



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 : 03823



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2 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)
FCCA, FCCA, ACA

Qualified accountant

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

Authorised representatives

Mr. Liu Xinsheng (劉新生先生)
Mr. Cheung Pui Hung, Steven (張沛鴻先生)

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

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

Auditor

CCIF CPA Limited
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
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

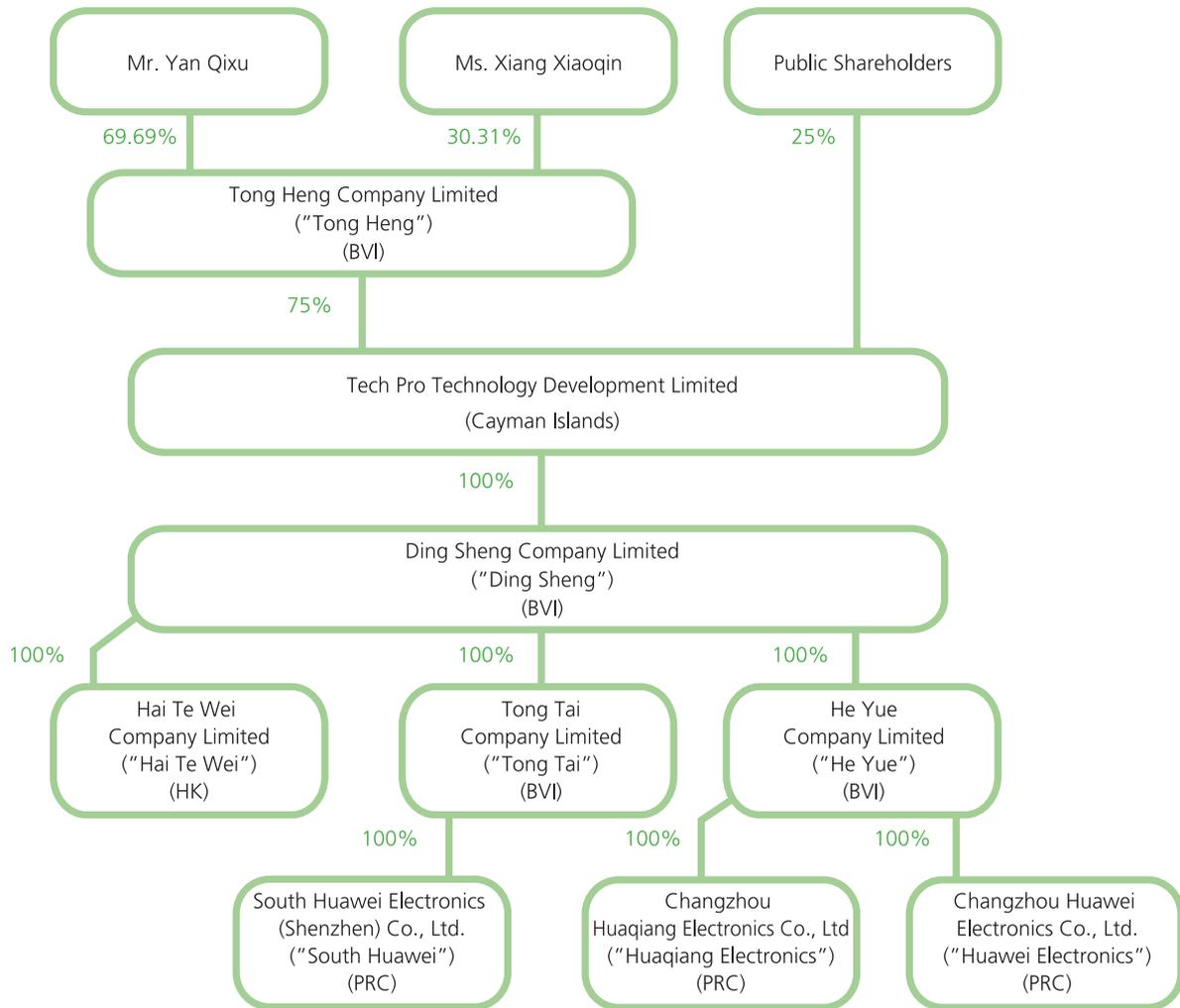
4 Corporate Profile

Tech Pro Technology Development Limited (the "Company"; together with its subsidiaries, the "Group") (stock code: 03823) was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx"). Headquartered in Changzhou, Jiangsu Province, the PRC, the Group principally engages in manufacturing and sales of aluminum electrolytic capacitors. In general, a capacitor is an energy storing device made of two parallel conducting plates separated by an insulating material — the "dielectric", which could be used in a wide range of electronic devices such as audio and video consumer electronic devices, power supply equipment, telecommunications equipment and home appliances.

In order to meet the needs of the customers, the Group manufactures a variety of capacitors with different specifications under the famous brand *Chang*. As at 31 December 2008, the Group manufactured 56 models of aluminum electrolytic capacitor products in total, comprising 37 models of lead wire type capacitors, 14 models of lug type capacitors and 5 models of screw type capacitors.

Renowned by its high quality products, the Group enjoys an extensive sales network in domestic and overseas markets such as Taiwan, Hong Kong, Turkey, Korea, Italy, Russia, etc. Its major customers include reputable domestic and international corporations.





6 Chairman's Statement

On behalf of Tech Pro Technology Development Limited, I am pleased to present our annual report for the year ended 31 December 2008.

2008 is a challenging year for the Group. The occurrence of snowstorm and Sichuan earthquake with a number of other natural disasters in the first half of this year adversely affected economic growth in China. The financial tsunami originated in the United States in the second half of 2008 was an unprecedented global crisis which rapidly devastated the world's economies and led to contraction of consumption demand worldwide.

Our seasoned management team adopted a proactive approach to steer business development of the Group by capitalizing on its competitive strengths with an aim to maintain stable business growth.

Turnover and profit attributable to equity holders of the Group were approximately RMB237.6 million and approximately RMB3.1 million respectively in 2008, representing a decrease of 17.4% and 94.6% respectively as compared with those in 2007.

Dividend

The board of directors of the Company (the "Board") did not recommend the payment of final dividend for the year ended 31 December 2008.

Business Review and Outlook

In 2008, the Group has adopted several initiatives to weather the challenges brought by intense market competition.

Leveraging on its advantageous position in production, the Group has been able to offer quality products at competitive price. Meanwhile, it has adopted positive sales strategy, which has become successful in retaining a number of world-class customers in domestic and overseas markets.

The Group implemented effective cost controls and conducted frequent site management with an aim to optimise the operational procedures which significantly alleviated the pressure of rising production costs by reducing the consumption of raw materials.

Construction of the Group's new production base in Changzhou of Jiangsu Province has been completed with installation and trial run of the advanced production facilities conducted smoothly as well. The Group's production capacity of capacitor has now reached 5,500 million units as at 31 December 2008, which laid a solid foundation for future business development.

The strong supportive measures taken by the PRC government recently to increase spending on the country's infrastructure and encourage consumption will fuel the growth within consumer electronics industry. With continuous progress in new product development, stringent cost controls, capacity expansion and quality assurance, the Group will be able to achieve optimisation in operations. We will seize every opportunities to grow with an aim to become one of the leading manufacturers of aluminum electrolytic capacitors in Greater China.

Acknowledge

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to our shareholders, customers and business partners for their unwavering support, as well as the management team and all staff of the Group for their dedication and contribution in the past year.

Yan Qixu
Chairman

20 March 2009

Business review

The Group experienced business slowdown in 2008 due to the adverse impact triggered by the financial crisis broken out in the second half of last year.

Despite the decline in demand for capacitor products in international and domestic markets, the Group managed to maintain its existing market share by adopting positive promotion strategies.

During the first half of 2008, hiking raw material prices coupled with the noticeable increase in labour costs attributable to the reform in domestic labour policy resulted in increase of production cost, which led to decline in gross profit margin of the Group.

In 2008, the Group used an aggregate amount of approximately RMB48.6 million to purchase machineries and equipment. The Group is continuing to focus on research and development and 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.

In addition, the Group's construction of new production plant in Changzhou of Jiangsu Province with a total floor area of approximately 26,000 square meters has been completed in early 2008 and has commenced production.

Business outlook

The Group holds a positive outlook on its long-term prospects though signs of slowing macro condition will be a drag on the overall consumer electronic industry. The Group will continue to cooperate with its new international customers to achieve satisfactory growth in turnover.

The purchase of machineries and equipment further expanded the production capabilities of the Group. However, due to weakening market demand, the Group's production facilities have not been fully utilized. Looking ahead, the Group will prudently evaluate the overall business environment and adjust its production accordingly. The Group will also enhance its marketing efforts to maintain existing market share and identify new and reputable customers. Moreover, leveraging on the large operating scale, diversified product mix, stringent quality controls and outstanding research and

development capability, the Group will further expand its market share and create satisfying returns to shareholders.

Looking ahead, the Group will also actively pursue business opportunities that are in line with its business development plan and in the interest of the shareholders should such opportunities arise. The Group is considering a business opportunity that will expand the product range of the Group.

Financial review

Turnover

The turnover of the Group in 2008 was approximately RMB237.6 million which represents a decline of 17.4% or approximately RMB50.0 million as compared with that in 2007. The decrease in turnover was attributable to the snowstorm in Mainland China occurred in early 2008, which affected the retail consumption in Mainland China. The subsequent earthquake occurred in Sichuan Province led to further decline in retail consumption. Sales of the household electronic appliances was affected by global economic slowdown, which resulted from the global financial crisis. Many of the Group's major customers faced decline in volume sales, which caused adverse impact on the Group.

The Group's turnover by products is shown in the following table:

| | For the year ended 31 December | | | |
|-------------------------|--------------------------------|------|---------|------|
| | 2007 | | 2008 | |
| | RMB'000 | % | RMB'000 | % |
| Lead wire type | 239,032 | 83.1 | 189,514 | 79.8 |
| Lug type and screw type | 48,267 | 16.8 | 41,610 | 17.5 |
| V-chip type | 268 | 0.1 | 6,472 | 2.7 |

Sales of lead wire type capacitors decreased by 20.7% from approximately RMB239.0 million in 2007 to approximately RMB189.5 million in 2008. Sale of lug type and screw type capacitors also decreased by 13.8% from approximately RMB48.3 million in 2007 to approximately RMB41.6 million in 2008.

At the request of client, the Group sourced V-chip type capacitors from third parties and sold to such client. Sales in this category increased from approximately RMB268,000 in 2007 to approximately RMB6.5 million in 2008.

8 Management Discussion and Analysis

The Group's sales by geographic areas is shown in the following table:

| | For the year ended 31 December | |
|---------|-----------------------------------|-----------|
| | 2007 % | 2008 % |
| The PRC | 79.4 | 80.2 |
| Taiwan | 9.3 | 10.4 |
| Turkey | 5.1 | 3.3 |
| Korea | 2.7 | 1.3 |
| Others | 3.5 | 4.8 |
| | 100 | 100 |

The Group has kept a good and stable relationship with its customers both in the PRC and overseas countries. The Group maintains its strategy to develop new clients with renowned brandnames in order to improve its client base. The Group has strengthened its marketing effort in overseas markets. Sales generated from overseas market decreased slightly from approximately 20.6% in 2007 to 19.8% in 2008.

Cost of sale

Cost of sales for the year ended 31 December 2008 was approximately RMB191.5 million, which decreased by approximately 4.8% from approximately RMB201.2 million in 2007. The decrease was mainly attributable to the decrease in sales.

Gross profit margin

The Group's gross profit margin for the year 2008 was approximately 19.4%. There was a significant drop compared with approximately 30.0% for the year 2007. This was because: (i) the Group's production capacity has not been fully utilized due to the diminishing market demand in 2008; (ii) general price level in the PRC increased in 2008 led to the increase in labour costs; (iii) the increase in electricity and water expenses as a result of the operation of new production plant in Changzhou; (iv) substantial amount of machinery and equipment purchased by the Group after listing which led to increase in depreciation charges; (v) the increase in research and development expenses for the development of new products and improvement of existing products; (vi) the increase in unit prices of raw materials at the beginning of the year; and (vii) major suppliers of foils in Sichuan were unable to supply raw materials to the

Group after the Sichuan earthquake, and the Group has to purchase such raw materials from other suppliers at higher unit prices. In view of the above reasons, production cost increased significantly during the year under review. The increase in unit production cost of products resulted in the reduction in gross profit margin.

Other revenue and income

For the year 2008, other revenue and income of the Group was approximately RMB3.4 million, which represents a decrease of approximately 29.1% from approximately RMB4.8 million for the year 2007, primarily due to the decrease in government grants and subsidies obtained by the Group after off setting the increase in bank interest income and the sales of obsolete raw materials for production.

Distribution costs

For the year 2008, distribution costs of the Group were approximately RMB5.0 million, which represents an increase of approximately 12.1% from approximately RMB4.5 million for the year 2007, primarily due to (i) the increase in overall salary attributable to the increase in the number of salespersons and their salaries; and (ii) the increase in advertising expenses.

Administrative expenses

For the year 2008, administrative expenses of the Group were approximately RMB18.5 million, which represents an increase of approximately 62.3% from approximately RMB11.4 million for the year 2007, primarily due to (i) the increase in salaries and welfare from the increase in directors' emoluments and staff salaries and welfare; and (ii) the increase in various professional fees and service charges after listing.

Impairment loss for trade receivables

For the year 2008, impairment loss for trade receivables of the Group was approximately RMB8.6 million, representing an increase of approximately 587.6% from approximately RMB1.2 million for the year 2007, which was resulted from the significant changes in the market and economic environment under the current global economic condition.

Other operating expenses

For the year 2008, other operating expenses of the Group were approximately RMB3.9 million, which represents an increase of approximately 37.5% from approximately RMB2.9 million for the year 2007. The increase in other

operating expenses was primarily due to: (i) the increase in exchange loss; and (ii) the increase in charitable donations.

Finance costs

For the year 2008, finance costs of the Group were approximately RMB8.7 million, which represents an increase of approximately 6.3% from approximately RMB8.2 million for the year 2007, primarily due to the increase in bank borrowing.

The Group's net profit for the year 2008 was approximately RMB3.1 million, representing a decrease of approximately 94.6% as compared with RMB56.9 million in 2007.

Final Dividend

The Board did not recommend the payment of final dividend for the year ended 31 December 2008.

Liquidity and Financial Resources

As at 31 December 2008, the Group had current assets of approximately RMB315.7 million (2007: approximately RMB367.0 million) and current liabilities of approximately RMB140.3 million (2007: approximately RMB134.7 million). The current ratio of the Group as at 31 December 2008 was approximately 2.3 (2007: 2.7). The decrease in current ratio was primarily due to the payment of 2007 final dividend of approximately RMB14.1 million in 2008 and the purchase of property, plant and equipment which amounted to approximately RMB57.6 million.

As at 31 December 2008, the Group had cash and cash equivalents of approximately RMB48.5 million (31 December 2007: approximately RMB121.2 million), which include time deposits with maturity less than three months and cash at banks and in hand of RMB20 million (31 December 2007: RMB72.8 million) and RMB28.5 million (31 December 2007: RMB48.4 million) respectively, and total borrowings of approximately RMB106 million (31 December 2007: approximately RMB103 million), of which RMB60 million constituted long-term bank borrowings and RMB46 million constituted short-term bank borrowings. The cash and cash equivalents comprised approximately RMB47.1 million, US\$0.01 million and HK\$1.6 million (31 December 2007: approximately RMB103.8 million, US\$0.6 million and HK\$14.1 million) respectively. All of the Group's bank borrowings were subject to fixed interest rates and were denominated in RMB.

As at 31 December 2008, the gearing ratio (calculated by dividing total bank borrowings less cash and cash equivalent over total equity) of the Group was 22.6% (31 December 2007: 0%). In the 2007 annual report of the Group, the gearing ratio was calculated by dividing total debt by total assets but the basis was changed during the year. The increase in gearing ratio as at 31 December 2008 as compared to that as at 31 December 2007 was principally attributable to the payment of 2007 final dividend in 2008 and the payment for acquisition of property, plant and equipment.

Net cash generated from operating activities for the year was approximately RMB4.6 million.

Net cash outflow to investing activities for the year was approximately RMB78.7 million after the offset between the capital expenditure of approximately RMB57.6 million used for enhancement of production facilities within the Group and the increase in time deposits with maturity over three months of approximately RMB23.9 million as well as the bank interest income of approximately RMB2.7 million.

Net cash inflow from financing activities for the year was approximately RMB1.5 million, including inception of bank loans of RMB3.0 million and the payment of interest of approximately RMB8.7 million, the decrease in restricted bank deposits of RMB20.0 million and the payment of 2007 final dividend of approximately RMB14.1 million.

The Board believes 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 denominated 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 2008, the Group had no contingent liabilities.

Capital Commitment

As at 31 December 2008, the capital commitment in respect of the purchase of property, plant and equipment of the Group was approximately RMB28.9 million (2007: approximately RMB81.9 million).

Employee information

As at 31 December 2008, the Group had 1,060 employees, the majority of whom stationed in the PRC. Total employee remuneration for the year amounted to RMB27.2 million (2007: 21.3 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 2008, the Group's buildings with an aggregate book value of approximately RMB3.4 million (2007: approximately RMB5.3 million) and restricted bank deposits of approximately RMB10.0 million (2007: approximately RMB30 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 2008, 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 47, is the Chairman of the Board and an executive director of the Company. He is currently also a director of Huawei Electronics, Huaqiang Electronics, South Huawei, Ding Sheng, He Yue, Tong Tai and Hai Te Wei, all of which are subsidiaries of the Company. 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 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 Wujin Zouqu Wireless Electronics Component Factory (武進縣鄒區無線電元件廠), responsible for overseeing the overall business operations and the overall strategic planning from 1987 to 2003, and as the chairman of Jiangsu Huawei Century Electronics Group Co., Ltd. (江蘇華威世紀電子集團有限公司) since 2003 up to now. Mr. Yan was also appointed as director of Changzhou Huawei Reflective Material Company Limited in 2003. Saved as disclosed above, Mr. Yan did not hold any directorship in any listed public company in the last three years. He is one of the controlling shareholders (as defined under the Listing Rules) and is the spouse of Ms. Xiang Xiaoqin.

Ms. Xiang Xiaoqin (相小琴), aged 44, is an executive director of the Company. She is also currently a director of Huawei Electronics, Huaqiang Electronics and South Huawei, all of which are subsidiaries of the Company. 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 Jiangsu Huawei Century Electronics Group Co., Ltd. (江蘇華威世紀電子集團有限公司) 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. Saved as disclosed above, Ms. Xiang did not hold any directorship in any listed public company in the last three years. She is one of the controlling shareholders (as defined under the Listing Rules) and is the spouse of Mr. Yan Qixu.

Mr. Shan Biao (單標), aged 49, is an executive director of the Company and the general manager of the Group. He is also currently a director of Huawei Electronics, Huaqiang Electronics and South Huawei, all of which are subsidiaries of the Company. He is responsible for the Group's overall general administration and management. Mr. Shan has obtained a degree of master in 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. Saved as disclosed above, Mr. Shan did not hold any directorship in any listed public company in the last three years.

Ms. Kuang Lihua (匡麗華), aged 46, is an executive director of the Company. 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 in 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

12 Directors and Senior Management

Huawei Electronics and Huaqiang Electronics, both of which are subsidiaries of the Company. Saved as disclosed above, Ms. Kuang did not hold any directorship in any listed public company in the last three years.

Mr. Liu Xinsheng (劉新生), aged 40, is an executive director of the Company. 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, was 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. Saved as disclosed above, 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 52, is an independent non-executive director of the Company. 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 35, is an independent non-executive director of the Company. He graduated from Hong Kong Baptist University with honor degree in 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 the Main Board of the Stock Exchange, 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 of the Company. She graduated from Tianjin University, majoring in wireless materials and electronic components. She has 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) of the Chinese Academy of Electronics and Information Technology (中國電子科技集團公司電子科學研究院) as an engineer, senior engineer, deputy division chief (副處長) and division chief (處長) of the said departments/divisions/sections 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. Saved as disclosed above, 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 42, 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 over 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 44, 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 over 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 56, 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 materials in 1976. Ms. Zhu has about 27 years' experience in 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 the 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 46, 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 46, is the company secretary and qualified accountant of the Company. He was awarded the degree of master in 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 of the Stock Exchange 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.

The directors are pleased to present to the shareholders the annual report together with the audited financial statements for the year ended 31 December 2008.

Principal activities

The principal activities of the Company during the year were investment holding and those of the subsidiaries are set out in note 19 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 2008 are set out in the consolidated income statement on page 30.

The directors did not recommend the payment of final dividend for the year ended 31 December 2008.

Group financial summary

The summary of the results of the Group for the five years ended 31 December 2008 and the assets and liabilities of the Group as at 31 December, 2004, 2005, 2006, 2007 and 2008 are set out on page 76.

Donations

Donations made by the Group during the year amounted to RMB541,812.

Property, plant and equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

Share capital

Details of the movements in the Company's share capital during the year are set out in note 30 to the financial statements.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.



Distributable reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2008 are set out in note 31 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 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. The net proceeds was used as to RMB66.4 million during the year ended 31 December 2007. During the year ended 31 December 2008, net proceeds were utilised as follows:

| | RMB'million |
|--------------------------------------|-------------|
| Acquisition of production facilities | 33.1 |
| Research and development | 5.1 |
| General working capital | 8.6 |
| | 46.8 |

The remaining balance of RMB40.2 million was deposited in banks in the PRC.

Directors' interests in contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which any 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

The existing executive directors, Mr. Yan Qixu, Ms. Xiang Xiaoqin and the existing independent non-executive directors, Mr. Wong Chun Hung, Mr. Xu Kangning and Ms. Lin Sufen 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"), which may be terminated by either party giving the other party 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, which may be terminated by either party giving the other party 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. There is no minimum period for which an option must be held before it can be exercised under the Scheme.

No share options were granted, exercised or cancelled by the Company under the Scheme during the year ended 31 December 2008 and there are no outstanding share options under the Scheme as at 31 December 2008. The total number of Shares available for issue under the Scheme as at the date of this report was 60,000,000 Shares which represented 10% of the issued share capital of the Company as at the date of this report.

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 price under the Share Offer, subject to adjustments. On 19 July 2007, Tong Heng Company Limited, 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 Company Limited 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 of the Company and its associated corporations

As at 31 December 2008, 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 Securities and Futures Ordinance ("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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

1. Interests and short position in the shares (the "Shares") of the Company

| 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:

- The letters "L" and "S" denote a long position and a short position in the Shares respectively.
- Mr. Yan is the beneficial owner of 69.69% of the issued shares in Tong Heng Company Limited ("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.
- 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.
- Tong Heng has entered into a call option deed dated 19 July 2007 with China Construction Bank Corporation, Hong Kong Branch ("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.

2. Long position in the ordinary shares of associated corporation

| Name of Director | Name of associated corporation | Capacity | Number of shares held | 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 2008, 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 Stock Exchange 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 Stock Exchange pursuant to the Model Code.

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

As at 31 December 2008, so far as is known to the directors, 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:

- The letters "L" and "S" denote a long position and a short position in the Shares.
- 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 2008, 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 which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to 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 of the Company and its associated corporations" 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 13.0% and 34.2% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 24.1% and 56.9% 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. The above lease was terminated by both parties as from 1 January 2008. 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 minimis 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 35 to the financial statements. All the related party transactions did not constitute connected transactions or continuing 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 2008, neither the Company nor its subsidiaries had 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, Cinda International Capital Limited ("Cinda") (previously known as Hantec Capital Limited), as at 31 December 2008, neither Cinda 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, Cinda 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 date events

There were no significant post balance sheet date events.

Closure of register of members

The register of members of the Company will be closed from 28 April 2009 to 30 April 2009 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company to be held on 30 April 2009, 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 branch share registrar and transfer office 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 27 April 2009.

Auditor

The financial statements for the year ended 31 December 2008 have been audited by 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, 20 March 2009

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 to the Listing Rules. The Company had complied with the code provisions of the Code for the year ended 31 December 2008, 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 eight directors including five executive directors and three independent non-executive directors:

Executive Directors:

Mr. Yan Qixu 顏奇旭先生 (*Chairman*)
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

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 below 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 circumstances, 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 the accompanying relevant documents are distributed to the directors or members of the Board Committees 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 or the Board Committees and decisions reached, including any concerns raised by the directors or dissenting views expressed, are kept by the company secretary and open for inspection by the directors.

Key information regarding the directors’ academic and professional qualifications and other appointments are set out in the section headed “Directors and Senior Management” on pages 11 to 13 of this report. 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. The Board held four meetings during the year ended 31 December 2008. The attendance of the directors at the Board meetings is as follows:

| | Attendance/ Meeting held |
|--|-----------------------------|
| Mr. Yan Qixu 顏奇旭先生 (<i>Chairman</i>) | 4/4 |
| Ms. Xiang Xiaoqin 相小琴女士 | 4/4 |
| Mr. Shan Biao 單標先生 | 4/4 |
| Ms. Kuang Lihua 匡麗華女士 | 4/4 |
| Mr. Liu Xinsheng 劉新生先生 | 4/4 |
| Mr. Xu Kangning 徐康寧先生 | 4/4 |
| Mr. Wong Chun Hung 黃鎮雄先生 | 4/4 |
| Ms. Lin Sufen 林素芬女士 | 4/4 |

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 deviates 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.

Mr. Yan Qixu, Ms. Xiang Xiaoqin, Mr. Wong Chun Hung, Mr. Xu Kangning and Ms. Lin Sufen 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 had complied with the Model Code of the Company during the year ended 31 December 2008. 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 during the year ended 31 December 2008.

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 relevant documents 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 the Board 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 had met with the Company's external auditors, the Board and senior management. The Audit Committee has also reviewed the Group's internal controls and the Group's interim financial results for the six-month ended 30 June 2008. The Group's final results for the year ended 31 December 2008 have been reviewed by the Audit Committee before submission to the Board 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 four meetings during the year ended 31 December 2008. The members and attendance of the Audit Committee meetings are as follows:

| | Attendance/ Meeting held |
|--|-----------------------------|
| Mr. Wong Chun Hung 黃鎮雄先生 (<i>Chairman</i>) | 4/4 |
| Mr. Xu Kangning 徐康寧先生 | 4/4 |
| Ms. Lin Sufen 林素芬女士 | 4/4 |

The Company has not changed the external auditors in any of the preceding three years.

Auditors' remuneration

During the year ended 31 December 2008, 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 |
|--------------------|---------------------------------|
| Audit services | 440 |
| Non-audit services | — |
| | 440 |

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 during the year ended 31 December 2008. Details of the attendance of the Nomination Committee meeting are as follows:

| | Attendance/ Meeting held |
|-------------------------|-----------------------------|
| Ms. Xiang Xiaoqin 相小琴女士 | 1/1 |
| Mr. Xu Kangning 徐康寧先生 | 1/1 |
| Ms. Lin Sufen 林素芬女士 | 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 the 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 or her 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 during the year ended 31 December 2008. Details of the attendance of the Remuneration Committee meeting are as follows:

| | Attendance/ Meeting held |
|--|-----------------------------|
| Mr. Yan Qixu 顏奇旭先生 (<i>Chairman</i>) | 1/1 |
| Mr. Wong Chun Hung 黃鎮雄先生 | 1/1 |
| Ms. Lin Sufen 林素芬女士 | 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 2008.

Directors' and auditors' responsibility for financial statements

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2008. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2008. 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 and 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.

The 2008 annual general meeting of the Company will be held on 30 April 2009.

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 75, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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, 20 March 2009

Leung Chun Wa

Practising Certificate Number P04963

30 Consolidated Income Statement

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|------|-----------------|-----------------|
| Turnover | 5 | 237,596 | 287,567 |
| Cost of sales | | (191,475) | (201,224) |
| Gross profit | | 46,121 | 86,343 |
| Other revenue and income | 6 | 3,387 | 4,778 |
| Distribution costs | | (5,037) | (4,492) |
| Administrative expenses | | (18,511) | (11,408) |
| Impairment loss for trade receivables | | (8,568) | (1,246) |
| Other operating expenses | | (3,929) | (2,857) |
| Operating profit | | 13,463 | 71,118 |
| Finance costs | 7 | (8,712) | (8,194) |
| Profit before income tax | 8 | 4,751 | 62,924 |
| Income tax expense | 11 | (1,666) | (6,058) |
| Profit for the year | 12 | 3,085 | 56,866 |
| Dividends | 13 | | |
| — Dividend declared prior to the Reorganisation | | — | 41,614 |
| — Final dividend proposed | | — | 15,000 |
| | | — | 56,614 |
| Earnings per share | 14 | | |
| — Basic | | RMB0.5 cents | RMB11 cents |
| — Diluted | | RMB0.5 cents | RMB11 cents |

The notes on pages 36 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008

Annual Report 2008
Tech Pro Technology Development Limited

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| | Note | 2008 RMB'000 | 2007 RMB'000 |
|--|-------|-----------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 16 | 136,857 | 90,952 |
| Prepaid lease payments | 18(a) | 1,925 | 1,964 |
| Deposits for prepaid lease payments | 18(b) | 320 | 320 |
| Total non-current assets | | 139,102 | 93,236 |
| Current assets | | | |
| Inventories | 20 | 106,010 | 69,045 |
| Prepaid lease payments | 18(a) | 42 | 45 |
| Trade and bills receivables | 21 | 108,870 | 131,658 |
| Other receivables | 22 | 17,727 | 15,124 |
| Income tax recoverable | | 520 | — |
| Restricted bank deposits | 23 | 9,950 | 29,910 |
| Time deposits | 23 | 43,950 | 72,800 |
| Cash at banks and in hand | 23 | 28,593 | 48,371 |
| Total current assets | | 315,662 | 366,953 |
| Current liabilities | | | |
| Trade and bills payables | 24 | 73,488 | 77,551 |
| Other payables | 25 | 17,878 | 11,281 |
| Amounts due to directors | 26 | 2,596 | 1,227 |
| Income tax payable | | 306 | 1,621 |
| Bank loans — due within one year | 27 | 46,000 | 43,000 |
| Total current liabilities | | 140,268 | 134,680 |
| Net current assets | | 175,394 | 232,273 |
| Total assets less current liabilities | | 314,496 | 325,509 |
| Non-current liabilities | | | |
| Bank loans — due after one year | 27 | 60,000 | 60,000 |
| Net assets | | 254,496 | 265,509 |
| CAPITAL AND RESERVES | | | |
| Share capital | 30 | 5,820 | 5,820 |
| Reserves | 31 | 248,676 | 259,689 |
| Total equity | | 254,496 | 265,509 |

Approved and authorised for issue by the board of directors on 20 March 2009.

Yan Qixu
Director

Xiang Xiaoqin
Director

The notes on pages 36 to 75 form an integral part of these financial statements.

32 Company Balance Sheet

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|--|------|-----------------|-----------------|
| Non-current assets | | | |
| Interests in subsidiaries | 19 | 238,003 | 238,003 |
| Current assets | | | |
| Other receivables | 22 | 34 | 100 |
| Amount due from a subsidiary | 28 | 7,523 | — |
| Cash at banks and in hand | 23 | 437 | 59 |
| Total current assets | | 7,994 | 159 |
| Current liabilities | | | |
| Other payables | 25 | 638 | 481 |
| Amounts due to subsidiaries | 28 | 4,983 | — |
| Amounts due to directors | 26 | 2,004 | 1,238 |
| Total current liabilities | | 7,625 | 1,719 |
| Net current assets/(liabilities) | | 369 | (1,560) |
| Total assets less current liabilities | | 238,372 | 236,443 |
| Net assets | | 238,372 | 236,443 |
| CAPITAL AND RESERVES | | | |
| Share capital | 30 | 5,820 | 5,820 |
| Reserves | 31 | 232,552 | 230,623 |
| Total equity | | 238,372 | 236,443 |

Approved and authorised for issue by the board of directors on 20 March 2009.

Yan Qixu
Director

Xiang Xiaoqin
Director

The notes on pages 36 to 75 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

| | 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 | Total RMB'000 |
|--|--------------------------|--------------------------|----------------------------|----------------------------|------------------------------|-----------------------------|------------------------------|------------------|
| At 1 January 2007 | — | — | 6,894 | 42,783 | 10,358 | 40 | 38,855 | 98,930 |
| Capitalisation issue (note 30(b)(ii)) | 4,365 | (4,365) | — | — | — | — | — | — |
| Shares issued through placing and public offering (note 30(b)(iii)) | 1,455 | 187,695 | — | — | — | — | — | 189,150 |
| Share issue expenses (note 30(b)(iii)) | — | (35,763) | — | — | — | — | — | (35,763) |
| Exchange difference on translation of financial statements of subsidiaries | — | — | — | — | — | (2,060) | — | (2,060) |
| Profit for the year | — | — | — | — | — | — | 56,866 | 56,866 |
| Transfer | — | — | — | — | 5,706 | — | (5,706) | — |
| Dividend paid prior to the Reorganisation (note 13) | — | — | — | — | — | — | (41,614) | (41,614) |
| At 31 December 2007 | 5,820 | 147,567 | 6,894 | 42,783 | 16,064 | (2,020) | 48,401 | 265,509 |
| At 1 January 2008 | 5,820 | 147,567 | 6,894 | 42,783 | 16,064 | (2,020) | 48,401 | 265,509 |
| Profit for the year | — | — | — | — | — | — | 3,085 | 3,085 |
| Transfer | — | — | — | — | 207 | — | (207) | — |
| Dividend paid (note 13) | — | — | — | — | — | — | (14,098) | (14,098) |
| At 31 December 2008 | 5,820 | 147,567 | 6,894 | 42,783 | 16,271 | (2,020) | 37,181 | 254,496 |

The notes on pages 36 to 75 form an integral part of these financial statements.

34 Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Operating activities | | |
| Profit before taxation | 4,751 | 62,924 |
| Adjustments for: | | |
| Amortisation of prepaid lease payments | 42 | 42 |
| Depreciation of property, plant and equipment | 11,439 | 8,760 |
| Impairment loss for trade receivables | 8,568 | 1,246 |
| Interest expenses | 8,712 | 8,194 |
| Loss on disposal of property, plant and equipment | 117 | 254 |
| Interest income | (2,689) | (1,763) |
| Operating profit before changes in working capital | 30,940 | 79,657 |
| Increase in inventories | (36,965) | (31,035) |
| Decrease/(increase) in trade and bills receivables | 14,220 | (25,452) |
| Increase in other receivables | (2,603) | (4,902) |
| (Decrease)/increase in trade and bills payables | (4,063) | 21,776 |
| Increase in other payables | 6,597 | 1,869 |
| Cash generated from operations | 8,126 | 41,913 |
| PRC income tax paid | (3,501) | (7,239) |
| Net cash generated from operating activities | 4,625 | 34,674 |
| Investing activities | | |
| Interest received | 2,689 | 1,763 |
| Payment for lease prepayments | — | (291) |
| Proceeds from disposal of property, plant and equipment | 92 | — |
| Purchases of property, plant and equipment | (57,553) | (35,396) |
| Increase in time deposits with original maturity over three months at inception | (23,950) | — |
| Net cash used in investing activities | (78,722) | (33,924) |
| Financing activities | | |
| Interest paid | (8,712) | (8,194) |
| Dividend paid | (14,098) | (42,190) |
| Share issue expenses | — | (35,763) |
| Proceeds from shares issued | — | 189,150 |
| Inception of bank loans | 3,000 | 2,000 |
| Decrease/(increase) in restricted bank deposits | 19,960 | (19,000) |
| Decrease of amounts due to related parties | — | (1,710) |
| Decrease in amount due from related companies | — | 2,704 |
| Increase in amounts due to directors | 1,369 | 724 |
| Net cash generated from financing activities | 1,519 | 87,721 |

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Net (decrease)/increase in cash and cash equivalents | | |
| Cash and cash equivalents at beginning of year | 121,171 | 34,760 |
| Effect of foreign exchange rates | — | (2,060) |
| Cash and cash equivalents at end of year | 48,593 | 121,171 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and bank balances | 28,593 | 48,371 |
| Time deposits with original maturity less than three months at inception | 20,000 | 72,800 |
| | 48,593 | 121,171 |

The notes on pages 36 to 75 form an integral part of these financial statements.

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. Its principal place of business is located at Zouqu Village, Zouqu Town, Changzhou City, Jiangsu, in the People’s Republic of China (“PRC”). 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 have been prepared as if the current group structure had been in existence throughout the year 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) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2008 included the financial statements of the Company and its subsidiaries.

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.

2. Significant accounting policies (Continued)

(b) Basis of preparation (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(c) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

| | |
|-----------------------------------|--|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC)-Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction |

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment is required.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

| | |
|-----------------------------------|--|
| HKFRSs (Amendments) | Improvements to HKFRSs ¹ |
| HKAS 1 (Revised) | Presentation of Financial Statements ² |
| HKAS 23 (Revised) | Borrowing Costs ² |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements ³ |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation ² |
| HKAS 39 (Amendment) | Eligible hedged items ³ |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ² |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards ³ |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations ² |
| HKFRS 3 (Revised) | Business Combinations ³ |
| HKFRS 8 | Operating Segments ² |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes ⁴ |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate ² |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation ⁵ |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners ³ |
| HK(IFRIC)-Int 18 | Transfer of Assets from Customers ³ |

2. Significant accounting policies (Continued)

(c) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

- ¹ Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2009
- ³ Effective for annual periods beginning on or after 1 July 2009
- ⁴ Effective for annual periods beginning on or after 1 July 2008
- ⁵ Effective for annual periods beginning on or after 1 October 2008

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable

(e) Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

2. Significant accounting policies (Continued)

(f) Construction in progress

Construction in progress is stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the construction of the asset which comprises construction costs, amortisation 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.

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.

(g) 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%–11% |
| 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)

(h) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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)

(h) 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 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.

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.

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.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. Significant accounting policies (Continued)

(i) Prepaid lease payments

Prepaid lease payments represent cost of land use rights paid to the government authorities of the PRC. 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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)

(o) 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 its 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.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e., the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e., the amount initially recognised, less accumulated amortisation.

(ii) Other 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.

(q) 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.

2. Significant accounting policies (Continued)

(q) Employee benefits (Continued)

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

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).

(r) 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.

2. Significant accounting policies (Continued)

(r) Income tax (Continued)

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.

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.

(s) 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.

(t) 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 capitalised 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.

2. Significant accounting policies (Continued)

(u) 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.

(v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(w) 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 and sales tax, returns 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.

(x) 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 exercise 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.

2. Significant accounting policies (Continued)

(y) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

3. Financial risk management objectives and policies

The Group's major financial instruments include cash at banks and time deposits, trade and bills and other receivable and payables, interest-bearing bank loans and amounts due to directors. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivables and deposits with banks.

(i) Trade and bills receivables

The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. These receivables are due within 30 to 180 days from the date of billing.

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 bills receivables are set out in note 21.

At the balance sheet date, the Group has a certain concentration of credit risk as 23% (2007: 19%) and 41% (2007: 39%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2008, 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 banks with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

3. Financial risk management objectives and policies (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

| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | 2008 | | | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | 2007 | | |
|--------------------------|----------------------------|---|---------------------------------------|---|--|----------------------------|---|---------------------------------------|---|--|
| | | | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | | | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 |
| Bank loans | 106,000 | 119,954 | 46,000 | — | 73,954 | 103,000 | 109,253 | 44,353 | 64,900 | — |
| Trade and other payables | 91,366 | 91,366 | 91,366 | — | — | 88,832 | 88,832 | 88,832 | — | — |
| Amounts due to directors | 2,596 | 2,596 | 2,596 | — | — | 1,227 | 1,227 | 1,227 | — | — |
| | 199,962 | 213,916 | 139,962 | — | 73,954 | 193,059 | 199,312 | 134,412 | 64,900 | — |

Company

| | Carrying amount RMB'000 | 2008 | | Carrying amount RMB'000 | 2007 | |
|-----------------------------|----------------------------|---|---------------------------------------|----------------------------|---|---------------------------------------|
| | | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 |
| Other payables | 638 | 638 | 638 | 481 | 481 | 481 |
| Amounts due to subsidiaries | 4,983 | 4,983 | 4,983 | — | — | — |
| Amounts due to directors | 2,004 | 2,004 | 2,004 | 1,238 | 1,238 | 1,238 |
| | 7,625 | 7,625 | 7,625 | 1,719 | 1,719 | 1,719 |

3. Financial risk management objectives and policies (Continued)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from bank borrowings and cash at banks and time deposits. All of the bank loans of the Group were fixed rate 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 | 2008 | | 2007 | |
|---------------------------------|-------------------------|---------|-------------------------|---------|
| | Effective interest rate | RMB'000 | Effective interest rate | RMB'000 |
| Bank borrowings | 5.58%–8.21% | 106,000 | 6.12%–7.27% | 103,000 |
| Cash at banks and time deposits | 2.10% | 82,352 | 3.33% | 151,009 |

| Company | 2008 | | 2007 | |
|---------------------------|-------------------------|---------|-------------------------|---------|
| | Effective interest rate | RMB'000 | Effective interest rate | RMB'000 |
| Cash and cash equivalents | 0.01% | 437 | 3.33% | 59 |

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variable held constant, would make the Group's profit after tax and retained profits decrease/increase by RMB236,000 (2007: increase/decrease by RMB480,000). Other components of equity would not be affected (2007: 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 2007.

(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 aluminium electrolytic products are primarily to several major customers. The Group has a certain concentration of business risk as 34% (2007: 39%) of total sales were made to the Group's five largest customers. In the event that these customers ceased to purchase aluminium 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 objectives and policies (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 57% (2007: 50%) 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 from its trade receivables and bank deposits that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk is primarily Hong Kong Dollars ("HK\$") and United States Dollars ("US\$").

(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 | |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Cash and cash equivalents | | | | |
| HK\$ | 1,405 | 13,271 | 437 | 59 |
| US\$ | 69 | 4,143 | — | — |
| Trade receivables | | | | |
| HK\$ | 9,046 | 7,084 | — | — |
| US\$ | 27,857 | 25,351 | — | — |

(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 trade receivables and bank deposits where the denomination of the balances is in currencies other than the functional currency.

| | 2008 | | | 2007 | | |
|------|---|--|---|---|--|---|
| | 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 |
| HK\$ | 5% | 523 | — | 5% | 1,018 | — |
| | (5%) | (523) | — | (5%) | (1,018) | — |
| US\$ | 5% | 1,396 | — | 5% | 1,475 | — |
| | (5%) | (1,396) | — | (5%) | (1,475) | — |

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 objectives and policies (Continued)

(g) 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 or new debts or redeem existing debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

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 less cash and cash equivalent over its equity.

The gearing ratios as at 31 December 2008 and 2007 were as follows:

| | The Group | |
|--|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| <i>Note</i> | | |
| Borrowings (<i>note 27</i>) | | |
| — Short-term bank loans | 46,000 | 43,000 |
| — Long-term bank loans | 60,000 | 60,000 |
| Total debts | 106,000 | 103,000 |
| Less: Cash and cash equivalents (<i>note 23</i>) | (48,593) | (121,171) |
| Net debt | 57,407 | — |
| Equity | 254,496 | 265,509 |
| Gearing ratio | 22.6% | 0 |

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

(h) Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

(i) 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.

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 year 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 future 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 the collectibility and an 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 value added tax and sales tax, returns and discounts.

| | 2008 RMB'000 | 2007 RMB'000 |
|---------------|-----------------|-----------------|
| Sale of goods | 237,596 | 287,567 |

6. Other revenue and income

| | 2008 RMB'000 | 2007 RMB'000 |
|----------------------------|-----------------|-----------------|
| Bank interest income | 2,689 | 1,763 |
| Government grants (note a) | — | 2,830 |
| Others | 698 | 185 |
| | 3,387 | 4,778 |

Note:

- (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.

7. Finance costs

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Interest expenses on bank loans wholly repayable within five years | 8,712 | 8,194 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 8,712 | 8,194 |

8. Profit before income tax

Profit before income tax is arrived at after charging:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Directors' emoluments (<i>note 9</i>) | 4,035 | 1,699 |
| Other salaries, wages and benefits | 21,739 | 18,577 |
| Contributions to retirement benefit scheme | 1,425 | 1,014 |
| Total staff costs | 27,199 | 21,290 |
| Amortisation of prepaid lease payments | 42 | 42 |
| Auditor's remuneration | | |
| — audit service | 440 | 489 |
| — non-audit service | — | 58 |
| Cost of inventories sold | 164,079 | 166,892 |
| Depreciation of property, plant and equipment | 11,439 | 8,760 |
| Impairment loss for trade receivables | 8,568 | 1,246 |
| Loss on disposal of property, plant and equipment | 117 | 254 |
| Net exchange loss | 3,124 | 1,719 |
| Operating lease rentals in respect of properties | 702 | 1,134 |
| Research and development costs* | 5,074 | 145 |

* Research and development costs include cost of materials and staff costs of employees in the research and development department, which are included in cost of inventories sold and total staff costs as respectively disclosed above.

9. Directors' emoluments

The emoluments of each director for the year ended 31 December 2008 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 | — | 1,200 | — | — | — | 5 | 1,205 |
| Xiang Xiaoqin | — | 1,200 | — | — | — | 4 | 1,204 |
| Shan Biao | — | 600 | — | — | — | 1 | 601 |
| Kuang Lihau | — | 400 | — | — | — | 1 | 401 |
| Liu Xinsheng | — | 400 | — | — | — | 14 | 414 |
| Independent non-executive Directors | | | | | | | |
| Lin Sufen | 60 | — | — | — | — | — | 60 |
| Xu Kangning | 60 | — | — | — | — | — | 60 |
| Wong Chun Hung | 90 | — | — | — | — | — | 90 |
| | 210 | 3,800 | — | — | — | 25 | 4,035 |

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 |

10. Individuals with highest emoluments

The five individuals whose emoluments were the highest in the Group include four directors (2007: four) whose emoluments are reflected in the analysis above. The emoluments to the remaining one (2007: one) individual are as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Salaries and allowances | 510 | 663 |
| Contributions to retirement benefit scheme | 11 | 12 |
| | 521 | 675 |

The emoluments of the one individual with the highest emoluments throughout the year falls within the band of nil to HK\$1,000,000.

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:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| PRC Foreign Enterprise Income Tax | | |
| — Current year | 925 | 6,058 |
| — Underprovision in respect of prior years | 741 | — |
| | 1,666 | 6,058 |

- (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) On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

No Hong Kong Profits Tax has been provided as the Group has no estimated assessable profit in Hong Kong for the years ended 31 December 2008 and 2007.

11. Income tax expense (Continued)

(a) (Continued)

- (iii) 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.

Pursuant to the New Tax Law, the subsidiary Changzhou Huawei Electronics Co., Ltd. is subject to PRC Foreign Enterprise Income Tax ("FEIT") at 25% (2007: 24%) and local Enterprise Income Tax ("EIT") of nil (2007: 3%) during the year.

The subsidiaries Changzhou Huaqiang Electronics Co., Ltd. ("Huaqiang Electronics") and South Huawei (Shenzhen) Electronics Co., Ltd. ("South Huawei") were entitled to the exemptions from FEIT 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. Pursuant to the New Tax Law, Huaqiang Electronics and South Huawei continue to be entitled to a 50% tax relief from FEIT of 25% (2007: 24%) and 18% (2007: 15%) respectively and the local EIT rate of nil (2007: 3%) during the year.

- (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:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Profit before income tax | 4,751 | 62,924 |
| Notional tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned | 1,560 | 17,502 |
| Effect of tax exemptions granted to PRC subsidiaries | (1,627) | (11,430) |
| Tax effect of non-deductible expenses | 1,971 | 778 |
| Tax effect of non-taxable income | (974) | (792) |
| Tax losses utilised | (5) | — |
| Underprovision in respect of prior years | 741 | — |
| | 1,666 | 6,058 |

- (c) No provision has been made for deferred taxation as at 31 December 2008 and 2007 as the Group has no significant temporary differences and tax losses 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 profit of RMB16,027,000 (2007: loss of RMB1,460,000) which has been dealt with in the financial statements of the Company.

13. Dividends

Dividends attributable to the year:

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|------|-----------------|-----------------|
| Dividends declared by the subsidiaries to the then shareholders prior to the Reorganisation | (a) | — | 41,614 |
| Final dividend proposed after the balance sheet date of HK2.67 cents (equivalent to approximately RMB2.5 cents) per share | (b) | — | 15,000 |
| | | — | 56,614 |

- (a) Dividends for the year ended 31 December 2007 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.
- (b) The proposed final dividend in 2007 is declared in Hong Kong dollars and is 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.

Dividends attributable to the previous financial year, approved and paid during the year:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year of HK2.67 cents (equivalent to approximately RMB2.35 cents) (2007: Nil) per share | 14,098 | — |

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 RMB3,085,000 (2007: RMB56,866,000) and on 600,000,000 (2007: weighted average number of approximately 497,671,233) 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 and the capitalization issued were deemed to be issued since 1 January 2007.

| | 2008 | 2007 |
|--|-------------|-------------|
| Profit attributable to equity holders of the Company (RMB'000) | 3,085 | 56,866 |
| Weighted average number of shares in issue | 600,000,000 | 497,671,233 |

There were no dilutive potential shares during the years presented and, therefore, diluted earnings per share is same as the basic earnings per share.

15. Segment reporting

(a) Business segments

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

(b) Geographical segments

The analysis of the Group's turnover based on the geographical location of customers is as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|-------------------------------|-----------------|-----------------|
| The PRC, other than Hong Kong | 190,569 | 228,451 |
| Taiwan | 24,648 | 26,641 |
| Other countries | 22,379 | 32,475 |
| | 237,596 | 287,567 |

The principal assets of the Group are located in the PRC.

16. 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 17) RMB'000 | Total RMB'000 |
|--|----------------------|-----------------------------------|---|------------------------------------|------------------------------|---|------------------|
| Cost | | | | | | | |
| 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 and at 1 January 2008 | 7,528 | 92,862 | 1,182 | 4,076 | 3,262 | 22,814 | 131,724 |
| Additions | 255 | 48,566 | 455 | 763 | 138 | 7,376 | 57,553 |
| Disposals | (123) | — | — | (3) | (281) | — | (407) |
| At 31 December 2008 | 7,660 | 141,428 | 1,637 | 4,836 | 3,119 | 30,190 | 188,870 |
| Accumulated depreciation | | | | | | | |
| 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 |
| Disposals | — | (194) | — | (17) | — | — | (211) |
| At 31 December 2007 and at 1 January 2008 | 1,406 | 36,157 | 618 | 1,375 | 1,216 | — | 40,772 |
| Charge for the year | 344 | 9,954 | 192 | 667 | 282 | — | 11,439 |
| Written back on disposal | (86) | — | — | (1) | (111) | — | (198) |
| At 31 December 2008 | 1,664 | 46,111 | 810 | 2,041 | 1,387 | — | 52,013 |
| Net book value | | | | | | | |
| At 31 December 2008 | 5,996 | 95,317 | 827 | 2,795 | 1,732 | 30,190 | 136,857 |
| At 31 December 2007 | 6,122 | 56,705 | 564 | 2,701 | 2,046 | 22,814 | 90,952 |

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 2008, the carrying values of the Group's buildings that were pledged to secure bank loans granted to the Group amounted to RMB3,359,000 (2007: carrying values of pledged buildings amounted to RMB5,298,000) (note 32).

17. Construction in progress

| | Group | |
|----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 22,814 | 1,100 |
| Additions | 7,376 | 21,714 |
| At 31 December | 30,190 | 22,814 |

Construction in progress as at 31 December 2008 and 2007 represents buildings under construction.

18. Prepaid lease payments/Deposits for prepaid lease payments

(a) Prepaid lease payments

| | Group | |
|---------------------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Cost | | |
| At 1 January | 2,090 | 2,090 |
| Additions | — | — |
| At 31 December | 2,090 | 2,090 |
| Accumulated amortisation | | |
| At 1 January | 81 | 39 |
| Charge of the year | 42 | 42 |
| At 31 December | 123 | 81 |
| Net book value | | |
| At 31 December | 1,967 | 2,009 |
| Analysed into | | |
| Current portion | 42 | 45 |
| Non-current portion | 1,925 | 1,964 |
| | 1,967 | 2,009 |

18. 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 lands in the PRC, which have remaining terms ranging from 47 to 48 years as at 31 December 2008.

(b) Deposits for prepaid lease payments

As at 31 December 2008, the Group had made prepayments of RMB320,000 (2007: RMB320,000) 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.

19. Interests in subsidiaries

Company

| | 2008 RMB'000 | 2007 RMB'000 |
|------------------------------|-----------------|-----------------|
| Unlisted shares, at cost | 84,516 | 84,516 |
| Amount due from a subsidiary | 153,487 | 153,487 |
| | 238,003 | 238,003 |

In the opinion of the Company's directors, the amount due from a subsidiary is equity contribution by the Company to the subsidiary. The amount is unsecured and interest-free.

19. Investments in subsidiaries (Continued)

Particulars of the Company's subsidiaries as at 31 December 2008 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 | | Principal activities |
|--|--------------------------------------|--|---|--------------|---|
| | | | Directly % | Indirectly % | |
| Changzhou Huawei Electronics Co., Ltd. <i>(note)</i> | The PRC | US\$3,070,000 | — | 100 | Manufacture and sale of aluminium electrolytic capacitors |
| Changzhou Huaqiang Electronics Co., Ltd. <i>(note)</i> | The PRC | US\$22,100,000 | — | 100 | Trading of aluminium electrolytic capacitors |
| South Huawei (Shenzhen) Electronics Co., Ltd. <i>(note)</i> | The PRC | HK\$1,000,000 | — | 100 | Manufacture and sale of aluminium electrolytic capacitors |
| Ding Sheng Company Limited | 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.

20. Inventories

| | Group | |
|------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Raw materials | 8,399 | 7,641 |
| Work-in-progress | 40,528 | 44,027 |
| Finished goods | 57,083 | 17,377 |
| | 106,010 | 69,045 |

The cost of inventories included in cost of sales was RMB164,079,000 during the year (2007: RMB166,892,000).

21. Trade and bills receivables

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

| | Group | |
|-------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Trade receivables | 108,344 | 130,228 |
| Bills receivables | 526 | 1,430 |
| | 108,870 | 131,658 |

(a) Aging analysis

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

| | Group | |
|--------------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| 0-30 days | 17,699 | 22,920 |
| 31-90 days | 24,824 | 26,976 |
| 91-180 days | 28,403 | 49,041 |
| 181-365 days | 30,599 | 27,600 |
| Over 365 days | 20,010 | 9,218 |
| | 121,535 | 135,755 |
| Provision for impairment | (12,665) | (4,097) |
| | 108,870 | 131,658 |

21. Trade and bills receivables (Continued)

(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.

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

| | Group | |
|-----------------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 4,097 | 2,851 |
| Reversal of impairment loss | (203) | (158) |
| Impairment loss recognised | 8,771 | 1,404 |
| At 31 December | 12,665 | 4,097 |

As at 31 December 2008, trade receivables of the Group amounting to RMB8,771,000 (2007: RMB1,404,000) were individually determined to be impaired. These individually impaired receivables were outstanding for over 365 days as at the balance sheet date and the management assessed that the receivables were not recovered. Accordingly, specific allowances for doubtful debts of RMB8,771,000 (2007: RMB1,404,000) were recognised. 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 | |
|-------------------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Neither past due nor impaired | 70,926 | 98,937 |
| 180 days–365 days | 30,599 | 27,600 |
| Over 365 days | 7,345 | 5,121 |
| | 108,870 | 131,658 |

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.

22. Other receivables

| | Group | | Company | |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Prepayments and other deposits | 417 | 3,209 | — | — |
| Payments in advance to suppliers | 12,328 | 9,068 | — | — |
| Advance to employees | 587 | 621 | — | — |
| Value-added tax refundable | 3,644 | 1,114 | — | — |
| Others | 751 | 1,112 | 34 | 100 |
| | 17,727 | 15,124 | 34 | 100 |

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

23. Cash and cash equivalents and restricted bank deposits

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Cash at banks | 28,452 | 48,299 | 437 | 59 |
| Cash in hand | 141 | 72 | — | — |
| Time deposits with original maturity less than three months | 20,000 | 72,800 | — | — |
| Cash and cash equivalents | 48,593 | 121,171 | 437 | 59 |
| Time deposits with original maturity over three months | 23,950 | — | — | — |
| Restricted bank deposits (note 32) | 9,950 | 29,910 | — | — |
| | 82,493 | 151,081 | 437 | 59 |

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

Cash and cash equivalents are denominated in:

| | Group | | Company | |
|------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| RMB | 47,119 | 103,757 | — | — |
| USD | 69 | 4,143 | — | — |
| HK\$ | 1,405 | 13,271 | 437 | 59 |
| | 48,593 | 121,171 | 437 | 59 |

The effective interest rate on bank deposits as at 31 December 2008 was 2.1% (2007: 3.33%) 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 are denominated in Renminbi and pledged as security for issuing commercial bills to suppliers.

24. Trade and bills payables

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

| | Group | |
|----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Trade payables | 34,338 | 44,160 |
| Bills payable | 39,150 | 33,391 |
| | 73,488 | 77,551 |

24. Trade and bills payables (Continued)

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

| | Group | |
|---------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| 0-30 days | 42,128 | 51,451 |
| 31-90 days | 15,275 | 17,386 |
| 91-365 days | 15,499 | 7,956 |
| Over 365 days | 586 | 758 |
| | 73,488 | 77,551 |

25. Other payables

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Salaries and welfare payable | 4,242 | 5,335 | — | — |
| Value-added tax payable | 11 | — | — | — |
| Amounts payable for purchase of property, plant and equipment | 7,384 | 3,229 | — | — |
| Receipts in advance | 5,128 | 2,019 | — | — |
| Rental payable | 117 | 117 | — | — |
| Audit fee | 440 | 489 | 431 | 481 |
| Others | 556 | 92 | 207 | — |
| | 17,878 | 11,281 | 638 | 481 |

26. Amounts due to directors

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

27. Bank loans

| | Note | Group | |
|--|------|-----------------|-----------------|
| | | 2008 RMB'000 | 2007 RMB'000 |
| Within one year or on demand — Unsecured | (b) | 46,000 | 43,000 |
| Current liabilities | | 46,000 | 43,000 |
| After one year but within two years — Secured | (a) | — | 13,000 |
| — Unsecured | (b) | — | 47,000 |
| | | — | 60,000 |
| After two years but within five years — Secured | (a) | 35,000 | — |
| — Unsecured | (b) | 25,000 | — |
| | | 60,000 | — |
| Non-current liabilities | | 60,000 | 60,000 |
| Total | | 106,000 | 103,000 |

- (a) The bank loans of RMB35,000,000 as at 31 December 2008 were secured on the Group's properties (note 32) and a related company's properties and its guarantee (note 35(b)). The bank loans of RMB13,000,000 as at 31 December 2007 were secured on the Group's properties.
- (b) The banks loans of RMB71,000,000 as at 31 December 2008 were guaranteed by a related company (note 35(b)), two subsidiaries and an independent third party. The bank loans of RMB90,000,000 as at 31 December 2007 were guaranteed by two subsidiaries.
- (c) The Group's bank loans bear interest at the rates ranging from 5.58% to 8.21% (2007: 6.12% to 7.27%) per annum.
- (d) All of the Group's bank loans are denominated in Renminbi.
- (e) The carrying amounts of the Group's interest-bearing bank loans approximate their fair values.

28. Amounts due from/to subsidiaries

The amounts are unsecured, interest free and have no fixed terms of repayment.

29. 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.

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 Share Option 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 years ended 31 December 2008 and 2007.

30. 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 |
| At 1 January 2008 and 31 December 2008 | | 2,000,000,000 | 20,000 |

30. 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 upon 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 |
| <hr/> | | | | |
| At 31 December 2007 | | 600,000,000 | 6,000,000 | 5,820,000 |
| <hr/> | | | | |
| At 1 January 2008 and 31 December 2008 | | 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 then 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 capitalisation 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.

31. 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 | Total RMB'000 |
|---|--|--|--|---|---|------------------------------|------------------|
| At January 2007 | — | 6,894 | 42,783 | 10,358 | 40 | 38,855 | 98,930 |
| Capitalisation issue (note 30(b)(ii)) | (4,365) | — | — | — | — | — | (4,365) |
| Shares issued through placing and public offering (note 30(b)(iii)) | 187,695 | — | — | — | — | — | 187,695 |
| Share issue expenses (note 30(b)(iii)) | (35,763) | — | — | — | — | — | (35,763) |
| Exchange difference on translation of financial statements of subsidiaries | — | — | — | — | (2,060) | — | (2,060) |
| Profit for the year | — | — | — | — | — | 56,866 | 56,866 |
| Transfer | — | — | — | 5,706 | — | (5,706) | — |
| Dividend paid prior to group reorganisation (note 13) | — | — | — | — | — | (41,614) | (41,614) |
| At 31 December 2007 | 147,567 | 6,894 | 42,783 | 16,064 | (2,020) | 48,401 | 259,689 |
| At 1 January 2008 | 147,567 | 6,894 | 42,783 | 16,064 | (2,020) | 48,401 | 259,689 |
| Profit for the year | — | — | — | — | — | 3,085 | 3,085 |
| Transfer | — | — | — | 207 | — | (207) | — |
| Dividend paid (note 13) | — | — | — | — | — | (14,098) | (14,098) |
| At 31 December 2008 | 147,567 | 6,894 | 42,783 | 16,271 | (2,020) | 37,181 | 248,676 |

Company

| | Share premium (note (a)) RMB'000 | Special reserve (note (c)) RMB'000 | Retained earnings/ Accumulated losses RMB'000 | Total RMB'000 |
|--|--|--|---|------------------|
| At 1 January 2007 | — | — | — | — |
| Capitalisation issue (note 30(b)(ii)) | (4,365) | — | — | (4,365) |
| Shares issued through placing and public offering (note 30(b)(iii)) | 187,695 | — | — | 187,695 |
| Share issue expenses (note 30(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 |
| At 1 January 2008 | 147,567 | 84,516 | (1,460) | 230,623 |
| Profit for the year | — | — | 16,027 | 16,027 |
| Dividend paid (note 13) | — | — | (14,098) | (14,098) |
| At 31 December 2008 | 147,567 | 84,516 | 469 | 232,552 |

31. Reserves (Continued)

- (a) **Share premium**
The share premium account represents the excess of the issued price net of any share issue 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 for their acquisition.
- (c) **Special reserve**
Special reserve represents 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 exceeds 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.
- (f) **Distributability of reserves**
At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB232,552,000 (2007: RMB230,623,000).

32. Pledged assets

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

| | Group | |
|---|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Leasehold properties (<i>note 16</i>) | 3,359 | 5,298 |
| Restricted bank deposits (<i>note 23</i>) | 9,950 | 29,910 |
| | 13,309 | 35,208 |

33. 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 | |
|--|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Within one year | 744 | 1,102 |
| In the second to the fifth year, inclusive | 9 | 753 |
| | 753 | 1,855 |

The Company had no operating lease commitments at the balance sheet date.

34. Capital commitments

At the balance sheet date, the Group had capital commitments in respect of the purchase of property, plant and equipment as follows:

| | Group | |
|-------------------------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| Contracted for but not provided for | 2,613 | 15,234 |
| Authorised but not contracted for | 26,271 | 66,711 |
| | 28,884 | 81,945 |

The Company had no capital commitments at the balance sheet date.

35. Material related party transactions

During the years ended 31 December 2008 and 2007, the directors are of the view that the following company is related party to the Group:

| Name of the party | Relationship |
|---|--|
| Changzhou Huawei Reflective Material Company Limited ("Reflective Material") | Mr. Yan Qixu and Ms. Xiang Xiaoqin are common directors and controlling shareholders |

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

35. Material related party transactions (Continued)

Saved as disclosed elsewhere in the financial statements, the particulars of the related party transactions of the Group during the year are as follows:

(a) Transactions with related parties

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Reflective Material — rental expenses | — | 240 |

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) Securities and guarantees provided by a related party for bank borrowings at the respective balance sheet dates:

The Group's secured and unsecured bank loans totalling RMB55,000,000 as at 31 December 2008 (2007: RMB Nil) were secured by the properties of Reflective Material and its guarantee (note 27a and b).

(c) 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:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Short-term employee benefits | 4,310 | 2,289 |
| Contribution to defined retirement plans | 36 | 18 |

Total remuneration is included in staff costs in note 8.

36. Post balance sheet date events

There were no significant post balance sheet date events.

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.

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| | 2008 RMB'000 | 2007 RMB'000 | 2006 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Results | | | | | |
| Turnover | 237,596 | 287,567 | 256,744 | 185,411 | 124,898 |
| Profit from operations | 13,463 | 71,118 | 67,692 | 44,021 | 24,784 |
| Finance costs | (8,712) | (8,194) | (7,821) | (8,365) | (6,583) |
| Profit before income tax | 4,751 | 62,924 | 59,871 | 35,656 | 18,201 |
| Income tax | (1,666) | (6,058) | (3,094) | (2,890) | (2,331) |
| Profit for the year | 3,085 | 56,866 | 56,777 | 32,766 | 15,870 |
| Attributable to: | | | | | |
| Equity holders of the Company | 3,085 | 56,866 | 56,777 | 25,621 | 11,387 |
| Minority interests | — | — | — | 7,145 | 4,483 |
| Profit for the year | 3,085 | 56,866 | 56,777 | 32,766 | 15,870 |
| Assets and liabilities | | | | | |
| Non-current assets | 139,102 | 93,236 | 66,608 | 72,278 | 68,308 |
| Current assets | 315,662 | 366,953 | 204,100 | 194,952 | 169,904 |
| Current liabilities | (140,268) | (134,680) | (111,778) | (192,727) | (184,189) |
| Total assets less current liabilities | 314,496 | 325,509 | 158,930 | 74,503 | 54,023 |
| Non-current liabilities | (60,000) | (60,000) | (60,000) | — | — |
| NET ASSETS | 254,496 | 265,509 | 98,930 | 74,503 | 54,023 |
| Capital and reserves | | | | | |
| Paid-up capital | 5,820 | 5,820 | — | 32,353 | 28,877 |
| Reserves | 248,676 | 259,689 | 98,930 | 24,963 | 8,419 |
| Equity attributable to equity holders of the Company | 254,496 | 265,509 | 98,930 | 57,316 | 37,296 |
| Minority interests | — | — | — | 17,187 | 16,727 |
| TOTAL EQUITY | 254,496 | 265,509 | 98,930 | 74,503 | 54,023 |