Chang

Tech Pro Technology Development Limited
德普科技發展有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code : 3823

Annual Report 2007

Contents

Corporate

Corporate Information	2–3
Corporate Profile	4
Corporate Structure	5

Business Review and Corporate Governance

Chairman's Statement	6
Management Discussion and Analysis	7–10
Directors and Senior Management	11–13
Report of the Directors	14–21
Corporate Governance Report	22–27

Financial Report

Independent Auditor's Report	28–29
Consolidated Income Statement	30
Consolidated Balance Sheet	31
Company Balance Sheet	32
Consolidated Statement of Changes in Equity	33
Consolidated Cash Flow Statement	34–35
Notes to the Financial Statements	36–77

Financial Highlights

Group Financial Summary	78

Corporate Information

Executive directors

Mr. Yan Qixu (顏奇旭先生)
Ms. Xiang Xiaoqin (相小琴女士)
Mr. Shan Biao (單標先生)
Ms. Kuang Lihua (匡麗華女士)
Mr. Liu Xinsheng (劉新生先生)

Independent non-executive directors

Mr. Xu Kangning (徐康寧先生)
Mr. Wong Chun Hung (黃鎮雄先生)
Ms. Lin Sufen (林素芬女士)

Company secretary

Mr. Cheung Pui Hung, Steven (張沛鴻先生)
FCPA, FCCA, ACA

Qualified accountant

Mr. Cheung Pui Hung, Steven (張沛鴻先生)
FCPA, FCCA, ACA

Authorised representatives

Mr. Liu Xinsheng (劉新生先生)
Room 2-501, Block 5
Yan Kang Yuan
Xia Guan District
Nanjing City
Jiangsu Province
PRC

Mr. Cheung Pui Hung, Steven (張沛鴻先生)
Flat F, 50th Floor
Tower 2, The Victoria Towers
188 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Members of the audit committee

Mr. Wong Chun Hung (黃鎮雄先生)
(Chairman of the committee)
Mr. Xu Kangning (徐康寧先生)
Ms. Lin Sufen (林素芬女士)

Members of the remuneration committee

Mr. Yan Qixu (顏奇旭先生)
(Chairman of the committee)
Mr. Wong Chun Hung (黃鎮雄先生)
Ms. Lin Sufen (林素芬女士)

Members of the nomination committee

Ms. Xiang Xiaoqin (相小琴女士)
(Chairman of the committee)
Mr. Xu Kangning (徐康寧先生)
Ms. Lin Sufen (林素芬女士)

Principal place of business in the PRC

Zouqu Village
Zouqu Town
Changzhou City
Jiangsu
PRC

Principal place of business in Hong Kong

Suites 2201–2203, 22nd Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Compliance adviser

Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Legal advisers as to Hong Kong laws

Loong & Yeung
Suites 2201–2203, 22nd Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Company's website

www.techprotd.com

Principal banker

Agricultural Bank of China Changzhou Branch
Zou Qu Sub-Branch
(中國農業銀行常州市鄒區分理處)
96 Nan Da Jie, Zouqu Town, Wujin District
Changzhou City
Jiangsu Province
PRC

Corporate Profile

Tech Pro Technology Development Limited (the "Company") (together with its subsidiaries, the "Group") (stock code: 3823) was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx") on 6 September 2007.

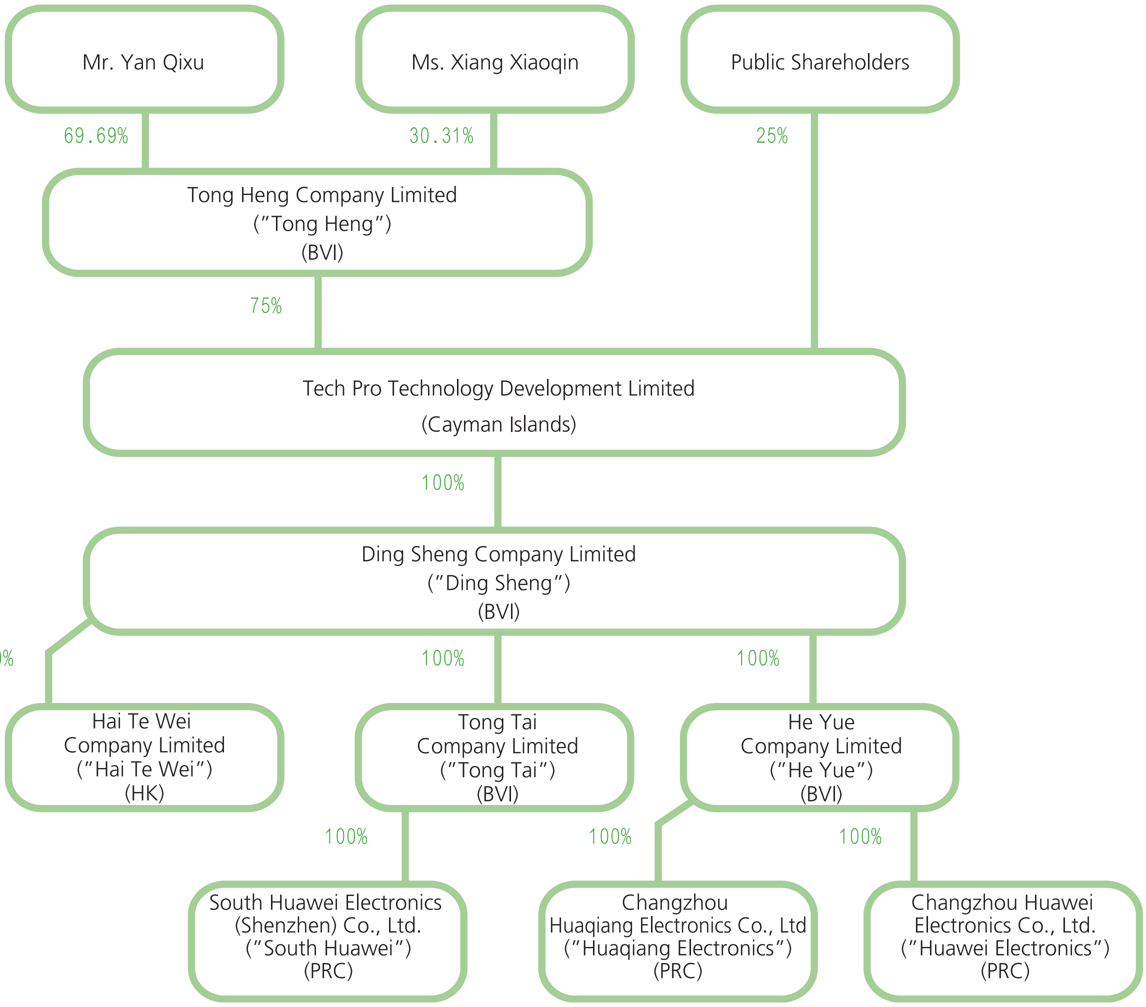
We are principally engaged in the manufacturing and sales of aluminum electrolytic capacitors. In general, a capacitor is an energy storing device made up of two parallel conducting plates separated by an insulating material — the "dielectric". It can be used in a wide range of electronics devices such as audio and video consumer electronics devices, power supply equipment, telecommunications equipment and home appliances.

The Group is based in Changzhou, Jiangsu Province, the PRC. In order to meet the needs of our customers, we manufacture a variety of capacitors with different specifications under the famous brandname "Chang". At present, we had a total of 45 models of aluminum electrolytic capacitor products, comprising 33 models of lead wire type capacitors, 8 models of lug type capacitors and 4 models of screw type capacitors.

By leveraging on our high quality products, our main customers are reputable corporations and the Group's extensive sales network includes reliable clients in domestic and overseas markets such as Taiwan, Hong Kong, Turkey, Korea, Italy, Russia, etc.

As the economy of China is developing rapidly and electronic devices become more and more popular, we are ambitious to become one of the leading manufacturers of aluminum electrolytic capacitors in the Greater China Region.

Corporate Structure



Chairman's Statement

The year 2007 was a remarkable year of our group. 6 September 2007 was the first day of our shares traded on the Main Board of the HKEx. The listing of the Group is not only a significant milestone in our Group's development, but has also laid a solid foundation for our long-term growth. Our Group has higher expectations to meet as a listed company. Such listing has given us access to the international capital markets, which will undoubtedly be instrumental in the pursuit of our group's strategic development in the future. The proceeds from the share offer have enabled us to optimize our capital structure and implement our plans.

Annual Results

I am also pleased to report to our shareholders that the Group recorded a turnover and profit attributable to equity holders of approximately RMB287.6 million and approximately RMB56.9 million respectively in 2007, representing an increase of approximately 12.0% and 0.2% respectively as compared with that of 2006.

Dividends

The board of directors of the Company (the "Board") recommended a final dividend of HK2.67 cents per share amounting to approximately HK$16 million in respect of the year ended 31 December 2007, bringing a dividend payout ratio of approximately 26.4%.

Business Review and Outlook

The Group's business has entered into a new era after the successful listing of shares of the Company on the Main Board.

Since then, the construction of the new production plants in Changzhou has been completed and additional production facilities have been purchased. The commercial production of the new plants was commenced in January 2008, which laid a strong foundation for the Group to become one of the leading manufacturers of aluminium electrolytic capacitors in the Greater China Region.

During the past year, the Group continued to maintain a good relation with well-known customers and developed new brandname customers. The Group's ability in providing high quality products to customers has been the main factor for customers in selecting suppliers. The support from our loyal customers, especially those reputable customers, for all these years has been evidence of the market recognition of our products and brandname.

We are committed to further developing our business and intend to allocate considerable resources into various areas including enhancing research and development capabilities, enriching high end product line, increasing production capacities and expanding the sales network in order to explore new markets and business opportunities around the world.

The Group is confident that the business will continue to thrive in the future and generate better returns to our shareholders. We believe that our experienced management team will utilize all our competitive advantages to consolidate the Group's position in the industry and achieve our corporate goal to become one of the leading manufacturers in the Greater China Region.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and business partners for their continuous support, as well as the management team and the staff of our Group for their hard work and contributions in the past year.

Yan Qixu
Chairman

14 April 2008

Business review

The year 2007 was a fruitful year for the Group. Not only has it achieved its aim to get its shares listed on the HKEx but also recorded growth in its financial results and a number of milestone developments occurred.

During the year 2007, the Group's turnover and gross profit surged by approximately 12.0% to approximately RMB287.6 million and approximately 12.0% to approximately RMB86.3 million respectively, as compared to the previous year. This outstanding performance is attributable to the quality of the Group's products and the Group's marketing effort and the Group's effort in cost control.

The Group has maintained good and stable relationships with its customers both in the PRC and overseas countries. The Group adopted the strategy to reduce the number of customers that have small transaction volume and to boost the sales of large customers. As a result, the number of customers reduced from 694 in 2006 to 483 in 2007. The Group maintains its strategy to develop new clients with well-known brandnames in order to improve its client base. The Group has strengthened its marketing effort on the overseas market and as a result of this, the turnover generated from overseas clients increased from RMB42.9 million in 2006 to RMB59.2 million in 2007. The sales generated from the overseas market also increased from approximately 16.7% to 20.6% of the total sales of the Group.

The breakdown of the Company's sales by geographic areas is as follows:

	For the year ended 31 December	
	2006	2007
	%	%
The PRC	83.3	79.4
Taiwan	7.3	2.7
Turkey	5.6	9.3
Korea	1.6	1.3
Hong Kong	0.5	5.1
Others	1.7	2.2
	100	100

The Group has continued its effort in research and development. On top of the original product range, the Group has commenced on the development of high end products. During the year, the Group has successfully developed a screw type aluminium electrolytic capacitor that can be used under high voltage (螺栓式高壓鋁電解電容器) , a lug type aluminium electrolytic capacitor that can be used in high-frequency power supply (焊針式高頻開關電源用鋁電解電容器) and a lead wire type aluminium electrolytic capacitor that has low impedance under high frequency (引線式高頻低阻抗鋁電解電容器). Such products have been launched to the market in the second half of 2007 and have received positive feedback from its customers. The research and development team has recruited experienced capacitor experts from Japan to join the Group in early 2008, which strengthen the research capability of the Group.

The construction of the new production plants of the Group in Changzhou, Jiangsu Province with a gross floor area of approximately 26,000 sq.m. have been completed in late 2007 and it has commenced operation in January 2008. The production lines located in the two rented plants in Changzhou have been moved to the new production plants. Accordingly, the Group's production facilities in Changzhou are concentrated in one area. New production facilities have been purchased by the Group. As a result of such expansion, the Group's production capacity has been increased to approximately 5,200 million units of capacitors by the end of 2007 from its original capacity of approximately 4,200 million units.

Business outlook

With the increasing worldwide demand of electronic products, in particular the consumer electronic products, the Directors expect that the demand of aluminium electrolytic capacitors to follow similar growth trend. In order to grasp such opportunity, the Directors intend to implement a number of strategies as detailed below.

The Group endeavours to optimise its existing production capacity to maintain its inventories at a level sufficient to meet the increased demand from the customers.

The Group intends to continue to expand its production capacity by purchasing additional production facilities. With such increased capacity, the Group will be able to accept more orders from its customers and to manufacture high end products. It's the plan of the Group to increase its production capacity to approximately 5,800 million units of capacitors in the coming two years.

New products are in the pipeline. On top of the three new products launched in 2007, the Group is conducting research works of a solid aluminium electrolytic capacitor (固態鋁電解電容器). The launch of such product will enrich the high end product line of the Group.

The Group will also devote more resources on enlarging its research and development team in order to enhance its competitiveness with overseas manufacturers, who possess advanced technology, by continuing to pursue skilful talent from famous universities in the PRC and developed countries such as Japan and Korea. Post-doctorate research centre is expected to be set up in 2008 to attract post-doctors and bring opportunities to the Group to carry out joint research work with universities.

The Group will also actively pursue business opportunities that are in line with its business development plan and in the interest of the shareholders of the Company should such opportunities arise.

With the successful listing of the Company which brings the Group with market awareness and funds for development, the Directors are optimistic about the business growth of the Group in the coming year.

Financial review

The Group was established in 1993 and is principally engaged in the manufacture and sale of aluminium electrolytic capacitors. The Group was listed on the Main Board of the HKEx on 6 September 2007.

Turnover

The turnover of the Group in 2007 was approximately RMB287.6 million which represents a growth of 12.0% or approximately RMB30.8 million as compared with that in 2006. The increase in turnover was mainly attributable to the increase in the sales made to the major customers as a result of the Group's marketing effort.

The Group's turnover by products can be analysed as follows:

	For the year ended 31 December			
	2006		2007	
	RMB'000	%	RMB'000	%
Lead wire type	198,019	77.1	239,032	83.1
Lug type and screw type	34,647	13.5	48,267	16.8
V-chip type	24,078	9.4	268	0.1

The sale of lead wire type capacitors showed an increase of 20.7% from RMB198.0 million in 2006 to RMB239.0 million in 2007. The sale of lug type and screw type capacitors showed an increase of 39.3% from RMB34.6 million in 2006 to RMB48.3 million in 2007. For V-chip type capacitors, the Group purchased from third parties and sold the products to its customers. The Group ceased such purchases in 2007 and the sale of such products in 2007 only represented the sale of stocks purchased in previous year.

Cost of sale

Cost of sales for the year ended 31 December 2007 was approximately RMB201.2 million, which increased by approximately 12.0% from approximately RMB179.6 million in 2006. The increase was mainly attributable to the increase in sales.

Gross profit margin

The Group's gross profit margin for the year 2007 was approximately 30.0%. The gross profit margin remained stable in comparing with approximately 30.0% for the year 2006.

Other revenue and income

For the year 2007, other revenue and income of the Group was approximately RMB4.8 million, which increased by about 38.1% from approximately RMB3.5 million for the year 2006. The increase in other revenue and income was primarily due to the increase in government grants and subsidies obtained by the Group and the increase in bank interest income.

Distribution costs

For the year 2007, distribution costs of the Group were approximately RMB4.5 million, which increased by about 13.1% from approximately RMB4.0 million for the year 2006. The increase in distribution costs was primarily due to the increase in transportation and travelling expenses resulted from the increase in sales.

Administrative expenses

For the year 2007, administrative expenses of the Group were approximately RMB11.4 million, which increased by about 59.6% from approximately RMB7.1 million for the year 2006. The increase in administrative expenses was primarily due to (i) the increase in Directors' emoluments resulted from the listing of the Company; and (ii) increase in staff salaries and welfare due to the recruitment of additional staff, the revision of the staff salary and the increase in number of staff participating in social welfare scheme.

Other operating expenses

For the year 2007, other operating expenses of the Group were approximately RMB2.9 million, which increased by about 77.8% from approximately RMB1.6 million for the year 2006. The increase in other operating expenses in 2007 was primarily due to the increase in exchange loss, the increase in charge in relation to discounting bills of exchange and the increase in charitable donations.

Finance costs

For the year 2007, finance costs of the Group were approximately RMB8.2 million, which increased by about 4.8% from approximately RMB7.8 million for the year 2006.The increase in finance costs was primarily due to the increase in bank borrowing.

The Group's net profit for the year 2007 was approximately RMB56.9 million, representing an increase of approximately 0.2% compared with RMB56.8 million in 2006.

Final Dividend

The Board proposed a final dividend of HK2.67 cents per share to shareholders whose names appear on the Register of Shareholders of the Company on 16 May 2008. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company, it is expected that the final dividend will be paid on or around 9 July 2008.

Liquidity and Financial Resources

As at 31 December 2007, the Group had current assets of approximately RMB367.0 million (2006: RMB204.1 million) and current liabilities of approximately RMB134.7 million (2006: RMB111.8 million). The current ratio of the Group as at 31 December 2007 was approximately 272.5% (2006: 182.6%). The increase in current ratio was due to the increase in cash resulted from the net proceeds from the share offer on the Company's initial listing on the HKEx.

As at 31 December 2007, the Group had cash and cash equivalents of approximately RMB48.4 million (31 December 2006: RMB34.8 million) and total borrowings of approximately RMB103 million (31 December 2006: RMB101 million), of which RMB60 million constituted long-term bank borrowings and RMB43 million constituted short-term bank borrowings. All of the Group's bank borrowings were subject to fixed interest rates and were denominated in RMB.

As at 31 December 2007, the gearing ratio (calculated by dividing total debt by total assets) of the Group was 22.4% (31 December 2006:37.3%). The decrease in gearing ratio as at 31 December 2007 compared to that as at 31 December 2006 was principally attributable to the increase in total assets resulted from the net proceeds from the share offer on the Company's initial listing on the HKEx.

Net cash generated from operating activities for the year was approximately RMB34.7 million.

Net cash outflow to investing activities for the year was approximately RMB33.9 million after the offset between the capital expenditure of approximately RMB35.4 million in enhancement of production facilities in various divisions of the Group and the bank interest income of approximately RMB1.8 million.

Net cash inflow from financing activities for the year was approximately RMB87.7 million, representing the net proceeds of approximately RMB153.4 million from the share offer on the Company's initial listing on the HKEx and the payment of interest of approximately RMB8.2 million, the increase in restricted bank deposits of RMB19 million and the payment of dividend prior to the reorganisation of the Group before the listing of the Company of approximately RMB42.2 million.

The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally made in RMB, Hong Kong Dollars and US Dollars, with the majority of which denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

As at 31 December 2007, the Group had no contingent liabilities.

Capital Commitment

As at 31 December 2007, the capital commitment of Group was approximately RMB81.9 million (2006: RMB104.3 million).

Employee information

As at 31 December 2007, the Group had 1,085 employees, the majority of whom stationed in the PRC. Total remuneration for the year amounted to RMB21.3 million (2006: 15.9 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

Charge on assets

As at 31 December 2007, the Group's buildings with an aggregate book value of approximately RMB5.3 million were pledged to secure banking facilities granted to the Group.

Material acquisitions and disposal of subsidiaries and associated companies

During the year ended 31 December 2007, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

Directors

Executive directors

Mr. Yan Qixu (顏奇旭) (alias 顏琦旭), aged 46, is the Chairman and an executive Director. He is currently also a director of Huawei Electronics, Huaqiang Electronics, South Huawei, Ding Sheng, He Yue, Tong Tai and Hai Te Wei. He is responsible for the Group's overall strategic planning and overall general administration. He completed a training course for senior professional managers and an advanced course for outstanding leaders at Tsing Hua University in 2005. He obtained the senior economist qualification in November 2006 granted by Jiangsu Department of Personnel (江蘇省人事廳) recognising his knowledge and practical experience in economic management. Mr. Yan was awarded the honour of Changzhou Outstanding Entrepreneur of Changzhou (常州市優秀企業家) by the People's Government of Changzhou (常州市人民政府) in February 2007. Mr. Yan joined the Group in 1993 as the chairman and general manager of Huawei Electronics. Mr. Yan has over 20 years' experience in the capacitor industry. He worked in Changzhou Electrolytic Capacitor Plant (常州市電解電容器廠) as a technician from 1980 to 1986, served as the person-in-charge of Component Plant, responsible for overseeing the overall business operations and the overall strategic planning from 1987 to 2003, and as the chairman of Huawei Group Limited since 2003 up to now. Mr. Yan was also appointed as director of Changzhou Huawei Reflective Material Company Limited in 2003. Mr. Yan did not hold any directorship in any listed public company in the last three years. He is one of the Controlling Shareholders and is the spouse of Ms. Xiang.

Ms. Xiang Xiaoqin (相小琴), aged 43, is an executive Director. She is also currently a director of Huawei Electronics, Huaqiang Electronics and South Huawei. She is responsible for assisting the Chairman and the Group's overall financial management. She completed a training course for senior professional managers at Tsing Hua University in 2005. She obtained the senior economist qualification in November 2006 granted by Jiangsu Department of Personnel (江蘇省人事廳) recognising her knowledge and practical experience in economic management. Ms. Xiang joined the Group in 1999 as the deputy general manager of Huaqiang Electronics responsible for assisting the general manager and overseeing the purchase and financial matters. Ms. Xiang has over 10 years' experience in the capacitor industry. She worked in Huawei Group Limited during the period between 1987 and 2004 responsible for assisting the chairman. Ms. Xiang was also appointed as director of Changzhou Huawei Reflective Material Company Limited in 2003 responsible for assisting the general manager and overseeing the purchase and financial matters. Ms. Xiang did not hold any directorship in any listed public company in the last three years. She is one of the Controlling Shareholders and is the spouse of Mr. Yan.

Mr. Shan Biao (單標), aged 48, is an executive Director and the general manager of the Group. He is also currently a director of Huawei Electronics, Huaqiang Electronics and South Huawei. He is responsible for the Group's overall general administration and management. Mr. Shan has obtained the degree of master of business administration from Macau University of Science and Technology in 2003. He completed an advanced course in modern business administration at Peking University of the PRC in 2005. He obtained the senior economist qualification in July 1999 granted by Jiangsu Department of Personnel (江蘇省人事廳) recognising his knowledge and practical experience in economic management. Mr. Shan joined the Group in 2003. Mr. Shan has over 20 years' experience in the capacitor industry. Prior to joining Huawei Electronics in March 2003, he worked in Nantong Capacitor Plant (南通電容器廠) from April 1977 to November 2000, and was the chairman of Nantong Taiyang Electronic Industry Company Limited (南通太陽電子工業有限公司) and Nantong Tongyong Electronics Company Limited (南通通陽電子有限公司) from 1999 to 2001. Mr. Shan did not hold any directorship in any listed public company in the last three years.

Ms. Kuang Lihua (匡麗華), aged 45, is an executive Director. She is responsible for the Group's overall financial management. Ms. Kuang graduated from Nanjing University (南京大學) specializing in public relationship in 1995. She is a registered tax agent of the PRC. Ms. Kuang has over 10 years' experience in the field of accounting and auditing. Prior to joining Huawei Electronics in May 2004, she worked with Changzhou Zhongrui Accounting Firm (常州中瑞會計師事務所) from March 1995 to December 2001 and Changzhou Kailai Accounting Firm (常州開來聯合會計師事務所) from January 2002 to April 2004. Ms. Kuang joined the Group in 2004 as the chief financial controller of Huawei Electronics and is currently the director of Huawei Electronics and Huaqiang Electronics. Ms. Kuang did not hold any directorship in any listed public company in the last three years.

Mr. Liu Xinsheng (劉新生), aged 39, is an executive Director. He is responsible for the Board's general affairs. Mr. Liu graduated from Nanjing Audit College (南京審計學院) specializing in accounting in 1991. He is a registered international internal auditor, a registered tax agent of the PRC and an accounting professional. Mr. Liu has over 10 years' experience in the field of accounting and auditing. Prior to joining the Group in February 2006 as the board secretary of Huawei Electronics, he worked in the auditing department of Panda Electronics Group Company (熊貓電子集團公司) from July 1991 to December 1998, the manager of the auditing department of Jiangsu Technology Import and Export Company (江蘇技術進出口公司) from January 1999 to February 2003, the general manager of auditing and legal department and cost control department of Nanjing Chixia Development Company Limited (南京棲霞建設股份有限公司) from February 2003 to February 2006. Mr. Liu is currently the director of Huawei Electronics and Huaqiang Electronics. Mr. Liu did not hold any directorship in any listed public company in the last three years.

Independent non-executive directors

Mr. Xu Kangning (徐康寧), aged 51, is an independent non-executive Director. He obtained his doctorate degree in economics at Fudan University. He has been the professor of the School of Economics and Management, Southeast University (東南大學經濟管理學院) since April 1996 and is now the dean of the same. He has obtained the first class award in the Award of Outstanding Result in Philosophy and Social Science of Jiangsu Province (江蘇省哲學社會科學優秀成果獎一等獎) and the third class award in the Award of Outstanding Result in Human Society Scientific Research of PRC High School (中國高校人文社會學研究優秀成果獎). He has enjoyed a special subsidy from the China State Council in recognition of his contribution to the development of education. Mr. Xu is an independent director of Nanjing Textiles Import & Export Corp., Ltd. (南京紡織品進出口股份有限公司) and Nanjing Chemical Fibre Co., Ltd. (南京化纖股份有限公司), both of which being companies listed on the Shanghai Stock Exchange, and Jinling Pharmaceutical Co., Ltd. (金陵藥業股份有限公司), a company listed on the Shenzhen Stock Exchange. He was also an independent director of Jiangsu Skyrun Corporation (江蘇開元股份有限公司), a company listed on the Shanghai Stock Exchange. He was appointed as an independent non-executive Director on 25 July 2007. Save as disclosed above, Mr. Xu did not hold any directorship in any listed public company in the last three years.

Mr. Wong Chun Hung (黃鎮雄), aged 34, is an independent non-executive Director. He graduated from Hong Kong Baptist University with honor degree of accounting in 1995. Mr. Wong is an associate of Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 10 years' experience in accounting, auditing and consulting, including semi-senior audit assistant and senior audit assistant of Cheng, Kwok & Chang, Certified Public Accountants from September 1996 to October 1998 and from October 1998 to December 1999 respectively, auditor of Moores Rowland Certified Public Accountants from March 2000 to May 2001, accountant of Nam Pei Hong Nominees Limited, a wholly-owned subsidiary of Hong Kong Pharmaceutical Holdings Limited, a listed company on Main Board, from May 2001 to March 2002, and a managing director of B&C Finance and Corporate Advisory Limited from November 2005 until now. There is no business relationship between the Group and B&C Finance and Corporate Advisory Limited. He was appointed as an independent non-executive Director on 25 July 2007. Save as disclosed above, Mr. Wong did not hold any directorship in any listed public company in the last three years.

Ms. Lin Sufen (林素芬), aged 68, is an independent non-executive Director. She graduated from Tianjin University, majoring in wireless materials and electronic components. She had over 42 years' experience in the electronic industry and held various senior positions in the electronic related field in the PRC. During the period between August 1965 and February 1981, Ms. Lin worked as a technician and engineer in the technical division (工藝室) of China Electronics Engineering Design Institute (中國電子工程設計院). She worked in the components division (元件處) of the Department of Electronics (電子部), the Division of Basic Electronic Components (元器件局), the Section of Electronic Components & Equipments (基礎產品司) and the Department of Electrical & Mechanical Services (機電部) as an engineer, senior engineer, deputy division chief (副處長) and division chief (處長) of the said departments/divisions/section at different times during the period between 1981 and 1995. She is currently the deputy secretary of China Electronic Components Association. She was appointed as an independent non-executive Director on 25 July 2007. Ms. Lin did not hold any directorship in any listed public company in the last three years.

Senior management

Mr. Shao Bin (邵斌), aged 41, is the deputy general manager of the Group. He is responsible for the Group's purchase, production and quality control. Mr. Shao completed a training course on business management at the Faculty of Economy of Southeast University (東南大學經濟學系) in 2005 and for senior chief executive at the Peking University in 2006. Mr. Shao has about 20 years of experience in the capacitor industry. Before joining the Group in March 2003, he worked in Nantong Tongfei Capacitor Company Limited (南通同飛電容器有限公司) from 1987 to 2001 and was responsible for product development and production management. He also worked in Dongci Capacitor Company Limited of Hengdian Group (橫店集團東磁電容器有限公司) as general engineer from 2001 to 2002. Mr. Shao did not hold any directorship in any listed public company in the last three years.

Mr. Jin Xiao (金曉), aged 43, is the vice general manager of the Group. He is responsible for the Group's sales and marketing as well as customer relationship management and development. Mr. Jin obtained a degree of economic management from Correspondence College for Cadre, Party School of Jiangsu Committee of the Communist Party of China (中共江蘇省委黨校幹部函授學院) in 2002. Mr. Jin has about 20 years' experience in the capacitor industry. He joined the Group in 2003. Mr. Jin did not hold any directorship in any listed public company in the last three years.

Ms. Zhu Shengli (朱勝利), aged 55, is the general engineer of the Group. She is responsible for the Group's production technology management and research and development of new products. Ms. Zhu graduated from Xi'an Jiaotong University (西安交通大學) specializing in wireless components and material in 1976. Ms. Zhu has about 26 years' experience of research of production technology and development of new products in the capacitor industry. Ms. Zhu worked in Nantong Tongfei Capacitor Company Limited (南通同飛電容器有限公司) from 1980 to 2002 and was responsible for product development and research. She then served as general engineer in Jiguang Electronics Company of Shenzhen SDG Information Company Limited (深圳特發信息股份有限公司吉光電子分公司) during the period between August 2002 and January 2004. Ms. Zhu joined the Group in 2004. Ms. Zhu did not hold any directorship in any listed public company in the last three years.

Mr. Li Fuming (李福明), aged 45, is the head of operation supervision department of the Group. He is responsible for supervision and assessment of the Group's operation. Mr. Li has over 20 years' operation management experience in the capacitor industry. Prior to joining the Group in 1998, he worked in Jiangsu Changzhou Taining Electronics Company Limited (江蘇省常州泰寧電子有限公司) from 1980 to 1997 and was responsible for quality control, technology and production. Mr. Li did not hold any directorship in any listed public company in the last three years.

Mr. Cheung Pui Hung, Steven (張沛鴻), aged 45, is the company secretary and qualified accountant of the Company. He was awarded the degree of master of professional accounting by the Hong Kong Polytechnic University in 2005. Mr. Cheung is a fellow and Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants, a fellow of The Association of Chartered Certified Accountants and an associate of the Institute of Chartered Accountants in England and Wales. He has more than 10 years of working experience in accounting. He was an independent non-executive director of China Sciences Conservational Power Limited, a company listed on the Main Board during the period from May to July 2007. He joined the Group in January 2007 and was appointed as the company secretary and qualified accountant of the Company on 26 July 2007. Save as disclosed above, Mr. Cheung did not hold any directorship in any listed public company in the last three years.

Report of the Directors

The directors are pleased to present to the shareholders their annual report together with the audited financial statements for the year ended 31 December 2007.

Group reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 20 November 2006. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the HKEx, the Company became the holding company of the companies now comprising the Group on 23 July 2007.

The shares of the Company have been listed on the Main Board of the HKEx since 6 September 2007.

Principal activities

The principal activities of the Company during the year were investment holding and those of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 30.

The directors recommend the payment of a final dividend of HK2.67 cents for the year ended 31 December 2007 to shareholders whose names appear on the register of members of the Company on 16 May 2008, amounting to approximately HK$16 million in aggregate.

Closure of register of members

The register of members of the Company will be closed from 13 May 2008 to 16 May 2008 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for receiving the final dividend and attending the annual general meeting of the Company to be held on 16 May 2008, unregistered holders of shares of the Company should ensure that all transfer of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 9 May 2008.

Group financial summary

The summary of the results of the Group for the four years ended 31 December 2007 and the assets and liabilities of the Group as at 31 December, 2004, 2005, 2006 and 2007 are set out on page 78.

Donations

Donations made by the Group during the year amounted to RMB467,000.

Property, plant and equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Share capital

Details of the movements in the Company's share capital during the year are set out in note 29 to the financial statements.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

Emolument policy

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

Remuneration of directors and five highest paid individuals

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in notes 9 and 10 to the consolidated financial statements.

Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares in September 2007 (the "Share Offer"), less listing expenses, amounted to approximately RMB153.4 million. During the year ended 31 December 2007, net proceeds were utilised as follows:

	RMB'million
Acquisition of production facilities	4.2
Repayment of bank loans	25.0
Research and development	0.1
Construction of new production plants	10.0
General working capital	27.1
	66.4

The remaining balance was deposited in banks in the PRC and Hong Kong.

Directors' interests in contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Directors and directors' service contracts

The directors of the Company who held office during the year were:

Executive directors:

Mr. Yan Qixu *(Chairman)*
Ms. Xiang Xiaoqin
Mr. Shan Biao
Ms. Kuang Lihua
Mr. Liu Xinsheng

Independent non-executive directors

Mr. Xu Kangning
Mr. Wong Chun Hung
Ms. Lin Sufen

In accordance with the Article 87 of the Company's Articles of Association, Ms. Kuang Lihua, Mr. Shan Biao and Mr. Liu Xinsheng, all are existing executive directors, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Mr. Xu Kangning, Mr. Wong Chun Hung and Ms. Lin Sufen and as at the date of this report still considers them to be independent.

Each of the executive directors has entered into a service contract for an initial term of 3 years commencing from 6 September 2007 (the "Listing Date"). Each of the executive directors may terminate the appointment by giving the Company not less than six months' prior notice in writing. Each of the independent non-executive directors has entered into a service agreement with the Company for a term of two years commencing on the Listing Date. Each of the independent non-executive directors may terminate the appointment at any time during the two-year term by giving the Company at least one month's notice in writing.

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 11 to 13.

Share option scheme

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 26 July 2007 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group or any substantial shareholder of the Group. The Scheme became unconditional on 6 September 2007 and shall be valid and effective for a period of ten years commencing on 26 July 2007, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00. The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price at the discretion of the Board, provided that it shall be at the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the options; and (iii) the nominal value of the Shares on the date of grant of the options.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Company does not exceed 10% of the Shares in issue at the date when the Shares were first listed on the Stock Exchange. The Company may at any time refresh such limit, subject to in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised at any time during a period which shall not exceed ten years from the date of grant subject to the provisions of early termination under the Scheme.

Since listing of the Company, no share options were granted, exercised or cancelled by the Company under the Scheme during the period under review and there are no outstanding share options under the Scheme as at 31 December 2007.

On 2 February 2007, the Company entered into a call option deed (the "Original Call Option Deed") with China Construction Bank Corporation, Hong Kong Branch ("CCBCHK") pursuant to which the Company agreed to grant an option to CCBCHK to subscribe for the option shares up to a maximum of 5% of the issued shares of the Company on the date of listing of the shares of the Company on the Stock Exchange (the "Listing Date") exercisable from the period commencing immediately after the expiry of a 6-month period after the Listing Date and up to the last day of the 60th month after the Listing Date (both days inclusive) at a price equal to the offer price under the Share Offer, subject to adjustments. On 19 July 2007, Tong Heng, the sole shareholder of the Company at that time, agreed to enter into a new call option deed to grant to CCBCHK an option to acquire from Tong Heng the shares in the Company held by it, and the Company and CCBCHK agreed to terminate the Original Call Option Deed pursuant to a termination deed dated 19 July 2007.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2007, the interests and short positions of the directors and/or chief executive of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to section 352 of the Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the HKEx pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity/Nature	No. of Shares	Percentage of issued share capital of the Company
Mr. Yan Qixu ("Mr. Yan")	Interest of controlled corporation *(Note 2)*	450,000,000 (L)	75%
	Interest of controlled corporation *(Note 4)*	30,000,000 (S)	5%
Ms. Xiang Xiaoqin (Ms. Xiang")	Interest of controlled corporation *(Note 3)*	450,000,000 (L)	75%
	Interest of controlled corporation *(Note 4)*	30,000,000 (S)	5%

Notes:

1. *The letters "L"and "S" denote a long position and a short position in the Shares respectively.*

2. *Mr. Yan is the beneficial owner of 69.69% of the issued shares in Tong Heng and therefore Mr. Yan is deemed, or taken to be, interested in the 450,000,000 Shares which are beneficially owned by Tong Heng for the purposes of the SFO. Mr. Yan is also a director of Tong Heng. Mr. Yan and Ms. Xiang are spouse.*

3. *Ms. Xiang is the beneficial owner of 30.31% of the issued shares in Tong Heng and therefore Ms. Xiang is deemed, or taken to be, interested in the 450,000,000 Shares which are beneficially owned by Tong Heng for the purposes of the SFO. Mr. Yan and Ms. Xiang are spouse.*

4. *Tong Heng has entered into a call option deed dated 19 July 2007 with CCBCHK pursuant to which Tong Heng agreed to grant a share option (the "Pre-IPO Share Option") to CCBCHK.*

Pursuant to the Pre-IPO Share Option, Tong Heng will transfer the option shares (being the Shares held by Tong Heng which shall in aggregate be up to a maximum of 5% of the issued Shares of the Company on the Listing Date) to CCBCHK (or its nominee) if CCBCHK exercises the Pre-IPO Share Option. The Pre-IPO Share Option is exercisable from the period commencing immediately after the expiry of a 6-month period after the Listing Date and up to the last day of the 60th month after the Listing Date (both days inclusive) at a price equal to the price under the Share Offer, subject to adjustments.

Long position in the ordinary shares of associated corporation#

Name of Director	Name of associated corporation	Capacity	Number of shares held type of interest	Percentage of interest
Mr. Yan	Tong Heng	Beneficial owner	6,969 ordinary shares	69.69%
Ms. Xiang	Tong Heng	Beneficial owner	3,031 ordinary shares	30.31%

Save as disclosed above, as at 31 December 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the HKEx pursuant to the Model Code.

Interests and short positions of substantial shareholders in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2007, so far as is known to the Directors and taking no account of any Shares which might be taken up under the Share Offer, the following persons (other than the directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

1. Long position in the Shares

Name of Shareholders	Capacity/Nature	No. of Shares	Percentage of issued share capital of the Company
Tong Heng	Beneficial owner	450,000,000	75%

2. Interests and short positions in underlying Shares of equity derivatives of the Company

Name	Capacity	Description of equity derivatives	Number of underlying Shares
Tong Heng	Beneficial owner	share option *(Note 2)*	30,000,000 Shares (S)
CCBCHK	Beneficial owner	share option *(Note 2)*	30,000,000 Shares (L)

Notes:

1. *The letters "L" and "S" denote a long position and a short position in the Shares.*

2. *Tong Heng has entered into a call option deed dated 19 July 2007 with CCBCHK pursuant to which Tong Heng agreed to grant the Pre-IPO Share Option to CCBCHK. Pursuant to the Pre-IPO Share Option, Tong Heng will transfer the option shares (being the Shares held by Tong Heng which shall in aggregate be up to a maximum of 5% of the issued Shares of the Company on the Listing Date) to CCBCHK (or its nominee) if CCBCHK exercises the Pre-IPO Share Option. The Pre-IPO Share Option is exercisable from the period commencing immediately after the expiry of a 6-month period after the Listing Date and up to the last day of the 60th month after the Listing Date (both days inclusive) at a price equal to the price under the Share Offer, subject to adjustments.*

Save as disclosed above, and as at 31 December 2007, the directors of the Company were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who has interest in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

Directors' right to acquire shares or debentures

Apart from as disclosed under the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Competing interests

None of the directors, and the substantial shareholders had any interests in any business, which competed with or might compete with the business of the group.

Major customers and suppliers

During the year, the Group's sales to the largest and five largest customers accounted for approximately 18.9% and 40.1% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 30.6% and 49.2% respectively of the Group's purchase.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

Connected transactions

Pursuant to a lease (the "Lease") entered into between Huaqiang Electronics, being a major operating subsidiary of the Group, and Changzhou Huawei Reflective Material Company Limited ("Reflective Material"), Huaqiang Electronics leased a property located in the manufacturing plant of building of Reflective Material for a term commencing from 1 September 2006 and ending on 31 August 2008 at a monthly rental of RMB20,040. Reflective Material is a connected person of the Company as it is beneficially wholly owned by Mr. Yan Qixu and Ms. Xiang Xianqin, all being executive directors of the Company. The transaction under the Lease constituted a continuing connected transaction of the Company. However, as the Lease is a de minimise transaction under Rule 14A.33(3) of the Listing Rules, it was exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The related party transactions are set out in note 34 to the financial statements. All the related party transactions did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

Purchase, sale or redemption of the Company's listed securities

For the year ended 31 December 2007, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

Pre-emptive rights

There are no provisions for the pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Compliance adviser's interests

As updated and notified by the Company's compliance adviser, Hantec Capital Limited ("Hantec"), as at 31 December, 2007, neither Hantec nor any of its directors, employees or associates had any interests in the shares of the company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the compliance adviser agreement dated 23 August 2007 entered into with the Company, Hantec received and will receive fees for acting as the Company's compliance adviser for the period commencing on the Listing Date and ending on the date which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial result for the first full financial year after the date of listing.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Corporate governance

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this report.

Post balance sheet event

Details of the post balance sheet event are set out in note 36 to the financial statements.

Auditors

The financial statements for the year ended 31 December 2007 have been audited by the Group's auditors, CCIF CPA Limited (who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting).

On behalf of the Board
Mr. Yan Qixu
Chairman

The People's Republic of China, 14 April 2008

Code on corporate governance practices

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. Since its listing on the Stock Exchange, the Company has complied with the code provisions of the Code for the year ended 31 December 2007, save for the exception explained in this report under the section headed "Chairman and Chief Executive Officer".

Board of directors

The board of directors (the "Board") currently comprises of eight directors including five executive directors and three independent non-executive directors:

Executive Directors:

Mr. Yan Qixu 顏奇旭 *(Chairman)*
Ms. Xiang Xiaoqin 相小琴
Mr. Shan Biao 單標
Ms. Kuang Lihua 匡麗華
Mr. Liu Xinsheng 劉新生

Independent Non-Executive Directors:

Mr. Xu Kangning 徐康寧
Mr. Wong Chun Hung 黃鎮雄
Ms. Lin Sufen 林素芬

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report. All Board members have separate and independent access to the Company's management to fulfil their duties, and upon reasonable request, to seek independent professional advice in appropriate circumstance, at the Company's expenses. All Directors also have access to the Company Secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/ committee papers are distributed to the Directors/ committee members with reasonable notice in advance of the meetings. Minutes of board meetings and meetings of board committees, which recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and open for inspection by Directors.

Key information regarding the directors' academic and professional qualifications and other appointments are set out in the section headed "Directors and Senior Management". Except that Mr. Yan Qixu is the spouse of Ms. Xiang Xiaoqin, there is no other relationship among members of the Board.

Board Meetings and Attendance

The Board shall meet regularly and at least four times a year. During the year ended 31 December 2007, the Board held one meeting since listing of the shares of the Company on 6 September 2007. The attendance of the directors at the board meeting is as follows:

	Attendance/ Meeting held
Mr. Yan Qixu 顏奇旭 (Chairman)	1/1
Ms. Xiang Xiaoqin 相小琴	1/1
Mr. Shan Biao 單標	1/1
Ms. Kuang Lihua 匡麗華	1/1
Mr. Liu Xinsheng 劉新生	1/1
Mr. Xu Kangning 徐康寧	1/1
Mr. Wong Chun Hung 黃鎮雄	1/1
Ms. Lin Sufen 林素芬	1/1

Independent non-executive directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent to the Company.

Chairman and chief executive officer

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". This is deviated from the code provision A.2.1.

Mr. Yan Qixu, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply. If compliance is determined, appropriate person will be nominated to the different roles of chairman and chief executive officer.

Appointment, re-election and removal of directors

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from 6 September 2007 and may be terminated by either party by giving not less than six months' prior written notice.

Each of the independent non-executive directors of the Company has entered into a service contract with the Company for a term of two years commencing from 6 September 2007 and may be terminated by either party by giving one months' written notice.

In accordance with Article 87 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Ms. Kuang Lihua, Mr. Shan Biao and Mr. Liu Xinsheng will retire from office as Directors by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Model code set out in appendix 10 to the listing rules

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the relevant employees.

Having made specific enquiry of all directors, the directors have confirmed that they have complied with the Model Code since listing of the shares of the Company on 6 September 2007 to 31 December 2007. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Responsibilities of directors

All newly appointed directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group.

There is no change in the composition of the Board since its listing in September 2007.

Supply of and access to information

In respect of regular board meeting, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting.

All directors are entitled to have access to board papers, minutes and related materials.

Audit committee

The Company established an Audit Committee on 26 July 2007 with written terms of reference in compliance with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three Independent Non-Executive Directors, namely Mr. Wong Chun Hung, Mr. Xu Kangning and Ms. Lin Sufen. Mr. Wong Chun Hung who possesses a professional accounting qualification and relevant accounting experience, is the Chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The written terms of reference of the Audit Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Group's website.

During the financial year, the Audit Committee has reviewed the Group's internal controls and the Group's interim financial results for the six-month ended 30 June 2007. The Group's final results for the year ended 31 December 2007 have been reviewed by the Audit Committee before submission to the Board of Directors for approval. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held one meeting since the Company's listing on 6 September 2007 up to 31 December 2007. The members and attendance of the Audit Committee meeting are as follows:

	Attendance/ Meeting held
Mr. Wong Chun Hung 黃鎮雄 *(Chairman)*	1/1
Mr. Xu Kangning 徐康寧	1/1
Ms. Lin Sufen 林素芬	1/1

Auditors' remuneration

During the year ended 31 December 2007, the fee incurred for audit and non-audit services provided by the auditors for the Group is approximately set out as follows.

Type of services	**Fee paid/ payable** RMB'000
Professional services rendered in connection with the listing of the Group	1,866
Review fee for interim results	58
Non-audit services	1,924
Audit services	489
	2,413

Nomination committee

The Company established a Nomination Committee pursuant to a resolution of the Directors passed on 26 July 2007. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of Board succession and ensure that the candidates to be nominated as Directors are experienced, high calibre individuals. The Nomination Committee consists of Ms. Xiang Xiaoqin, an Executive Director and two Independent Non-Executive Directors, namely Mr. Xu Kangning and Ms. Lin Sufen. Ms. Xiang Xiaoqin is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive directors of the Company and other related matters. The written terms of reference of the Nomination Committee adopted by the Board are in line with the provisions of the Code.

The Nomination Committee held one meeting since the Company's listing on 6 September 2007 up to 31 December 2007. Details of the attendance of the Nomination Committee meeting are as follows:

	Attendance/ Meeting held
Ms. Xiang Xiaoqin 相小琴	1/1
Mr. Xu Kangning 徐康寧	1/1
Ms. Lin Sufen 林素芬	1/1

At the meeting, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive directors and other related matters of the Company.

Remuneration committee

The Company established a Remuneration Committee pursuant to a resolution of the Directors passed on 26 July 2007 in compliance with the code provisions of the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The Remuneration Committee comprises Mr. Yan Qixu (顏奇旭先生), an Executive Director and two Independent Non-Executive Directors, namely Mr. Wong Chun Hung (黃鎮雄先生) and Ms. Lin Sufen (林素芬女士). Mr. Yan Qixu is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once every year to discuss remuneration related matters. No executive Director is allowed to be involved in deciding his own remuneration.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Group's website.

The Remuneration Committee held one meeting since the Company's listing on 6 September 2007 up to 31 December 2007. Details of the attendance of the Remuneration Committee meeting are as follows:

	Attendance/ Meeting held
Mr. Yan Qixu 顏奇旭 *(Chairman)*	1/1
Mr. Wong Chun Hung 黃鎮雄	1/1
Ms. Lin Sufen 林素芬	1/1

At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors for the year 2007.

Directors' and auditors' responsibility for financial statements

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2007. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2007. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the directors continue to adopt the going concern approach in preparing the financial statements.

Internal control

The Board has overall responsibility to maintain a sound and effective internal control of the Company to safeguard the shareholders' investments and the Company's assets. The Company will continue to review its internal control function on a regular basis.

The management has conducted a review during the year on the effectiveness of the system of internal control of the Group, covering all material controls including financial, operational, compliance controls and risks management functions with recommendations for improvement. The recommendations have been reviewed by the Audit Committee with the Board. The Board has adopted the recommendations to enhance the Group's system of internal control.

Communication with shareholders

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Chairman of the Board and chairman of Audit Committee will make themselves available at the annual general meeting to meet with shareholders. The Company will ensure that there are separate resolutions for separate issues at general meetings.

First annual general meeting will be held on 16 May 2008.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on its business in a timely manner, subject to relevant regulatory requirement.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
TECH PRO TECHNOLOGY DEVELOPMENT LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tech Pro Technology Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 77, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

Auditor's responsibility (Continued)

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 14 April 2008

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	5	287,567	256,744
Cost of sales		(201,224)	(179,648)
Gross profit		86,343	77,096
Other revenue and income	6	4,778	3,460
Distribution costs		(4,492)	(3,970)
Administrative expenses		(11,408)	(7,148)
Provision for impairment on trade receivables		(1,246)	(139)
Other operating expenses		(2,857)	(1,607)
Operating profit		71,118	67,692
Finance costs	8	(8,194)	(7,821)
Profit before income tax	7	62,924	59,871
Income tax expense	11	(6,058)	(3,094)
Profit for the year	12	56,866	56,777
Dividends	13		
— Dividend declared prior to the Reorganisation		41,614	32,350
— Final dividend proposed after the balance sheet date		15,000	—
		56,614	32,350
Earnings per share (RMB)	14		
— Basic		0.11	0.13

The notes on pages 36 to 77 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	90,952	64,570
Prepaid lease payments	17	1,964	2,009
Deposits for prepaid lease payments	17	320	29
Total non-current assets		93,236	66,608
Current assets			
Inventories	19	69,045	38,010
Prepaid lease payments	17	45	42
Trade and bills receivables	20	131,658	107,452
Other receivables	21	15,124	10,222
Amounts due from related companies	23	—	2,704
Restricted bank deposits	24	29,910	10,910
Time deposits	24	72,800	—
Cash and cash equivalents	24	48,371	34,760
Total current assets		366,953	204,100
Current liabilities			
Trade and bills payables	25	77,551	55,775
Other payables	26	11,281	9,412
Amounts due to a related company	23	—	1,710
Amounts due to directors	22	1,227	503
Dividend payable		—	576
Income taxes payable		1,621	2,802
Bank loans — due within one year	27	43,000	41,000
Total current liabilities		134,680	111,778
Net current assets		232,273	92,322
Total assets less current liabilities		325,509	158,930
Non-current liabilities			
Bank loans — due after one year	27	60,000	60,000
Net assets		265,509	98,930
CAPITAL AND RESERVES			
Share capital	29	5,820	—
Reserves	30	259,689	98,930
Total equity		265,509	98,930

Approved and authorised for issue by the board of directors on 14 April 2008.

Yan Qixu	Xiang Xiaoqin
Director	*Director*

The notes on pages 36 to 77 form an integral part of these financial statements.

Company Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	238,003	—
Current assets			
Other receivables		100	58
Cash and cash equivalents	24	59	—
Total current assets		159	58
Current liabilities			
Other payables		481	—
Amount due to a subsidiary	18	—	58
Amounts due to directors	22	1,238	—
Total current liabilities		1,719	58
Net current liabilities		1,560	—
Total assets less current liabilities		236,443	—
Net assets		236,443	—
CAPITAL AND RESERVES			
Share capital	29	5,820	—
Reserves	30	230,623	—
Total equity		236,443	—

Approved and authorised for issue by the board of directors on 14 April 2008.

Yan Qixu	Xiang Xiaoqin
Director	*Director*

The notes on pages 36 to 77 form an integral part of these financial statements.

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	32,353	—	137	—	4,431	40	20,355	57,316	17,187	74,503
Acquisition of 25% equity interest in Huawei and Huaqiang before reorganisation	10,430	—	6,757	—	—	—	—	17,187	(17,187)	—
Profit for the year	—	—	—	—	—	—	56,777	56,777	—	56,777
Transfer	—	—	—	—	5,927	—	(5,927)	—	—	—
Dividends	—	—	—	—	—	—	(32,350)	(32,350)	—	(32,350)
Arising from group reorganisation	(42,783)	—	—	42,783	—	—	—	—	—	—
At 31 December 2006 and at 1 January 2007	—	—	6,894	42,783	10,358	40	38,855	98,930	—	98,930
Issue of shares pursuant to the group reorganisation (note 29 (b)(i))	—	—	—	—	—	—	—	—	—	—
Capitalisation issue (note 29 (b)(ii))	4,365	(4,365)	—	—	—	—	—	—	—	—
Shares issued through placing and public offering (note 29(b)(iii))	1,455	187,695	—	—	—	—	—	189,150	—	189,150
Share issue expenses (note 29(b)(iii))	—	(35,763)	—	—	—	—	—	(35,763)	—	(35,763)
Exchange difference on translation of financial statements of subsidiaries	—	—	—	—	—	(2,060)	—	(2,060)	—	(2,060)
Profit for the year	—	—	—	—	—	—	56,866	56,866	—	56,866
Transfer	—	—	—	—	5,706	—	(5,706)	—	—	—
Dividend paid prior to the Reorganisation (note 13)	—	—	—	—	—	—	(41,614)	(41,614)	—	(41,614)
At 31 December 2007	5,820	147,567	6,894	42,783	16,064	(2,020)	48,401	265,509	—	265,509

The notes on pages 36 to 77 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	62,924	59,871
Adjustments for:		
Depreciation of property, plant and equipment	8,760	8,247
Gain on disposal of prepaid lease payments	—	(295)
Loss on disposal of property, plant and equipment	254	54
Impairment on trade receivables	1,246	139
Interest expenses	8,194	7,821
Interest income	(1,763)	(1,064)
Amortisation of prepaid lease payments	42	32
Operating profit before changes in working capital	79,657	74,805
Increase in inventories	(31,035)	(3,148)
Increase in trade and bills receivables	(25,452)	(34,266)
Increase in other receivables	(4,902)	(6,400)
Increase in trade and bills payables	21,776	15,885
Increase/(decrease) in other payables	1,869	(9,521)
Cash generated from operations	41,913	37,355
PRC Income Tax paid	(7,239)	(4,739)
Net cash generated from operating activities	34,674	32,616
Investing activities		
Interest received	1,763	1,064
Repayment from loan receivables	—	18,000
Payment for lease prepayments	(291)	(690)
Proceeds from disposal of property, plant and equipment	—	3,165
Payment for acquisition of property, plant and equipment	(35,396)	(5,299)
Proceeds from disposal of lease prepayments	—	443
Payment for deposits for lease prepayments	—	(29)
Net cash (used in)/generated from investing activities	(33,924)	16,654
Financing activities		
Interest paid	(8,194)	(7,821)
Dividend paid	(42,190)	(34,846)
Share issue expenses	(35,763)	—
Proceeds from shares issued	189,150	—
Inception/(repayment) of bank loans	2,000	(24,728)
Increase in restricted bank deposits	(19,000)	(10,910)
(Decrease)/increase of amounts due to related parties	(1,710)	1,487
Decrease in amounts due from directors	—	9,861
Decrease in amount due from related companies	2,704	6,387
Increase in amounts due to directors	724	315
Decrease in amount due to a minority shareholder	—	(246)
Net cash generated from/(used in) financing activities	87,721	(60,501)

	2007 RMB'000	2006 RMB'000
Net increase/(decrease) in cash and cash equivalents	88,471	(11,231)
Cash and cash equivalents at beginning of year	34,760	45,991
Effect of foreign exchange rates	(2,060)	—
Cash and cash equivalents at end of year	121,171	34,760
Analysis of balances of cash and cash equivalents		
Cash and bank balances	48,371	34,760
Time deposits	72,800	—
	121,171	34,760

1. General information and basis of presentation

Tech Pro Technology Development Limited (the "Company") was incorporated in the Cayman Islands on 20 November 2006 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1–1111, Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of aluminium electrolytic capacitors.

Pursuant to a reorganisation ("the Reorganisation") of the Group, the Company acquired the equity interests of entities under common control and became the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 6 September 2007. Details of the Reorganisation are set out in the prospectus of the Company dated 24 August 2007 ("the Prospectus").

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2007 and the comparatives have been prepared as if the current group structure had been in existence throughout the years presented.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise indicated, which is also the functional currency of the Group.

2. Significant accounting policies

(a) Basis of presentation of the financial statements

These consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Group is regarded as a continuing entity resulting from the Reorganisation under common control. Accordingly, these consolidated financial statements of the Group for the year ended 31 December 2007 and the comparatives have been prepared as if the current group structure had been in existence throughout the years presented.

(b) Basis of preparation

The financial statement have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and interpretations issued by the HKICPA. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2. Significant accounting policies (Continued)

(b) Basis of preparation (Continued)

In 2007, the Group adopted the new/revised standards and interpretations to the published standards below, which are relevant to its operation.

HKFRS 7	Financial Instrument: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised standards and interpretations did not result in any substantial changes to the Group's accounting policies, except for disclosures relating to financial instruments made in the financial statements.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2. Significant accounting policies (Continued)

(c) Preparation of consolidation

The consolidated financial statements for the year ended 31 December 2007 included the financial statements of the Company and its subsidiaries.

(i) Subsidiaries

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure the consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(ii) Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are recognised at the carrying values prior to the common control combination.

The consolidated financial statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the control of the controlling parties, where there is a shorter period, regardless of the date of common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under control of the controlling parties, whichever is shorter.

2. Significant accounting policies (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise indicated, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is disposed of, cumulative exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. Significant accounting policies (Continued)

(e) Construction in progress

Construction in progress is stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the asset which comprises construction costs, amortization of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to the buildings within property, plant and equipment or to investment properties.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings are self-use buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives at the following rates per annum:

Buildings	4.5%
Plant and machinery	9%
Furniture and office equipment	18%
Motor vehicles	9%
Electronic equipment	9%–18%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal of a property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2. Significant accounting policies (Continued)

(g) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are stated at cost or amortised cost and are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

— For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. Significant accounting policies (Continued)

(g) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— prepaid lease payments; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

2. Significant accounting policies (Continued)

(h) Prepaid lease payments

Prepaid lease payments represent cost of land use rights paid to the PRC's government authorities. Land use rights are carried at cost less amortisation and impairment losses, if any. Amortisation is charged to the income statement on a straight-line basis over the respective periods of the rights.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, deemed deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Trade and other payables

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

(l) Inventories

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

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

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

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

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between the amount initially recognised (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Significant accounting policies (Continued)

(n) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for it intended use or sale.

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

(o) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(p) Employee benefits

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

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

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

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

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

2. Significant accounting policies (Continued)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

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

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

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

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

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

2. Significant accounting policies (Continued)

(q) Income tax (Continued)

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Operating lease charges

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

(s) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised as an expense in the period in which it is incurred.

(t) Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Significant accounting policies (Continued)

(u) Recognition of revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably. Revenue is recognised as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate.

(iii) Government grants

Unconditional government grants are recognised in the income statement as revenue when the grants become receivable.

(v) Related parties

Parties are considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or excise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of any individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, the manufacture and sale of aluminium electrolytic capacitors in the PRC. Accordingly, no segment analysis is presented.

3. Financial risk management

The Group's principal financial instruments comprise interest-bearing bank loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, commodity price risk and foreign currency risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are more than three months from the date of billing are requested to settle all outstanding balances before any further credit is granted.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

At the balance sheet date, the Group has a certain concentration of credit risk as 19% (2006: 9%) and 39% (2006: 35%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2007, respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the bank, management does not expect any counterparty to fail to meet its obligations.

3. Financial risk management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

Group

	2007			2006		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
Bank loans	103,000	109,253	44,353	101,000	113,203	42,255
Trade and other payables	88,832	88,832	88,832	65,187	65,187	65,187
Amounts due to directors	1,227	1,227	1,227	503	503	503
Income tax payable	1,621	1,621	1,621	2,802	2,802	2,802
	194,680	200,933	136,033	169,492	181,695	110,747

Company

	2007			2006		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
Other payables and accruals	481	481	481	—	—	—
Amount due to directors	1,238	1,238	1,238	—	—	—
	1,719	1,719	1,719	—	—	—

3. Financial risk management (Continued)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from bank borrowings and cash at bank. All of the bank loans of the Group were fixed instruments and were insensitive to any change in market interest rates. The Group did not use derivative financial instruments to hedge its debts obligations. The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet date:

Group

	2007		2006	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Bank borrowings	6.12%–7.27%	103,000	6.12%–7.47%	101,000
Cash and cash equivalents	3.33%	121,171	2.25%	34,760

Company

	2007		2006	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Cash and cash equivalents	3.33%	59	—	—

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variable held constant, would increase/decrease the Group's profit after tax and retained profit for the year by approximately RMB57,000 (2006: RMB522,000). Other components of equity would not be affected (2006: nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to financial instruments exposed to interest rate risk as if they had been in existence at the beginning of the year. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Commodity price risk

The major raw material used in the production of the Group's products included aluminium foil and aluminium case. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Business risk

The Group's sales of alumimum electrolytic products are primarily to several major customers. The Group has a certain concentration of business risk as 39% (2006: 35%) of total sales were made to the Group's five largest customers. In the event that these customers ceased to purchase alumimum electrolytic products from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

3. Financial risk management (Continued)

(e) Business risk (Continued)

The Group's purchases of raw materials are primarily from several major suppliers. The Group has a certain concentration of business risk as 50% (2006: 29%) of the total purchases were from the Group's five largest suppliers. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's production operation might be seriously affected with an adverse effect on turnover and profitability.

(f) Foreign currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars.

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the balance sheet date to currency risk arising from foreign currency transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash and cash equivalents	17,414	2,235	59	—

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currency.

	2007			2006		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Hong Kong dollars	5%	664	—	5%	64	—
	(5%)	(664)	—	(5%)	(64)	—
US dollars	5%	208	—	5%	48	—
	(5%)	(208)	—	(5%)	(48)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

3. Financial risk management (Continued)

(f) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

Consistent with the industry practice, the Group monitors its capital structure on the basis of gearing ratio, which is calculated as the Group's total bank borrowings over the Group's total assets.

The gearing ratios as at 31 December 2007 and 2006 were as follows:

		The Group	
	Note	2007 RMB'000	2006 RMB'000
Total borrowings			
— Short-term bank loans		43,000	41,000
— Long-term bank loans		60,000	60,000
Total bank borrowings		103,000	101,000
Total assets		460,189	270,708
Gearing ratio		22.4%	37.3%

Neither the Company nor any of it subsidiaries is subject to externally imposed capital requirements.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Liquid and/or short-term assets and liabilities

For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate their fair values. The assumption is applied to trade and bills and other receivables, trade and bills and other payables, cash and cash equivalents without a specific maturity and variable rate financial instruments.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) Useful lives and residual values of property, plant and equipment

Useful lives of the Group's property, plant and equipment are defined as the period over which they are expected to be available for use by the Group. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual lives and therefore depreciation expense in future periods.

(b) Impairment of property, plant and equipment and land use right

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgement relating to such items such as level of turnover and amount of operating costs. No impairment was provided during the year.

(c) Impairment of trade receivable and other receivables

The Group makes provision for impairment of trade and other receivables based on the evaluation of collectibility and ageing analysis of accounts and on management's judgement. A considerable amount of judgement 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 an impairment of their ability to make payments, additional allowances may be required.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are made with reference to age analysis of inventories, projection of expected sale volume and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Turnover

The Group is principally engaged in the manufacture and sale of aluminium electrolytic capacitors. Turnover represents the net invoiced value of goods sold less returns and allowances.

	2007 RMB'000	2006 RMB'000
Sale of goods	287,567	256,744

No analysis of the Group's turnover and contributions to profit from operations by geographical segment or business segment has been presented as a substantial proportion of the Group's turnover and operating profits are earned within the PRC, and the principal assets employed by the Group are located in the PRC.

6. Other revenue and income

	2007 RMB'000	2006 RMB'000
Bank interest income	1,763	632
Government grants *(note a)*	2,830	2,101
Interest income from Zouqu Finance Office *(note b)*	—	432
Gain from disposal of prepaid lease payments *(note c)*	—	295
Others	185	—
	4,778	3,460

Notes:

(a) Government grants represent various forms of incentives and subsidies given to a subsidiary, Huawei Electronics, by the local government. Certain of the grants were generally available to other companies, and these were mainly for the purpose of promoting certain industries in the PRC. All of the above grants were unconditional in nature, and the amounts were determined and paid according to the prevailing policies of the local PRC government.

(b) Loan to Zouqu Finance Office, an independent third party bore interest at 7.65% per annum and was fully repaid in 2006.

(c) Certain portion of land was resumed by the local government for a compensation of RMB443,600, that had resulted a gain of RMB295,000 by waiving the land use rights on that particular portion of land.

7. Profit before income tax

Profit before income tax is arrived at after charging:

	2007 RMB'000	2006 RMB'000
Directors' emoluments *(note 9)*	1,699	279
Other staff costs	18,577	15,066
Contributions to retirement benefit scheme	1,014	593
Total staff costs	21,290	15,938
Amortisation of prepaid lease payments	42	32
Auditor's remuneration		
— audit service	489	40
— non-audit service	58	—
Cost of inventories sold	166,892	153,889
Depreciation of property, plant and equipment	8,760	8,247
Net exchange loss	1,719	64
Loss on disposal of property, plant and equipment	254	54
Operating lease rentals in respect of properties	1,134	1,100
Impairment of trade receivables	1,246	139
Research and development costs*	145	—

* *Research and development costs represented staff costs of employees in the research and development department, which are included in the total staff costs as disclosed above.*

8. Finance costs

	2007 RMB'000	2006 RMB'000
Interest expenses on bank loans wholly repayable within five years	8,194	7,821

9. Directors' emoluments

The emoluments of each director for the year ended 31 December 2007 are set out below:

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	Other benefits RMB'000	Contributions to retirement benefit schemes RMB000	Total RMB'000
Executive Directors							
Yan Qixu	—	508	—	—	—	2	510
Xiang Xiaoqin	—	487	—	—	—	2	489
Shan Biao	—	270	—	—	—	—	270
Kuang Lihau	—	181	—	—	—	2	183
Liu Xinsheng	—	180	—	—	—	—	180
Independent non-executive Directors							
Lin Sufen	19	—	—	—	—	—	19
Xu Kangning	19	—	—	—	—	—	19
Wong Chun Hung	29	—	—	—	—	—	29
	67	1,626	—	—	—	6	1,699

The emoluments of each director for the year ended 31 December 2006 are set out below:

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	Other benefits RMB'000	Contributions to retirement benefit schemes RMB000	Total RMB'000
Executive Directors							
Yan Qixu	—	77	—	—	—	2	79
Xiang Xiaoqin	—	64	—	—	—	6	70
Shan Biao	—	59	—	—	—	—	59
Kuang Lihau	—	40	—	—	—	—	40
Liu Xinsheng	—	31	—	—	—	—	31
Independent non-executive Directors							
Lin Sufen	—	—	—	—	—	—	—
Xu Kangning	—	—	—	—	—	—	—
Wong Chun Hung	—	—	—	—	—	—	—
	—	271	—	—	—	8	279

10. Individuals with highest emoluments

The five individuals whose emoluments were the highest in the Group include four directors (2006: two) whose emoluments are reflected in the analysis above. The emoluments payable to the remaining one (2006: three) individuals are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and allowances	663	191
Contributions to retirement benefit scheme	12	2
	675	193

The emoluments of the individuals with the highest emoluments throughout the year fell within the band of nil to HK$1,000,000 (equivalent to RMB940,000).

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

11. Income tax expense

(a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
PRC Foreign Enterprise Income Tax		
— Current year	6,058	3,094

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No Hong Kong Profits Tax has been provided as the Group has no estimated assessable profit in Hong Kong for the two years ended 31 December 2006 and 2007.

(iii) Huawei Electronics is subject to PRC Foreign Enterprise Income Tax ("FEIT") at 24% and local Enterprise Income Tax ("EIT") of 3%.

Pursuant to the relevant law and regulations in the PRC, Huaqiang Electronics and South Huawei were entitled to the exemptions from FEIT of 24% and 15%, respectively, and the local EIT rate of 3% for two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The first profit-making year for both Huaqiang Electronics and South Huawei was 2006.

11. Income tax expense (Continued)

(a) (Continued)

The National People's Congress of the PRC approved the Corporate Income tax Law of the PRC (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate applicable to enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions. The change in tax rate does not have any impact on the financial statements, as the New Tax Law was not effective for the year ended 31 December 2007.

(b) The reconciliation of the Group's effective tax charge and the amount which is calculated based on the applicable statutory tax rate is as follows:

	2007 RMB'000	2006 RMB'000
Profit before income tax	62,924	59,871
Tax calculated at PRC FEIT rate of 27% (2006: 24%)	17,502	14,369
Effect of tax exemptions granted to PRC subsidiaries	(11,430)	(12,005)
Tax effect of non-deductible expenses	778	—
Tax effect of non-taxable income	(792)	730
	6,058	3,094

No provision has been made for deferred taxation as at 31 December 2007 and 2006 as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

12. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of RMB1,460,000 (2006: Nil) which has been dealt with in the financial statements of the Company.

13. Dividends

	2007 RMB'000	2006 RMB'000
Dividends declared by the subsidiaries to the then shareholders prior to the Reorganisation	41,614	32,350
Final dividend proposed after the balance sheet date of HK2.67 cents (equivalent to approximately RMB2.5 cents) per share (2006: Nil)	15,000	—
	56,614	32,350

No dividend has been paid by the Company since its incorporation. Dividends for the year ended 31 December 2007 and 2006 represent dividends declared by subsidiaries of the Company to their then shareholders prior to the Reorganisation. The rates of dividends and the number of shares ranking for dividends are not prescribed as such information is not meaningful having regard to the purpose of these financial statements.

The proposed final dividend which are declared in Hong Kong dollars are translated into Renminbi at the rate HK$1 = RMB0.93638, being the rate announced by the State Administration of Foreign Exchange in the PRC on 28 December 2007.

The final dividend proposed after the balance sheet date is subject to the approval of the forthcoming annual general meeting of the Company and has not been recognised as a liability at the balance sheet date.

14. Earnings per share

The calculation of basic earnings per share for the year is calculated based on the consolidated profit attributable to equity holders of the Company of approximately RMB56,866,000 (2006: RMB56,777,000) and on the weighted average number of approximately 497,671,233 (2006: 450,000,000) shares in issue during the year. In determining the number of shares in issue, a total of 450,000,000 shares issued in connection with the Reorganisation (note 1) and the capitalization issued as described in note 29 were deemed to have been issued since 1 January 2006.

	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	56,866	56,777
Weighted average number of shares in issue	497,671,233	450,000,000

There were no dilutive potential shares during the years presented and, therefore, diluted earnings per share is not presented.

15. Property, plant and equipment

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, and office equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Construction in progress (Note 16) RMB'000	Total RMB'000
Cost							
At 1 January 2006	11,088	79,257	884	1,762	2,761	—	95,752
Additions	—	3,771	107	258	63	1,100	5,299
Disposals	(3,815)	(169)	—	(33)	(241)	—	(4,258)
At 31 December 2006 and at 1 January 2007	7,273	82,859	991	1,987	2,583	1,100	96,793
Additions	255	10,433	191	2,124	679	21,714	35,396
Disposals	—	(430)	—	(35)	—	—	(465)
At 31 December 2007	7,528	92,862	1,182	4,076	3,262	22,814	131,724
Accumulated depreciation							
At 1 January 2006	1,492	21,761	297	740	725	—	25,015
Charge for the year	478	7,096	155	276	242	—	8,247
Disposals	(906)	(63)	—	(23)	(47)	—	(1,039)
At 31 December 2006 and at 1 January 2007	1,064	28,794	452	993	920	—	32,223
Charge for the year	342	7,557	166	399	296	—	8,760
Written back on disposal	—	(194)	—	(17)	—	—	(211)
At 31 December 2007	1,406	36,157	618	1,375	1,216	—	40,772
Net book value							
At 31 December 2007	6,122	56,705	564	2,701	2,046	22,814	90,952
At 31 December 2006	6,209	54,065	539	994	1,663	1,100	64,570

All of the Group's buildings and plant and machinery are located in the PRC. The carrying value of the properties of the Group comprises buildings on land under medium-term lease in the PRC.

As at 31 December 2007, the carrying values of the Group's buildings that were pledged to secure bank loans granted to the Group amounted to RMB5,298,000 (2006: carrying values of pledged buildings, plant and machinery amounted to RMB20,950,000) (note 31).

16. Construction in progress

	Group 2007 RMB'000	2006 RMB'000
At 1 January	1,100	—
Additions	21,714	1,100
At 31 December	22,814	1,100

Construction in progress as at 31 December 2007 represents buildings under construction.

17. Prepaid lease payments/Deposits for prepaid lease payments

(a) Prepaid lease payments

	Group 2007 RMB'000	2006 RMB'000
Cost		
At 1 January	2,090	998
Additions	—	1,245
Disposal	—	(153)
At 31 December	2,090	2,090
Accumulated amortisation		
At 1 January	39	12
Charge of the year	42	32
Written back on disposal	—	(5)
At 31 December	81	39
Net book value		
At 31 December	2,009	2,051
Analysed into		
Current portion	45	42
Non-current portion	1,964	2,009
	2,009	2,051

17. Prepaid lease payments/Deposits for prepaid lease payments (Continued)

(a) Prepaid lease payments (Continued)

Prepaid lease payments represent payments for land use rights for the medium-term leasehold land in the PRC, which have remaining terms ranging from 47 to 49 years as at 31 December 2007.

At 31 December 2007, the carrying value of land use rights pledged as security for the Group's borrowings amounted to nil (2006: RMB817,000).

(b) Deposits for prepaid lease payments

As at 31 December 2007, the Group had made prepayments of RMB320,000 (2006: RMB29,000) for the acquisition of land use rights for the construction of staff quarters thereon. Application for the related land use rights certificates is under process.

18. Investments in subsidiaries

Company

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	84,516	—
Amount due from a subsidiary	153,487	—
	238,003	—

The amounts due from a subsidiary is capital contribution in nature, unsecured, interest free and have no fixed terms of repayment.

18. Investments in subsidiaries (Continued)

Particulars of the Company's subsidiaries as at 31 December 2007 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Percentage of issued/registered capital held by the Company Direct %	Indirect %	Principal activities
Changzhou Huawei Electronics Co., Ltd. *(note)*	The People's Republic of China (the "PRC")	US$3,070,000	—	100	Manufacture and sale of aluminium electrolytic capacitors
Changzhou Huaqiang Electronics Co., Ltd. *(note)*	PRC	US$2,100,000	—	100	Trading of aluminium electrolytic capacitors
South Huawei (Shenzhen) Electronics Co., Ltd. *(note)*	PRC	HK$1,000,000	—	100	Manufacture and sale of aluminium electrolytic capacitors
Ding Sheng Company Limited	The British Virgin Islands ("BVI")	US$0.01	100	—	Investment holding
Tong Tai Company Limited	BVI	US$0.01	—	100	Investment holding
He Yue Company Limited	BVI	US$0.01	—	100	Investment holding
Hai Te Wei Company Limited	Hong Kong	HK$1	—	100	Provision of administrative services

Note: These entities are wholly foreign owned enterprise established in the PRC.

19. Inventories

	2007 RMB'000	2006 RMB'000
Raw materials	7,641	7,142
Work-in-progress	44,027	15,898
Finished goods	17,377	14,970
	69,045	38,010

20. Trade and bills receivables

The Group normally grants a credit period of 30 to 180 days to its customers.

	2007 RMB'000	2006 RMB'000
Trade receivables	130,228	87,808
Bills receivables	1,430	19,644
	131,658	107,452

(a) Aging analysis

Aging analysis of trade receivables as of the balance sheet date is as follows:

	Group	
	2007 RMB'000	2006 RMB'000
0–30 days	21,490	29,900
31–90 days	26,976	25,599
91–180 days	49,041	18,874
181–365 days	27,600	6,204
Over 365 days	9,218	10,036
	134,325	90,613
Provision for impairment	(4,097)	(2,805)
	130,228	87,808

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

20. Trade and bills receivables (Continued)

(b) Impairment of trade receivables (Continued)

The movements in the allowance for doubtful debts during the year are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
At 1 January	2,805	2,666
Reversal of impairment loss	(158)	—
Impairment loss recognised	1,450	139
At 31 December	4,097	2,805

The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	99,172	94,107
Less than 30 days past due	9,280	1,607
Between 31 to 90 days past due	12,548	3,379
Between 91 to 180 days past due	6,065	1,356
Over 181 days past due	4,593	7,003
	131,658	107,452

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. Other receivables

	Group	
	2007 RMB'000	2006 RMB'000
Prepayments and deposit receivable	3,209	1,840
Payments in advance to suppliers	9,068	6,217
Advance to employees	621	452
Value-added tax refundable	1,114	—
Compensation from local government *(note)*	—	1,700
Others	1,112	13
	15,124	10,222

Note: During the year ended 31 December 2006, certain portion of land was resumed by the local government for a total compensation of RMB3,500,000. The balance of RMB1,700,000 was received upon completion of the demolition of the building during the year.

None of the above assets is either past due or impaired and there was no recent history of default for the above receivables.

22. Amounts due to directors

All balances due to directors are unsecured, interest-free and repayable on demand.

23. Amounts due from/(to) related companies

The balances with related companies as at 31 December 2006 were unsecured, interest-free and had no fixed terms of repayment. All of these balances were repaid during the year.

24. Cash and cash equivalents and restricted bank deposits

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash at banks	48,299	34,751	59	—
Time deposits	72,800	—	—	—
Cash in hand	72	9	—	—
	121,171	34,760	59	—
Restricted bank deposits	29,910	10,910	—	—
	151,081	45,670	59	—

24. Cash and cash equivalents and restricted bank deposits (Continued)

Cash and cash equivalents are denominated in:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
RMB	103,757	32,525	—	—
USD	4,143	969	—	—
HK$	13,271	1,266	59	—
	121,171	34,760	59	—

The bank deposits were denominated in Renminbi with an average maturity of 1 year. The effective interest rate on bank deposits as at 31 December 2007 was 3.33% (2006: 2.25%) per annum.

The bank balances and time deposits are deposited with creditworthy banks with no collateral. The carrying amounts of the cash and cash equivalents approximate their fair values.

The restricted bank deposits were pledged as security for issuing commercial bills to suppliers.

25. Trade and bills payables

The credit terms granted by suppliers are generally for a period of 30 to 90 days, computing from the end of the month of the relevant purchase.

	2007 RMB'000	2006 RMB'000
Trade payables	44,160	43,665
Bills payable	33,391	12,110
	77,551	55,775

25. Trade and bills payables (Continued)

Details of the aging analysis of trade payables are as follows:

	2007 RMB'000	2006 RMB'000
0–30 days	18,060	20,909
31–90 days	17,386	16,560
91–365 days	7,956	4,867
Over 365 days	758	1,329
	44,160	43,665

The carrying amounts of trade and bills payables approximate their fair values.

26. Other payables

	2007 RMB'000	2006 RMB'000
Salaries and welfare payable	5,335	2,688
Value-added tax payable	—	1,132
Amounts payable for property, plant and equipment	3,229	1,690
Receipts in advance	2,019	3,499
Rental payable	117	117
Audit fee	489	—
Others	92	286
	11,281	9,412

27. Bank loans

	2007 RMB'000	2006 RMB'000
Bank loans repayable within one year:		
— Secured	—	6,000
— Unsecured	43,000	35,000
	43,000	41,000
Bank loans repayable in the second year:		
— Secured	13,000	13,000
— Unsecured	47,000	47,000
	60,000	60,000
	103,000	101,000

The Group's bank loans bear interest at rates ranging from 6.12% to 7.27% (2006: 6.12% to 7.47%) per annum.

As at 31 December 2007, bank loans of RMB13,000,000 (2006: RMB19,000,000) were secured on the Group's buildings, plant and equipment as detailed in note 31 .

The banks loans of RMB90,000,000 as at 31 December 2007 (2006: RMB82,000,000) were guaranteed by two subsidiaries, namely Huawei Electronics and Huaquiang Electronics.

All of the Group's bank loans are denominated in Renminbi.

The carrying amounts of the Group's interest-bearing bank loans approximate their fair values.

28. Employee retirement benefits

(a) Defined contribution retirement plans

The Group operates a mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Under the MPF Scheme, the employer and employees are each required to make contributions to the plan of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The PRC subsidiaries participates in several defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal and provincial government authorities whereby the Group is required to make contributions to the Schemes certain percentage of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

28. Employee retirement benefits (Continued)

(a) Defined contribution retirement plans (Continued)

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

(b) Share option scheme

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholder's written resolution passed on 26 July 2007.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the year.

29. Share capital

	Note	Number of shares of HK$0.01 each	Nominal value of shares HK$'000
Authorised:			
Upon incorporation	(a)	38,000,000	380
Increase in share capital	(a)	1,962,000,000	19,620
At 31 December 2007		2,000,000,000	20,000

29. Share capital (Continued)

	Note	Number of shares of HK$0.01 each	Nominal value of shares HK$	RMB
Issued and fully paid				
Allotted and issued at nil paid	(b)(i)	1	—	—
Issue of shares for Reorganisation	(b)(i)	9,999	100	97
Capitalisation issue	(b)(ii)	449,990,000	4,499,900	4,364,903
Shares Issued under placing and public offering	(b)(iii)	150,000,000	1,500,000	1,455,000
At 31 December 2007		600,000,000	6,000,000	5,820,000

(a) Authorised share capital

The Company was incorporated on 20 November 2006 with an authorised share capital of HK$380,000 (equivalent to RMB368,600) divided into 38,000,000 of HK$0.01 each. On 26 July 2007, the authorised share capital of the Company was increased to HK$20,000,000 by the creation of an additional 1,962,000,000 shares of HK$0.01 each, ranking pari passu with the existing shares of the Company in all respects.

(b) Issued share capital

(i) Capitalisation upon incorporation/Reorganisation

The Company was incorporated on 20 November 2006 with an initial issued capital of 1 share at nil paid. On 23 July 2007, the Company issued 9,999 shares and credited as fully paid the existing 1 share of the Company at HK$0.01 per share to acquire the shares of Ding Sheng Company Limited and became the holding company of the Group.

(ii) Capitalisation issue

Pursuant to the written resolutions on 26 July 2007, the Company allotted and issued 449,990,000 shares of HK$0.01 each to the then existing shareholders of the Company. The issue was conditional upon the share premium being received as a result of the Company's public offering. Subsequent to the Company's public offering and pursuant to the resolutions, a sum of RMB4,364,903 standing to the credit of the share premium account was subsequently applied in paying up this capitalization issue in full.

(iii) Issue of shares through placing and public offering

On 6 September 2007, the Company issued 150,000,000 shares with a par value of HK$0.01 each, at a price of HK$1.30 per share by way of initial public offering in Hong Kong. The net proceeds from such issue amounting to RMB153,387,000 (after offsetting listing expenses of RMB35,763,000) were recorded as to RMB1,455,000 in share capital and as to RMB151,932,000 in share premium account, respectively.

30. Reserves

Group

	Share premium (note (a)) RMB'000	Capital reserve (note (b)) RMB'000	Special reserve (note (c)) RMB'000	Statutory reserves (note (d)) RMB'000	Exchange reserve (note (e)) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	—	137	—	4,431	40	20,355	24,963	17,187	42,150
Acquisition of 25% equity interest in Huawei and Huaqiang before reorganizsation	—	6,757	—	—	—	—	6,757	(17,187)	(10,430)
Profit for the year	—	—	—	—	—	56,777	56,777	—	56,777
Transfer	—	—	—	5,927	—	(5,927)	—	—	—
Dividends	—	—	—	—	—	(32,350)	(32,350)	—	(32,350)
Arising from group reorganization	—	—	42,783	—	—	—	42,783	—	42,783
At 31 December 2006 and at 1 January 2007	—	6,894	42,783	10,358	40	38,855	98,930	—	98,930
Capitalisation issue (note 29(b)(ii))	(4,365)	—	—	—	—	—	(4,365)	—	(4,365)
Shares issued through placing and public offering (note 29(b)(iii))	187,695	—	—	—	—	—	187,695	—	187,695
Share issue expenses (note 29(b)(iii))	(35,763)	—	—	—	—	—	(35,763)	—	(35,763)
Exchange difference on translation of financial statements of subsidiaries	—	—	—	—	(2,060)	—	(2,060)		(2,060)
Profit for the year	—	—	—	—	—	56,866	56,866	—	56,866
Transfer	—	—	—	5,706	—	(5,706)	—	—	—
Dividend paid prior to group reorganisation *(note 13)*	—	—	—	—	—	(41,614)	(41,614)	—	(41,614)
At 31 December 2007	147,567	6,894	42,783	16,064	(2,020)	48,401	259,689	—	259,689

30. Reserves (Continued)

Company

	Share premium (note (a)) RMB'000	Special reserve (note (c)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2006	—	—	—	—
Profit for the year	—	—	—	—
Dividends	—	—	—	—
Arising from group reorganization	—	—	—	—
At 31 December 2006 and at 1 January 2007	—	—	—	—
Issue of shares pursuant to the group reorganisation (note 29(b)(i))	—	—	—	—
Capitalisation issue (note 29(b)(ii))	(4,365)	—	—	(4,365)
Shares issued through placing and public offering (note 29(b)(iii))	187,695	—	—	187,695
Share issue expenses (note 29(b)(iii))	(35,763)	—	—	(35,763)
Arising from group reorganization	—	84,516	—	84,516
Loss for the year	—	—	(1,460)	(1,460)
At 31 December 2007	147,567	84,516	(1,460)	230,623

(a) Share premium

The share premium account represents the excess of the issued price net of any issuance expenses over the par value of the shares issued. The application of the share premium account is governed by Section 34 under the Companies Law of the Cayman Islands.

(b) Capital reserve

Capital reserve represents the excess of the consolidated net assets acquired in the subsidiaries over the consideration paid.

(c) Special reserve

Special reserve represented the difference between the net assets of Ding Sheng and its subsidiaries acquired by the Company and the nominal value of one nil-paid issued share of the Company through an exchange of shares.

(d) Statutory reserves

The statutory reserves refer to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of the profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount standing to the credit of this reserve exceeded 50% of the registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior year losses of the PRC subsidiaries.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies are set out in note 2(d)(iii).

31. Pledged assets

At the respective balance sheet date, the following assets were pledged to banks to secure general banking facilities granted to the Group:

	Group	
	2007 RMB'000	2006 RMB'000
Buildings	5,298	6,209
Plant and machinery	—	14,741
Land use rights	—	817
	5,298	21,767

32. Operating lease commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Within one year	1,102	1,214
In the second to the fifth year, inclusive	753	1,642
	1,855	2,856

33. Capital commitments

	Group	
	2007 RMB'000	2006 RMB'000
Contracted for but not provided for	15,234	20,361
Authorised but not contracted for	66,711	83,901
	81,945	104,262

34. Material related party transactions

During the two years ended 31 December 2006 and 2007, the directors are of the view that the following companies are related parties to the Group:

Name of the party	Relationship
Huawei Group Limited	Mr. Yan and Ms. Xiang are common directors and controlling shareholders
Hua R Sheng (HK) Company Limited ("HK Huarisheng")	Mr. Yan and Ms. Xiang are common directors and controlling shareholders
Changzhou Huawei Reflective Material Company Limited ("Reflective Material")	Mr. Yan and Ms. Xiang are common directors and controlling shareholders
Chanzhou Qihua Electronics Company Limited ("Chanzhou Qihua")* (was disposed of on 12 December 2006)	Mr. Yan and Ms. Xiang were common directors and controlling shareholders

Mr. Yan and Ms. Xiang are the executive directors of the Company and the key management of the Group during the year.

(a) Recurring transactions

	2007 RMB'000	2006 RMB'000
Reflective Material		
— rental expenses	240	80

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of the Group's business.

(b) Non-recurring transactions

	2007 RMB'000	2006 RMB'000
Changzhou Qihua		
— purchase of finished goods	—	5,705
— rental expense	—	192
Reflective Material		
— sale of plant and equipment	—	105
— purchase of plant and equipment	—	77

34. Material related party transactions (Continued)

(c) Balances with related parties

	2007 RMB'000	2006 RMB'000
Amounts due from related parties		
Trade balances:		
— HK Huarisheng	—	2,544
— Reflective Material	—	160
	—	2,704
Amount due to a related company		
Non-trade balances:		
— Huawei Group Limited	—	1,710

The amounts due from/(to) the above related parties were unsecured, interest-free and were fully settled during the year.

(d) Guarantees provided by related parties for bank borrowings at the respective balance sheet dates:

	2007 RMB'000	2006 RMB'000
Guarantees provided by:		
— Changzhou Qihua	—	10,000
— Reflective Material	—	58,000
	—	68,000

The guarantees from Changzhou Qihua and Reflective Material were released during the year ended 31 December 2007.

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors in note 9 and certain of highest paid employees as disclosed in note 10, is as follows:

	2007 RMB'000	2006 RMB'000
Short-term employee benefits	2,289	271
Contribution to defined retirement plans	18	8

Total remuneration is included in staff costs in note 7.

35. Major non-cash transactions

Pursuant to the written resolution on 26 July 2007, the Company allotted and issued 449,990,000 shares of HK$0.01 each to the then existing shareholders of the Company. The issue was conditional upon the share premium being received as a result of the Company's public offering. Subsequent to the Company's public offering and pursuant to the resolutions, a sum of RMB4,364,903 standing to the credit of the share premium account was subsequently applied in paying up this capitalization issue in full.

36. Non-adjusting post balance sheet event

After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 13 to the financial statements.

37. Ultimate holding company

The directors regard Tong Heng Company Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Group.

GROUP FINANCIAL SUMMARY

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Results				
Turnover	287,567	256,744	185,411	124,898
Profit from operations	71,118	67,692	44,021	24,784
Finance costs	(8,194)	(7,821)	(8,365)	(6,583)
Profit before income tax	62,924	59,871	35,656	18,201
Income tax	(6,058)	(3,094)	(2,890)	(2,331)
Profit for the year	56,866	56,777	32,766	15,870
Attributable to:				
Equity holders of the Company	56,866	56,777	25,621	11,387
Minority interests	—	—	7,145	4,483
Profit for the year	56,866	56,777	32,766	15,870
Assets and liabilities				
Non-current assets	93,236	66,608	72,278	68,308
Current assets	366,953	204,100	194,952	169,904
Current liabilities	(134,680)	(111,778)	(192,727)	(184,189)
Total assets less current liabilities	325,509	158,930	74,503	54,023
Non-current liabilities	(60,000)	(60,000)	—	—
NET ASSETS	265,509	98,930	74,503	54,023
Capital and reserves				
Paid-up capital	5,820	—	32,353	28,877
Reserves	259,689	98,930	24,963	8,419
Equity attributable to equity holders of the Company	265,509	98,930	57,316	37,296
Minority interests	—	—	17,187	16,727
TOTAL EQUITY	265,509	98,930	74,503	54,023