HK$938,000) in respect of assets acquired under finance leases.

The Group's leasehold buildings in the PRC were revalued at 31 October 2009 (the date of disposal of Classic Line Group) and 31 December 2008 by Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, on an open market value basis. Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited is not connected with the Group.

Had the revaluated leasehold buildings been measured on a historical cost basis, their net carrying values as at 31 December 2008 would have been approximately HK$10,298,000 (2009: nil).

The analysis of the net carrying value of properties is as follows:

	2009	2008
	HK$'000	HK$'000
Leasehold buildings outside Hong Kong:		
Medium-term lease	–	8,270

During the two years ended 31 December 2009 and 2008, the directors of the Company conducted a review of the Group's plant and machinery, leasehold improvements and others respectively and determined that a number of those assets were impaired, due to physical damage and idle, with reference to the valuation valued by Malcolm & Associates Appraisal Limited and Dynasty Premium Asset Valuation & Real Estate Consultancy Limited respectively which are independent professional valuers not connected with the Group. Accordingly, impairment losses of approximately HK$1,818,000 (2008: HK$2,900,000) and nil (2008: HK$38,000) have been recognised in respect of plant and machinery, leasehold improvements and others during the year ended 31 December 2009.

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19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2009 HK$'000	2008 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	–	1,713
Analysed for reporting purpose as:		
Current asset	–	41
Non-current asset	–	1,672
	–	1,713

Movements in prepaid lease payments during the year are set out below:

	2009 HK$'000	2008 HK$'000
At 1 January	1,713	1,667
Exchange difference	15	87
	1,728	1,754
Amortisation for the year	(41)	(41)
Eliminated on disposal of subsidiaries (note 41)	(1,687)	–
At 31 December	–	1,713

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For the year ended 31 December 2009

20. GOODWILL

	HK$'000
COST	
Acquired on acquisition of a subsidiary and at 31 December 2009 (note 40)	1,536,866
IMPAIRMENT	
Impairment loss recognised and at 31 December 2009	780,309
CARRYING VALUES	
At 31 December 2009	**756,557**

For the purposes of impairment testing, goodwill has been allocated to CITIC Logistics, the cash generating units ("CGU") of the logistics services. The basis of determining the recoverable amounts of the above CGU and their major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management of CITIC Logistics covering a 10-year period, with an extrapolation of expected cash flows at the average growth rates of 3% and pre-tax discount rate of 9.98%. The management determined the budgeted growth rate based on its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

The directors of the Company are of the opinion, with reference to the valuation valued by Malcolm & Associates Appraisal Limited, an independent professional valuer not connected with the Group, the recoverable amount of CITIC Logistics at 31 December 2009 is approximately HK$756,557,000. Accordingly, impairment loss on goodwill of approximately HK$780,309,000 was made during the year ended 31 December 2009.

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For the year ended 31 December 2009

21. OTHER INTANGIBLE ASSETS

	Trademark and patents HK$'000	Service agreement HK$'000	Total HK$'000
COST			
At 1 January 2008	5,685	–	5,685
Additions	15	–	15
At 31 December 2008 and 1 January 2009	5,700	–	5,700
Acquired on acquisition of a subsidiary (note 40)	–	490,000	490,000
Derecognised on disposal of subsidiaries	(5,700)	–	(5,700)
At 31 December 2009	**–**	**490,000**	**490,000**
AMORTISATION AND IMPAIRMENT			
At 1 January 2008	5,053	–	5,053
Amortisation	357	–	357
At 31 December 2008 and 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	**–**	**16,557**	**16,557**
CARRYING VALUES			
At 31 December 2009	**–**	**473,443**	**473,443**
At 31 December 2008	290	–	290

Amortisation is calculated to write off the cost of trademarks and patents over its estimated useful life, using the straight-line method over periods not exceeding five years.

During the year ended 31 December 2009, the Group acquired service agreement for shipping logistics business through the acquisition of CITIC Logistics. The service agreement is amortised over the service period of 4 years.

During the year ended 31 December 2009, the directors of the Company conducted a review of the Group's intangible assets and determined the trademarks and patents were fully impaired due to certain products ceased for production. Accordingly, impairment loss of approximately HK$290,000 (2008: nil) had been recognised in respect of intangible assets.

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22. INTEREST IN A JOINTLY CONTROLLED ENTITY

During the year ended 31 December 2008, the Group disposed of a subsidiary, Tak Fi Brothers Limited, which held the interest in the jointly controlled entity. Accordingly, the Group's entire 50% interest in a jointly-controlled entity in the PRC, Shangdong Luneng Plastics & Metal Mfy. Co. Ltd., has been disposed of with Tak Fi Brothers Limited as set out in note 41.

The Group's entitlement to share in the profits of its jointly controlled entity was in proportion to its ownership interest.

The summarised unaudited financial information in respect of the jointly controlled entity which is accounted for using the equity method was as follows:

	2008
	HK$'000
Total assets	–
Total liabilities	–
Net liabilities	–
The Group's share of net liabilities	–
Revenue	15,789
Loss for the period	(1,635)
The Group's share of result of the jointly controlled entity for the year	–

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22. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

The amounts of unrecognised share of this entity, for the period from 1 January 2008 to 30 June 2008 (date of disposal) are as follows:

	From 1 January 2008 to 30 June 2008 HK$'000
Unrecognised share of losses:	
– arising during the period	(818)
– accumulated	(8,236)

23. DEPOSITS PAID FOR ACQUISITION OF AVAILABLE-FOR-SALE INVESTMENT

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

The board of directors of Best Aim comprised of two directors. Since no agreement on nomination of director by the Company was entered into up to the date of this report, the directors of the Company were of the opinion of that the Group may not be able to exercise significant influence over Best Aim. Therefore, the deposits paid were regarded as deposits paid for acquisition of available-for-sale investment as at 31 December 2009.

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24. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	29,771	36,646
Work-in-progress	2,017	6,502
Finished goods	74,474	73,256
	106,262	116,404

25. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 120 days to its trade customers.

	2009 HK$'000	2008 HK$'000
Trade and bills receivables	233,169	181,943
Less: Accumulated impairment	(7,102)	(10,923)
	226,067	171,020

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does 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 of invoice at the reporting date:

	2009 HK$'000	2008 HK$'000
Within 3 months	222,247	152,853
4-6 months	2,322	18,130
7-12 months	1,498	2
Over 12 months	–	35
	226,067	171,020

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25. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade receivables balance is debtor with carrying amount of approximately HK$47,456,000 (2008: nil) which was receivable from 中信國華國際工程承包有限責任公司 (CITIC International Contracting Inc.), an affiliate of certain owners of 中信物流有限公司 (the "Related Company") in which a director of the Company, Li Weimin, has beneficial interest as shareholder and a director of the Company, Wang Jianzhi, is interested as common director.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$26,468,000 (2008: HK$57,883,000) which were past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. Receivables that were past due but not impaired relate 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 are past due but not impaired:

	2009 HK$'000	2008 HK$'000
Within 3 months	22,648	39,716
4-6 months	2,322	18,130
7-12 months	1,498	2
Over 12 months	–	35
Total	26,468	57,883

Movement in the impairment on trade receivables:

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	10,923	6,690
Impairment loss recognised	4,256	8,347
Amount written off as uncollectible	(51)	(4,060)
Amount recovered during the year	–	(54)
Eliminated on disposal of subsidiaries	(8,026)	–
Balance at the end of the year	7,102	10,923

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25. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the impairment on trade receivables are individually impaired trade receivables with an aggregate balance of HK$7,102,000 (2008: HK$10,923,000) since the management considered the prolonged outstanding balances were uncollectible. The Group does not hold any collateral over these balances.

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

	2009	2008
	'000	'000
USD	9,208	4,361
RMB	92,197	79,197

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009	2008
	HK$'000	HK$'000
Prepayments, deposits and other receivables	23,270	24,825
Less: Accumulated impairment	(19,585)	(19,585)
	3,685	5,240

Movement in the impairment loss on other receivables:

	2009	2008
	HK$'000	HK$'000
Balance at beginning of the year	19,585	–
Impairment loss recognised	–	19,585
Balance at the end of the year	19,585	19,585

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26. 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 (2008: HK$19,585,000) since the management considered the prolonged outstanding balances were uncollectible. The Group does not hold any collateral over these balances.

At 31 December 2009, included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency of the Group:

	2009	2008
	'000	'000
USD	45	112
RMB	161	2,344

27. DEPOSITS IN OTHER FINANCIAL INSTITUTION

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

28. BANK BALANCES AND CASH

	2009	2008
	HK$'000	HK$'000
Deposits with maturity at inception of less than one month	58,767	40,729
Cash at bank and in hand	287,070	87,068
	345,837	127,797

Deposits with banks with maturity at inception of less than one month carry interest at market rates of 0.2% to 0.4% (2008: 0.3% to 1.7%) per annum.

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28. 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 Group:

	2009	2008
	'000	'000
USD	**4,141**	7,354
RMB	**108**	1,281
EUR	**11**	11
JPY	**62**	62

29. TRADE AND BILLS PAYABLES

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

	2009	2008
	HK$'000	HK$'000
Within 3 months	**66,722**	56,278
4-6 months	**3,602**	28,811
7-12 months	**668**	14,083
13-24 months	**241**	745
Over 24 months	**–**	196
	71,233	100,113

The average credit period on purchase 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.

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29. TRADE AND BILLS PAYABLES *(Continued)*

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

	2009	2008
	'000	'000
USD	667	641
RMB	38,408	51,388
JPY	916	7,736

30. OTHER PAYABLES AND ACCRUALS

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

	2009	2008
	'000	'000
USD	65	254
RMB	4,052	7,822

31 AMOUNT DUE TO A DIRECTOR

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

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32. BORROWINGS – UNSECURED

	2009 HK$'000	2008 HK$'000
Bank borrowing (note a)	–	433
Other borrowing (note b)	–	1,550
	–	1,983
Carrying amount repayable:		
Within one year	–	1,769
More than one year, but not exceeding five years	–	214
	–	1,983
Less: Amounts due within one year shown under current liabilities	–	(1,769)
	–	214

Notes:

a. Bank borrowing was guaranteed by the directors of a subsidiary of the Company, Sher Tak Chi and Kang Hsiao Fang, and carried interest at Prime Lending Rate plus 1.5% per annum.

b. Other borrowing was guaranteed by Sher Tak Chi, a director of a subsidiary of the Company, and carried a fixed interest rate at 9 % per annum.

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33. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its office equipment and motor vehicles under finance leases. The average leases term is approximately 3 years (2008: 4 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 4.86% (2008: ranging from 3.18% to 7.5%).

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases repayable:				
Within one year	**16**	498	**14**	444
In the second to fifth year inclusive	**29**	546	**25**	441
	45	1,044	**39**	885
Less: Future finance charges	**(6)**	(159)	**N/A**	N/A
Present value of lease obligations	**39**	885	**39**	885
Less: Amounts due within one year shown under current liabilities			**(14)**	(444)
Amounts due after one year			**25**	441

The Group leases office equipment and motor vehicles for its business operation.

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

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34. CONVERTIBLE NOTES

On 19 November 2009, the Company issued unsecured convertible notes for the 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, Li Weimin, was appointed as an executive director of the Company on 24 December 2009.

The details of the Group's convertible notes outstanding as at 31 December 2009 are set out below:

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

At any time after the issuance of the 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 note.

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 and the valuation is determined by Malcolm & Associates Appraisal Limited, an independent professional valuer not connected with the Group.

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34. CONVERTIBLE NOTES *(Continued)*

The movement of the liability component and equity component of the convertible notes for the year is set out below.

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
Issued during the year	659,033	291,367	950,400
Effective interest charged to the consolidated income statement	5,573	–	5,573
At 31 December 2009	664,606	291,367	955,973

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

35. EMPLOYEE BENEFITS

	2009 **HK$'000**	2008 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	**1,831**	2,235
Long service payments accrual (note 45)	**107**	408
	1,938	2,643
Categorised as:		
Due within one year or less (included in other payables and accruals)	**1,831**	2,235
Due after more than one year (disclosed under non-current liabilities)	**107**	408
	1,938	2,643

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36. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereof during the current and prior years:

	Accelerated tax depreciation	Impairment on trade receivables	Tax Losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	11,218	(896)	(37)	10,285
Charged (credited) to profit or loss	1,650	319	(4)	1,965
Effect of change in tax rate	(641)	51	2	(588)
At 31 December 2008 and 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 the profit or loss	(2,088)	(646)	(560)	(3,294)
At 31 December 2009	**14,502**	**(1,172)**	**(5,032)**	**8,298**

At the end of the reporting period, the Group has unused estimated tax losses and other deductible temporary differences of approximately HK$43,401,000 (2008: HK$14,537,000) and HK$Nil (2008: HK$992,000) respectively available for offsetting against future profits. A deferred tax asset has been recognised in respect of approximately HK$30,498,000 (2008: HK$236,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining HK$12,903,000 (2008: HK$14,301,000) due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of approximately HK$ nil (2008: HK$5,445,000) that will expire in 2013. Other losses may be carried forward indefinitely.

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

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37. SHARE CAPITAL

	Authorised ordinary shares	
	Number of shares	HK$'000
At 1 January 2008, 31 December 2008, 1 January 2009, HK$0.01 each	12,000,000,000	120,000
Increased authorised share (note a)	18,000,000,000	180,000
At 31 December 2009, HK$0.01 each	**30,000,000,000**	**300,000**

	Issued and fully paid ordinary shares	
At 1 January 2008, HK$0.01 each	3,797,500,000	37,975
Share issued upon exercise of warrants (note b)	100	–
At 31 December 2008, 1 January 2009, HK$0.01 each	3,797,500,100	37,975
Issue of shares upon exercise of share options (note c)	359,750,000	3,598
Issue of shares upon exercise of warrants (note b)	339,227,000	3,392
Issue of shares upon acquisition of a subsidiary (note d)	1,620,000,000	16,200
At 31 December 2009, HK$0.01 each	**6,116,477,100**	**61,165**

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 shares of HK$0.01 each totaling HK$180,000,000 in the capital of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

37. SHARE CAPITAL *(Continued)*

(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 issue of warrants are set out in the Company's circular dated 27 November 2007. During the year ended 31 December 2008, 100 warrants were converted into 100 ordinary shares at a subscription price of HK$0.48 per share and rank pari passu with other shares in issue in all respects. Accordingly 759,499,900 warrants were outstanding at 31 December 2008. Exercise in full of the outstanding warrants would result in the issue of 759,499,900 additional shares with an aggregate subscription value of HK$364,559,952.

During the year ended 31 December 2009, 339,226,700 warrants were converted into 339,226,700 ordinary shares at a subscription price of HK$0.48 per share and rank pari passu with other shares in issue in all respects. Accordingly 420,273,200 warrants were outstanding at 31 December 2009. At 31 December 2009, HK$53,775,360 was received in advance from warrant holders for exercise of warrants and credited to other reserve. On 4 January 2010 and 6 January 2010, 48,598,000 and 63,434,000 warrants were converted into 48,598,000 and 63,434,000 shares respectively at a subscription price of HK$0.48 per share. As 1 and 2 January 2010 are not business days, no application of exercise of warrants could be made subsequently to 31 December 2009 and the remaining 308,241,200 warrants were expired.

(c) During the year ended 31 December 2009, the Company allotted and issued 359,750,000 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. The new shares rank pari passu in all respects.

(d) On 19 November 2009, 1,620,000,000 ordinary shares of HK$0.01 each were issued for the acquisition of CITIC Logistics as set out in Note 40 at a quoted market price of HK$0.69 per share at the date of completion of the acquisition. The new shares rank pari passu in all respects. The premium arose from the issue of the 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 new shares are allocated as the directors of the Company are of the opinion that the amount is insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

38. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

38. SHARE OPTION SCHEME *(Continued)*

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.

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.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 359,750,000 (2009: nil) representing 9.47% (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 2009

38. SHARE OPTION SCHEME *(Continued)*

The following tables disclosed the movements of the Company's share options for years ended 31 December 2009 and 2008:

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	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)	–	–	

All share options outstanding at the beginning of the year was exercised during the year ended 31 December 2009.

For the year ended 31 December 2008

			Number of share options				
Participants	Date of grant	Exercise price per share	Outstanding at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2008
Employees	5 August 2006	HK$0.1246	114,000,000	–	–	(20,000,000)	94,000,000
Customers, suppliers and other eligible persons	5 August 2006	HK$0.1246	265,750,000	–	–	–	265,750,000
			379,750,000	–	–	(20,000,000)	359,750,000
Exercisable at the end of the year							359,750,000

During the year ended 31 December 2008, 20,000,000 share options granted to eligible participants under the scheme were lapsed. No option was granted under the Share Option Scheme during the two years ended 31 December 2009 and 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2009 HK$'000	2008 HK$'000
Non-current asset		
Investments in subsidiaries	46,400	71,561
Current assets		
Prepayments, deposits and other receivables	648	568
Amounts due from subsidiaries (note)	1,568,567	172,535
Bank balances and cash	188,313	46,583
	1,757,528	219,686
Current liability		
Other payables and accruals	964	378
Net current assets	1,756,564	219,308
Total assets less current liabilities	1,802,964	290,869
Non-current liability		
Convertible notes	664,606	–
	1,138,358	290,869
Capital and reserves		
Share capital	61,165	37,975
Share premium	1,479,480	169,876
Contributed surplus	62,315	62,315
Share-based compensation reserve	–	7,340
Convertible notes reserve	291,367	–
Other reserve	53,775	–
Accumulated (losses) profits	(809,744)	9,565
Proposed final dividends	–	3,798
	1,138,358	290,869

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

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For the year ended 31 December 2009

40. ACQUISITION OF A SUBSIDIARY

On 19 November 2009, the Group acquired the entire equity interests in CITIC Logistics with Li Weimin, an independent third party and subsequently appointed 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, total Group's turnover and loss for the year would have been increased by approximately HK$146,972,000 and decrease 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, nor is it intended to be a projection of future results.

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
Net assets acquired:			
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
Prepayment, 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

40. ACQUISITION OF A SUBSIDIARY *(Continued)*

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Satisfied by:			
Shares issued (note 37)			1,117,800
Convertible notes (note 34)			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 acquired business.

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 Li Weimin, 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 Li Weimin. Details of the Adjustment are set out in the Company's circular dated 16 October 2009. Since the Adjustment is contingent, the actual consideration may be different. The consideration will be reassessed at the time frame as specified under the terms of the Agreement. In case the Aggregate Net Profit specified thereunder is met, the consideration would need to be increased by an amount determined according to the provisions set out in the Agreement and the goodwill arising from the acquisition would be accordingly increased by the same amount.

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41. DISPOSAL OF SUBSIDIARIES

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

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
Prepayment, 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

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For the year ended 31 December 2009

41. DISPOSAL OF SUBSIDIARIES *(Continued)*

The impact of Classic Line Group on the Group's results and cash flows in the current and prior periods is disclosed in note 14.

During the year ended 31 December 2008, the Group disposed of the entire equity interests held in Tak Fi Brothers Limited at a cash consideration of HK$15.50 to independent third party.

The net liabilities of subsidiary at the date of disposal were as follows:

	2008 HK$'000
Net liabilities disposed of:	
Trade and bills receivables	34
Bank balances and cash	14
Deferred income in a jointly controlled entity	(1,435)
	(1,387)
Foreign exchange reserve	909
Net gain on disposal	478
Total consideration	–
Net cash outflow arising on disposal:	
Cash received	–
Bank balances and cash disposed of	(14)
	(14)

During the year ended 31 December 2008, the disposed subsidiary contributed to a loss of approximately HK$7,000 to the Group's profit, generated approximately HK$4,000 to the Group's net operating cash inflows and did not generate any cash flow from investing activities and financing activities. No turnover was generated for the year.

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For the year ended 31 December 2009

42. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2009, the Group entered into the following non-cash transactions:

(i) The Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of approximately HK$41,000.

(ii) As detailed in note 40, the Group acquired CITIC Logistics at the 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.

No major non-cash transaction occurred during the year ended 31 December 2008.

43. LEASE COMMITMENTS

The Group as lessee

	2009 HK$'000	2008 HK$'000
Lease payments paid under operating leases during the year	11,091	9,999

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

	2009 HK$'000	2008 HK$'000
Within one year	10,556	7,091
In the second to fifth year inclusive	13,698	16,599
Over five years	–	1,584
	24,254	25,274

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

44. CAPITAL COMMITMENTS

	2009 HK$'000	2008 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– Contracted but not provided for	5,971	790
– Authorised but not contracted for	455	–
	6,426	790

45. RETIREMENT BENEFIT OBLIGATIONS

	2009 HK$'000	2008 HK$'000
Long service payments (note 35)	107	408

Long service payments

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:

	2009 HK$'000	2008 HK$'000
At beginning of the year	408	394
Derecongised on disposal of subsidiaries	(317)	–
Increase in provision	16	14
At end of the year	107	408

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

45. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Long service payments *(Continued)*

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

	2009	2008
	%	%
Discount rate applied to long service payments obligations	8	8

46. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of the key management during the year are given in notes 16 and 17 respectively. Other related party transactions are as follows:

a) During the year ended 31 December 2008, the Group purchased finished goods of HK$15,789,000 and sold raw materials of HK$4,890,000 to a jointly controlled entity.

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

c) Pursuant to an authorisation letter dated July 20, 2007, the Related Company 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 the Related Company on 17 September 2009.

d) On April 15, 2009, the Related Company entered into an agreement to transfer its shipping logistics business contracted with 中信國華國際工程承包有限責任公司 (CITIC International Contracting Inc.), an affiliate of certain owners of the Related Company to CITIC Logistics at zero consideration.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

47. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2009 and 2008 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 2009 Direct %	2009 Indirect %	2008 Direct %	2008 Indirect %	Principal activities
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
CITIC Logistics (International) Company Limited	Corporation	Hong Kong	HK$10,000	–	100	N/A	N/A	Provision of logistics service
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Provision of management service
Harva Light (ST) Limited (note 1)	Corporation	Hong Kong	HK$1	–	100	–	31	Not commenced business yet
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	Manufacturing and trading of electronic and electrical parts and components
Supreme Gold Development Limited (note 1)	Corporation	British Virgin Islands	US$100	–	100	52	–	Investment holding

Notes to the Consolidated Financial Statements

Not commenced business yet

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
				2009		2008		
				Direct %	Indirect %	Direct %	Indirect %	
Supreme Gold Enterprises Limited (note 1)	Corporation	British Virgin Islands	US$2	–	100	–	31	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 2)	Corporation	PRC	US$1,500,000	–	100	–	100	Not commenced business yet

Notes:

(1) 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. No significant impact on the Group's result as the net asset value is insignificant to the Group.

(2) The Company is a wholly owned foreign enterprise in the PRC.

The above table lists the Group 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, 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.

48. EVENT AFTER THE REPORTING PERIOD

(a) On 4 January 2010 and 6 January 2010, 48,598,000 and 63,434,000 warrants were converted into 48,598,000 and 63,434,000 shares respectively at a subscription price of HK$0.48 per share. No cash was received as the amount was received in advance before year ended 31 December 2009. Details of warrants are disclosed in note 37(b).

(b) On 14 March 2010, China LWM Property Limited, a wholly owned subsidiary of the Company established on 12 February 2010, entered into an agreement with Prime Glory Management Limited, an independent third party of the Group, for the acquisition of a property situated in Hong Kong at a consideration of HK$280,000,000 which will be paid in cash. Details of acquisition are disclosed in the Company's announcement dated 15 March 2010.

Summary of Financial Information

A summary of the published results, assets, liabilities and minority interests 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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000 Restated	HK$'000	HK$'000	HK$'000
Turnover	**538,855**	588,294	795,909	636,237	559,882
(Loss) profit before taxation	**(762,474)**	26,416	86,617	76,803	53,307
Net (loss) profit attributable to equity holders of the Company	**(779,991)**	6,399	70,485	62,197	42,730

ASSETS AND LIABILITIES

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,065,547**	553,408	575,520	509,347	395,747
Total liabilities	**(765,747)**	(135,521)	(157,175)	(139,174)	(128,566)
Total net assets	**1,299,800**	417,887	418,345	370,173	267,181
Capital	**61,165**	37,975	37,975	37,975	32,175
Reserves	**1,238,635**	379,912	380,370	332,198	234,986
Minority interests	**–**	–	–	–	20
Total equity	**1,299,800**	417,887	418,345	370,173	267,181

Note: The results of the Group for the years ended 31 December 2009, 31 December 2008, 31 December 2007, 31 December 2006 and 31 December 2005 have been extracted from the audited consolidated financial statements for the years ended 31 December 2009, 31 December 2008, 31 December 2007, 31 December 2006 and 31 December 2005.