泰豐國際集團有限公司*

Sino-Tech International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 724)

Annual Report 2011

*For Identification Purpose Only

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Li Weimin *(Chairman)*
Mr. Lam Yat Keung
Mr. Lim Chuan Yang *(Chief Executive Officer)*
Mr. Huang Hanshui

NON-EXECUTIVE DIRECTOR
Mr. Xin Luo Lin

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

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

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

NOMINATION COMMITTEE
Ms. Liu Yanfang
Mr. Lim Chuan Yang
Professor Ma Hongwei

COMPANY SECRETARY
Ms. Lee Wai Yee

AUDITOR
SHINEWING (HK) CPA Limited

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suites 3208-11, Tower 2, Times Square,
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Causeway Bay,
Hong Kong

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

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

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

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

Results Overview and Financial Highlights

RESULTS OVERVIEW

During the year ended 31 December 2011 (the "Reporting Period"), Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") recorded a turnover of HK$784.5 million, comparable to HK$785.1 million for the year ended 31 December 2010 (the "Corresponding Period").

Net loss for the Reporting Period rose to HK$936.8 million from HK$532.2 million in the Corresponding Period, mainly due to increased impairment loss on goodwill, and the operating loss in terms of contribution to segment results (the "Operating Loss"). The loss for the year was mainly attributable to the impairment loss on goodwill and other intangible assets, the Operating Loss, the amortisation of other intangible assets, the imputed interest on convertible notes, the share option expenses, the impairment loss on property, plant and equipment and the allowance of inventories.

The impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, the share option expenses, the impairment loss on property, plant and equipment, the allowance of inventories and the gain on redemption of convertible notes (collectively, the "Non-cash Items") arose as a result of accounting treatment under the provisions of the applicable accounting standards and were of non-cash nature. Before the Non-cash Items, the Group made a loss of HK$69.3 million in 2011, as compared with a profit of HK$2.3 million in 2010.

FINANCIAL HIGHLIGHTS

	2011	2010
	HK$'000	HK$'000
Turnover	**784,467**	785,121
Gross (loss) profit	**(41,915)**	51,696
Loss for the year	**936,816**	532,180
Impairment loss on goodwill	**657,895**	98,662
Impairment loss on other intangible assets	**66,481**	211,558
Amortisation of other intangible assets	**51,519**	143,885
Imputed interest on convertible notes	**24,095**	45,944
Share option expenses	**33,081**	31,310
Impairment loss on property, plant and equipment	**21,464**	–
Allowance of inventories	**15,903**	3,100
Gain on redemption of convertible notes	**2,931**	–
Net (loss) profit for the year before impairment loss on goodwill and other intangible assets, amortisation of other intangible assets, imputed interest on convertible notes, share option expenses, impairment loss on property, plant and equipment, allowance of inventories and gain on redemption of convertible notes	**(69,309)**	2,279

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Turnover of the Group was HK$784.5 million in 2011, comparable to HK$785.1 million in 2010. Gross loss for the year amounted to HK$41.9 million (2010: gross profit HK$51.7 million) mainly due to steeper margin squeeze in the electronic products segment. Net loss for the year increased to HK$936.8 million from HK$532.2 million in 2010 mainly due to increased impairment loss on goodwill and the Operating Loss. The loss for the year was mainly attributable to the impairment loss on goodwill and other intangible assets, the Operating Loss, the amortisation of other intangible assets, the imputed interest on convertible notes, the share option expenses, the impairment loss on property, plant and equipment and the allowance of inventories.

The impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, the share option expenses, the impairment loss on property, plant and equipment, the allowance of inventories and the gain on redemption of convertible notes arose as a result of accounting treatment under the provisions of the applicable accounting standards and were of non-cash nature. Before the Non-cash Items, the Group made a loss of HK$69.3 million in 2011, as compared with a profit of HK$2.3 million in 2010.

As a result of the completion of the acquisition of CITIC Logistics (International) Company Limited ("CLI") in November 2009, goodwill in the amount of HK$1,536.9 million was allocated to CLI. With reference to the valuation conducted by an independent valuer, an annual review on the recoverable amount of CLI by the directors of the Company (the "Directors") was conducted, and corresponding impairment loss on such goodwill in the amount of HK$780.3 million and HK$98.7 million were made for the financial year ended 31 December 2009 and 2010 respectively. As at 31 December 2010, the carrying value of goodwill allocated to CLI was in the amount of HK$657.9 million.

CLI had been cooperating with CITIC International Contracting Inc.（中信國華國際工程承包有限責任公司）("CITIC Contracting") under a service agreement (the "Service Agreement") entered into between CITIC Logistics Company Limited*（中信物流有限公司）("CIBJ") and CITIC Contracting to provide shipping services to transport construction materials from the People's Republic of China ("PRC") to the Republic of Angola (the "Angola Project"). As a result of the completion of the acquisition of CLI, the Service Agreement was valued by an independent valuer at the completion date. The Directors perform an impairment assessment on the fair value of the Service Agreement annually to assess whether any impairment loss on the fair value of the Service Agreement shall be recognised. As at 31 December 2010, the carrying value of the Service Agreement was in the amount of HK$118.0 million.

Management Discussion and Analysis

As disclosed in the circular of the Company dated 28 February 2011 (the "Circular"), an arbitration claim (the "Angola Arbitration") against CLBJ was filed by Haitong Transportation Company Limited ("Haitong"), a former handling agent of CLBJ. Due to the Angola Arbitration, the shipping services provided by CLI to the Angola Project were suspended. The Company announced on 3 November 2011 that CLBJ received the arbitral decision for the Angola Arbitration from China Maritime Arbitration Commission (the "Arbitral Decision"). Pursuant to the Arbitral Decision, CLBJ shall pay Haitiong certain amount of arbitration claim to settle the claim between CLBJ and Haitong (the "Arbitration Claim").

The Directors understand that the Arbitration Claim has been fully settled by 30 March 2012. In addition, as set out in the Circular, according to the terms of the 90% Acquisition Agreement (as defined in the section headed "Material Acquisitions and Disposals of Subsidiaries and Associated Companies" below on page 9 in this report), the first vendor and the second vendor to the 90% Acquisition Agreement have fully indemnified the loss suffered by the Group and as a result, the full amount of the Arbitration Claim had been deducted from the second vendor's loan owed by a wholly-owned subsidiary of the Company, which was retained as a security for the payment of full amount of loss suffered by the Group as provided under the 90% Acquisition Agreement.

Since receiving the Arbitral Decision, CLI and CLBJ have been in discussion with CITIC Contracting to seek the resumption of shipping services for the Angola Project as announced by the Company on 3 November 2011. The Directors are mindful that the cooperation between CITIC Contracting relating to the Angola Project has been suspended for a pro-longed period due to the Angola Arbitration. Although CLI and CLBJ have been communicating with the relevant parties in CITIC Contracting and monitoring the situation closely to seek the resumption of the shipping services, CLBJ had not received any feedback from CITIC Contracting.

Furthermore, the Company was notified of the Incident (as mentioned in the section headed "Events after the Reporting Period" in pages 10 and 11 of this report) in March 2012. The board of directors of the Company (the "Board") considered and discussed the implication of the Incident and concluded that, despite that the Incident is not related to the Group, it may have generated an adverse perception on the image of the Group. As such, the Board considered that there was a risk that shipping services for the Angola Project may not be resumed.

Given the business interruptions in the shipping services to the Angola Project, the Directors considered that the entire amount of goodwill and other intangible assets attributable to CLI were irrecoverable. As set out in notes 19 and 20 to the consolidated financial statements, an impairment loss on goodwill in the amount of HK$657.9 million and an impairment loss on other intangible assets relating to the Angola Project in the amount of HK$66.5 million were recognised for the Reporting Period respectively.

Management Discussion and Analysis

In November 2011, the Group completed the 90% Acquisition Agreement to acquire the 90% equity interest in CLBJ. CLBJ together with its subsidiary are principally engaged in the provision of logistics and related services mainly including chemical logistics, engineering logistics, freight forwarding and logistics project management in the PRC. In 2010, CLBJ has been granted the exclusive rights of eight years to invest, build and operate the Zhanjiang projects that include the provision of raw materials transportation, specialised tanker transportation, and relating services for the Zhanjiang Steel Base of Guangdong Steel Company (the "Zhanjiang Projects"). Details of the Zhanjiang Projects are set out in the Circular.

As set out in the Circular, the investment in the Zhanjiang Projects by the Group is dependent on the progress of the construction of Zhanjiang Steel Base by Guangdong Steel Company (the "Zhanjiang Steel Base Project"). CLBJ has been communicating with the relevant parties including, among others, Guangdong Steel Company, regarding the progress of the Zhanjiang Steel Base Project. Based on the information available, CLBJ and the Directors understand that the Zhanjiang Steel Base Project has been approved by the National and Reform Commission for the conducting of the preliminary work and the development plan of the Zhanjiang Steel Base has been subject to continuous modifications. As at the date of this report, CLBJ has not received any formal notice from Guangdong Steel Company relating to the progress of the Zhanjiang Steel Base Project.

As set out in the Circular, a project company for the Zhanjiang Projects was expected to be established by the end of the first quarter of 2011. However, due to the delay in the construction of the Zhanjiang Steel Base, the Group's investment in the Zhanjiang Projects has also been delayed and the project company has not been established. Apart from such a delay, based on latest communications with Guangdong Steel Company, the Company understands that there are no significant changes in the major assumptions for the purpose of the valuation of the Zhanjiang Projects as set out in the Circular (pages I-5 to I-8).

Despite that there is a delay, based on the observations from site visits, CLBJ and the Directors understand that construction work of certain auxiliary facilities has been completed and the preparation work of the infrastructure of the Zhanjiang Steel Base is still in progress. The Directors will continue to communicate with the relevant parities and monitoring the progress of the Zhanjiang Steel Base Project.

Management Discussion and Analysis

The logistics services segment reported revenue of HK$42.2 million in 2011, an increase of 24.4% from HK$33.9 million in 2010. The increase in revenue was mainly due to the inclusion of revenue by CLBJ after the completion of acquisition in November 2011. The segment recorded a loss of HK$8.2 million, as compared with a marginal loss of HK$0.9 million in 2010, before the impairment loss on goodwill and other intangible assets, and the amortisation of other intangible assets. The main reasons attributable to the loss were the continued suspension of shipments for the Angola Project and the loss incurred by CLBJ.

The major global economies continued to be feeble in 2011. As a result of this and the tightening of monetary policy in the PRC especially in the second half of the year, the electronic products segment recorded a decrease of 1.2% in turnover to HK$742.3 million (2010: HK$751.2 million), with turnover dropping by more than 20% in the latter half of the year. The drop was found in both quantities sold and the selling price. Segment loss for the year was HK$60.5 million before the impairment loss on property, plant and equipment and allowance of inventories (2010: segment profit HK$21.2 million). The appreciation in RMB for more than 3% in 2011, the increase in minimum wages for more than 20% and the continuous shortage of labour were the major attributes to the loss.

The property investment segment reported a profit of HK$12.3 million in 2011, as compared with a profit of HK$4.9 million in 2010, mainly due to gains of HK$15.0 million in the fair value of the investment property as at the end of the Reporting Period.

As set out in the paragraph headed "Basis for qualified opinion – Limitation of scope on the impairment assessment of trade receivables" in the Independent Auditor's Report for the year ended 31 December 2011 in page 30) of this report, among the Group's gross trade and bills receivables of HK$239.3 million there were gross trade receivables in the amount of HK$34.8 million overdue and remaining outstanding as at the date of this report (the "Overdue Receivables"). The Overdue Receivables include HK$29.6 million due from CITIC Contracting and HK$5.2 million due from SUN International Investment Holdings Limited ("SUN International"), which relates to the logistics services provided by the Group to CITIC Contracting and SUN International.

As CITIC Contracting is a state-owned enterprise and financially sound under the CITIC Group as far as the Directors are aware, and based on the latest communication with CITIC Contracting and SUN International and past experience and track record of CITC Contracting and SUN International, the Directors considered that the Overdue Receivables can still be fully recoverable, thus no impairment has been provided on the Overdue Receivables. The Directors will keep monitoring the credit quality of Group's overall trade and bills receivables, and should there be any significant change in the credit quality, corresponding impairment will be made appropriately.

* *For identification purpose only*

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2011, the Group had bank balances and cash of HK$43.5 million (2010: HK$30.8 million). Working capital of the Group was HK$453.5 million (2010: HK$653.6 million) and the Group's current ratio (measured as total current assets to total current liabilities) was 1.3 times (2010: 1.8 times).

As at 31 December 2011, the secured bank borrowings of the Group amounted to HK$153.1 million (2010: HK$162.6 million), which were secured by the investment property of the Group with carrying value of HK$315.0 million (2010: HK$300.0 million) and the corporate guarantee provided by the Company. The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was 33.2% (2010: 15.7%).

As at 31 December 2011, the Company had zero coupon convertible notes due on 15 November 2014 (the "Convertible Notes") in the aggregate principal amount of HK$302.4 million (2010: HK$662.4 million) with an initial conversion price of HK$0.12 per conversion share. During the year under review, Convertible Notes in the aggregate principal amount of HK$324.0 million were converted into 2,700 million new ordinary shares of HK$0.01 each in the capital of the Company (the "Shares") and Convertible Notes in the aggregate principal amount of HK$36.0 million were redeemed by the Company at the redemption price of HK$36.0 million.

As at 31 December 2011, the Group did not have any capital expenditure commitments (2010: HK$33.8 million in respect of the acquisition of property, plant and equipment).

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

SIGNIFICANT INVESTMENTS

The Group did not have any significant investments during the year ended 31 December 2011.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year 2010, CLI, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (as amended by a supplemental agreement dated 14 December 2010) (the "Original 90% Agreement") with Pioneer Blaze Limited, Mr. Lim Chuan Yang (as guarantor to Pioneer Blaze Limited) and Mr. Li Weimin ("Mr. Li"), an executive director and a substantial shareholder of the Company, to acquire a total of 90% equity interest in CLBJ. Mr. Li is a connected person (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company by virtue of his substantial shareholdings and directorships in the Company and CLBJ. CLI also entered into a sale and purchase agreement (the "Original 10% Agreement") with CITIC Automobile Company Limited*（中信汽車公司）to acquire the remaining 10% equity interest in CLBJ. As the acquisition of the entire equity interest in CLBJ would be considered as a whole, the transaction under the Original 10% Agreement also constitutes a connected transaction under the Listing Rules.

On 11 February 2011, the Original 90% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK$210,393,289, to be satisfied by the issue and allotment of a maximum of 743,439,182 consideration Shares by the Company (the "90% Acquisition Agreement"). Completion of the 90% Acquisition Agreement took place on 7 November 2011, and the Company duly issued and allotted 118,703,625 consideration Shares and 253,015,966 consideration Shares, representing 50% of the consideration, to Mr. Li Weimin and Pioneer Blaze Limited, respectively, on 7 November 2011 pursuant to the terms of the 90% Acquisition Agreement. As a result, CLBJ has become an indirect 90% owned subsidiary of the Company.

On 11 February 2011, the Original 10% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK$46,969,595, to be satisfied by the issue and allotment of a maximum of 165,970,300 consideration Shares by the Company (the "10% Acquisition Agreement"). As the conditions precedent of the 10% Acquisition Agreement have not been satisfied on or before 31 December 2011, and no further agreement has been reached between CLI and CITIC Automobile Company Limited to extend the long stop date of the 10% Acquisition Agreement, pursuant to the terms of the 10% Acquisition Agreement, the 10% Acquisition Agreement lapsed and terminated on 31 December 2011.

For details of the above transactions, please refer to the circular of the Company dated 28 February 2011.

CHARGE ON GROUP'S ASSETS

As at 31 December 2011, the Group's investment property with a carrying value of HK$315.0 million (2010: HK$300.0 million) was pledged to secure the banking facilities granted to the Group.

* *For identification purpose only*

Management Discussion and Analysis

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had the following material contingent liabilities:

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

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgment of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group had 2,516 (2010: 2,576) full time employees in Hong Kong and the PRC. Total staff costs (including directors' remuneration but excluding share option expenses) for the year ended 31 December 2011 amounted to HK$43.5 million (2010: HK$36.8 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme and the central provident scheme in the PRC, the Company also operates a share option scheme of which the Board may, at its discretion, grant options to eligible employees of the Group.

EVENTS AFTER THE REPORTING PERIOD

On 20 January 2012, the Company issued and allotted 4,282,198 consideration Shares and 207,907,293 consideration Shares, representing the balance of the total consideration, to Mr. Li and Pioneer Blaze Limited, respectively, pursuant to the terms of the 90% Acquisition Agreement.

Management Discussion and Analysis

The Board notes that the Chairman of the Company, Mr. Li Weimin, is assisting the relevant authorities in China in the investigation into certain transactions conducted by him in April 2009 prior to his becoming a shareholder and director of the Company (the "Incident"). Beijing Municipal Public Security Bureau and the Hong Kong police have advised the Company that only Mr. Li is under investigation and that the investigation does not relate to the Group. The Board has resolved that a special committee be set up to handle the Company's matters which may arise from and relate to the investigation. The Board will make further announcement(s) regarding the matter as and when appropriate.

FUTURE OUTLOOK

The Group could face another challenging year in 2012 given an uncertain global economic outlook. Among other matters, the European debt crisis remains a lingering concern, the economic recovery in the US appears feeble and the emerging economies led by China and Brazil are slowing down. Surging oil prices due to geopolitical tensions could add more downside risks to global growth. According to an FT ("Financial Times") report dated 29 February 2012 quoting the Federal Reserve (the "Fed") chairman, the fundamentals supporting consumer spending in the US continue to be weak and the labour market remains far from normal despite recent improvement. The Fed has made no decision about another round of quantitative easing or QE3, which may depend on whether consumer demand gains traction. The International Monetary Fund (the "IMF") in its January 2012 World Economic Outlook (the "WEO") forecast that the US economy will grow by 1.8% in 2012.

Greece buys time with the successful debt swap, but hard work lies ahead given the complexity of the restructuring and the fear of contagion is still a big concern. Moreover, financial markets are already betting that Greece will default again in the future. The Institute of International Finance estimates that a messy default by Greece could cause more than €1 trillion of damage to the eurozone. The IMF in the WEO expects a mild recession for the euro area economy contracting 0.5% in 2012, as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation. Growth in emerging and developing economies is forecast to slow to 5.4% in 2012 from 6.2% in 2011 because of the worsening external environment and a weakening of internal demand.

While China is likely to engineer a soft landing, there is downward pressure on growth from deteriorating external demand, continued curbs on the property market, slower increases in capital investment and retail sales. The Chinese government has lowered the economic growth target to 7.5% in 2012 from the 8% level it has stood at for years. As per a SCMP ("South China Morning Post") report dated 10 March 2012, for the first two months of 2012, growth in fixed asset investment slowed to a 10-year low, factory output growth fell back to its lowest since July 2009, and retail sales also cooled more than forecast. The export sector has been a key driver to China's economic growth but exports slumped in February 2012 resulting in a record-high trade deficit. On the positive side, the consumer price index eased to a 20-month low of 3.2% in February 2012 and moderating inflation gives policymakers scope for more loosening to support growth. The IMF in the WEO forecasts that the Chinese economy will grow 8.5% in 2012.

Management Discussion and Analysis

As mentioned in the section headed "Business and Financial Review" above in page 6 of this report, the construction of the Zhanjiang Steel Base has been delayed and the Group believes that economic tightening in the PRC could be a key reason. A loosening of economic policies, however, should be favorable for the official start of construction of the Zhanjiang Steel Base Project, which will allow the Group to start preparations for the Zhanjiang Projects. Shipments for the Angola Project have not resumed as of the report date and there is a risk that shipments for the Angola Project may not resume. The Group will continue to improve the execution and cost control of existing logistics projects, and actively source new projects in an effort to expand the revenue stream of its logistics services business.

Given the tough economy and business environment in China, it is likely that the Group will face a continuous downside pressure on the sales order quantities and products selling prices for the electronic products business. Internally, the minimum wages in China is expected to be increased by over 10% this year and the material and overhead costs will rise due the appreciation of RMB. All the above together formed an unprecedented tough environment for the Group's performance in the coming year. To cope with the present difficult time, the Group will try to tighten its operating cost in line with the drop in turnover and will keep the inventory at a minimum level in order to outlive in the current economic environment.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Li Weimin, aged 43, was appointed as an executive director of the Company on 24 December 2009. Mr. Li was re-designated from Chief Executive Officer of the Company to Chairman of the Board on 1 January 2012. Mr. Li holds a master degree in business administration from The Open University of Hong Kong. He has about 20 years of experience in the logistics industry and worked for Xuchang Automobile Sales Company Limited*（許昌汽車銷售總公司）from 1992 to 1998 as General Manager. Mr. Li is currently director of certain subsidiaries of the Company.

Mr. Lam Yat Keung, aged 54, was appointed as President of the Company on 13 December 2003 and stepped down on 2 March 2010. Mr. Lam has over 30 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. He is mainly responsible for strategic development and operating direction of the Group's electronic business segment. Mr. Lam is currently an executive director of the Company and director of certain subsidiaries of the Company. He is the husband of Ms. Lam Pik Wah and brother-in-law of Mr. Lam Hung Kit, each of them is a director of certain subsidiaries of the Company.

Mr. Lim Chuan Yang, aged 43, was appointed as an executive director and Chief Executive Officer of the Company on 1 January 2012. Mr. Lim holds a bachelor degree of Commerce from the University of Calgary, Canada. Mr. Lim has over 18 years of experience in equity research, corporate finance and company management. He worked as an equity analyst in Standard and Poor's during the years from 2000 to 2004. As a corporate finance professional with Deloitte Touche Tohmatsu during the years from 2004 to 2009, Mr. Lim initiated and executed a number of successful mergers and acquisitions, private placement, and restructuring transactions involving multinational corporations, PRC State-owned enterprises, and private companies. Mr. Lim is currently director of certain subsidiaries of the Company.

Mr. Huang Hanshui, aged 41, was appointed as an executive director of the Company on 9 March 2010. Mr. Huang holds an MBA degree from the National University of Singapore. Mr. Huang has some ten years of experience in equity research and corporate finance. He worked as an equity analyst in Nomura Securities and Standard & Poor's. Mr. Huang is currently the Chief Financial Officer of CITIC Logistics (International) Company Limited, a wholly owned subsidiary of the Company, and director of certain subsidiaries of the Company.

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Biographical Details of Directors

NON-EXECUTIVE DIRECTOR

Mr. Xin Luo Lin, aged 62, was appointed as non-executive director of the Company on 26 August 2010. Mr. Xin is a postgraduate from the Beijing University in the PRC. He was a visiting scholar at the Waseda University, Japan between 1980 and 1983, an honorary research associate at the University of British Columbia, Canada during 1983 and 1984 and a visiting fellow at the Australia National University, Australia in 1985. He is an independent investor with over 20 years of experience in investment banking in the PRC, Hong Kong and Australia. He is a Justice of the Peace in New South Wales of Australia. Mr. Xin is currently an independent non-executive director of Enerchina Holdings Limited (Stock Code: 622), an independent non-executive director of Sinolink Worldwide Holdings Limited (Stock Code: 1168), an independent non-executive director of Central China Real Estate Limited (Stock Code: 832), a non-executive director and honorary chairman of Asian Capital Holdings Limited (Stock Code: 8295), and a non-executive director of China Environmental Technology Holdings Limited (Stock Code: 646), all of which companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He also serves as a director of Mori Denki Mfg. Co., Ltd., a company listed on the Tokyo Stock Exchange, and as a director and vice chairman of Oriental Technologies Investment Limited, a company listed on the Australian Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai, aged 55, was appointed as an independent non-executive director of the Company on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Group, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Ms. Liu Yanfang, aged 47, was appointed as an independent non-executive director of the Company on 24 June 2010. Ms. Liu holds a bachelor degree in law from China University of Political Science and Law. She has over 20 years of experience working as a corporate legal counsel and in financial crimes investigations. Ms. Liu is currently a PRC practice attorney and she has been a senior partner with Allbright Law Offices situated in Shanghai since 2004. From 1992 to 2003, Ms. Liu served various positions with the Ministry of Public Security including as director of the securities crime investigation department and as deputy director of the finance department under the economic protection bureau. From 1987 to 1992, she worked as an attorney for a law firm in Hebei province.

Professor Ma Hongwei, aged 45, was appointed as an independent non-executive director of the Company on 26 August 2010. Professor Ma graduated from the Department of Mechanics Engineering of Chengdu Science and Technology University in 1986. He obtained a doctorate degree from the Institute of Applied Mechanics of Taiyuan University of Technology in 1996. Professor Ma has over 20 years' experience in education and research. He is currently a Professor of Jinan University, the President of the College of Science and Engineering, Deputy Director of Public Safety Research Centre, Vice President of the Institute of Nuclear Science and Engineering Technology of Jinan University; and the Chief Secretary of Guiding Committee on Education of Mechanics of Ministry of Education.

Report of the Directors

The board of directors of the Company presents their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2011 are set out in note 50 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 31 and 32 of this report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2011 (2010: nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years is set out on page 127.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 40 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the year are set out in note 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 42 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2010: Nil). The Company's share premium account of HK$2,190,760,000 (2010: HK$1,834,074,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 18 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for 5.76% and 21.84%, 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 12.38% and 50.66%, respectively, of the total purchases of the Group for the year.

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

Report of the Directors

DIRECTORS

The directors of the Company (the "Directors") during the year and up to the date of this report were:

Executive Directors

Mr. Li Weimin	
Mr. Lam Yat Keung	
Mr. Lim Chuan Yang	(Appointed on 1 January 2012)
Mr. Huang Hanshui	
Mr. Wang Jianzhi	(Resigned on 20 May 2011)

Non-executive Directors

Mr. Xin Luo Lin	
Academician Liu Renhuai	(Resigned on 1 January 2012)

Independent non-executive Directors

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

With effect from 1 January 2012, Academician Liu Renhuai resigned as Chairman of the Board, a non-executive Director and a member of the Audit Committee of the Company; Mr. Lim Chuan Yang was appointed as an executive Director and Chief Executive Officer of the Company; and Mr. Li Weimin was re-designated from Chief Executive Officer to Chairman of the Board and continue to serve as an executive Director and the authorised representative of the Company.

Mr. Lim entered into a service agreement with the Company for an initial term of three years commencing from 1 January 2012, which will continue thereafter until terminated by either party by giving not less than three months' notice in writing to the other party, and his term of office is subject to retirement by rotation and re-election in accordance with the Bye-Laws and the Listing Rules. Mr. Lim will hold office until the next general meeting of the Company and will retire at that general meeting but will be eligible for re-election. Mr. Lim is entitled to a director's fee of HK$600,000 per annum and a remuneration of HK$1,600,000 per annum for his position as Chief Executive Officer, which was determined by reference to his duties and responsibilities within the Group, the prevailing market rate and the Company's remuneration policy. Mr. Lim is also entitled to discretionary bonus and to participate in the Company's share option scheme at the sole discretion of the Board.

Report of the Directors

After the re-designation, Mr. Li is entitled to a director's fee of HK$1,000,000 per annum, which was determined by reference to his duties and responsibilities within the Group, the prevailing market rate and the Company's remuneration policy.

During the Reporting Period, Mr. Xin Luo Lin was appointed as a non-executive director of China Environmental Technology Holdings Limited (Stock Code: 646), a company listed on the Stock Exchange.

Pursuant to bye-law 86 of the Bye-Laws, Mr. Lim Chuan Yang will hold office until the forthcoming annual general meeting (the "AGM") and, being eligible, will offer himself for re-election. In accordance with bye-law 87 of the Bye-Laws, Mr. Huang Hanshui, Mr. Xin Luo Lin and Ms. Liu Yanfang shall retire at the AGM and, being eligible, offer themselves for re-election at the AGM.

On 30 March 2012, the Company was informed that Mr. Xin Luo Lin will not offer himself for re-election at the AGM. Therefore, save and except for Mr. Xin Luo Lin has declined to offer himself for re-election at the AGM, all the above mentioned Directors will offer themselves for re-election at the AGM.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions are set out on page 22 of this report.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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

Name of directors	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note 1)	Beneficial owner	4,377,407,250	37.24%
Mr. Lim Chuan Yang (Note 2)	Beneficial owner and interest of controlled corporation	619,174,082	5.27%
Mr. Lam Yat Keung (Note 3)	Interest of family	612,400,000	5.21%
Mr. Huang Hanshui (Note 4)	Beneficial owner	86,827,895	0.74%

Notes:

1. Mr. Li Weimin is interested in 4,377,407,250 Shares, consisting of (i) an interest in 1,738,703,625 Shares beneficially owned and held in his own name; (ii) a derivative interest in 2,520,000,000 conversion shares to be allotted and issued upon full conversion of the convertible notes issued to him by the Company in the principal amount of HK$302,400,000; and (iii) an interest in 118,703,625 consideration shares proposed to be allotted and issued to him pursuant to a sale and purchase agreement dated 11 February 2011.

2. Mr. Lim Chuan Yang was appointed as an executive Director on 1 January 2012. Mr. Lim was interested in 619,174,082 Shares, consisting of (i) an interest in 253,015,966 Shares owned by Pioneer Blaze Limited, the entire issued share capital of Pioneer Blaze Limited is beneficially and wholly owned by Mr. Lim; (ii) an interest in 253,015,966 consideration shares proposed to be allotted and issued to Pioneer Blaze Limited pursuant to a sale and purchase agreement dated 11 February 2011; and (iii) a derivative interest in 113,142,150 Shares pursuant to share options granted to him on 30 November 2011.

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

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

Report of the Directors

Long positions in the shares of 中信物流飛馳有限公司 (CITIC Logistics Fritz Company Limited*):

Name of directors	Capacity	Number of shares	Percentage of shareholding
Mr. Li Weimin	Beneficial owner	185	5%

Note: 中信物流飛馳有限公司 is a subsidiary of the Company.

Save as disclosed above, as at 31 December 2011, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the transactions disclosed under the sections headed "MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES" as set out on page 9 and "SHARE OPTION SCHEME" as set out in note 41 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the chief executives of the Company, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

* *For identification purpose only*

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and chief executives of the Company, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of substantial shareholders	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Smart Number	Beneficial owner	612,400,000	5.21%
Ms. Lam Pik Wah	Interest of controlled corporation	612,400,000	5.21%
Mr. Lam Hung Kit	Interest of controlled corporation	612,400,000	5.21%

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

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 2011.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "Share Option Scheme") for which the details are set out in note 41 to the consolidated financial statements.

Report of the Directors

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

In accordance with the terms and conditions of the Convertible Notes, the Company exercised its right to early redeem the Convertible Notes held by Mr. Li Weimin, in the aggregate principal amount of HK$36,000,000, at the redemption price of HK$36,000,000 and the completion of which took place on 30 May 2011 (the "CN Redemption"). As Mr. Li Weimin is an executive Director and a substantial shareholder (as defined under the Listing Rules) of the Company and therefore a connected person (as defined under the Listing Rules) of the Company, the CN Redemption constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. For details of this transaction, please refer to the announcement of the Company dated 30 May 2011.

On 30 June 2011, the Company entered into an agreement with CLBJ pursuant to which the Company agreed to provide a guarantee in the maximum amount of RMB3,300,000 to CLBJ (the "Guarantee") to facilitate the availability of bid securities (the "Agreement"). Mr. Li Weimin, an executive Director and a substantial shareholder (as defined under the Listing Rules) of the Company, beneficially held 30% equity interest in CLBJ at that time . Therefore, CLBJ was a connected person of the Company and the transaction contemplated under the Agreement constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. The Guarantee was terminated and released on 2 November 2011. For details of this transaction, please refer to the announcement of the Company dated 30 June 2011.

Save as disclosed above and the transactions disclosed under the section headed "MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES" as set out on page 9, the Group has not conducted any other transactions with connected persons (as defined in the Listing Rules) during the Reporting Period.

Report of the Directors

CORPORATE GOVERNANCE PRACTICE

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company's principal place of business in Hong Kong has been changed to Suites 3208-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong with effect from 7 November 2011.

AUDITOR

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

On behalf of the Board

Lim Chuan Yang
Executive Director

Hong Kong, 30 March 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

BOARD OF DIRECTORS

The Board comprises a balanced composition of Directors who possess a wide spectrum of relevant skills and experience, including three executive Directors, two non-executive Directors and three independent non-executive Directors. All Directors are expressly identified in all corporate communications. The biographical details of each Director (except Academician Liu who ceased to be a Director on 1 January 2012) are set out on pages 13 to 14. The Board has established two Board Committees, namely the Audit Committee and the Remuneration Committee. After the Reporting Period, the Board has established the Nomination Committee on 12 March 2012. The attendance of the Directors at the regular Board meetings and the Board Committees meetings is given below and their respective responsibilities are discussed later in this report.

		No. of meetings attended/held		
		Board meeting	**Audit Committee**	**Remuneration Committee**
Executive Directors				
Mr. Li Weimin		4/4		
Mr. Lam Yat Keung		4/4		
Mr. Huang Hanshui		4/4		
Mr. Wang Jianzhi	(Resigned on 20 May 2011)	0/4		
Non-executive Directors				
Mr. Xin Luo Lin		3/4	1/2	
Academician Liu Renhuai		4/4	2/2	
Independent non-executive Directors				
Mr. Ho Chi Fai		4/4	2/2	1/1
Ms. Liu Yanfang		4/4	2/2	1/1
Professor Ma Hongwei		4/4	2/2	1/1

Corporate Governance Report

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

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

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

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

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

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2011.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Corporate Governance Report

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

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

NON-EXECUTIVE DIRECTORS

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

APPOINTMENT, RE-ELECTION AND REMOVAL

During the Reporting Period, the Company has not established any nomination committee but has established a formal, considered and transparent procedure for the appointment of new directors by collective decision of the Board. During the Reporting Period, Mr. Wang Jianzhi resigned as an executive Director for personal career development. After the Reporting Period, the Board has established the Nomination Committee comprising Ms. Liu Yanfang (Chairman of Nomination Committee), Mr. Lim Chuan Yang and Professor Ma Hongwei, on 12 March 2012.

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

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors. As at 31 December 2011, the Remuneration Committee comprises all independent non-executive Directors, namely, Professor Ma Hongwei (Chairman of Remuneration Committee), Mr. Ho Chi Fai and Ms. Liu Yanfang.

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

Corporate Governance Report

AUDIT COMMITTEE

As at 31 December 2011, the Audit Committee comprises two non-executive Directors and three independent non-executive Directors, namely, Mr. Ho Chi Fai (Chairman of Audit Committee), Ms. Liu Yanfang, Professor Ma Hongwei, Academician Liu Renhuai and Mr. Xin Luo Lin.

The primary duties of the Audit Committee including 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 Audit Committee also oversees the Company's financial reporting system and internal control procedures.

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2011, the remuneration paid/payable to the auditor of the Company, SHINEWING (HK) CPA Limited, is set out below:

	HK$'000
Audit services	863
Non-audit services:	
– Taxation services	63
– Acquisition of CLBJ	500
– Others	80
	643
	1,506

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2011.

ACCOUNTABILITY AND INTERNAL CONTROL

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

Shareholders are welcome to attend shareholder's meeting where they are fully briefed on the Company's activities and questions can be raised to the Board and the management. The Chairman of the Board had attended the annual general meeting of the Company held on 8 June 2011, where separate resolution has been proposed for each substantive issue. Poll voting has been adopted for decision making at shareholder's meetings pursuant to the Listing Rules. Details of the poll voting procedures are set out in the circular sent to shareholders prior to the meeting and explained at the commencement of the meeting.

Independent Auditor's Report

信永中和 ShineWing

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

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

We have audited the consolidated financial statements of Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 126, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

BASIS FOR QUALIFIED OPINION – LIMITATION OF SCOPE ON THE IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES

Included in the Group's gross trade and bills receivables of HK$239,285,000 as at 31 December 2011 were gross trade receivables of approximately HK$34,832,000 which had been overdue and for which no subsequent settlement had been noted up to the date of this report. The directors of the Company consider the Group is able to recover the outstanding balances, and therefore no impairment had been provided on such balances. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such trade receivables could be recovered in full or to determine the amount of impairment, if any. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to any impairment loss had been occurred against these trade receivables as at 31 December 2011.

Any adjustment to the amount of the above trade receivables found to be necessary would affect the Group's net assets as at 31 December 2011 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION OF SCOPE

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its 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
30 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**784,467**	785,121
Cost of sales		**(826,382)**	(733,425)
Gross (loss) profit		**(41,915)**	51,696
Other income	8	**4,339**	6,418
Distribution costs		**(9,961)**	(6,934)
Administrative expenses		**(56,379)**	(53,167)
Impairment loss on goodwill	19	**(657,895)**	(98,662)
Impairment loss on other intangible assets	20	**(66,481)**	(211,558)
Amortisation of other intangible assets	20	**(51,519)**	(143,885)
Share option expenses		**(33,081)**	(31,310)
Gain on redemption of convertible notes		**2,931**	–
Gain arising on change in fair value of investment property	18	**15,000**	6,652
Share of results of an associate	21	**183**	–
Other expenses		**(24,754)**	(60)
Finance costs	9	**(25,641)**	(47,016)
Loss before taxation	10	**(945,173)**	(527,826)
Taxation	12	**8,357**	(4,354)
Loss for the year		**(936,816)**	(532,180)
Loss for the year attributable to:			
Owners of the Company		**(936,734)**	(532,180)
Non-controlling interests		**(82)**	–
		(936,816)	(532,180)
Loss per share (in Hong Kong cents):	14		
Basic and diluted		**(8.87)**	(7.61)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Loss for the year	(936,816)	(532,180)
Other comprehensive income (expenses)		
Exchange differences arising on translation of foreign operations	1,532	(138)
Share of other comprehensive income of an associate	83	–
Other comprehensive income (expenses) for the year	1,615	(138)
Total comprehensive expenses for the year	(935,201)	(532,318)
Total comprehensive (expenses) income attributable to:		
Owners of the Company	(935,698)	(532,318)
Non-controlling interests	497	–
	(935,201)	(532,318)

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	17	**231,645**	162,945
Investment property	18	**315,000**	300,000
Goodwill	19	**38,826**	657,895
Other intangible assets	20	**140,505**	118,000
Interest in an associate	21	**7,343**	–
Deposits for acquisition of property, plant and equipment		**–**	21,202
Finance lease receivables	22	**102**	–
		733,421	1,260,042
Current assets			
Deposits paid for potential investments	23	**26,000**	64,500
Inventories	24	**98,259**	197,052
Finance lease receivables	22	**154**	–
Trade and bills receivables	25	**237,347**	272,219
Prepayments, deposits and other receivables	26	**37,530**	87,024
Dividend receivables	27	**1,835**	–
Tax recoverable		**960**	1,627
Financial assets at fair value through profit or loss	28	**7,395**	–
Deposits in other financial institutions	29	**446**	446
Bank balances and cash	30	**43,533**	30,767
		453,459	653,635
Current liabilities			
Trade and bills payables	31	**72,456**	172,707
Other payables and accruals	32	**82,474**	30,105
Amount due to a director	33	**–**	471
Amount due to a non-controlling equity holder of a subsidiary	33	**28,772**	–
Bank borrowings – secured	34	**153,079**	162,593
Obligations under finance leases	35	**248**	314
		337,029	366,190
Net current assets		**116,430**	287,445
Total assets less current liabilities		**849,851**	1,547,487

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Obligations under finance leases	35	14	262
Amount due to a shareholder	36	108,620	–
Convertible notes	37	244,831	498,416
Employee benefits	38	123	150
Deferred tax liabilities	39	33,910	11,678
		387,498	510,506
Net assets		462,353	1,036,981
Capital and reserves			
Share capital	40	117,545	86,828
Reserves		293,855	950,153
		411,400	1,036,981
Non-controlling interests		50,953	–
Total equity		462,353	1,036,981

The consolidated financial statements on pages 31 to 126 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

Director
Lim Chuan Yang

Director
Lam Yat Keung

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus (note) HK$'000	Share-based compensation reserve HK$'000	Foreign exchange reserve HK$'000	Convertible notes reserve (note 37) HK$'000	Other reserve (note 40(a)) HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	61,165	1,479,480	5,800	–	(119)	291,367	53,775	(591,668)	1,299,800	–	1,299,800
Loss for the year	–	–	–	–	–	–	–	(532,180)	(532,180)	–	(532,180)
Other comprehensive expenses for the year	–	–	–	–	(138)	–	–	–	(138)	–	(138)
Total comprehensive expenses for the year	–	–	–	–	(138)	–	–	(532,180)	(532,318)	–	(532,318)
Recognition of equity-settled share option expenses (note 41)	–	–	–	31,310	–	–	–	–	31,310	–	31,310
Issue of shares upon conversion of convertible notes (note 40(b))	24,000	276,427	–	–	–	(88,293)	–	–	212,134	–	212,134
Issue of shares upon exercise of warrants	1,663	78,167	–	–	–	–	(53,775)	–	26,055	–	26,055
At 31 December 2010 and 1 January 2011	86,828	1,834,074	5,800	31,310	(257)	203,074	–	(1,123,848)	1,036,981	–	1,036,981
Loss for the year	–	–	–	–	–	–	–	(936,734)	(936,734)	(82)	(936,816)
Other comprehensive income for the year	–	–	–	–	1,036	–	–	–	1,036	579	1,615
Total comprehensive income (expenses) for the year	–	–	–	–	1,036	–	–	(936,734)	(935,698)	497	(935,201)
Recognition of equity-settled share option expenses (note 41)	–	–	–	33,081	–	–	–	–	33,081	–	33,081
Share options lapsed (note 41)	–	–	–	(2,675)	–	–	–	2,675	–	–	–
Issue of shares upon conversion of convertible notes (note 40(d))	27,000	322,116	–	–	–	(99,330)	–	–	249,786	–	249,786
Redemption of convertible notes (note 37)	–	–	–	–	–	(11,037)	–	–	(11,037)	–	(11,037)
Acquisition of subsidiaries (note 43)	3,717	34,570	–	–	–	–	–	–	38,287	50,456	88,743
At 31 December 2011	117,545	2,190,760	5,800	61,716	779	92,707	–	(2,057,907)	411,400	50,953	462,353

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		(945,173)	(527,826)
Adjustments for:			
Bank interest income		(112)	(36)
Interest income from a related company		(243)	(79)
Interest income from advances		(508)	(998)
Interest income on finance leases		(3)	–
Finance costs		25,641	47,016
Gain on redemption of convertible notes		(2,931)	–
Depreciation of property, plant and equipment		45,794	33,171
Amortisation of other intangible assets		51,519	143,885
Share option expenses		33,081	31,310
Gain arising on change in fair value of investment property		(15,000)	(6,652)
Impairment loss on property, plant and equipment		21,464	–
Impairment loss on goodwill		657,895	98,662
Impairment loss on other intangible assets		66,481	211,558
Share of results of an associate		(183)	–
Reversal of impairment loss on trade receivables		(807)	(3,353)
Net gain on disposals of property, plant and equipment		(805)	(42)
Write-offs of property, plant and equipment		3,290	60
Allowance of inventories		15,903	3,100
Operating cash flows before working capital changes		(44,697)	29,776
Decrease (increase) in inventories		82,890	(93,890)
Decrease (increase) in trade and bills receivables		67,249	(42,799)
(Increase) decrease in prepayments, deposits and other receivables		(6,594)	585
(Decrease) increase in trade and bills payables		(110,461)	101,474
(Decrease) increase in other payables and accruals		(12,932)	16,011
(Decrease) increase in non-current employee benefits		(27)	43
Cash (used in) generated from operations		(24,572)	11,200
Income taxes refunded (paid)		618	(9,867)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(23,954)	1,333
INVESTING ACTIVITIES			
Purchase of investment property		–	(137,348)
Decrease (increase) in advances		62,847	(82,847)
Purchase of property, plant and equipment		(37,291)	(56,768)
Deposits refunded (paid) for potential investments		38,500	(50,000)
Deposits paid for acquisition of property, plant and equipment		–	(21,202)
Proceeds from disposals of property, plant and equipment		12,420	597
Repayment of finance lease receivables		106	–
Interest received		1,357	36
Purchase of financial assets at fair value through profit or loss		(7,395)	–
Proceeds from disposal of financial assets at fair value through profit or loss		2,437	–
Net cash inflow from acquisition of subsidiaries	43	13,699	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		86,680	(347,532)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares upon exercise of warrants	–	26,055
New borrowings raised	–	12,000
(Repayment to) advance from a director	(471)	289
Redemption of convertible notes	(36,000)	–
Repayment of borrowings	(9,514)	(5,407)
Interest paid on borrowings	(1,523)	(945)
Repayment of obligations under finance leases	(314)	(354)
Interest paid on obligations under finance leases	(23)	(49)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(47,845)	31,589
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,881	(314,610)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	30,767	345,837
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,115)	(460)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	43,533	30,767

Notes to the Consolidated Financial Statements
For the year ended 31 December 2011

1. GENERAL

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

Its registered office is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and principal place of business is at Suites 3208-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the "Group") are set out in note 50.

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

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

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

Amendments to HKFRSs	Improvements to HKFRSs 2010
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standards ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to Hong Kong (International Financial Reporting Interpretations Committee) ("HK (IFRIC)") Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) Int 19	Extinguishing Financial Liabilities with Equity Instrument

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Amendments to HKFRS 3 – Business Combinations (as part of Improvements to HKFRSs issued in 2010)

As part of Improvements to HKFRSs issued in 2010, HKFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other standards.

Such amendments to HKFRS 3 have been applied in the current year and did not result in any changes to the measurement of non-controlling interests arising from the acquisition of CITIC Logistics Company Limited ("CLBJ") in the current year which were measured using the proportionate share of net assets.

Issued but not yet effective HKFRSs

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]

Notes to the Consolidated Financial Statements
For the year ended 31 December 2011

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

Issued but not yet effective HKFRSs *(Continued)*

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

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

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirement) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 – Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the reclassification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

HKFRS 9 – Financial Instruments *(Continued)*

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards are described below:

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial information and HK (SIC) – Interpretation 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The adoption of these standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

HKFRS 13 – Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad. It applies to both financial instrument items and non-financial instruments items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments – Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the annual period beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment property that is measured using the fair value model in accordance with HKAS 40 Investment Property is presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors of the Company anticipate that the application of the amendments to HKAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment property of which the carrying amount is presumed to be recovered through sale. However, the directors of the Company cannot reasonably ascertain the tax consequence when the investment property is sold. Therefore, the impact of adopting amendments to HKAS 12 cannot be quantified at the current stage.

Other than disclosed above, the directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with 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 2011

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 and consolidated statement of comprehensive income 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.

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except for deferred tax assets and liabilities which are recognised and measured in accordance with HKAS 12 Income Taxes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised 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.

Interest in an associate

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

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in an associate 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 associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. 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 associate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in an associate *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group.

Revenue recognition

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

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

Property, plant and equipment

Property, plant and equipment including leasehold buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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 an item of property, plant and equipment (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.

Investment property

Investment property is a property held to earn rentals and/or for capital appreciation.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets acquired in a business combination

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

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

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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences 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 initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Employee benefits

(a) Defined contribution retirement benefit plans

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

(b) Termination benefits

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(c) Employee entitlements

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

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

(d) Long service payment

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL are assets held for trading.

A financial asset is classified as held for trading if:

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

– 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.

Loans and receivables

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

Impairment of financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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

– significant financial difficulty of the issuer or counterparty;

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

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

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

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are either classified as financial liabilities or as equity in accordance with 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, amounts due to a director, a non-controlling equity holder of a subsidiary and a shareholder, bank borrowings, obligations under finance leases, convertible notes, and employee benefits are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that 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 losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Warrants

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

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

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

Equity-settled share-based payment transactions

Share options granted to employees

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss, such that the cumulate expense reflects the revised estimate, 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 losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Share options granted to suppliers and other eligible persons

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

Leasing

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

The Group as lessor

Amounts due from leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. 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 each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the foreign exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of foreign exchange reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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.

Impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment loss on goodwill of HK$657,895,000 (2010: HK$98,662,000) has been recognised for the year. The carrying amount of goodwill at 31 December 2011 and the details of the impairment test are disclosed in note 19.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis between the rates of 2% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of HK$45,794,000 (2010: HK$33,171,000) has been recognised for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Impairment on trade and other receivables

The policy for impairment on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of the trade and other receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. Reversal of impairment loss on trade and other receivables of HK$807,000 (2010: HK$3,353,000) has been recognised for the year.

Allowance of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Allowance of inventories of HK$15,903,000 (2010: HK$3,100,000) has been recognised for the year.

Impairment on property, plant and equipment

During the year ended 31 December 2011, impairment loss of HK$21,464,000 (2010: nil) in respect of 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.

Estimation of fair value of investment property

As described in note 18, the Group's investment property was revalued at the end of the reporting period on an open market value basis by an independent professional valuer. Such valuation was 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Impairment on other intangible assets

Intangible assets are evaluated for possible impairment based on estimation of the value in use on a specific intangible asset basis. This process requires management's estimate of future cash flows generated from each intangible asset and a suitable discount rate in order to calculate the present value. For any instance where this evaluation process indicates impairment, the relevant intangible asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated income statement. Impairment loss on other intangible assets of HK$66,481,000 (2010: HK$211,558,000) has been recognised for the year. The carrying amount of other intangible assets at 31 December 2011 and the details of the impairment test are disclosed in note 20.

Income taxes

As at 31 December 2011, deferred tax assets in relation to unused tax losses of HK$96,030,000 (2010: HK$32,139,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses and other deductible temporary differences of HK$64,958,000 (2010: HK$23,877,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group's capital risk management objectives are:

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

– to maximise the return to shareholders.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	343,267	453,195
Financial assets at fair value through profit or loss	7,395	–
	350,662	453,195
Financial liabilities		
Other financial liabilities stated at amortised cost	686,935	861,445

(b) Financial risk management objective and policies

The Group's major financial instruments include financial assets at fair value through profit or loss, finance lease receivables, deposits paid for potential investments, trade and bills receivables, deposits and other receivables, dividend receivables, deposits in other financial institutions, bank balances and cash, trade and bills payables, other payables and accruals, amounts due to a director, a shareholder and a non-controlling equity holder of a subsidiary, bank borrowings, obligations under finance leases, convertible notes and employee benefits. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, currency risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2011 in relation to each class of recognised financial assets is arising from 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 and other receivables. The turnover by geographic segments are disclosed in note 7. The marketing team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debt with the help from the finance team. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk can be reduced.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

The Group has concentration of credit risk as 22% (2010: 17%) and 40% (2010: 34%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

The Group has concentration of credit risk as 54% (2010: 47%) and 77% (2010: 98%) of the other receivables was due from the Group's largest debtor and the five largest debtors respectively.

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

Currency risk

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

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose those subsidiaries and the Group to foreign currency risk. 72% (2010: 76%) of the Group's sales and 88% (2010: 84%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk (Continued)

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

	Assets		Liabilities	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**47,904**	63,389	**127,875**	74,866
US$	**47,614**	47,684	**601**	1,610
RMB	**86,856**	128,206	**44,300**	107,376
Japanese Yen ("JPY")	**38**	–	**1,676**	1,062

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 5% (2010: 5%) change in foreign currency rates.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk (Continued)

Sensitivity analysis (Continued)

A positive number below indicates a decrease in post-tax loss where the respective functional currencies of the reporting entity strengthen 5% (2010: 5%) against the relevant foreign currencies. For a 5% (2010: 5%) weakening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK$		US$		RMB		JPY	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit or loss	2,877	479	(1,962)	(1,924)	(1,777)	(870)	68	44

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (note 34), deposits in other financial institutions (note 29), interest-bearing advances (note 26) and bank balances (note 30). The Group's deposits in other financial institutions and bank balances are short-term in nature and the exposure of the interest rate is minimal and no sensitivity analysis to interest rate risk is presented.

The Group's fair value interest rate risk relates primary to the fixed-rate finance lease receivables (note 22), obligations under finance leases (note 35) and interest-bearing trade receivables (note 25). No sensitivity analysis is presented because the risk is considered insignificant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative bank borrowings and interest-bearing advances at the end of the reporting period. The analysis is prepared assuming the bank borrowings and interest-bearing advances outstanding at the end of the reporting period were outstanding for the whole year. A 100 (2010: 100) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Interest rate risk (Continued)

Sensitivity analysis (Continued)

If interest rates had been 100 (2010: 100) basis point higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2011 would increase/decrease by HK$1,331,000 (2010: HK$797,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and interest-bearing advances.

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. 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.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

	Repayable on demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2011						
Non-derivative financial liabilities						
Trade and bills payables	72,456	–	–	–	72,456	72,456
Other payables and accruals	78,792	–	–	–	78,792	78,792
Amount due to a shareholder	–	–	108,620	–	108,620	108,620
Amount due to a non-controlling equity holder of a subsidiary	28,772	–	–	–	28,772	28,772
Obligations under finance leases	255	5	10	–	270	262
Convertible notes	–	–	302,400	–	302,400	244,831
Bank borrowings – secured (note i)	154,593	–	–	–	154,593	153,079
Employee benefits	–	–	107	49	156	123
	334,868	5	411,137	49	746,059	686,935
At 31 December 2010						
Non-derivative financial liabilities						
Trade and bills payables	172,707	–	–	–	172,707	172,707
Other payables and accruals	26,532	–	–	–	26,532	26,532
Amount due to a director	471	–	–	–	471	471
Obligations under finance leases	337	255	15	–	607	576
Convertible notes	–	–	662,400	–	662,400	498,416
Bank borrowings – secured (note i)	164,203	–	–	–	164,203	162,593
Employee benefits	–	73	86	20	179	150
	364,250	328	662,501	20	1,027,099	861,445

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Notes:

(i) Bank borrowings with a repayment on demand clause are included in the "repayable on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$153,079,000 (2010: HK$162,593,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that mortgage loan and term loan will be repaid 19 years (2010: 20 years) and 6 years (2010: 7 years) respectively after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$166,334,000 (2010: HK$177,411,000).

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

Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value (Continued)

Fair value measurements recognised in the statement of financial position

The following provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial assets at fair value through profit or loss are measured at Level 2 fair value measurement.

7. TURNOVER AND SEGMENT INFORMATION

The Group's operating and reportable segments, based on information reported to the chief operating decision maker ("CODM"), for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided as follows:

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

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

(c) Property investment segment engages in properties investments.

Property investment segment was introduced during the year ended 31 December 2010 as a result of the acquisition of an investment property as set out in note 18.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 and operating segments:

	Electronic products		Logistics services		Property investment		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December								
Sales to external customers	**742,279**	751,196	**42,188**	33,925	**–**	–	**784,467**	785,121
Other income	**1,988**	3,353	**218**	267	**–**	–	**2,206**	3,620
Total segment revenue	**744,267**	754,549	**42,406**	34,192	**–**	–	**786,673**	788,741
Contribution to segment results	**(60,498)**	21,162	**(8,232)**	(901)	**12,342**	4,851	**(56,388)**	25,112
Impairment loss on goodwill	**–**	–	**(657,895)**	(98,662)	**–**	–	**(657,895)**	(98,662)
Impairment loss on other intangible assets	**–**	–	**(66,481)**	(211,558)	**–**	–	**(66,481)**	(211,558)
Amortisation of other intangible assets	**–**	–	**(51,519)**	(143,885)	**–**	–	**(51,519)**	(143,885)
Impairment loss on property, plant and equipment	**(21,464)**	–	**–**	–	**–**	–	**(21,464)**	–
Allowance of inventories	**(15,903)**	(3,100)	**–**	–	**–**	–	**(15,903)**	(3,100)
Segment results	**(97,865)**	18,062	**(784,127)**	(455,006)	**12,342**	4,851	**(869,650)**	(432,093)
Unallocated corporate income							**5,064**	2,798
Share of results of an associate							**183**	–
Unallocated corporate expenses							**(56,652)**	(52,538)
Finance costs							**(24,118)**	(45,993)
Loss before taxation							**(945,173)**	(527,826)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities

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

	Electronic products		Logistics services		Property investment		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December								
Segment assets	341,120	546,851	407,043	879,428	315,150	300,156	1,063,313	1,726,435
Unallocated assets							123,567	187,242
Total assets							1,186,880	1,913,677
Segment liabilities	71,140	193,654	57,577	4,602	153,199	162,705	281,916	360,961
Unallocated liabilities							442,611	515,735
Total liabilities							724,527	876,696

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

– all assets are allocated to operating segments other than advances, finance lease receivables, interest in an associate, deposits paid for potential investments, dividend receivables, deposits in other financial institutions, tax recoverable, financial assets at fair value through profit or loss, bank balances and cash and certain head office assets.

– all liabilities are allocated to operating segments other than obligations under finance leases, amount due to a director, amounts due to a shareholder and a non-controlling equity holder of a subsidiary, deferred tax liabilities, convertible notes and certain head office liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Other segment information

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

	Electronic products		Logistics services		Property investment		Unallocated		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	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)	**44,908**	53,099	**7,335**	16	**9**	293,412	**6,241**	4,654	**58,493**	351,181
Depreciation of property, plant and equipment	**37,534**	27,961	**6,848**	4,501	**14**	8	**1,398**	701	**45,794**	33,171
Allowance of inventories	**15,903**	3,100	**–**	–	**–**	–	**–**	–	**15,903**	3,100
Reversal of impairment on trade receivables	**(807)**	(3,353)	**–**	–	**–**	–	**–**	–	**(807)**	(3,353)
Impairment loss on property, plant and equipment	**21,464**	–	**–**	–	**–**	–	**–**	–	**21,464**	–
(Gain) loss on disposals of property, plant and equipment	**(942)**	–	**134**	(42)	**–**	–	**3**	–	**(805)**	(42)
Write-offs of property, plant and equipment	**2,262**	60	**89**	–	**–**	–	**939**	–	**3,290**	60
Gain arising on change in fair value of investment property	**–**	–	**–**	–	**(15,000)**	(6,652)	**–**	–	**(15,000)**	(6,652)
Finance costs	**–**	–	**–**	–	**1,523**	1,023	**–**	–	**1,523**	1,023
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:										
Interest income	**(1)**	(3)	**(334)**	(79)	**–**	–	**(531)**	(1,031)	**(866)**	(1,113)
Finance costs	**23**	49	**24,095**	45,944	**–**	–	**–**	–	**24,118**	45,993
Interest in an associate	**–**	–	**7,343**	–	**–**	–	**–**	–	**7,343**	–
Share of results of an associate	**–**	–	**(183)**	–	**–**	–	**–**	–	**(183)**	–

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(d) Geographical information

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

The following tables present the Group's revenue, non-current assets and capital expenditure information according to the location of customers and location of the assets.

	Hong Kong		Elsewhere in the PRC		Asia Pacific		Latin America		Others		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December												
Segment revenue:												
Sales to external customers	211,376	218,758	442,099	443,499	107,044	101,645	4,992	5,216	18,956	16,003	784,467	785,121
Other income	998	3,620	1,208	–	–	–	–	–	–	–	2,206	3,620
Total segment revenue	212,374	222,378	443,307	443,499	107,044	101,645	4,992	5,216	18,956	16,003	786,673	788,741
Other segment information:												
As at 31 December												
Non-current assets	360,801	1,126,103	371,738	132,925	780	1,014	–	–	–	–	733,319	1,260,042
For the year ended 31 December												
Capital expenditures	13,540	303,804	44,953	47,377	–	–	–	–	–	–	58,493	351,181

Note: Non-current assets exclude financial instruments. Capital expenditures represent additions to property, plant and equipment, investment property and other intangible assets excluding property, plant and equipment and intangible assets acquired from business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Revenue from major products and services:

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

	2011	2010
	HK$'000	HK$'000
Electronic products	**742,279**	751,196
Logistics services	**42,188**	33,925
	784,467	785,121

Information about major customer:

During the years ended 31 December 2011 and 2010, none of the Group's individual customer contributed more than 10% to the total turnover of the Group. In the opinion of the directors of the Company, the Group did not rely on any major customers during the reporting periods.

8. OTHER INCOME

	2011	2010
	HK$'000	HK$'000
Reversal of impairment loss on trade receivables	**807**	3,353
Net exchange gain	**1,270**	1,679
Interest income from a related company	**243**	79
Interest income from advances	**508**	998
Interest income on finance leases	**3**	–
Net gain on disposals of property, plant and equipment	**805**	42
Bank interest income	**112**	36
Others	**591**	231
	4,339	6,418

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

9. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Borrowing costs on:		
– bank borrowings not wholly repayable within five years	**1,523**	1,023
– obligations under finance leases	**23**	49
Imputed interest on convertible notes (note 37)	**24,095**	45,944
	25,641	47,016

10. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	2011 HK$'000	2010 HK$'000
Cost of inventories recognised as expenses	**768,575**	700,849
Cost of services provided	**41,904**	29,476
Staff costs (note 11)	**69,259**	60,971
Depreciation of property, plant and equipment		
– owned assets	**45,521**	32,901
– assets held under finance leases	**273**	270
Auditor's remuneration	**863**	686
Allowance of inventories (included in cost of sales)	**15,903**	3,100
Impairment loss on property, plant and equipment (included in other expenses)	**21,464**	–
Write-offs of property, plant and equipment (included in other expenses)	**3,290**	60

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits	41,607	35,100
Retirement benefits scheme contributions	1,660	1,117
Share option expenses	25,730	24,151
Provision for other employee benefits and long service payments	262	603
	69,259	60,971

12. TAXATION

The amount of taxation in the consolidated income statement represents:

	2011 HK$'000	2010 HK$'000
Current tax – provision for Hong Kong Profits Tax		
– charge for the year	–	982
– under (over)-provision in prior years	49	(8)
	49	974
Deferred tax (note 39)		
– current year	(8,406)	3,380
	(8,357)	4,354

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2011 as the Group did not have any assessable profits subject to Hong Kong Profits Tax. Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the year ended 31 December 2010.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries and the associate registered in the PRC is 25% from 1 January 2008 onwards.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

12. TAXATION *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Loss before taxation	(945,173)	(527,826)
Tax calculated at the domestic income tax rate of 16.5% (2010: 16.5%)	(155,953)	(87,091)
Tax effect of different tax rates	(609)	–
Tax effect of expenses that are not deductible in determining taxable profit	140,932	90,184
Tax effect of income that is not taxable in determining taxable profit	(1,010)	(504)
Tax effect of utilisation of tax losses not previously recognised	–	(50)
Tax effect of tax losses not recognised	6,609	1,823
Tax effect of other deductible temporary differences not recognised	1,625	–
Under (over)-provision in prior years	49	(8)
Taxation	(8,357)	4,354

Details of deferred tax are set out in note 39.

13. DIVIDENDS

The directors of the Company do not recommend the payment of any dividends for the year ended 31 December 2011 (2010: nil).

14. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the loss attributable to owners of the Company of HK$936,734,000 (2010: HK$532,180,000) and the weighted average number of 10,565,103,000 (2010: 6,996,793,000) ordinary shares in issue during the period.

The calculation of diluted loss per share for the year ended 31 December 2011 did not assume the exercise of the Company's share options as the exercise price of the share options was higher than the average market price for shares. The calculation of diluted loss per share for the year ended 31 December 2011 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

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

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15. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2011

Name of director	Fees HK$'000	Salaries, allowances and benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share option expenses HK$'000	Total HK$'000
Executive Directors					
Li Weimin ("Mr. Li")	600	2,600	12	–	3,212
Wang Jianzhi (note a)	232	–	–	–	232
Lam Yat Keung	–	1,650	12	–	1,662
Huang Hanshui	600	1,200	120	–	1,920
Non-Executive Directors					
Liu Renhuai (note b)	300	–	–	–	300
Xin Luo Lin	150	–	–	–	150
Independent Non -Executive Directors					
Ho Chi Fai	90	–	–	–	90
Liu Yanfang	90	–	–	–	90
Ma Hongwei	90	–	–	–	90
	2,152	5,450	144	–	7,746

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

15. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2010

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

Notes:

(a) Resigned on 20 May 2011

(b) Appointed on 26 August 2010 and resigned on 1 January 2012

(c) Appointed on 9 March 2010

(d) Resigned on 9 March 2010

(e) Resigned on 9 July 2010

(f) Appointed on 26 August 2010

(g) Appointed on 24 June 2010

(h) Resigned on 24 June 2010

(i) Resigned on 26 August 2010

During the years ended 31 December 2011 and 2010, no directors waived or agreed to waive any emoluments.

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16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none (2010: two) were directors of the Company whose emoluments are disclosed in the note 15 above. The emoluments of the remaining five (2010: three) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits	942	928
Retirement benefits scheme contributions	49	20
Share option expenses	18,378	16,992
	19,369	17,940

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
HK$2,500,001 to HK$3,000,000	–	1
HK$3,500,001 to HK$4,000,000	4	–
HK$4,000,001 to HK$4,500,000	1	–
HK$7,000,001 to HK$7,500,000	–	1
HK$7,500,001 to HK$8,000,000	–	1
	5	3

During the years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) or other directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

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17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Trucks HK$'000	Total HK$'000
COST					
At 1 January 2010	–	161,284	29,266	43,004	233,554
Exchange realignment	–	419	–	–	419
Additions	–	32,294	25,539	–	57,833
Write-offs	–	(712)	(106)	–	(818)
Disposals	–	–	(670)	–	(670)
At 31 December 2010 and 1 January 2011	–	193,285	54,029	43,004	290,318
Exchange realignment	29	896	132	482	1,539
Additions	–	11,124	40,159	7,210	58,493
Acquisition of subsidiaries (note 43)	2,554	34,955	11,518	41,996	91,023
Write-offs	–	(7,448)	(2,415)	–	(9,863)
Disposals	–	(14,495)	(142)	–	(14,637)
At 31 December 2011	**2,583**	**218,317**	**103,281**	**92,692**	**416,873**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2010	–	82,840	11,636	502	94,978
Exchange realignment	–	97	–	–	97
Depreciation provided for the year	–	21,765	7,106	4,300	33,171
Eliminated on write-offs	–	(652)	(106)	–	(758)
Eliminated on disposals	–	–	(115)	–	(115)
At 31 December 2010 and 1 January 2011	–	104,050	18,521	4,802	127,373
Exchange realignment	–	180	6	6	192
Depreciation provided for the year	18	25,259	14,493	6,024	45,794
Impairment loss recognised in profit or loss	–	21,464	–	–	21,464
Eliminated on write-offs	–	(5,208)	(1,365)	–	(6,573)
Eliminated on disposals	–	(3,022)	–	–	(3,022)
At 31 December 2011	**18**	**142,723**	**31,655**	**10,832**	**185,228**
CARRYING VALUES					
At 31 December 2011	**2,565**	**75,594**	**71,626**	**81,860**	**231,645**
At 31 December 2010	–	89,235	35,508	38,202	162,945

Notes to the Consolidated Financial Statements

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

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

Leasehold buildings	2% to 4%
Plant and machinery	10% to 30%
Leasehold improvements and others	10% to 30% or over the term of lease
Trucks	10% to 20%

The carrying value of the Group's office equipment and motor vehicles grouped under leasehold improvements and others includes an amount of HK$387,000 (2010: HK$660,000) in respect of assets acquired under finance leases.

During the year ended 31 December 2011, the directors of the Company conducted a review of the Group's plant and machinery and determined that a number of those assets were impaired due to physical damage and idle, with reference to the valuations valued by Malcolm & Associates Appraisal Limited ("Malcolm") and LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent professional valuers not connected with the Group. Malcolm and LCH have appropriate qualifications and recent experiences in the valuation of similar plant and machinery in relevant industry. The valuations were arrived at by reference to market evidence of transaction prices for similar plant and machinery in same characteristics and conditions. Accordingly, impairment loss of HK$21,464,000 (2010: nil) had been recognised under other expenses in respect of plant and machinery during the year ended 31 December 2011.

The leasehold buildings are situated in the PRC and held under medium-term lease.

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18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2010	–
Addition during the year	293,348
Gain arising on change in fair value	6,652
At 31 December 2010 and 1 January 2011	300,000
Gain arising on change in fair value	15,000
At 31 December 2011	315,000

The fair value of the Group's investment property at 31 December 2011 and 2010 has been arrived at on the basis of a valuation carried out at that date by Savills Valuation and Professional Services Limited ("Savills"), an independent qualified professional valuer not connected with the Group. Savills has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

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

The investment property has been pledged to secure bank borrowings of the Group. Details of bank borrowings are set out in note 34.

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19. GOODWILL

	HK$'000
COST	
At 1 January 2010, 31 December 2010 and 1 January 2011	1,536,866
Acquisition of subsidiaries (note 43)	38,391
Exchange realignment	435
At 31 December 2011	**1,575,692**
IMPAIRMENT	
At 1 January 2010	780,309
Impairment loss recognised	98,662
At 31 December 2010 and 1 January 2011	878,971
Impairment loss recognised	657,895
At 31 December 2011	**1,536,866**
CARRYING VALUES	
At 31 December 2011	**38,826**
At 31 December 2010	657,895

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

The carrying amount of goodwill (net of accumulated impairment) attributable to CLI and CLBJ as at 31 December 2011 amounted to nil (2010: HK$657,895,000) and HK$38,826,000 (2010: nil) respectively.

Notes to the Consolidated Financial Statements

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19. GOODWILL *(Continued)*

CLI

As at 31 December 2011, the directors of the Company conducted a review on the recoverable amount of CLI and due to the occurrence of business interruptions, the directors of the Company considered that the entire amount of goodwill attributable to CLI was irrecoverable. As such, impairment loss on goodwill of HK$657,895,000 (2010: HK$98,662,000) had been recognised during the year ended 31 December 2011.

CLBJ

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

The value in use calculation as at 31 December 2011 primarily used cash flow projections based on financial budgets covering a 5-year period approved by management of CLBJ. The discount rate applied to the cash flow projections was 17% and cash flows beyond the 5-year period were extrapolated using a steady growth rate of 3% approximate to year end. With reference to a valuation conducted by LCH, no impairment loss on goodwill was required.

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20. OTHER INTANGIBLE ASSETS

	Service agreements HK$'000
COST	
At 1 January 2010, 31 December 2010 and 1 January 2011	490,000
Acquisition of subsidiaries (note 43)	138,911
Exchange realignment	1,594
At 31 December 2011	**630,505**
AMORTISATION AND IMPAIRMENT	
At 1 January 2010	16,557
Amortisation	143,885
Impairment loss recognised	211,558
At 31 December 2010 and 1 January 2011	372,000
Amortisation	51,519
Impairment loss recognised	66,481
At 31 December 2011	**490,000**
CARRYING VALUES	
At 31 December 2011	**140,505**
At 31 December 2010	118,000

The above intangible assets have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 3.4 to 8 years. The carrying amount of the Group's other intangible assets (net of accumulated amortisation and impairment) attributable to the service agreements arising from the acquisition of CLI and CLBJ as at 31 December 2011 was nil (2010: HK$118,000,000) and HK$140,505,000 (2010: nil) respectively.

Service agreement for shipping logistics business of HK$490,000,000 arose from the acquisition of CLI on 19 November 2009 and was valued as of that date by Malcolm. The service agreement is amortised over the remaining service period of 3.4 years. The service agreement is attributed to CLI, a CGU of the logistics services, a reportable segment of the Group.

Notes to the Consolidated Financial Statements

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20. OTHER INTANGIBLE ASSETS *(Continued)*

Service agreement for local transportation logistics business of HK$138,911,000 arose from the acquisition of 90% equity interest in CLBJ on 7 November 2011 and was valued as of that date by LCH. The service agreement had a valid period of 8 years. The term of the service agreement had not yet commenced at 31 December 2011. The service agreement is attributed to CLBJ, a CGU of the logistics services, a reportable segment of the Group.

As at 31 December 2011, the directors of the Company performed an impairment assessment on the service agreement acquired through the acquisition of CLI, and considered that the entire amount of the service agreement attributed to CLI was irrecoverable due to the occurrence of business interruptions on the shipping services. Accordingly, an impairment loss on the service agreement of HK$66,481,000 was recognised during the year ended 31 December 2011 (2010: HK$211,558,000).

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

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21. INTEREST IN AN ASSOCIATE

	2011 HK$'000	2010 HK$'000
Cost of investment in an unlisted associate in the PRC arising on acquisition of subsidiaries (note 43)	7,077	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	266	–
	7,343	–

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

	2011 HK$'000	2010 HK$'000
Total assets	26,316	–
Total liabilities	(7,958)	–
Net assets	18,358	–
Group's share of net assets of an associate	7,343	–
Revenue	18,037	–
Profit for the year	458	–
Other comprehensive income for the year	206	–
Group's share of post-acquisition profits and other comprehensive income for the year	266	–

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21. INTEREST IN AN ASSOCIATE *(Continued)*

As at 31 December 2011, the Group has interest in the following associate:

Name of associate	Place of operation/ incorporation and form of business structure	Class of share held	Proportion of nominal value of registered capital indirectly held by the Company	Proportion of voting power held	Principal activities
寧波菱信物流有限公司 ("Ningbo Lingxin")	The PRC Registered	Paid-up capital	40%*	40%	Provision of logistics services

* Held indirectly through CLBJ

22. FINANCE LEASE RECEIVABLES

Certain of the trucks of the Group are leased out under finance leases. The average term of the finance leases entered into is 5 years. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Finance lease receivables comprise:				
Within one year	165	–	154	–
In the second to fifth years inclusive	104	–	102	–
	269	–	256	–
Less: Unearned finance income	(13)	–	N/A	–
Present value of minimum lease payment receivables	256	–	256	–
Less: Amounts due within one year shown under current assets			(154)	–
Amounts due after one year			102	–

Notes to the Consolidated Financial Statements

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22. FINANCE LEASE RECEIVABLES *(Continued)*

Effective interest rates of the above finance leases were 5.81% per annum. Finance lease receivables are denominated in RMB, the functional currency of the respective reporting entity of the Group.

Finance lease receivables are secured over the trucks leased. The Group is not permitted to sell or repledge the collateral in the absence of defaults by the lessee.

The finance lease receivables at the end of the reporting period are neither past due nor impaired.

The fair value of the finance lease receivables is estimated to be HK$252,000 (2010: nil) using 5% (2010: nil) discount rate.

23. DEPOSITS PAID FOR POTENTIAL INVESTMENTS

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

After conducting the due diligence investigation, the Group decided not to proceed further with the acquisition. The Earnest Money was fully refunded to the Group during the year ended 31 December 2011.

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23. DEPOSITS PAID FOR POTENTIAL INVESTMENTS *(Continued)*

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

On 21 March 2011, the Group decided not to proceed further with the deal. During the year ended 31 December 2011, HK$24,000,000 was refunded to the Group.

24. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	37,927	65,903
Work-in-progress	4,537	3,253
Finished goods	55,795	127,896
	98,259	197,052

As at 31 December 2011, inventories of HK$55,795,000 were stated at net realisable value (2010: nil).

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For the year ended 31 December 2011

25. TRADE AND BILLS RECEIVABLES

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

	2011 HK$'000	2010 HK$'000
Trade and bills receivables	239,285	274,920
Less: Accumulated impairment	(1,938)	(2,701)
	237,347	272,219

The Group did not hold any collateral over the trade and bills receivables.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

	2011 HK$'000	2010 HK$'000
Current	156,237	203,073
Overdue:		
– within 3 months	22,091	21,280
– 4-6 months	2,341	204
– 7-12 months	3,234	47,662
– over 12 months	53,444	–
	81,110	69,146
	237,347	272,219

Included in the Group's trade receivables balance is an amount of HK$5,174,000 (2010: HK$12,302,000) due from SUN International Investment Holdings Limited ("SUN International"). Mr. Li is a director of SUN International and indirectly holds 40% equity interest in SUN International. Except for an amount due from SUN International of HK$2,195,000 (2010: HK$5,903,000) which is interest-bearing at 5.346% per annum, the remaining amount due from SUN International was interest-free and has a credit period of 180 days.

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25. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade receivables balance is an amount of HK$2,954,000 (2010: nil) due from an associate of the Group. The amount due from the associate is unsecured, interest-free and repayable on demand.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$81,110,000 (2010: HK$69,146,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss. Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movement in the impairment on trade receivables:

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	2,701	7,102
Impairment loss reversed	(807)	(3,353)
Acquisition of subsidiaries	44	–
Amount written off as uncollectible	–	(1,048)
Balance at end of the year	1,938	2,701

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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$1,938,000 (2010: HK$2,701,000) since the management considered the prolonged outstanding balances were uncollectible.

During the year ended 31 December 2011, the Group collected settlements from certain debtors for which impairment loss had been recognised in prior years. As a result, impairment loss of HK$807,000 (2010: HK$3,353,000) was reversed during the year ended 31 December 2011.

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

	2011	2010
	'000	'000
HK$	37,562	48,234
US$	6,123	6,123
RMB	63,015	108,502

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011	2010
	HK$'000	HK$'000
Prepayments, deposits and other receivables	57,115	106,609
Less: Accumulated impairment	(19,585)	(19,585)
	37,530	87,024

The Group did not hold any collateral over the other receivables.

Included in prepayments, deposits and other receivables are an amount of HK$170,000 (2010: HK$79,000) due from SUN International and an advance of HK$20,000,000 (2010: HK$82,847,000) made to an (2010: three) independent third party. The advances are unsecured with an initial term of 1 year and bearing interest at 1.3% (2010: 1.3%) per annum over 1-month Hong Kong Interbank Offered Rate ("HIBOR"). As at 31 December 2011, the advance was past due but not impaired.

Included in the impairment on other receivables are individually impaired other receivables with an aggregate balance of HK$19,585,000 (2010: HK$19,585,000) since the management considered the prolonged outstanding balances were uncollectible.

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

There is no movement in the impairment on other receivables during the years ended 31 December 2011 and 2010.

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

	2011	2010
	'000	'000
HK$	1,007	609
US$	22	22
RMB	756	230

27. DIVIDEND RECEIVABLES

The dividend receivables from an associate are unsecured, interest-free and repayable on demand.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	HK$'000	HK$'000
Held for trading:		
Unlisted debt investment in the PRC, at fair value	7,395	–

The financial assets at fair value through profit or loss are short-term debt investments with maturity dates on 12 January 2012 and 28 January 2012.

29. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts at 31 December 2011 and 2010 represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

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30. BANK BALANCES AND CASH

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

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

	2011	2010
	'000	'000
HK$	9,382	14,356
US$	11	29
RMB	7,582	–

31. TRADE AND BILLS PAYABLES

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

	2011	2010
	HK$'000	HK$'000
Current	55,832	111,320
Overdue:		
– within 3 months	10,802	58,353
– 4-6 months	498	1,423
– 7-12 months	689	1
– over 12 months	4,635	1,610
	72,456	172,707

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

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31. 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 respective reporting entity of the Group:

	2011	2010
	'000	'000
HK$	**16,292**	71,633
RMB	**32,521**	76,284
JPY	**16,704**	11,113

32. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals was a compensation payable of HK$29,319,000 in respect of a litigation. Details of the litigation are set out in note 49 to the consolidated financial statements.

Included in other payables and accruals were considerations payable of HK$442,000 and HK$21,414,000 to Mr. Li and Pioneer Blaze Limited ("Pioneer Blaze"), a shareholder of the Company, respectively in connection with the CLBJ Acquisition (as defined in note 43). Details of the acquisition are set out in note 43 to the consolidated financial statements.

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

	2011	2010
	'000	'000
HK$	**4,965**	4,659
RMB	**4,002**	14,668

33. AMOUNT DUE TO A DIRECTOR/A NON-CONTROLLING EQUITY HOLDER OF A SUBSIDIARY

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

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34. BANK BORROWINGS – SECURED

	2011 HK$'000	2010 HK$'000
Bank borrowings (secured) – repayable on demand (note a)		
– mortgage loan (note b)	**143,650**	151,450
– term loan (note c)	**9,429**	11,143
	153,079	162,593

Notes:

(a) Based on the facility agreement, the mortgage loan and the term loan will be repaid by 240 and 84 monthly instalments respectively. 221 (2010: 233) and 66 (2010: 78) instalments of the mortgage loan and the term loan remained outstanding as at 31 December 2011 respectively. The facility agreement contains a repayment on demand clause pursuant to which the bank can at its discretion demand repayment of the entire outstanding balance from the Group in the absence of any defaults.

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

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

The bank borrowings are denominated in HK$ and secured by a mortgage on the Group's investment property (note 18) and corporate guarantee provided by the Company.

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35. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its office equipment and motor vehicles under finance leases for its business operation. The leases terms ranged from 3 to 5 years (2010: 3 to 5 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates and ranged from 2.5% to 4.86% (2010: 2.5% to 4.86%).

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases repayable:				
Within one year	**255**	337	**248**	314
In the second to fifth years inclusive	**15**	270	**14**	262
	270	607	**262**	576
Less: Future finance charges	**(8)**	(31)	**N/A**	N/A
Present value of lease obligations	**262**	576	**262**	576
Less: Amounts due within one year shown under current liabilities			**(248)**	(314)
Amounts due after one year			**14**	262

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets and are denominated in HK$ which is different from the functional currency of the respective reporting entity of the Group.

36. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, interest-free and not repayable before 31 December 2012. The amount is denominated in HK$ which is different from the functional currency of the respective reporting entity of the Group.

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37. CONVERTIBLE NOTES

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

Details of the Group's convertible notes outstanding as at 31 December 2011 are set out below:

Date of issue	:	19 November 2009
Principal amount	:	HK$950,400,000
Outstanding principal amount at the end of the reporting period	:	HK$302,400,000
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	:	15 November 2014

At any time after the issue 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 notes.

The convertible notes contain two components, liability and equity components. The equity component is presented in equity under the heading of convertible notes reserve. The effective interest rate of the liability component of the convertible notes is 7.60% per annum. The liability and equity components of the convertible notes are measured at fair values at the date of issue and the valuation was determined by Malcolm.

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37. CONVERTIBLE NOTES *(Continued)*

Convertible notes of the Company with aggregate principal amount of HK$288,000,000 were converted into 2,400,000,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.12 per share during the year ended 31 December 2010.

Convertible notes of the Company with aggregate principal amount of HK$324,000,000 were converted into 2,700,000,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.12 per share during the year ended 31 December 2011.

Convertible notes of the Company with aggregate principal amount of HK$36,000,000 were redeemed during the year ended 31 December 2011.

As at 31 December 2011, the principal amount of convertible notes remained outstanding is HK$302,400,000 of which 2,520,000,000 potential shares will be issued upon their conversions.

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2011 and 2010 are set out below.

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
At 1 January 2010	664,606	291,367	955,973
Conversion into shares of the Company (note 40(b))	(212,134)	(88,293)	(300,427)
Imputed interest charged to the consolidated income statement (note 9)	45,944	–	45,944
At 31 December 2010 and 1 January 2011	498,416	203,074	701,490
Conversion into shares of the Company (note 40(d))	(249,786)	(99,330)	(349,116)
Redemption of convertible notes	(27,894)	(11,037)	(38,931)
Imputed interest charged to the consolidated income statement (note 9)	24,095	–	24,095
At 31 December 2011	244,831	92,707	337,538

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. EMPLOYEE BENEFITS

	2011 HK$'000	2010 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	**2,610**	2,391
Long service payments accrual (note 46)	**123**	150
	2,733	2,541
Categorised as:		
Due within one year (included in other payables and accruals)	**2,610**	2,391
Due after one year (shown under non-current liabilities)	**123**	150
	2,733	2,541

39. DEFERRED TAX

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the years ended 31 December 2011 and 2010:

	Accelerated tax depreciation and impairment of property, plant & equipment HK$'000	Impairment on trade receivables HK$'000	Fair value gain on investment property HK$'000	Tax losses HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January 2010	14,502	(1,172)	–	(5,032)	–	8,298
Charged (credited) to profit or loss (note 12)	1,925	726	1,000	(271)	–	3,380
At 31 December 2010 and 1 January 2011	16,427	(446)	1,000	(5,303)	–	11,678
(Credited) charged to profit or loss (note 12)	(4,478)	133	2,575	(6,636)	–	(8,406)
Exchange realignment	23	–	–	(77)	398	344
Acquisition of subsidiaries (note 43)	1,948	–	–	(6,382)	34,728	30,294
At 31 December 2011	13,920	(313)	3,575	(18,398)	35,126	33,910

As at 31 December 2011, deferred tax assets of HK$18,711,000 (2010: HK$5,749,000) have been presented as an offset against deferred tax liabilities on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

39. DEFERRED TAX *(Continued)*

At the end of the reporting period, the Group has unused estimated tax losses of HK$161,844,000 (2010: HK$56,016,000) of which HK$26,188,000 arose from acquisition of CLBJ available for offsetting against future profits. A deferred tax asset has been recognised in respect of such tax losses of HK$97,558,000 (2010: HK$32,139,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK$64,286,000 (2010: HK$23,877,000) due to the unpredictability of future profits streams.

Tax losses of the Group of HK$63,235,000 (2010: HK$23,877,000) can be carried forward indefinitely. Tax losses of the Group of HK$1,051,000 (2010: nil) will begin to expire in 2017.

As at 31 December 2011, the Group has deductible temporary differences of HK$11,788,000 (2010: HK$2,703,000). A deferred tax asset has been recognised in respect of these deductible temporary differences of HK$1,894,000 (2010: HK$2,703,000) in relation to such deductible differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of HK$10,770,000 (2010: nil) due to the unpredictability of future profits streams.

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

40. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised ordinary shares of HK$0.01 each:		
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	30,000,000	300,000
Issued and fully paid ordinary shares of HK$0.01 each:		
At 1 January 2010	6,116,477	61,165
Issue of shares upon exercise of warrants (note a)	166,313	1,663
Issue of shares upon conversion of convertible notes (note b)	2,400,000	24,000
At 31 December 2010 and 1 January 2011	8,682,790	86,828
Issue of shares upon acquisition of subsidiaries (note c)	371,720	3,717
Issue of shares upon conversion of convertible notes (note d)	2,700,000	27,000
At 31 December 2011	11,754,510	117,545

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

40. SHARE CAPITAL *(Continued)*

Notes:

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

Prior to January 2010, HK$53,775,000 was received in advance from warrant holders for exercise of 112,032,000 warrants and credited to other reserve. In January 2010, including the warrants for which the subscription money had been received prior to January 2010, 166,312,700 warrants were exercised with the issue of 166,312,700 ordinary shares of HK$0.01 each at a subscription price of HK$0.48 per share and these new shares issued ranked pari passu with other shares then in issue in all respects. During the year ended 31 December 2010, the remaining 253,960,500 warrants were expired and there was no outstanding warrant as at 31 December 2010 and 2011.

(b) During the year ended 31 December 2010, convertible notes of the Company with aggregate principal amount of HK$288,000,000 were converted into 2,400,000,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.12 per share. These new shares issued ranked pari passu with other shares then in issue in all respects. Details of the convertible notes are set out in note 37.

(c) On 7 November 2011, 371,720,000 ordinary shares of HK$0.01 each were issued at the closing market price of HK$0.103 per share as settlement for part of the consideration for the CLBJ Acquisition (as defined in note 43) as set out in note 43. These new shares issued ranked pari passu with other shares then in issue in all respects. The premium arising from the issue of these new shares of HK$34,570,000 was credited to the share premium account. No direct issue costs related to the issue of these new shares were allocated as the directors of the Company were of the opinion that the amount was insignificant.

(d) During the year ended 31 December 2011, convertible notes of the Company with aggregate principal amount of HK$324,000,000 were converted into 2,700,000,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.12 per share. These new shares issued ranked pari passu with other shares then in issue in all respects. Details of the convertible notes are set out in note 37.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

41. SHARE OPTION SCHEME

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

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

(a) any eligible employee;
(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
(c) any supplier of goods or services to the Group or any Invested Entity;
(d) any customer of the Group or any Invested Entity;
(e) any person or entity that provides research, development or other technological support or services to the Group or any Invested Entity;
(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
(g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

41. SHARE OPTION SCHEME *(Continued)*

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the Share Option Scheme is conditionally adopted by the Company at a general meeting of the shareholders.

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

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

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

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

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

On 30 November 2011, 1,018,279,000 share options were granted. The options vested immediately with the grantees on acceptance of the grant of share options by the grantees. The closing share price of the Company on the date of grant was HK$0.098.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding and exercisable under the Share Option Scheme was 1,365,591,000 (2010: 379,750,000) representing 11.6% (2010: 4.4%) of the shares of the Company in issue at that date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

41. SHARE OPTION SCHEME *(Continued)*

The following tables disclosed the movements of the Company's share options for the years ended 31 December 2011 and 2010:

For the year ended 31 December 2011

			Number of share options				
Participants	**Date of grant**	**Exercise price per share**	**Outstanding at 1 January 2011** '000	**Granted during the year** '000	**Exercised during the year** '000	**Cancelled/ lapsed during the year** '000	**Outstanding at 31 December 2011** '000
Director	6 December 2010	HK$0.305	86,828	–	–	–	86,828
Employees	6 December 2010	HK$0.305	206,094	–	–	(32,438)	173,656
	30 November 2011	HK$0.098	–	791,995*	–	–	791,995
Customers, suppliers and other eligible persons	6 December 2010	HK$0.305	86,828	–	–	–	86,828
	30 November 2011	HK$0.098	–	226,284	–	–	226,284
			379,750	1,018,279	–	(32,438)	1,365,591

For the year ended 31 December 2010

			Number of share options				
Participants	**Date of grant**	**Exercise price per share**	**Outstanding at 1 January 2010** '000	**Granted during the year** '000	**Exercised during the year** '000	**Cancelled/ lapsed during the year** '000	**Outstanding at 31 December 2010** '000
Director	6 December 2010	HK$0.305	–	86,828	–	–	86,828
Employees	6 December 2010	HK$0.305	–	206,094	–	–	206,094
Customers, suppliers and other eligible persons	6 December 2010	HK$0.305	–	86,828	–	–	86,828
			–	379,750	–	–	379,750

* 113,142,000 share options were granted to Mr. Lim Chuan Yang, who was appointed as a director of the Company on 1 January 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

41. SHARE OPTION SCHEME *(Continued)*

The options outstanding at 31 December 2011 had an exercisable period of 10 years from the date of grant and a weighted average remaining contractual life of 9.7 years (2010: 9.9 years).

The fair values of the options granted on 6 December 2010 and 30 November 2011 were HK$31,310,000 and HK$33,081,000 respectively as estimated by LCH.

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

Date of grant	30 November 2011
Fair value per share option	HK$0.032
Closing share price at date of grant	HK$0.098
Exercise price	HK$0.098
Expected volatility	70.94%
Expected life of the options	2 years
Expected dividend yield	Nil
Risk-free interest rate	0.26%

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

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

The Group recognised a total expense of HK$33,081,000 for the year ended 31 December 2011 (2010: HK$31,310,000) in relation to share options granted by the Company. The Company's share options granted to the Participants during the years ended 31 December 2011 and 2010 are measured by reference to the fair value of options estimated by LCH since the fair value of the services provided by all the Participants cannot be estimated reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Non-current asset		
Investments in subsidiaries	46,400	46,400
Current assets		
Prepayments, deposits and other receivables	21,392	84,734
Amounts due from subsidiaries (note)	479,201	1,207,387
Bank balances and cash	1,827	722
	502,420	1,292,843
Current liability		
Other payables and accruals	3,254	4,170
Net current assets	499,166	1,288,673
Total assets less current liability	545,566	1,335,073
Non-current liability		
Convertible notes	244,831	498,416
Net assets	300,735	836,657
Capital and reserves		
Share capital	117,545	86,828
Share premium	2,190,760	1,834,074
Contributed surplus	62,315	62,315
Share-based compensation reserve	61,716	31,310
Convertible notes reserve	92,707	203,074
Accumulated losses	(2,224,308)	(1,380,944)
Total equity	300,735	836,657

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

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43. ACQUISITION OF SUBSIDIARIES

On 7 November 2011, the Group acquired the entire equity interest in Sino Summit Investments Limited ("Sino Summit") from Pioneer Blaze, an independent third party, and acquired 30% equity interest in CLBJ from Mr. Li, an executive director of the Company (collectively referred to as the "CLBJ Acquisition"). The principal asset of Sino Summit was 60% equity interest in CLBJ. Accordingly, CLBJ became a 90% owned subsidiary of the Group upon the completion of the acquisition. The principal activities of CLBJ are the provision of logistics services in the PRC. The acquisition of CLBJ can further expand the Group's logistics business.

The acquisition has been accounted for using the purchase method. Upon the completion of the acquisition, amount due from a related company and amounts due to a director and a non-controlling equity holder of a subsidiary of HK$37,636,000, HK$26,123,000 and HK$19,621,000 respectively were assigned to the Group. The consideration for the acquisition is satisfied by the issue of 583,909,000 ordinary shares of the Company in aggregate. 371,720,000 and 212,189,000 ordinary shares of the Company were issued on 7 November 2011 and 20 January 2012 respectively. The fair value of the ordinary shares issued was determined with reference to the closing market price at the date of completion of the acquisition on 7 November 2011 of HK$0.103.

Consideration transferred:

	HK$'000
Issue of shares:	
Issued in November 2011	38,287
Issued in January 2012	21,856
	60,143

Acquisition-related costs amounting to HK$5,566,000 have been excluded from the consideration transferred and have been recognised as expenses in the current and prior years, under administrative expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment (note 17)	91,023	–	91,023
Other intangible assets (note 20)	–	138,911	138,911
Interest in an associate (note 21)	7,077	–	7,077
Finance lease receivables	362	–	362
Trade and bills receivables	31,570	–	31,570
Prepayments, deposits and other receivables	7,250	–	7,250
Financial assets at fair value through profit or loss	2,437	–	2,437
Amount due from a related company	37,636	–	37,636
Dividend receivables	1,815	–	1,815
Restricted bank balances#	23,537	–	23,537
Bank balances and cash	13,699	–	13,699
Trade and bills payables	(10,210)	–	(10,210)
Other payables and accruals	(66,982)	–	(66,982)
Amount due to a shareholder	(109,542)	–	(109,542)
Amount due to non-controlling equity holders of a subsidiary	(48,066)	–	(48,066)
Amount due to a director of a subsidiary	(26,123)	–	(26,123)
Deferred tax assets (liabilities)	4,434	(34,728)	(30,294)
Non-controlling interests##	(40,038)	(10,418)	(50,456)
Net assets acquired	(80,121)	93,765	13,644
Amount due from a related company			(37,636)
Amount due to a non-controlling equity holder of a subsidiary			19,621
Amount due to a director of a subsidiary			26,123
Goodwill (note 19)			38,391
Total consideration			60,143

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

The bank balances were frozen by court orders for the settlement of the compensation payable in respect of a litigation as set out in note 49.

The non-controlling interests recognised at the acquisition date was measured by the non-controlling interests' proportionate share of the net assets acquired.

The fair value of trade and bills receivables at the date of acquisition amounted to HK$31,570,000. The gross contractual amounts of those trade and bills receivables acquired amounted to HK$31,614,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$44,000.

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

An analysis of the net cash inflow in respect of the acquisition of subsidiaries is as follow:

	HK$'000
Bank balances and cash acquired	13,699

Sino Summit and its subsidiaries contributed revenue of HK$19,699,000 and loss for the period of HK$733,000 to the Group for the period from 7 November 2011 to 31 December 2011.

If the acquisition had been completed on 1 January 2011, the Group's revenue and loss for the year ended 31 December 2011 would have been increased by HK$109,663,000 and HK$55,539,000 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 acquisition been completed on 1 January 2011, or is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and loss of the Group had been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

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44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) During the year ended 31 December 2011, convertible notes of the Company with aggregate principal amount of HK$324,000,000 (2010: HK$288,000,000) were converted into 2,700,000,000 (2010: 2,400,000,000) ordinary shares of the Company at a conversion price of HK$0.12 (2010: HK$0.12) per share.

(b) As set out in note 43, the aggregate consideration for the CLBJ Acquisition was HK$60,143,000 (being the fair value of the ordinary shares issued determined with reference to the closing market price at the date of completion of the acquisition on 7 November 2011 of HK$0.103). The amounts were settled by the issue of 583,909,000 ordinary shares of the Company of which 371,720,000 ordinary shares were issued during the year ended 31 December 2011.

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

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

(e) As set out in note 18, the Group acquired an investment property at an aggregate consideration of HK$293,348,000 during the year ended 31 December 2010. The amounts were partially settled by a mortgage loan of HK$156,000,000.

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45. LEASE COMMITMENTS

The Group as lessee

	2011 HK$'000	2010 HK$'000
Lease payments paid under operating leases in respect of:		
– land and buildings	**7,774**	7,328
– others	**10,453**	9,601
	18,227	16,929

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

	2011 HK$'000	2010 HK$'000
Within one year	**19,437**	9,240
In the second to fifth years inclusive	**41,305**	8,256
Over five years	**10,625**	–
	71,367	17,496

Operating lease payments represent rentals payable by the Group for certain of its godowns, offices, car parks, production plant and motor vehicles. Leases are negotiated for original terms ranging from one to twenty-three years (2010: one to eight years). Rentals are fixed over the terms of respective leases.

Notes to the Consolidated Financial Statements

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46. RETIREMENT BENEFIT OBLIGATIONS

(a) Long service payments

	2011 HK$'000	2010 HK$'000
Long service payments (note 38)	**123**	150

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.

(i) Movement for the year:

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	**150**	107
(Decrease) increase in provision (included in staff costs under administrative expenses)	**(27)**	43
Balance at end of the year	**123**	150

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

	2011 %	2010 %
Discount rate applied to long service payments obligations	**8**	8

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

46. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(b) Retirement benefit scheme contributions

Hong Kong

The Group joins a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The PRC

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. All employees of the Group in the PRC are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement date. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

Notes to the Consolidated Financial Statements

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47. RELATED PARTY TRANSACTIONS

The remunerations of the directors of the Company and other members of the key management of the Group during the year are disclosed in notes 15 and 16 respectively. In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties.

(a) During the year ended 31 December 2011, interest income from SUN International amounted to HK$243,000 (2010: HK$79,000). The interest income was charged according to the logistics services agreement entered into.

(b) During the year ended 31 December 2011, logistics services income from Ningbo Lingxin amounted to HK$5,626,000 (2010: nil). The logistics services income was charged according to mutually agreed terms.

(c) On 30 June 2011, the Company entered into an agreement with CLBJ pursuant to which the Company agreed to provide a guarantee in the maximum amount of RMB3,300,000 to CLBJ (the "Guarantee") to facilitate the availability of bid securities. The Guarantee was terminated and released on 2 November 2011. Details of the transaction are set out in the Company's announcement dated 30 June 2011.

(d) During the year ended 31 December 2010, logistics services income from SUN International amounted to HK$6,788,000. The logistics services income was charged according to the logistics services agreement entered into.

48. CONTINGENT LIABILITIES

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

Based on the legal advice received by the Company, the directors of the Company considered that the Company has valid grounds in opposing the enforcement of any judgment of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the consolidated financial statements.

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49. LITIGATION

Prior to the acquisition by the Group, CLBJ had an arbitration in process. The arbitration was filed to the China Maritime Arbitration Commission (the "Commission") by a marine transportation company (the "Marine Transportation Company"), a former handling agent of CLBJ, against CLBJ. The underlying claim amounted to US$12,779,000. Simultaneously, CLBJ had also filed a counter claim against the Marine Transportation Company as the directors of CLBJ were in the opinion that the Marine Transportation Company had breached of services contract entered into between the Marine Transportation Company and CLBJ. According to the arbitral decision, CLBJ was required to make compensation of US$6,762,000 (approximately HK$52,528,000). Accordingly, a compensation payable for the litigation of HK$52,528,000 was made and included in other payables on acquisition. Compensation of HK$23,542,000 had been paid before 31 December 2011 with HK$23,537,000 being settled by the transfer of the restricted bank balances to the Commission. Subsequent to the end of the reporting period, the remaining balance of compensation was settled.

Mr. Li, a former shareholder of CLBJ, and Pioneer Blaze, a former beneficial shareholder of CLBJ, had agreed to indemnify CLBJ from such compensation. Immediate prior to the acquisition, New Wealth Logistics Limited, an intermediate holding company of CLBJ, had an amount due to Pioneer Blaze of HK$162,070,000. The indemnification receivable was offset against the amount due to Pioneer Blaze pursuant to the sale and purchase agreement for the CLBJ Acquisition.

Details regarding the above were set out in the Company's circular dated 28 February 2011 and the Company's announcements dated 7 July 2011, 7 September 2011 and 3 November 2011.

Notes to the Consolidated Financial Statements

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50. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2011 and 2010 are as follows:

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up ordinary share/ registered capital	Percentage of equity attributable to the Company 2011 Direct %	2011 Indirect %	2010 Direct %	2010 Indirect %	Principal activities
Sino-Tech International (BVI) Limited	Corporation	British Virgin Islands	US$2	100	–	100	–	Investment holding
China LWM Property Limited	Corporation	Hong Kong	HK$1	–	100	–	100	Property investment
CLI	Corporation	Hong Kong	HK$500,000	–	100	–	100	Provision of logistics services
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Provision of management service
LWM Management Limited	Corporation	Hong Kong	HK$1	–	100	–	100	Provision of management service
Semtech Electronics Limited	Corporation	Hong Kong	HK$1,000,000	–	100	–	100	Trademark holding
Semtech RFID Limited	Corporation	Hong Kong	HK$100	–	100	–	100	Trading of radio-frequency identification tag and antenna
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Manufacture and trading of electronic and electrical parts and components
東莞泰豐射頻識別有限公司 (note a)	Corporation	PRC	US$1,500,000	–	100	–	100	Manufacture and trading of radio-frequency identification tag and antenna
CLBJ (note a)	Corporation	PRC	RMB100,000,000	–	90	N/A	N/A	Provision of logistics services
中信物流飛馳有限公司 ("Fritz") (note b)	Corporation	PRC	RMB37,000,000	–	46.8*	N/A	N/A	Provision of logistics services

* The Company indirectly holds 90% equity interest in CLBJ which directly holds 52% equity interest in Fritz.

Notes:

(a) The companies are foreign enterprises in the PRC.

(b) The company is a domestic enterprise in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

50. PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

51. EVENTS AFTER THE REPORTING PERIOD

(a) On 20 January 2012, 212,189,000 ordinary shares of the Company were issued for settlement of the outstanding consideration for the CLBJ Acquisition.

(b) The Board notes that the Chairman of the Company, Mr. Li, is assisting the relevant authorities in China in the investigation into certain transactions conducted by him in April 2009 prior to his becoming a shareholder and director of the Company. Beijing Municipal Public Security Bureau and the Hong Kong police have advised the Company that only Mr. Li is under investigation and that the investigation does not relate to the Group. The Board has resolved that a special committee be set up to handle the Company's matters which may arise from and relate to the investigation. The Board will make further announcement(s) regarding the matter as and when appropriate.

Summary of Financial Information

A summary of the published results and of the assets, liabilities and non-controlling 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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				Restated	
Turnover	**784,467**	785,121	538,855	588,294	795,909
(Loss) profit before taxation	**(945,173)**	(527,826)	(762,474)	26,416	86,617
Net (loss) profit attributable to owners of the Company	**(936,734)**	(532,180)	(779,991)	6,399	70,485

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,186,880**	1,913,677	2,065,547	553,408	575,520
Total liabilities	**(724,527)**	(876,696)	(765,747)	(135,521)	(157,175)
Non-controlling interests	**(50,953)**	–	–	–	–
	411,400	1,036,981	1,299,800	417,887	418,345

Note: The results of the Group for the years ended 31 December 2011, 31 December 2010, 31 December 2009, 31 December 2008 and 31 December 2007 have been extracted from the audited consolidated financial statements for the years ended 31 December 2011, 31 December 2010, 31 December 2009, 31 December 2008 and 31 December 2007.

Particulars of Major Properties

Investment properties

Location	Use	Category of lease	Group's interest
House No. 8, Severn 8, No. 8 Severn Road, Hong Kong	Residential	Medium-term	100%