# 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

# ANNUAL REPORT 2011

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# CORPORATE INFORMATION

## Directors

### Executive directors
Mr. Li Wing Sang *(Chairman of the board)*
Mr. Yan Qixu
Mr. Liu Xinsheng
Mr. Chiu Chi Hong

### Independent non-executive directors
Mr. Tam Tak Wah
Mr. Ng Wai Hung
Mr. Lau Wan Cheung

## Company secretary
Mr. Ng Chi Ho Dennis

## Audit committee
Mr. Tam Tak Wah *(Chairman of the committee)*
Mr. Ng Wai Hung
Mr. Lau Wan Cheung

## Remuneration committee
Mr. Yan Qixu *(Chairman of the committee)*
Mr. Tam Tak Wah
Mr. Ng Wai Hung
Mr. Lau Wan Cheung

## Nomination committee
Mr. Li Wing Sang *(Chairman of the committee)*
Mr. Ng Wai Hung
Mr. Lau Wan Cheung

## Authorised representatives
Mr. Liu Xinsheng
Mr. Ng Chi Ho Dennis

## Auditor
CCIF CPA Limited

## Principal bankers
Agricultural Bank of China Changzhou Branch
Zou Qu Sub-Branch
The Hong Kong and Shanghai Banking Corporation Limited

## Hong Kong branch share registrar and transfer office
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## Principal share registrar and transfer office
HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road, Grand Cayman
KY1-1106
Cayman Islands

## Registered office
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111
Cayman Islands

## Principal place of business
Unit 1402, 14/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## Company website
http://www.techprotd.com

## Stock code
03823

# CORPORATE PROFILE

Tech Pro Technology Development Limited (the "Company"; together with its subsidiaries, the "Group") (stock code: 03823) is listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Group principally engaged in manufacturing and sales of aluminum electrolytic capacitors.

In order to enhance the values of the Group, to diversify the business of the Company into the potential industry by acquisitions of various factories and companies, through which the Company has entered into the new line of business of manufacturing and sales of LED lighting products and LED lighting parts. Light emitting diode (LED) is a semiconductor light source, which are used as indicator lamps in many devices. As the global concern for energy saving and the reduction of carbon emission is getting higher, LEDs are increasingly used for public lighting and indoor lighting.

# 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 2011.

The aluminum electrolytic capacitor business is a traditional industry and which has a relatively low profit margin. It is a challenging to have a development in terms of turnover and net profit. During the year under review, the turnover of the aluminum electrolytic capacitor reduced and it was mainly attributable to the slow growth in global market and a decrease in export, particularly the Taiwan market. Further, as the money market in the PRC is still tight and interest rate kept in a high level, it affected the performance of the business in 2011.

The Group always seeks for opportunities to diversify its business, to explore different sources of income, and aims at bringing the largest benefits to the shareholders and investors of the Company.

The Group has experienced an encouraging 2011. Upon the completion of five acquisitions in 2011, the Group has successfully developed its manufacturing and sales of LED lighting products and accessories businesses. This is a milestone to the Group. As environmental friendly and energy saving businesses are getting more important globally, the Group believes that the LED businesses will have a prosperous future. The new business does not only diversify the Group's businesses and bring new sources of income to the Group, but also protect the Group from volatility arising from single business by diversifying its business with a comprehensive industry chain.

Governments around the world have implemented various policies respectively to encourage the development of energy saving business. In November 2011, the China's National Development and Reform Commission (NDRC) has decided to stop importing and selling 100-watt or above incandescent light bulbs and will implement policies encouraging the usage of LED lights with the Ministry of Finance. It is anticipated that more policies and subsidies will be launched according to the Twelfth Five Year Plan. The Group believes that the LED business, at its early stage, has a huge room for its development and it is the right time to enter into the industry. The Group, through the five acquisitions, aims at taking part into different stages of the production chain – PCB heat dissipation, chip on board packaging, assembling and manufacturing of LED lighting products. It does not only allow the Group to participate various aspects of LED production chain, but also creates synergy effect among the factories. The Group expects the five subsidiaries to benefit from the synergy effect, and also bring fruitful contributions to the Group and shareholders after the integration within the Group. The Group has confidence in the development of the LED business.

The Group also intends to develop its own brand LED products under the – "Ledus" brand. "Ledus" has its own light tubes, light bulbs, par lights and other LED lighting products which are manufactured in the factories of the Group. Now, "Ledus" products are sold in Spain and the PRC, and we believe we have just taken a small step. Our goals are to manufacture a series of products with advanced technology, increase our market share in LED lighting products in different regions and ultimately develop "Ledus" into one of the famous LED brands in the world. In 2012, the Group will continue to develop and expand its "Ledus" products in global markets. We believe we can achieve our goals with our efforts and dedication.

**Li Wing Sang**
*Chairman*

Hong Kong, 30 March 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial review

For the year ended 31 December 2011, the Group recorded a turnover of approximately RMB412.0 million (2010: approximately RMB423.0 million), representing a decrease of approximately 2.6% as compared to that in 2010. The decrease in Group's turnover was mainly due to the reduction of turnover generated by electrolytic capacitors and electronic components business from approximately RMB423.0 million in 2010 to approximately RMB390.1 million in 2011, representing a decrease of approximately 7.8%. The decrease in Group's turnover was partly offset by the turnover attributed by the new business of LED lightings amounting to approximately RMB21.9 million in 2011.

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

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % |
| Aluminum electrolytic capacitors | **297,126** | **72.1** | 364,513 | 86.2 |
| Chip type electronic components | **92,998** | **22.6** | 58,483 | 13.8 |
| LED lightings | **21,857** | **5.3** | – | – |
| Total | **411,981** | **100** | 422,996 | 100 |

Sales of aluminum electrolytic capacitors reduced by approximately 18.5% from approximately RMB364.5 million in 2010 to approximately RMB297.1 million in 2011. This was primarily due to the contraction in demand in the market overall. In addition, the situation was further worsened by the substantial cut in orders from a major domestic manufacturer. On the other hand, sales of chip type electronic components increased substantially by approximately 59.0% from approximately RMB58.5 million in 2010 to approximately RMB93.0 million in 2011, which was mainly attributable to the full year contribution from a major subsidiary which as acquired in August 2010.

The Group entered into the manufacturing and sale of LED lighting products and accessories upon the completion of five acquisitions in 2011. The Group recorded a turnover from LED business of approximately RMB21.9 million in 2011 (2010: nil).

Percentage of the Group's sales by geographic area is shown in the following table:

| | **2011** | 2010 |
|---|---|---|
| | **%** | % |
| The PRC (excluding Hong Kong) | **65.3** | 61.4 |
| Taiwan | **16.7** | 22.2 |
| Turkey | **3.8** | 5.9 |
| Hong Kong | **3.5** | 6.5 |
| Korea | **2.7** | 1.7 |
| Others | **8.0** | 2.3 |
| Total | **100.0** | 100.0 |

The Group had kept a good and stable relationship with its customers both in the PRC and foreign countries. The Group maintained its strategy to develop new clients with renowned brand names in order to improve its client base. The Group developed its own LED lightings products with its brand name – "Ledus" which were sold in the PRC and Europe. The Group will keep on strengthening its marketing effort both in the PRC and overseas markets. Sales from overseas markets on total sales of the Group had experienced a reduction of approximately 3.9% due to the contraction from the aluminum electrolytic capacitors business.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Gross profit margin

The Group's gross profit margin for the year 2011 was approximately 19.6%. There was a significant increase compared with that of approximately 7.9% for the year 2010. This is mainly due to (i) higher profit margin achieved from the LED business, (ii) increase in average selling price of the Group's capacitor products; (iii) enhancement in cost efficiency due to the improved production processes; and (iv) finished goods amounted to approximately RMB14.3 million fully written down to zero in last year but subsequently realised at higher than the net realisable value during the current year.

### Other revenue and incomes

In the year 2011, other revenue and income of the Group was approximately RMB46.1 million, which represents an increase of approximately 1,607.4% from approximately RMB2.7 million recorded in the year 2010. This is primarily due to a consultancy fee income of RMB25.3 million and a licensing fee income of RMB8.1 million generated from the LED lightings business.

### Distribution costs

In the year 2011, distribution costs of the Group were approximately RMB11.3 million, which represents an increase of approximately 17.7% from approximately RMB9.6 million recorded in the year 2010. This is primarily due to the absorption of distribution costs from the new business of LED lightings which acquired in 2011 (2010: nil).

### Administrative expenses

In the year 2011, administrative expenses of the Group were approximately RMB57.0 million, which represents an increase of approximately 91.9% from approximately RMB29.7 million recorded in the year 2010. This is primarily due to (i) the absorption of administrative expenses from the new business of LED lightings which acquired in 2011 (2010: nil); (ii) the increase in salaries and welfare from increase in headcount and pay rise; (iii) the increase in various professional fees and service charges.

### Allowance for impairment on trade and other receivables, net

Allowance for doubtful debts of approximately RMB0.6 million (2010: approximately RMB8.4 million), net of the reversal of allowance for impairment was recognised during the year ended 31 December 2011, taking into account of creditworthiness, past payment history and subsequent settlements of each customer up to date approval of the financial statements.

### Other operating expenses

In the year 2011, other operating expenses of the Group were approximately RMB1.9 million, which represents a decrease of approximately 29.6% from approximately RMB2.7 million recorded in the year 2010. The decrease in other operating expenses was primarily due to the reduction in exchange loss.

### Amortisation of intangibles assets

An amortisation charge of approximately RMB42.2 million incurred during the year ended 31 December 2011 was attributable to the intangible assets arising from the acquisition of the subsidiaries during the year. These intangible assets comprising of customer relationships, patents and trademarks have definite useful lives and are amortised on a straight line basis over a period ranging from 5.5 to 14 years.

### Fair value loss on embedded derivative of convertible notes

A fair value loss on embedded derivative of convertible notes of approximately RMB33.6 million was recognised during the year ended 31 December 2011. The fair value loss was attributable to a change in fair value arising from the independent valuation performed on the embedded derivative component of the RMB84.0 million convertible notes issued by the Company on 25 May 2011.

### Loss on redemption of promissory notes

During the year under review, promissory notes with an aggregate principal value of HK$110.0 million were issued by the Company as part of the consideration for the acquisition of subsidiaries in the year 2011. An aggregate loss of RMB2.6 million was incurred as a result of early redemption of certain promissory notes issued during the year.

### Finance costs

In the year 2011, finance costs of the Group were approximately RMB33.4 million, which represents an increase of approximately 247.9% from approximately RMB9.6 million recorded in the year of 2010. This is due to (i) the interests incurred from the convertible notes issued on 25 May 2011; (ii) the imputed interests incurred from the promissory notes issued as part of the considerations for the acquisition made in 2011; (iii) the additional bank loans granted during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Dividend

The Board did not recommend the payment of a final dividend for the year ended 31 December 2011.

### Liquidity and Financial resources

As at 31 December 2011, the Group had current assets of approximately RMB589.6 million (2010: approximately RMB496.4 million) and current liabilities of approximately RMB562.9 million (2010: approximately RMB457.3 million). The current ratio of the Group as at 31 December 2011 was approximately 1.0 (2010: approximately 1.1). The reduction in current ratio was primarily due to the increase in borrowings in respect of bank loans, promissory notes and convertible notes.

As at 31 December 2011, the Group had cash and cash equivalents of approximately RMB30.4 million (2010: approximately RMB34.8 million), representing cash at banks and in hand of approximately RMB30.4 million (2010: cash at banks and in hand of approximately 15.3 million and time deposits with original maturity of less than three months of approximately RMB19.5 million). Total bank loans were approximately RMB224.0 million (2010: approximately RMB211.8 million), all of which were short term borrowings. As at 31 December 2011, all of the Group's bank loans were subject to fixed interest rates and were denominated in RMB. As at 31 December 2011, the loan from a director, the promissory notes and convertible notes were approximately RMB162.1 million (2010: nil), approximately RMB60.8 million (2010: nil) and approximately RMB129.9 million (2010: nil), respectively. All of them will be matured after one year.

As at 31 December 2011, the gearing ratio (calculated by dividing total borrowings less cash and cash equivalent over total equity) of the Group was approximately 58.8% (2010: approximately 72.7%). The decrease in gearing ratio as at 31 December 2011 was principally attributable to stronger equity base through issuing of new shares.

### Exchange risk exposure and Contingent liabilities

The Group's sales were principally denominated in RMB, Hong Kong Dollars and US Dollars, with the majority denominated in RMB. This may expose the Group to foreign currency exchange risks. The Group had not adopted formal hedging policies and no instruments had been applied for foreign currency hedging purposes during the year under review. However, in view of the continuing upward appreciation of RMB against Hong Kong Dollar and US Dollars, the Group will adopt all applicable financial instruments to hedge against currency risks whenever necessary.

As at 31 December 2011, the Group and the Company had no material contingent liabilities.

### Capital commitments

As at 31 December 2011, the capital commitments contracted but not provided for in respect of the purchase of property, plant and equipment and injection of capital in a subsidiary were approximately RMB31.9 million (2010: approximately RMB29.5 million) and nil (2010: approximately RMB18 million) respectively. The capital commitments authorized but not provided for in respect of property, plant and equipment amounted to approximately RMB8.3 million (2010: approximately RMB44.4 million).

### Employee information

As at 31 December 2011, the Group had over 1,900 employees, the majority of whom stationed in the PRC. Total employee remuneration for the year amounted to approximately RMB64.7 million (2010: approximately RMB43.4 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 individual's performance.

## Charge on assets

As at 31 December 2011, restricted bank deposits of approximately RMB67.7 million (2010: approximately RMB65.0 million), property, plant and equipment with a carrying amount of approximately RMB12.8 million (2010: approximately RMB53.1 million) and lease prepayments with a carrying amount of approximately RMB2.6 million (2010: approximately RMB15.4 million) were pledged to secure banking facilities granted to the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Material acquisitions and disposal of subsidiaries and associated companies

On 17 January 2011, a non-legally binding memorandum of understanding entered into among Energy First International Limited ("Energy First"), a wholly owned subsidiary of the Company, as the purchaser, and Action Victory Limited as the vendor in relation to the possible acquisition of 1,250,000 shares of HK$1.00 each in the issued share capital of Giga-World Industry Company Limited, which together with its subsidiary, Shenzhen Wind and Solar New Energy Company Limited (collectively "Giga World Group"), representing 50% of the entire equity interest in the Giga World Group. Pursuant to the non-legally binding memorandum of understanding, a sale and purchase agreement was entered into among Energy First, Action Victory Limited and Mr. Chan Ping as the guarantor, with which Energy First agreed to acquire 50% of the entire equity interest in the Giga World Group at a consideration of HK$320 million. The acquisition was completed on 31 January 2011. For further details, please refer to the announcements of the Company dated 17 January 2011 and 24 January 2011 respectively.

On 30 May 2011, Energy First entered into a non-legally binding memorandum of understanding with the vendor, Sandtac Limited ("Sandtac"), in relation to the possible acquisition of the entire equity interest in Shine Link Technology Limited ("Shine Link", which together with U Young Technology Holdings Limited and U Young (Xiamen) Light Technology Company Limited, collectively, "Shine Link Group"). On 20 June 2011, Energy First, Sandtac and Mr. Pa Ta Chun, as the guarantor, entered into a sale and purchase agreement and pursuant to which, Energy First agreed to purchase and Sandtac agreed to sell the entire equity interest in Shine Link. The consideration of the acquisition of Shink Link Group was HK$220 million and the acquisition was completed on 5 July 2011. For details, please see the announcements of the Company dated 30 May 2011 and 20 June 2011 respectively.

On 7 July 2011, a sale and purchase agreement entered into among Energy First, as purchaser, Pride Energy Enterprises Limited ("Pride Energy") as vendor and Suzuki Yoshinori as guarantor in relation to the acquisition of 6,000 shares of US$1.00 each in the issued share capital of Kings Honor Technology Limited ("Kings Honor", which together with Wei Guang Holdings Limited and Jiangxi Lantian Wei Guang Technology Company Limited, collectively, "Kings Honor Group"), representing 60% of the entire equity interest in Kings Honor Group and 60% of all obligations, liabilities and debts owing or incurred by the Kings Honor Group to Pride Energy on or at any time prior to the completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion, which would be assigned to Energy First upon completion. The consideration of the acquisition of Kings Honor Group was HK$160 million and the acquisition was completed on 20 July 2011. For details, please see the announcements of the Company dated 7 July 2011.

On 24 August 2011, a sale and purchase agreement entered into among Energy First, as purchaser, Supreme Creation Limited ("Supreme Creation") as vendor and Tsoi, Tsz King Gobby as guarantor in relation to the acquisition of 6,000 shares of US$1.00 each in the issued share capital of Pacific King Technology Limited ("Pacific King", which together with Da Zhen (Hong Kong) Holdings Limited and Shenzhen Chong Zhen Electronics Technology Company Limited, collectively, "Pacific King Group"), representing 60% of the entire equity interest in Pacific King and 60% of all obligations, liabilities and debts owing or incurred by Pacific King to Supreme Creation on or at any time prior to the completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion, which would be assigned to the Energy First upon completion. The total consideration of the acquisition of Pacific King Group was HK$138 million. The acquisition was completed on 31 October 2011, subject to the shareholders' approval granted at an extra-ordinary meeting dated 18 October 2011. For details, please see the announcements and circular of the Company dated 24 August 2011, 6 September 2011, 15 September 2011, 23 September 2011, 28 September 2011 and 18 October 2011 respectively.

On 11 November 2011, a sale and purchase agreement entered into among Energy First, as purchaser, Yorken Group Limited ("Yorken") as vendor and Yeung Tak Man as guarantor in relation to the acquisition of (i) 10,000 shares of US$1.00 each in the issued share capital of Starry View Investments Limited ("Starry View" which together with Light Resource Environment Company Limited and Meeting (HK) Holdings Limited, collectively, "Starry View Group"), representing the entire equity interest in Starry View; (ii) and 10,000 shares of US$1.00 each in the issued share capital of Mega Wide Investments Limited ("Mega Wide", which together with Tecdoa Limited and Tecdoa Energy S.A., collectively, the "Mega Wide Group"), representing the entire equity interest in Mega Wide and all obligations, liabilities and debts owing or incurred by Starry View and Mega Wide to Yorken on or at any time prior to the completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion, which would be assigned to Energy First upon completion. The total consideration of the acquisition of the Starry View Group and Mega Wide Group was HK$124 million and the acquisition was completed on 30 November 2011. For details, please see the announcement of the Company dated 11 November 2011.

Save as disclosed above, during the year ended 31 December 2011, there was no material acquisition and disposal of subsidiaries and associated company by the Group.

# REPORT OF THE DIRECTORS

The Board of directors (the "Board") of Tech Pro Technology Development Limited (the "Company") are pleased to present to the shareholders the annual report together with the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2011.

## Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the consolidated financial statements. Save as the new line of LED businesses which the Group acquired during year, 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 2011 and the state of affairs of the Group and the Company as at 31 December 2011 are set out on pages 24 to 107.

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

## Group financial summary

A five year summary of the published results and of the assets and liabilities of the Group as at 31 December is set out on page 108.

## Donation

Donations made by the Group during the year amounted to RMB1,205,000.

## Property, plant and equipment

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

## Share capital, share options and unlisted warrants

Details of movements in the Company's share capital, share options and unlisted warrants are set out in notes 33, 32 and 33(b) respectively to the consolidated financial statements.

## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the consolidated financial statements.

## Distributable reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2011 are set out in note 34 to the consolidated financial statements.

## Emolument policy

A remuneration committee has been 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 10 and 11 respectively to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## Director's interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as the end of the year or at any time during the year.

## Directors and directors' service contracts

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

### Executive directors

| | |
|---|---|
| Mr. Li Wing Sang *(Chairman)* | (appointed on 1 March 2011) |
| Mr. Yan Qixu | |
| Mr. Liu Xinsheng | |
| Mr. Chiu Chi Hong | (appointed on 11 July 2011) |
| Ms. Xiang Xiaoqin | (resigned on 1 March 2011) |
| Ms. Kuang Lihua | (resigned on 15 February 2011) |

### Independent non-executive directors

| | |
|---|---|
| Mr. Tam Tak Wah | (appointed on 7 January 2011) |
| Mr. Ng Wai Hung | (appointed on 8 April 2011) |
| Mr. Lau Wan Cheung | (appointed on 8 June 2011) |
| Mr. Wong Chun Hung | (resigned on 7 January 2011) |
| Mr. Xu Kangning | (resigned on 8 June 2011) |
| Ms. Lin Sufen | (resigned on 8 June 2011) |

In accordance with the Company's articles of association, Mr. Liu Xinsheng and Mr. Ng Wai Hung shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received confirmations of independence from Mr. Tam Tak Wah, Mr. Ng Wai Hung and Mr. Lau Wan Cheung and as at the date of this report still considers them to be independent.

Each of the above executive directors has entered into a service contract for a term of two or three years, which may be terminated by either party giving the other party not less than six months' prior notice in writing, whereas, each of the above independent non-executive directors has entered into a service contract for a term of two years, which may also be terminated by either party by giving the other party at least one month's prior notice in writing.

All Directors are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the articles of association of the Company.

Save as disclosed above, no director of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Biographical details of directors and senior management

### Executive directors

**Mr. Li Wing Sang (李永生)**, aged 54, was appointed as executive director of the Company on 11 December 2009. He is currently a director of SunTech Holdings Limited, SunTech Resources Group Company Limited, SunTech Resources International Company Limited, Energy First International Limited, Giga-World Industry Company Limited, Shine Link Technology Limited, U Young Technology Holdings Limited, Kings Honor Technology Limited, Wei Guang Holdings Limited, Jiangxi Lantian Wei Guang Technology Company Limited, Pacific King Technology Limited, Starry View Investments Limited, Light Resource Environment Company Limited, Meeting (HK) Holdings Limited, Mega Wide Investments Limited and Tecdoa Limited, all of which are subsidiaries of the Company. He has extensive marketing and management experience in the fields of household appliance which are in senior management positions. He holds a bachelor degree from Kobe University of Commerce, Japan. Mr. Li was an executive director of Siberian Mining Group Company Limited, a company listed on the Main Board of the Stock Exchange and China Electric Power Technology Holdings Limited, a company listed on the GEM Board of the Stock Exchange, and resigned in July 2010 and August 2011 respectively. Saved as disclosed above, Mr. Li did not hold any directorship in any listed public company in the last three years. Mr. Li is the shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO").

# REPORT OF THE DIRECTORS

**Mr. Yan Qixu (顏奇旭) (alias 顏琦旭)**, aged 50, is an executive Director of the Company. He is currently also a director of Changzhou Huawei Electronics Company Limited ("Huawei Electronics"), Changzhou Huawei Capacitors Company Limited ("Huawei Capacitors"), South Huawei (Shenzhen) Electronics Company Limited ("South Huawei"), Hua Wei Group Holdings Limited, Hue Ye Company Limited, Tong Tai Company Limited and Hai Te Wei Company Limited, 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. Mr. Yan is a director and controlling shareholder of Tong Heng Company which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Yan is the spouse of Ms. Xiang Xiaoqin, a member of senior management of the Company.

**Mr. Liu Xinsheng (劉新生)**, aged 43, 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 Huawei Capacitors. Saved as disclosed above, Mr. Liu did not hold any directorship in any listed public company in the last three years.

**Mr. Chiu Chi Hong (招自康)**, aged 47, holds a Bachelor of Business degree from Griffith University, Australia. He is currently a director of Jiangxi Lantian Wei Guang Technology Company Limited, Light Resource Environment Co., Limited, Meeting (HK) Holdings Limited and Tecdoa Limited, all of which are subsidiaries of the Company. He has over 15 years' experience in business development, corporate management, finance and accounting fields. Mr. Chiu was an executive director of Siberian Mining Group Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and resigned in August 2010. Saved as disclosed above, Mr. Chiu did not hold any directorship in any listed public company in the last three years. Mr. Chiu is a shareholder of the Company within the meaning of Part XV of the SFO.

## Independent non-executive directors

**Mr. Lau Wan Cheung (劉雲翔)**, aged 47, holds a Master Degree in Information Technology from the National University of Ireland, Ireland and a Bachelor Degree in Accounting from the University of Hull, England. Mr. Lau has over 20 years of experience in accounting, finance and business management. Mr. Lau was appointed as independent non-executive Director of the Company on 8 June 2011. Save as above, Mr. Lau did not hold any directorship in any listed public company in the last three years.

**Mr. Ng Wai Hung (吳偉雄)**, aged 48, is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors. Mr. Ng practises in the areas of securities law, corporate law and commercial law in Hong Kong. Mr. Ng is also an independent non-executive director of two companies listed on The Stock Exchange of Hong Kong Limited, namely Hycomm Wireless Limited (Stock Code: 499) and Fortune Sun (China) Holdings Limited (Stock Code: 352). Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) (Stock Code: 663), KTP Holdings Limited (Stock Code: 645) and Talent Property Group Limited (formerly known as Tomorrow International Holdings Limited) (Stock Code: 760) and resigned in February 2010, February 2011 and January 2012, respectively. Mr. Ng was appointed as an independent non-executive Director of the Company on 8 April 2011. Save as disclosed above, Mr. Ng did not hold any directorships in any listed public company in the last three years.

# REPORT OF THE DIRECTORS

**Mr. Tam Tak Wah (譚德華)**, aged 46, was appointed as an independent non-executive director of the Company on 7 January 2011. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Tam has over 20 years of experience in accounting, corporate finance and corporate development. He is currently an executive director of New Smart Energy Group Limited, an independent non-executive director of Siberian Mining Group Company Limited and China Packaging Group Company Limited respectively, all are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Tam is also an independent non-executive director of Cyber Informatix, Inc which is a company whose common stocks are traded in the OTCQB, a middle tier of the Over-The-Counter market of the United States of America. Mr. Tam was an independent non-executive director of National Arts Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, during the period from 2004 to 2009. Saved as disclosed above, Mr. Tam did not hold any directorship in any listed public company in the last three years.

## Senior management

**Mr. Ng Chi Ho Dennis (吳志豪)**, aged 53, is the company secretary and authorized representative of the Company. He holds a bachelor degree of commerce from the University of New South Wales, Australia and is a fellow member and Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants. Mr. Ng is also a chartered accountant from the Institute of Chartered Accountant in Australia and an associate of the Hong Kong Institute of Chartered Secretaries. He has more than 20 years of extensive experience in accounting, auditing and corporate affairs. He is currently an independent non-executive director of Media Asia Group Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. He joined the Group on 31 December 2009. Save as disclosed above, Mr. Ng did not hold any directorship in any listed public company in the last three years.

**Ms. Xiang Xiaoqin (相小琴)**, aged 47, was an executive director of the Company and resigned on 1 March 2011. She is also currently a director of Huawei Electronics, Huawei Capacitors 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 the shareholder of Tong Heng Company Limited which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. She is the spouse of Mr. Yan Qixu.

**Ms. Kuang Lihua (匡麗華)**, aged 49, was an executive director of the Company and resigned on 15 February 2011. 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 Huawei Electronics and Huawei Capacitors, 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. Jin Xiao (金曉)**, aged 47, 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.

# REPORT OF THE DIRECTORS

**Ms. Zhu Shengli (朱勝利)**, aged 59, 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 over 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 48 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 in1998, 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.

## Share option scheme

In order 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 authorized, 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 option 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 daily quotations sheet in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 all the Shares in issue upon the date on which the Shares are listed and permitted to be dealt in 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, 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.

# REPORT OF THE DIRECTORS

No share options were granted, exercised or cancelled by the Company under the Scheme during the year ended 31 December 2011 and there are no outstanding share options under the Scheme as at 31 December 2011. The total number of Shares available for issue under the Scheme as at the date of this report was 105,100,000 Shares which represented 10% of the issued share capital of the Company as at the date of this report.

On 19 July 2007, Tong Heng Company Limited ("Tong Heng"), the sole shareholder of the Company at that time, agreed to enter into a call option deed to grant to China Construction Bank Corporation, Hong Kong Branch ("CCBCHK") an option to acquire from Tong Heng the shares in the Company held by it. On 25 October 2011, the Company has been informed by Tong Heng that it has agreed with CCBCHK for an early termination of the call option deed. Details of which was stated in the announcement of the Company dated 1 November 2011.

## Directors' and chief executive's interests and short positions in share underlying shares of the Company

At 31 December 2011, the interests and short positions of the directors and chief executive of the Company 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 required notification pursuant to Division 7 and 8 of 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 Companies (the "Model Code") were as follows:

### (i) Interests in the Shares of HK$0.01 each in the Company

| Name | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the company |
|---|---|---|---|
| **Executive director:** | | | |
| Mr. Yan Qixu ("Mr. Yan") (Note) | Interests in controlled corporation | 118,000,000 (Long position) | 11.49% |
| Mr. Li Wing Sang | Beneficial owner | 84,556,000 (Long position) | 8.23% |
| Mr. Chiu Chi Hong | Beneficial owner | 43,500,000 (Long position) | 4.24% |

Note: 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 118,000,000 Shares which are beneficially owned by Tong Heng for the purposes of the SFO. Mr. Yan is also the sole director of Tong Heng. Mr. Yan is the spouse of Ms. Xiang Xiaoqin, a member of senior management of the Company.

### (ii) 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% |

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

# REPORT OF THE DIRECTORS

## Interests of substantial shareholders in shares and debentures of the Company

At 31 December 2011, so far as is known to the directors, the following persons (other than the directors or chief executive of the Company), who had interests of 5% 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:

| Name | Capacity | Number of Shares | Percentage of the issued share capital of the company |
|---|---|---|---|
| Tong Heng | Beneficial owner | 118,000,000 | 11.49% |
| Ms. Xiang Xiaoqin (Note) | Interest of controlled corporation | 118,000,000 | 11.49% |
| Peng Ta Chun | Beneficial owner | 70,543,000 | 6.87% |
| Zhou Lei | Deemed | 70,543,000 | 6.87% |

Note: Ms. Xiang Xiaoqin ("Ms. Xiang") is the beneficial owner of 30.31% of the issued shares in Tong Heng Company Limited ("Tong Heng") and therefore Ms. Xiang is deemed, or taken to be, interested in the 118,000,000 Shares which are beneficially owned by Tong Heng for the purposes of the SFO. Ms. Xiang is a member of the senior management of the Company. Ms. Xiang is the spouse of Mr. Yan Qixu, an executive director of the Company.

## Directors' rights to acquire shares or debentures

Save as disclosed under the section headed "Directors' and chief executive's interests 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 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, sales to the Group's five largest customers accounted for approximately 31.2% of the Group's total turnover. In particular, sales to the largest customer of the Group accounted for approximately 8.9% of the Group's total turnover for the year.

During the year, purchases from the Group's five largest suppliers accounted for approximately 37.8% of the Group's total purchases for the year, In particular, purchases from the Group's largest supplier accounted for approximately 9.2% of the Group's total purchases for the year.

To the best knowledge of the directors, none of the directors of the Company, their associates (as defined in the Listing Rules) or any shareholder (which to the knowledge of the directors of the Company own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers or suppliers.

## Related party transactions

The related party transactions for the year ended 31 December 2011 are set out in note 40 to the consolidated financial statements.

## Purchase, redemption or sale of listed securities of the Company

The Company had not redeemed any of its shares during the year. Neither the Company nor its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year.

# REPORT OF THE DIRECTORS

## Pre-emptive rights
There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Sufficiency of public float
Based on information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, there is sufficient public float of more than 25% of the issued share capital of the Company as required under the Listing Rules.

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

## Events after the reporting period
Details of the significant events after the reporting period of the Group are set out in note 41 to the consolidated financial statements.

## Closure of register of members
The register of members of the Company will be closed from 12 May 2012 to 18 May 2012 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to quality for attending the annual general meeting of the Company to be held on 18 May 2012, 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 Investors Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00p.m. on 11 May 2012.

## Auditors
The financial statements for the year ended 31 December 2011 have been audited by CCIF CPA Limited who shall retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
**Mr. Li Wing Sang**
*Chairman*

Hong Kong, 30 March 2012

# CORPORATE GOVERNANCE REPORT

## 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 has complied with the code provisions of the Code for the year ended 31 December 2011, save for the exception explained in this report under the section headed "Chairman and chief executive officer".

## Board of directors

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 details 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 Report of Directors on pages 10 to 13 of this report. Saved as Mr. Yan Qixu is the spouse of Ms. Xiang Xiaoqin, there is no other relationship among members of the Board and senior management.

The Company has received from each of the independent non-executive directors ("INEDs") an annual confirmation of their independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The members of the Board during the year under review were:

### Executive directors:

| | |
|---|---|
| Mr. Li Wing Sang | (appointed as Chairman on 1 March 2011) |
| Mr. Yan Qixu | (resigned as Chairman on 1 March 2011) |
| Mr. Liu Xinsheng | |
| Mr. Chiu Chi Hong | (appointed on 11 July 2011) |
| Ms. Xiang Xiaoqin | (resigned on 1 March 2011) |
| Ms. Kuang Lihua | (resigned on 15 February 2011) |

### Independent Non-Executive directors:

| | |
|---|---|
| Mr. Tam Tak Wah | (appointed on 7 January 2011) |
| Mr. Ng Wai Hung | (appointed on 8 April 2011) |
| Mr. Lau Wan Cheung | (appointed on 8 June 2011) |
| Mr. Wong Chun Hung | (resigned on 7 January 2011) |
| Mr. Xu Kangning | (resigned on 8 June 2011) |
| Ms. Lin Sufen | (resigned on 8 June 2011) |

Brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section in the Report of the Directors on pages 10 to 13 of this annual report.

# CORPORATE GOVERNANCE REPORT

## Board meetings and attendance

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. During the year under review, 39 Board meetings were held and attendance of each Director at the Board is set out as follows:

| Directors | Attendance/ Meeting held |
|---|---|
| **Executive Directors** | |
| Mr. Li Wing Sang | 39/39 |
| Mr. Yan Qixu | 39/39 |
| Mr. Liu Xinsheng | 39/39 |
| Mr. Chiu Chi Hong (appointed on 11 July 2011) | 20/20 |
| Ms. Xiang Xiaoqin (resigned on 1 March 2011) | 5/5 |
| Ms. Kuang Lihua (resigned on 15 February 2011) | 4/4 |
| **Independent Non-executive Directors** | |
| Mr. Tam Tak Wah (appointed on 7 January 2011) | 38/38 |
| Mr. Ng Wai Hung (appointed on 8 April 2011) | 31/31 |
| Mr. Lau Wan Cheung (appointed on 8 June 2011) | 26/26 |
| Mr. Wong Chun Hung (resigned 7 January 2011) | 0/0 |
| Mr. Xu Kangning (resigned on 8 June 2011) | 12/12 |
| Ms. Lin Sufen (resigned on 8 June 2011) | 12/12 |

## 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. Li Wing Sang, who acted as the chairman of the Company during the year ended 31 December 2011 (Mr. Li Wing Sang succeeded Mr. Yan Qixu to act as the chairman of the Company effective from on 1 March 2011), 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 which enables 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 persons will be nominated to assume 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 a term of two or three years, which may be terminated by either party by giving not less than six months' prior written notice, whereas, each of the INEDS has also entered into a service contract with the Company for a term of two years, which may be terminated by either party by giving the other party at least one month's notice in writing.

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. Any directors appointed pursuant to Articles 86(3) of the Articles shall not be taken into account in determining which director or the number of directors who are to retire by rotation in accordance with Article 87 of the Articles.

Mr. Liu Xinsheng and Mr. Ng Wai Hung will retire from office as directors by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

# CORPORATE GOVERNANCE REPORT

## 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 of the Listing Rules as its own code of conduct regarding directors; securities transaction. The Company has also adopted the Model Code for the relevant employees.

Having made specific enquiry of all directors by the Company, all Directors confirmed that they had complied with the Model Code of the Company during the year ended 31 December 2011. 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 statue 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 development, business and market changes and the strategic development of the Group.

## 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 Audit Committee comprises three INEDs, namely Mr. Tam Tak Wah, Mr. Ng Wai Hung and Mr. Lau Wan Cheung. Pursuant to the Rule 3.21 of the Listing Rules, the Audit Committee currently comprises three members who are INEDs only. Mr. Tam Tak Wah who possesses a professional accounting qualifications and relevant accounting experience is the chairman of the Audit Committee.

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 under review, 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 sixth month ended 30 June 2011. The Group's final results for the year ended 31 December 2011 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.

Individual attendance of each Audit Committee member during the year under review is as follows:

| **Members** | **Attendance/ Meeting held** |
|---|---|
| Mr. Tam Tak Wah (appointed as chairman on 7 January 2011) | 2/2 |
| Mr. Ng Wai Hung (appointed on 8 April 2011) | 1/1 |
| Mr. Lau Wan Cheung (appointed on 8 June 2011) | 1/1 |
| Mr. Wong Chun Hung (resigned on 7 January 2011) | 0/0 |
| Mr. Xu Kangning (resigned on 8 June 2011) | 1/1 |
| Ms. Lin Sufen (resigned on 8 June 2011) | 1/1 |

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

# CORPORATE GOVERNANCE REPORT

## Auditor's remuneration

During the year ended 31 December 2011, the fee incurred for audit and non-audit services provided by the auditors to the Group is set out as follows:

| **Type of services** | **Fee paid/ Payable** RMB'000 |
|---|---|
| Audit services | 1,134 |
| Non-audit services | – |
| | 1,134 |

## Nomination Committee

The Company established a Nomination Committee pursuant to a resolution of the Directors passed on 26 July 2007. The primarily 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 Mr. Li Wing Sang, an executive director and two INEDs, namely Mr. Ng Wai Hung and Mr. Lau Wan Cheung. Mr Li Wing Sang 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 INEDs 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 four meetings during the year ended 31 December 2011. Details of the attendance of the Nomination Committee meetings are as follows:

| **Members** | **Attendance/ Meeting held** |
|---|---|
| Mr. Li Wing Sang (appointed as chairman on 1 March 2011) | 3/3 |
| Mr. Ng Wai Hung (appointed on 8 April 2011) | 2/2 |
| Mr. Lau Wan Cheung (appointed on 8 June 2011) | 1/1 |
| Ms. Xiang Xiaoqin (resigned on 1 March 2011) | 1/1 |
| Mr. Xu Kangning (resigned on 8 June 2011) | 2/2 |
| Ms. Lin Sufen (resigned on 8 June 2011) | 2/2 |

At the meetings, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of INEDs 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 primarily 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, an executive director and three INEDs, namely Mr. Tam Tak Wah, Mr. Ng Wai Hung and Mr. Lau Wan Cheung. 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.

# CORPORATE GOVERNANCE REPORT

Individual attendance of each remuneration committee member during the year under review is as follows:

| Members | Attendance |
|---|---|
| Mr. Yan Qixu | 4/4 |
| Mr. Tam Tak Wah (appointed on 7 January 2011) | 3/3 |
| Mr. Ng Wai Hung (appointed on 8 April 2011) | 2/2 |
| Mr. Lau Wan Cheung (appointed on 8 June 2011) | 1/1 |
| Ms. Lin Sufen (resigned on 8 June 2011) | 2/2 |
| Mr. Wong Chun Hung (resigned on 7 January 2011) | 0/0 |

At the meetings, 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 2011.

## Directors' and auditor's responsibility for financial statements

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2011. The auditor of the Company acknowledges their reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2011. 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 Board had conducted regular reviews on the effectiveness of the system of the internal controls of the Group, covering all material controls including financial, operational, compliance controls and risks management functions during the year. Results and findings arising from the reviews were discussed in the audit committee meetings.

## 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 2011 annual general meeting of the Company will be held on 18 May 2012.

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 requirements.

# INDEPENDENT AUDITOR'S REPORT

**CCIF CPA LIMITED**
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

**INDEPENDENT AUDITOR'S REPORT 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 (together the "Group") set out on pages 24 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 this report.

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## 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 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 30 March 2012

**Leung Chun Wa**
Practising Certificate Number P04963

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

| | Note | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| **Turnover** | 6(a) | **411,981** | 422,996 |
| Cost of sales | | **(331,091)** | (389,418) |
| **Gross profit** | | **80,890** | 33,578 |
| Other revenue | 7 | **39,437** | 1,729 |
| Other income | 7 | **6,691** | 1,004 |
| Distribution costs | | **(11,333)** | (9,559) |
| Administrative expenses | | **(57,029)** | (29,727) |
| Amortisation of other intangible assets | 18 | **(42,196)** | – |
| Fair value loss on embedded derivative of convertible notes | 29 | **(33,577)** | – |
| Loss on redemption of promissory notes | 28 | **(2,625)** | – |
| Allowance for impairment on trade and other receivables, net | 21(b) and 22(e) | **(601)** | (8,385) |
| Write-down of inventories | 20 | **–** | (21,003) |
| Other operating expenses | | **(1,935)** | (2,663) |
| Finance costs | 8(a) | **(33,362)** | (9,593) |
| **Loss before taxation** | 8 | **(55,640)** | (44,619) |
| Income tax credit/(expense) | 9 | **3,234** | (1,197) |
| **Loss for the year** | | **(52,406)** | (45,816) |
| **Attributable to:** | | | |
| Owners of the Company | | **(48,779)** | (45,718) |
| Non-controlling interests | | **(3,627)** | (98) |
| Loss for the year | | **(52,406)** | (45,816) |
| **Loss per share (RMB)** | 14 | | |
| – Basic and Diluted | | **(5.59 cents)** | (6.1 cents) |

The notes on pages 32 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | Note | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|---|
| **Loss for the year** | | **(52,406)** | (45,816) |
| **Other comprehensive income for the year** | | | |
| Exchange differences on translation of financial statements of foreign subsidiaries | | **226** | 69 |
| **Total comprehensive loss for the year (net of tax)** | | **(52,180)** | (45,747) |
| **Attributable to:** | | | |
| Owners of the Company | | **(48,553)** | (45,649) |
| Non-controlling interests | | **(3,627)** | (98) |
| | | **(52,180)** | (45,747) |

The notes on pages 32 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **295,148** | 190,788 |
| Lease prepayments | 16 | **18,517** | 18,940 |
| Goodwill | 17 | **394,141** | – |
| Other intangible assets | 18 | **730,004** | – |
| | | **1,437,810** | 209,728 |
| **Current assets** | | | |
| Inventories | 20 | **245,934** | 198,587 |
| Lease prepayments | 16 | **401** | 379 |
| Trade and bills receivables | 21 | **168,589** | 137,693 |
| Other receivables and prepayments | 22 | **75,234** | 58,917 |
| Income tax recoverable | 30(a) | **283** | 1,011 |
| Short-term investment | 23 | **1,045** | – |
| Restricted bank deposits | 24 | **67,702** | 65,000 |
| Time deposits | 24 | **–** | 19,500 |
| Cash at banks and in hand | 24 | **30,449** | 15,299 |
| | | **589,637** | 496,386 |
| **Current liabilities** | | | |
| Trade and bills payables | 25 | **222,356** | 204,673 |
| Other payables and accruals | 26 | **73,927** | 32,681 |
| Amount due to a related company | 40(b) | **23,360** | – |
| Amounts due to directors | 40(c) | **3,918** | 7,249 |
| Amount due to a shareholder | 40(d) | **144** | 144 |
| Bank loans | 27 | **223,963** | 211,822 |
| Promissory notes payable | 28 | **534** | – |
| Convertible notes – liability portion | 29 | **7,425** | – |
| Income tax payable | 30(a) | **7,300** | 727 |
| | | **562,927** | 457,296 |
| **Net current assets** | | **26,710** | 39,090 |
| **Total assets less current liabilities** | | **1,464,520** | 248,818 |
| **Non-current liabilities** | | | |
| Loan from a director | 40(e) | **162,060** | – |
| Promissory notes payable | 28 | **60,250** | – |
| Convertible notes – liability portion | 29 | **60,576** | – |
| Convertible notes – embedded derivatives | 29 | **61,893** | – |
| Deferred tax liabilities | 30(b) | **189,923** | 5,243 |
| | | **534,702** | 5,243 |
| **NET ASSETS** | | **929,818** | 243,575 |

The notes on pages 32 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 33 | **9,439** | 7,140 |
| Reserves | 34 | **666,283** | 228,533 |
| | | **675,722** | 235,673 |
| **Non-controlling interests** | | **254,096** | 7,902 |
| **TOTAL EQUITY** | | **929,818** | 243,575 |

Approved and authorised for issue by the board of directors on 30 March 2012

**Li Wing Sang**
*Director*

**Yan Qixu**
*Director*

The notes on pages 32 to 107 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Note | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 19 | **1,023,194** | 221,571 |
| **Current assets** | | | |
| Other receivables and prepayments | 22 | **60** | 60 |
| Amounts due from subsidiaries | 40(f) | **16,524** | 26,749 |
| Cash at banks and in hand | 24 | **6,198** | 557 |
| | | **22,782** | 27,366 |
| **Current liabilities** | | | |
| Other payables and accruals | 26 | **2,323** | 1,974 |
| Amounts due to subsidiaries | 40(g) | **12,935** | 9,998 |
| Amounts due to directors | 40(c) | **1,738** | 1,610 |
| Promissory notes payable | 28 | **534** | – |
| Convertible notes – liability portion | 29 | **7,425** | – |
| | | **24,955** | 13,582 |
| **Net current (liabilities)/assets** | | **(2,173)** | 13,784 |
| **Total assets less current liabilities** | | **1,021,021** | 235,355 |
| **Non-current liabilities** | | | |
| Loan from a director | 40(e) | **162,060** | – |
| Promissory notes payable | 28 | **60,250** | – |
| Convertible notes – liability portion | 29 | **60,576** | – |
| Convertible notes – embedded derivatives | 29 | **61,893** | – |
| | | **344,779** | – |
| **NET ASSETS** | | **676,242** | 235,355 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 33 | **9,439** | 7,140 |
| Reserves | 34 | **666,803** | 228,215 |
| **TOTAL EQUITY** | | **676,242** | 235,355 |

Approved and authorised for issue by the board of directors on 30 March 2012

**Li Wing Sang**
*Director*

**Yan Qixu**
*Director*

The notes on pages 32 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 (note 34(a)) | **Capital reserve** RMB'000 (note 34(b)) | **Warrant reserve** RMB'000 (note 34(c)) | **Other reserve** RMB'000 (note 34(d)) | **Special reserve** RMB'000 (note 34(e)) | **Statutory reserve** RMB'000 (note 34(f)) | **Exchange reserve** RMB'000 (note 34(g)) | **Retained earnings/ (accumulated loss)** RMB'000 | **Total reserves** RMB'000 | **Non-controlling interests** RMB'000 | **Total equity** RMB'000 |
| At 1 January 2010 | 7,140 | 166,910 | 6,894 | – | – | 42,783 | 16,821 | (2,016) | 42,790 | 274,182 | – | 281,322 |
| Capital injection from a non-controlling shareholder of a newly established subsidiary | – | – | – | – | – | – | – | – | – | – | 8,000 | 8,000 |
| Transfer | – | – | – | – | – | – | 509 | – | (509) | – | – | – |
| Loss for the year | – | – | – | – | – | – | – | – | (45,718) | (45,718) | (98) | (45,816) |
| Exchange differences on translation of financial statements of foreign subsidiaries | – | – | – | – | – | – | – | 69 | – | 69 | – | 69 |
| Total comprehensive loss for the year | – | – | – | – | – | – | – | 69 | (45,718) | (45,649) | (98) | (45,747) |
| At 31 December 2010 and at 1 January 2011 | 7,140 | 166,910 | 6,894 | – | – | 42,783 | 17,330 | (1,947) | (3,437) | 228,533 | 7,902 | 243,575 |
| Issue of unlisted warrants | – | – | – | 1,620 | – | – | – | – | – | 1,620 | – | 1,620 |
| Issue of new shares: | | | | | | | | | | | | |
| – upon the acquisition of subsidiaries (note 33(a)) | 2,077 | 445,203 | – | – | – | – | – | – | – | 445,203 | – | 447,280 |
| – upon the exercise of unlisted warrants (note 33(b)) | 222 | 41,290 | – | (1,094) | – | – | – | – | – | 40,196 | – | 40,418 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | 257,105 | 257,105 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | (716) | – | – | – | – | (716) | (7,284) | (8,000) |
| Loss for the year | – | – | – | – | – | – | – | – | (48,779) | (48,779) | (3,627) | (52,406) |
| Exchange differences on translation of financial statements of foreign subsidiaries | – | – | – | – | – | – | – | 226 | – | 226 | – | 226 |
| Total comprehensive loss for the year | – | – | – | – | – | – | – | 226 | (48,779) | (48,553) | (3,627) | (52,180) |
| At 31 December 2011 | 9,439 | 653,403 | 6,894 | 526 | (716) | 42,783 | 17,330 | (1,721) | (52,216) | 666,283 | 254,096 | 929,818 |

The notes on pages 32 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | Note | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before taxation | | **(55,640)** | (44,619) |
| Adjustments for: | | | |
| Amortisation of lease prepayments | | **401** | 175 |
| Amortization of other intangible assets | | **42,196** | – |
| Finance costs | | **33,362** | 9,593 |
| Fair value loss on derivative component of convertible notes | | **33,577** | – |
| Loss on early redemption of promissory notes | | **2,625** | – |
| Depreciation of property, plant and equipment | | **28,844** | 20,463 |
| Allowance for impairment on trade receivables | | **5,923** | 8,655 |
| Reversal of allowance for impairment on trade receivables | | **(4,322)** | (1,520) |
| Allowance for impairment on other receivables | | **–** | 1,250 |
| Reversal of allowance for impairment on other receivables | | **(1,000)** | – |
| Write down of inventories | | **–** | 21,003 |
| Unrealised loss on short-term investment | | **5** | – |
| Loss on disposal of property, plant and equipment | | **317** | 61 |
| Interest income | | **(1,298)** | (1,729) |
| Exchange gain arising from promissory notes and loan from a director | | **(8,617)** | – |
| Costs directly attributable to acquisition of subsidiaries | | **1,200** | 1,155 |
| **Operating cash flows before changes in working capital** | | **77,573** | 14,487 |
| Increase in inventories | | **(47,294)** | (22,802) |
| (Increase)/decrease in trade and bills receivables | | **(30,982)** | 2,646 |
| Decrease/(increase) in other receivables and prepayments | | **33,741** | (12,390) |
| Increase in amount due from a related company | | **(11,731)** | – |
| Increase/(decrease) in trade and bills payables | | **16,654** | (5,064) |
| Increase/(decrease) in other payables and accruals | | **36,522** | (7,174) |
| Increase in amount due to a shareholder | | **–** | 144 |
| **Cash generated from/(used in) operations** | | **74,483** | (30,153) |
| PRC enterprise income tax paid | | **(835)** | (2,012) |
| PRC enterprise income tax refunded | | **951** | – |
| **Net cash generated from/(used in) operating activities** | | **74,599** | (32,165) |
| **Investing activities** | | | |
| Interest received | | **1,298** | 1,729 |
| Net cash outflow from acquisition of subsidiaries | 35(g) | **(263,485)** | (52,576) |
| Proceeds from disposal of property, plant and equipment | | **158** | 7 |
| Purchase of property, plant and equipment | | **(92,758)** | (27,923) |
| Payment of lease prepayments | | **–** | (1,749) |
| Increase in time deposits with original maturity over three months at inception | | **–** | 60,000 |
| Payment for acquisition related costs of business combinations | 35(a) to (f) | **(1,200)** | (1,155) |
| **Net cash used in investing activities** | | **(355,987)** | (21,667) |

The notes on pages 32 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | Note | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Interest paid | | **(18,189)** | (9,593) |
| Proceeds from new bank loans | | **12,141** | 211,822 |
| Repayment of bank loans | | **–** | (130,000) |
| Increase in restricted bank deposits | | **(2,702)** | (11,950) |
| (Decrease)/increase in amounts due to directors | | **(3,331)** | 4,018 |
| Loan from a director | | **168,900** | – |
| Purchase of short-term investment | 23 | **(1,050)** | – |
| Redemption of promissory notes | 28 | **(20,433)** | – |
| Proceeds from issurance of warrants | 33(b) | **1,620** | – |
| Proceeds from issue of convertible notes | 29 | **84,000** | – |
| Acquisition of additional interest in a subsidiary | | **(8,000)** | – |
| Proceeds from issue of new shares upon exercise of unlisted warrants | 33(b) | **40,418** | – |
| Increase in due to a related company | | **23,360** | – |
| **Net cash generated from financing activities** | | **276,734** | 64,297 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(4,654)** | 10,465 |
| Cash and cash equivalents at beginning of year | | **34,799** | 24,265 |
| Effect of foreign exchange rate changes | | **304** | 69 |
| **Cash and cash equivalents at end of year** | | **30,449** | 34,799 |

The notes on pages 32 to 107 form an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 1. GENERAL INFORMATION

Tech Pro Technology Development Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its principal place of business is located at Unit 1402, 14/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong. The register office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The principal activities of the Company and its subsidiaries are the manufacture and sale of aluminum electrolytic capacitors, chip type electronic components and LED lightings.

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

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

| | |
|---|---|
| Amendments to HKFRSs | Improvement to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC)-Int 14 | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC)-Int 19 | Extinguish Financial Liabilities with Equity Instruments |

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

**HKAS 24 Related Party Disclosures (as revised in 2009)**
HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in HKAS 24 (as revised 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard. For example, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised Standard while such entities were not treated as related parties of the Group under the previous Standards. These amendments have had no material impact on the Group's financial statements.

**Improvements to HKFRSs issued in 2010**
Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial Instruments: Disclosures. The disclosures about the Group's and the Company's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. 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. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the financial statements of the Company and its subsidiaries (together referred to as "the Group").

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand except for per share data. Renminbi is the functional and presentation currency of the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for embedded derivative in convertible notes and short-term investment which are stated at fair value.

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 amounts 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 significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

### (c) Subsidiaries and non-controlling interests

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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (d) Business combination involving entities under common control

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

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

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

### (e) Business combination

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

– a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that existed at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Tax*;

– assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

– liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Business combination (Continued)

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts that are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained within one year about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date. When a measurement period adjustment is identified, the Group adjusts the fair value of identifiable assets and liabilities and goodwill in the measurement period as if the accounting for the business combination had been completed at the acquisition date. Comparative information for prior periods presented in financial statements is accordingly revised if the acquisition date relates to prior reporting periods. The effects of measurement period adjustments may also cause changes in depreciation and amortisation recognised in prior periods.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a cash-generating unit during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

### (g) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies as set out in notes 3(y)(v) and (iv).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 3(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with policy set out in note 3(y)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with policy set out in note 3(y)(iv). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group or the Company commits to purchase/sell the investments or when they expire.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 3(k)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 4.5% |
| Plant and machinery | 9% |
| Furniture and office equipment | 18% |
| Electronic equipment | 9% – 18% |
| Motor vehicles | 9% |
| Leasehold improvement | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress represents buildings and structures under construction, which is stated at cost less impairment losses (see note 3(k)). Cost comprises the direct costs of construction as well as borrowing costs (see note 3(t)) during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Other intangible assets (other than goodwill)

Other intangible assets acquired separately are initially recognised at cost. The cost of other intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, other intangible assets with finite useful lives are stated at cost less accumulated amortisation (where the estimated life is finite) and impairment loss (see note 3(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of other intangible assets with finite lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following other intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Patents | 5.22 to 10 years |
| Trademarks | 10 years |
| Customers relationships | 14 years |

Both the period and method of amortisation are reviewed annually.

Other intangible assets are not amortised when their useful lives are assessed to be indefinite. Any conclusion that the useful life of an other intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of other intangible asset with finite life as set out above.

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Leased assets (Continued)

*(ii) Operating lease charges*

Where the Group has the use of assets held 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 charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

### (k) Impairment of assets

*(i) Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period 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;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in subsidiaries and associates (including those recognised using the equity method), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 3(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(k)(ii).

– For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Impairment of assets (Continued)

(i) *Impairment of investments in equity securities and other receivables (Continued)*

– 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 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 these financial assets 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.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

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

– property, plant and equipment;

– goodwill; and

– other intangible assets

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Impairment of assets (Continued)

*(ii) Impairment of other assets (Continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of 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 if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

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

*(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 (see note 3(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 the 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 realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (o) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (p) Convertible notes

*(i) Convertible notes that contains an equity component*

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Convertible notes (Continued)

*(ii) Other convertible notes*

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 3 (o)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 3 (o). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

### (q) Promissory notes

Promissory notes are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

### (r) Trade and other payables

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

### (s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand 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 statement of cash flows.

### (t) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation 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.

### (u) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Employee benefits (Continued)

*(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 using the Binomial Option Pricing Model or the Black-Scholes Option Pricing Model, 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 options, the total estimated fair value of the 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 that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the 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 options that vest (with a corresponding adjustment to the capital reserve) except where the 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).

*(iii) Termination benefits*

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

### (v) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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 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 difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(v) Income tax (Continued)**

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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 deferred 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.

**(w) Provisions and contingent liabilities**

*(i) Contingent liabilities assumed in business combinations*

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(w)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(w)(ii).

*(ii) Contingent liabilities assumed in business combinations*

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. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events is also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the end of the reporting period. 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 in other comprehensive income.

Non-monetary assets and liabilities that are 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. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (y) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 in profit or loss 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. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts and returns.

*(ii)* *Consultancy fee income*
Consultancy fee income is recognised when services are rendered.

*(iii)* *Licensing income*
Licensing income is recognised when services are rendered or substantially performed in accordance with the terms of the licensing agreements.

*(iv)* *Interest income*
Interest income is recognised as it accrues using the effective interest method.

*(v)* *Dividend income*
Dividend income is recognised when the shareholder's right to receive payment is established.

*(vi)* *Government grants*
Unconditional government grants are recognised in profit or loss as revenue when the grants become receivable.

*(vii)* *Rental income*
Rental income from leasing of property, plant and machinery is recognised over the term of the lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (z) Government grants

Government grants are recognised in the statement of financial position 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 as reduced depreciation expenses.

### (aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

### (ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include bank and cash and cash equivalents, convertible notes, promissory notes, trade and other receivables and trade and other payables. The Group's activities expose it to a variety of finance risks, including credit risk, liquidity risk, interest rate risk, currency risk and price risk. These risks are limited by the Group's financial management policies and practices described below:

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has established credit control policies with credit limits, credit approvals and other monitoring procedures for debts recovery are in place to minimise the credit risk. In addition, management reviews the recoverable amount of each individual receivable regularly to ensure that adequate impairment allowances are made for irrecoverable amounts. With such policies in place, the Group has been able to maintain its bad debts at minimal level. The Group's trade receivables related to a large number of diversified customers, the concentration of credit risk is not significant.

### (b) Liquidity risk

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 institutes to meet its liquidity requirements in the short and longer term.

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

**The Group**

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | 2 years but less than 5 years RMB'000 | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | 2 years but less than 5 years RMB'000 |
| Trade and other payables | 222,356 | 222,356 | 222,356 | – | – | 204,673 | 204,673 | 204,673 | – | – |
| Other payables and accruals | 59,116 | 59,116 | 59,116 | – | – | 25,239 | 25,239 | 25,239 | – | – |
| Amounts due to directors | 3,918 | 3,918 | 3,918 | – | – | 7,249 | 7,249 | 7,249 | – | – |
| Amounts due to a shareholder | 144 | 144 | 144 | – | – | 144 | 144 | 144 | – | – |
| Amount due to a related company | 23,360 | 23,360 | 23,360 | – | – | – | – | – | – | – |
| Loan from a director | 162,060 | 162,060 | – | 162,060 | – | – | – | – | – | – |
| Bank loans | 223,963 | 239,296 | 239,296 | – | – | 211,822 | 222,910 | 222,910 | – | – |
| Promissory notes | 60,784 | 71,554 | 578 | 70,976 | – | – | – | – | – | – |
| Convertible notes | 129,894 | 100,800 | 8,400 | 92,400 | – | – | – | – | – | – |
| | 885,595 | 882,604 | 557,168 | 325,436 | – | 449,127 | 460,215 | 460,215 | – | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (b) Liquidity risk (Continued)

**The Company**

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | 2 years but less than 5 years RMB'000 | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | 2 years but less than 5 years RMB'000 |
| Other payables and accruals | 2,323 | 2,323 | 2,323 | – | – | 1,974 | 1,974 | 1,974 | – | – |
| Amounts due to subsidiaries | 12,935 | 12,935 | 12,935 | – | – | 9,998 | 9,998 | 9,998 | – | – |
| Amounts due to directors | 1,738 | 1,738 | 1,738 | – | – | 1,610 | 1,610 | 1,610 | – | – |
| Loan from a director | 162,060 | 162,060 | – | 162,060 | – | – | – | – | – | – |
| Promissory notes | 60,784 | 71,554 | 578 | 70,976 | – | – | – | – | | |
| Convertible notes | 129,894 | 100,800 | 8,400 | 92,400 | – | – | – | – | – | – |
| | 369,734 | 351,410 | 25,974 | 325,436 | – | 13,582 | 13,582 | 13,582 | – | – |

### (c) Interest rate risk

The Group's interest rate risk primarily derives from bank borrowings and time deposits and cash at banks. The Group did not use derivative financial instruments to hedge its debt obligations.

(i) *Exposure to interest rate risk*

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 end of the reporting period:

**The Group**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Effective interest rate | RMB'000 | Effective interest rate | RMB'000 |
| Fixed rate: | | | | |
| Bank borrowings (PRC) | 6.31% – 8.3% | 223,963 | 5.95% | 176,410 |
| Promissory notes payable | 9.06% – 9.49% | 60,250 | – | – |
| Convertible notes | 36.53% | 122,469 | – | – |
| Variable rate: | | | | |
| Bank borrowings (HK) | – | – | 1.67% | 35,412 |
| Total borrowings | | 406,682 | | 211,822 |
| Net fixed rate borrowings as a percentage of total borrowings | | 100% | | 83% |
| Variable rate: | | | | |
| Cash at banks | 0.5% | 29,571 | 0.36% | 15,058 |
| Time deposits | – | – | 1.98% | 19,500 |
| Restricted time deposits | 1.62% | 67,702 | 1% | 65,000 |
| | | 97,273 | | 99,558 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (c) Interest rate risk (Continued)

*(i) Exposure to interest rate (Continued)*

**The Company**

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Effective interest rate** | **RMB'000** | Effective interest rate | RMB'000 |
| Variable rate: | | | | |
| Cash at banks | **0.001%** | **6,198** | 0.001% | 557 |

*(ii) Sensitivity analysis*

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after taxation for the year and accumulated losses by approximately RMB1,267,000 (2010: RMB928,000). Other components of equity would not be affected (2010: RMB nil) by the changes in interest rates.

The sensitive analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the financial instruments exposed to interest rate risk for variable rate interest bearing financial instruments 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 end of the next annual reporting period.

### (d) Currency risk

The Group is exposed to currency risk primarily through 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 are primarily Hong Kong dollars ("HK$") and United State dollars ("US$").

*(i) Exposure to currency risk*

The following table details the Group's and the Company's major exposure at the end of the reporting period to currency risk arising from forecast 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** | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Cash and cash equivalents | | | | |
| HK$ | **8,440** | 1,274 | **6,198** | 557 |
| US$ | **6,844** | 86 | **–** | – |
| Trade receivables | | | | |
| HK$ | **3,381** | 4,125 | **–** | – |
| US$ | **43,623** | 59,252 | **–** | – |
| Bank loans | | | | |
| HK$ | **–** | (35,412) | **–** | – |
| Promissory notes payable | | | | |
| HK$ | **(60,784)** | – | **(60,784)** | – |
| Loan from a director | | | | |
| HK$ | **(162,060)** | – | **(162,060)** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (d) Currency risk (Continued)

*(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's loss after taxation (and accumulated losses) and other components of equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period. Other components of equity would not be affected by changes in the foreign exchange rates:

**The Group**

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on loss after taxation and accumulated loss RMB'000** | **Effect on other components of equity RMB'000** | Increase/ (decrease) in foreign exchange rates | Effect on loss after taxation and accumulated loss RMB'000 | Effect on other components of equity RMB'000 |
| HK$ | **5%** | **(11,733)** | **–** | 5% | (1,500) | – |
| | **(5%)** | **11,733** | **–** | (5%) | 1,500 | – |
| US$ | **5%** | **(2,523)** | **–** | 5% | (2,967) | – |
| | **(5%)** | **2,523** | **–** | (5%) | 2,967 | – |

**The Company**

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on loss after taxation and accumulated loss RMB'000** | **Effect on other components of equity RMB'000** | Increase/ (decrease) in foreign exchange rates | Effect on loss after taxation and accumulated loss RMB'000 | Effect on other components of equity RMB'000 |
| HK$ | **5%** | **(11,452)** | **–** | 5% | (28) | – |
| | **(5%)** | **11,452** | **–** | (5%) | 28 | – |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period 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. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2010.

### (e) Equity price risk

The Group is exposed to equity price risk from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at the end of each reporting period with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (e) Equity price risk (Continued)

The sensitivity analyses below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company' share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax loss for the year (as a result of changes in fair values of embedded conversion option component of convertible notes) would increase by RMB14,702,000 and decrease by RMB13,788,000, respectively.

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible notes involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features especially the embedded conversion option and mandatory redemption option held by the note holders are independent.

### (f) Fair values

*(i) Financial instruments carried at fair value*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's and the Company's assets and liabilities that are measured at fair value as at 31 December 2011 and 2010:

| **The Group** | **Level 1** RMB'000 | **Level 2** RMB'000 | **Level 3** RMB'000 |
|---|---|---|---|
| 2011 | | | |
| **Assets** | | | |
| – Other short-term investment | 1,045 | – | – |
| **Liabilities** | | | |
| – Conversion option embedded in convertible notes | – | – | 61,893 |
| 2010 | | | |
| **Assets** | – | – | – |
| **Liabilities** | – | – | – |

| **The Company** | **Level 1** RMB'000 | **Level 2** RMB'000 | **Level 3** RMB'000 |
|---|---|---|---|
| 2011 | | | |
| **Assets** | | | |
| – Other short-term investment | – | – | – |
| **Liabilities** | | | |
| – Conversion option embedded in convertible notes | – | – | 61,893 |
| 2010 | | | |
| **Assets** | – | – | – |
| **Liabilities** | – | – | – |

During the years ended 31 December 2011 and 2010, there were no significant transfers between instruments Level 1, Level 2 and Level 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (f) Fair values (Continued)

(i) *Financial instruments carried at fair value (Continued)*

The movement during the year in the balance of Level 3 fair value measurement is as follows:

| | The Group and the Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At cost | **28,316** | – |
| Change in fair value recognised in profit or loss during the year | **33,577** | – |
| At 31 December | **61,893** | – |

(ii) *Financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 and 2010.

### (g) Estimation of fair values

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) *Interest-bearing borrowings*

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

(ii) *Derivatives*

The estimates of the fair value of the conversion option embedded in the convertible notes are determined based on valuation models at the end of the reporting period. Details of the assumptions adopted are disclosed in note 29.

(iii) *Short-term investment*

The fair value of short-term investment is determined with reference to quoted market bid prices.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Useful lives and residue 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 depreciation lives and residual values and therefore depreciation expense in future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

**(b) Impairment of property, plant and equipment and lease prepayments**

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

**(c) Impairment of investments in subsidiaries**

The Group has made impairment on investments in subsidiaries when the related recoverable amounts of the investments in subsidiaries with reference to the estimated recoverable amount of the subsidiary, are estimated to be less than their carrying amounts.

**(d) Impairment of trade receivables and other receivables**

The Group makes allowance for impairment on trade and other receivables based on the evaluation of collectibility and aging 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 and subsequent settlements of each customer of the Group up to the date of approval of the financial statements. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**(e) Fair value of embedded derivative portion of convertible notes**

The fair value of the embedded derivatives portion of the convertible notes that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible notes based on the independent professional valuations using the binomial model which requires various sources of information and assumptions. The carrying amount of embedded derivatives portion of the convertible notes as at 31 December 2011 was RMB61,893,000. Further details are disclosed in note 29 to the financial statements.

**(f) Estimated recoverable amount of goodwill**

Determining whether goodwill are impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value where the expected future cash flows arising from the relevant cash-generating units differ from the cash-generating units containing goodwill using a suitable discount rate. Details of the recoverable amount calculations are disclosed in note 17.

**(g) Estimated impairment other intangible assets with finite useful lives**

The Group tests whether intangible assets which have finite useful lives have suffered any impairment whenever there is any indication that the assets have been impaired. The recoverable amounts of these intangible assets have been determined based on the value-in-use calculations, which have been estimated using discounted cash flow method. The directors of the Company consider that the recoverable amount exceeded the carrying amount of the other intangible assets and no impairment was recognised during the year. Where the actual future cash flows were different from the amounts estimated when applying the discounted cash flow method, an impairment loss may arise in future years. The carrying amount of other intangible assets which have finite useful lives at the end of the reporting period was approximately RMB730,004,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (h) 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 the aged inventories analyses, projection of expected sales 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 sale-ability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

### (i) 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.

### (j) Going concern basis

The financial statements have been prepared on the basis that the Company will continue to operate throughout the next twelve months as a going concern. The directors of the Company have made due care and considerations concerning the appropriateness of the going concern in light of the Group's future liquidity requirements and the capital commitments at 31 December 2011 (note (39)). After having taken into account of the cash flow forecast of the Group for a period of eighteen months from 1 January 2012 to 30 June 2013, new funding to be raised of HK$371,000,000 under the unlisted warrants issued on 3 February 2012 to certain investors who will subscribe for 140,000,000 ordinary shares of the Company at subscription price of HK$2.65 per share (note 41(b)), net proceeds from the proposed disposal of certain subsidiaries as referred to note 41(a) and the available unused credit facilities as detailed in note 37, in the opinion of the directors of the Company, the Group should be able to continue its business as a going concern for the next twelve months.

### (k) Provisional goodwill and other intangible assets

The initial accounting for those business combinations as detailed in note 35(b) to (e) to the consolidated financial statements were not yet completed and as such, certain goodwill (note 17), other intangible assets (such as customer relationships, patents and trademarks) (note 18), deferred tax liabilities (note 30(b)) and the non-controlling interests were only determined on provisional basis at the relevant acquisition dates and at 31 December 2011. If the final figures for goodwill, other intangible assets (which are customer relationships, patents and trademarks), deferred tax liabilities and non-controlling interests were ultimately determined to have a material change, the amortisation of other intangible assets and reversal of deferred tax liabilities related to the amortisation of other intangible assets, together with the share of results by the non-controlling interests, for the year ended 31 December 2011 may be changed accordingly.

### (l) Useful life of other intangible assets

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable other intangible assets acquired as part of the business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the useful life of such assets. These estimations and assumptions impact the consolidated income statement over the useful life of other intangible assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. TURNOVER AND SEGMENT REPORTING

### (a) Turnover

The Group is principally engaged in the manufacture and sale of aluminum electrolytic capacitors, chip type electronic components and LED lightings. Turnover represents the net invoiced value of goods sold less returns and allowances.

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Sales of aluminum electrolytic capacitors | **297,126** | 364,513 |
| Sales of chip type electronic components | **92,998** | 58,483 |
| Sales of LED lightings | **21,857** | – |
| | **411,981** | 422,996 |

### (b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Company's Board of Directors, Chief Operating Decision Maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has presented three reportable segments. No operating segments have been aggregated to form the following reporting segment

– Aluminum electrolytic capacitors

– Chip type electronic components

– LED lightings

(i) *Segment results, assets and liabilities*

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reportable segment profit/(loss) is "Reportable segment results". Reportable segment profit/(loss) includes the operating profit/(loss) generated by the segment and finance costs directly attributable to the segment, without allocation of central administration costs (i.e. directors' emoluments).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. TURNOVER AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

*(i) Segment results, assets and liabilities (Continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below:

| | 2011 | | | |
|---|---|---|---|---|
| | **Aluminum electrolytic capacitors RMB'000** | **Chip type electronic components RMB'000** | **LED lightings RMB'000** | **Total RMB'000** |
| Turnover | **297,126** | **92,998** | **21,857** | **411,981** |
| Other revenue | **1,233** | **50** | **38,154** | **39,437** |
| Reportable segment revenue and other revenue from external customers | **298,359** | **93,048** | **60,011** | **451,418** |
| Reportable segment results | **14,124** | **(5,632)** | **(59,590)** | **(51,098)** |
| Other information: | | | | |
| Interest expenses | **(12,566)** | **(5,623)** | **(15,173)** | **(33,362)** |
| Depreciation | **(19,749)** | **(4,725)** | **(4,290)** | **(28,764)** |
| Amortisation of lease prepayments | **(83)** | **(318)** | **–** | **(401)** |
| Amortisation of other intangible assets | **–** | **–** | **(42,196)** | **(42,196)** |
| Impairment on trade receivables | **(262)** | **(1,339)** | **–** | **(1,601)** |
| Reversal of impairment on other receivables | **1,000** | **–** | **–** | **1,000** |
| Loss on disposal of property, plant and equipment | **(317)** | **–** | **–** | **(317)** |
| Loss on early redemption of promissory notes | **–** | **–** | **(2,625)** | **(2,625)** |
| Fair value loss on embedded derivative of convertible notes | **–** | **–** | **(33,577)** | **(33,577)** |
| **Reportable segment assets** | **602,103** | **155,689** | **1,255,461** | **2,013,253** |
| Additions to non-current segment tangible assets | **84,129** | **6,395** | **42,259** | **132,783** |
| Additions to intangible assets | **–** | **–** | **1,166,341** | **1,166,341** |
| **Reportable segment liabilities** | **(452,103)** | **(67,039)** | **(377,530)** | **(896,672)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. TURNOVER AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

*(i) Segment results, assets and liabilities (Continued)*

| | 2010 | | | |
|---|---|---|---|---|
| | Aluminum electrolytic capacitors RMB'000 | Chip type electronic components RMB'000 | LED lightings RMB'000 | Total RMB'000 |
| Turnover | 364,513 | 58,483 | – | 422,996 |
| Other revenue | 1,703 | 26 | – | 1,729 |
| Reportable segment revenue and other revenue from external customers | 366,216 | 58,509 | – | 424,725 |
| Reportable segment results | (49,171) | 7,153 | – | (42,018) |
| Other information: | | | | |
| Interest expenses | (8,544) | (1,049) | – | (9,593) |
| Depreciation | (19,023) | (1,440) | – | (20,463) |
| Amortisation of lease prepayments | (69) | (106) | – | (175) |
| Impairment on trade receivables | (7,135) | – | – | (7,135) |
| Impairment on other receivables | (1,250) | – | – | (1,250) |
| Write-down of inventories | (21,003) | – | – | (21,003) |
| **Reportable segment assets** | 568,169 | 137,763 | – | 705,932 |
| Additions to non-current segment assets during the year | 27,859 | 64 | – | 27,923 |
| **Reportable segment liabilities** | (416,832) | (53,651) | – | (470,483) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. TURNOVER AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

*(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities*

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Total reportable segment's revenue | **451,418** | 424,725 |
| Elimination of inter-segment revenue | **–** | – |
| Consolidated revenue | **451,418** | 424,725 |
| **Loss** | | |
| Reportable segment loss derived from Group's external customers | **(51,098)** | (42,018) |
| Unallocated corporate expenses | **(4,542)** | (2,601) |
| Consolidated net loss before taxation | **(55,640)** | (44,619) |
| **Assets** | | |
| Reportable segment assets | **2,013,253** | 705,932 |
| Elimination of inter-segment receivables | **–** | (18,430) |
| | **2,013,253** | 687,502 |
| Income tax recoverable | **283** | 1,011 |
| Unallocated corporate assets | **13,911** | 17,601 |
| Consolidated assets | **2,027,447** | 706,114 |
| **Liabilities** | | |
| Reportable segment liabilities | **896,672** | 470,483 |
| Elimination of inter-segment liabilities | **–** | (18,430) |
| | **896,672** | 452,053 |
| Income tax payable | **7,300** | 727 |
| Deferred tax liabilities | **189,923** | 5,243 |
| Unallocated corporate liabilities | **3,734** | 4,516 |
| Consolidated liabilities | **1,097,629** | 462,539 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. TURNOVER AND SEGMENT REPORTING (Continued)

### (c) Geographical information

As the Group's business participates only in one geographical location classified by the location of assets, i.e. the PRC, including Hong Kong, no separate geographical segment analysis based on the location of assets is presented. The geographical location of customers is based on the location at which the goods are delivered and services rendered to:

| | **2011<br>RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| **Turnover:** | | |
| The PRC, excluding Hong Kong | **269,139** | 259,899 |
| Taiwan | **68,933** | 94,065 |
| Turkey | **15,755** | 25,112 |
| Hong Kong | **14,505** | 27,355 |
| Korea | **11,206** | 7,130 |
| Other countries | **32,443** | 9,435 |
| | **411,981** | 422,996 |
| **Other revenue:** | | |
| The PRC, excluding Hong Kong | **14,142** | 1,729 |
| Hong Kong | **15** | – |
| Other countries | **25,280** | – |
| | **39,437** | 1,729 |
| Total revenue | **451,418** | 424,725 |

### (d) Major customers

Revenues from customers contributing 10% or more of the total sales of the Group are as follows:

| | **2011<br>RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Customer A – revenue from manufacture and sales of aluminum electrolytic capacitors | **36,556** | 51,712 |
| Customer B – revenue from manufacture and sales of aluminum electrolytic capacitors | **26,607** | – |
| | **63,163** | 51,712 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 7. OTHER REVENUE AND INCOME

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **OTHER REVENUE** | | |
| Bank interest income | **1,298** | 1,729 |
| Consultancy fee income | **25,280** | – |
| Licensing fee income | **8,063** | – |
| Rental income from property, plant and equipment | **4,796** | – |
| | **39,437** | 1,729 |

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **OTHER INCOME** | | |
| Government grants (note) | **158** | 95 |
| Exchange gain, net | **5,646** | – |
| Others | **887** | 909 |
| | **6,691** | 1,004 |

Note:

The Group received government grants totaling RMB158,000 (2010: RMB95,000) during the year for the recognition of the Group's sales performance and contribution to local community in Changzhou, the PRC. These grants were not conditional and therefore, were recognised as income when received.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| (a) Finance costs | | |
| Interest expenses on following bank borrowings and bills payable wholly repayable within five years | **18,189** | 9,593 |
| Imputed interest on promissory notes (note 28) | **2,856** | – |
| Imputed interest on convertible notes (note 29) | **12,317** | – |
| Total interest expense on financial liabilities not at fair value through profit or loss | **33,362** | 9,593 |
| (b) Staff costs (including directors' emoluments) | | |
| Salaries, wages and other benefits | **61,637** | 41,502 |
| Contributions to defined contribution retirement plans | **3,068** | 1,858 |
| Total staff costs | **64,705** | 43,360 |
| (c) Other items | | |
| Amortisation of other intangible assets | | |
| – customer relationships (note 18) | **20,614** | – |
| – patents (note 18) | **21,166** | – |
| – trademarks (note 18) | **416** | – |
| | **42,196** | – |
| Amortization of lease prepayments | **401** | 175 |
| Depreciation of property, plant and equipment | **28,844** | 20,463 |
| Operating lease charges in respect of land and buildings | **1,918** | 2,087 |
| Auditor's remuneration | | |
| – audit services | **1,134** | 645 |
| – non-audit services | **–** | 374 |
| Loss on disposal of property, plant and equipment | **317** | 61 |
| Impairment loss on trade and other receivables, net | **601** | 8,385 |
| Write-down of inventories | **–** | 21,003 |
| Research and development expenditure (note (ii) below) | **4,546** | 4,391 |
| Cost of inventories sold (note (i) below) | **331,091** | 389,418 |

Notes:

(i) Cost of inventories sold includes staff costs of RMB36,757,000 (2010: RMB29,087,000) and depreciation of RMB22,615,000 (2010: RMB18,565,000) as disclosed in staff costs and depreciation of property, plant and equipment above.

(ii) Research and development expenditures includes staff costs of RMB4,546,000 (2010: RMB4,391,000) incurred by the research and development department which are included in the staff costs as disclosed above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 9. INCOME TAX

(a) Income tax (credit)/expense in the consolidated income statement represents:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Hong Kong Profits Tax | | |
| – Current year | **4,134** | – |
| PRC Enterprise Income Tax | | |
| – Current year | **3,266** | 893 |
| – Under-provision in respect of prior years | **8** | 331 |
| | **7,408** | 1,224 |
| Deferred taxation (note 30(b)) | **(10,642)** | (27) |
| | **(3,234)** | 1,197 |

(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) The provision for Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

(iii) Pursuant to the Enterprise Income Tax rules and regulations of the PRC, the PRC subsidiaries of the Group are subject to enterprise income tax at the applicable rate of 25% except the following:

- Changzhou Huawei is entitled to a preferential tax rate of 15% for the three years since 2011 for being a high technology enterprise.
- Ao Si Te Dayou is a wholly foreign-owned enterprise and is entitled to the tax concessions whereby the profit for the first two financial years beginning with the first profit-making year were exempted for enterprise income tax in the PRC, and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. The first profit-making year for Ao Si Te Dayou was 2007.

(b) Reconciliation between income tax (credit)/expense and accounting loss at applicable tax rates:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Loss before taxation | **(55,640)** | (44,619) |
| Notional tax on loss before taxation, calculated at the rates applicable in the tax jurisdiction concerned | **(11,539)** | (10,902) |
| Tax effect of exemptions granted to PRC subsidiaries | **–** | (892) |
| Tax effect of non-deductible expenses | **4,881** | 1,310 |
| Tax effect of non-taxable income | **(4,130)** | (224) |
| Tax effect of deductible temporary differences not recognised | **4,858** | 7,283 |
| Tax effect of unrecognised tax losses | **5,428** | 4,291 |
| Tax effect of tax losses utilized | **(2,732)** | – |
| Under provision in respect of prior years | **–** | 331 |
| Income tax (credit)/expense | **(3,234)** | 1,197 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| Name of director | Fees<br>RMB'000 | Salaries<br>RMB'000 | Discretionary bonuses<br>RMB'000 | Share-based payments<br>RMB'000 | Other benefits<br>RMB'000 | Retirement scheme contributions<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Li Wing Sang | 199 | 597 | – | – | – | 7 | 803 |
| Yan Qixu | – | 295 | – | – | – | – | 295 |
| Liu Xinsheng | – | 115 | – | – | – | – | 115 |
| Chiu Chi Hong (appointed on 11 July 2011) | 94 | 249 | – | – | – | 4 | 347 |
| Xiang Xiaoqin (resigned on 1 March 2011) | – | – | – | – | – | – | – |
| Kuang Lihau (resigned on 15 February 2011) | – | – | – | – | – | – | – |
| **Independent non-executive Directors** | | | | | | | |
| Tam Tak Wah (appointed on 7 January 2011) | 98 | – | – | – | – | – | 98 |
| Ng Wai Hung (appointed on 8 April 2011) | 73 | – | – | – | – | – | 73 |
| Lau Wan Cheung (appointed on 8 June 2011) | 56 | – | – | – | – | – | 56 |
| Lin Sufen (resigned on 8 June 2011) | 25 | – | – | – | – | – | 25 |
| Xu Kangning (resigned on 8 June 2011) | 25 | – | – | – | – | – | 25 |
| Wong Chun Hung (resigned on 7 January 2011) | – | – | – | – | – | – | – |
| | 570 | 1,256 | – | – | – | 11 | 1,837 |

| Name of director | Fees<br>RMB'000 | Salaries<br>RMB'000 | Discretionary bonuses<br>RMB'000 | Share-based payments<br>RMB'000 | Other benefits<br>RMB'000 | Retirement scheme contributions<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Li Wing Sang | – | 209 | – | – | – | – | 209 |
| Yan Qixu | – | 310 | – | – | – | 3 | 313 |
| Liu Xinsheng | – | 110 | – | – | – | – | 110 |
| Xiang Xiaoqin (resigned on 1 March 2011) | – | – | – | – | – | – | – |
| Kuang Lihau (resigned on 15 February 2011) | – | – | – | – | – | – | – |
| **Independent non-executive Directors** | | | | | | | |
| Lin Sufen | – | 60 | – | – | – | – | 60 |
| Xu Kangning | – | 60 | – | – | – | – | 60 |
| Tam Tak Wah (appointed on 7 January 2011) | – | – | – | – | – | – | – |
| Wong Chun Hung (resigned on 7 January 2011) | – | 90 | – | – | – | – | 90 |
| | – | 839 | – | – | – | 3 | 842 |

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (note 11) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Group include three directors (2010: two) whose emoluments are reflected in the analysis in note 10 above. The emoluments payable to the remaining two individuals (2010: three) are as follows:

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits | **234** | 410 |
| Contributions to retirement benefit schemes | **12** | 1 |
| | **246** | 411 |

The emoluments of the individuals with the highest emoluments fell within the band of HK$ Nil to HK$1,000,000 (equivalent to RMB829,000) (2010: HK$Nil to HK$1,000,000 (equivalent to RMB870,000)).

## 12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to the owners of the Company includes a loss of RMB48,431,000 (2010: a loss of RMB17,859,000) which has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since 31 December 2011 (2010: Nil).

## 14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of RMB48,779,000 (2010: RMB45,718,000) and the weighted average number of 871,926,030 (2010: 750,000,000) ordinary shares in issue during the year, calculated as follows:

**Weighted average number of shares**

| | **2011 Number of shares** | 2010 Number of shares |
|---|---|---|
| Shares issued at 1 January | **750,000,000** | 750,000,000 |
| Effect of shares issued on acquisition of subsidiaries | **113,726,028** | – |
| Effect of exercise of unlisted warrants | **8,200,002** | – |
| Weighted average number of shares in issue | **871,926,030** | 750,000,000 |

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes and unlisted warrants as their exercise would result in a decrease in loss per share for the year ended 31 December 2011.

Diluted loss per share was the same as the basic earnings per share as there were no dilutive potential ordinary shares in issue for the year ended 31 December 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 15. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings RMB'000 | Plant and machinery RMB'000 | Furniture and office equipment RMB'000 | Electronic equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvement RMB'000 | Construction in progress ("CIP") RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2010 | 39,994 | 156,210 | 9,026 | 5,536 | 2,547 | – | – | 213,313 |
| Acquisition of subsidiaries (note 35(f)) | 14,100 | 20,602 | 1,682 | – | 948 | – | – | 37,332 |
| Additions | 4,160 | 19,025 | 1,384 | 2,824 | 260 | – | 270 | 27,923 |
| Disposals | – | (93) | (5) | – | (35) | – | – | (133) |
| At 31 December 2010 and at 1 January 2011 | 58,254 | 195,744 | 12,087 | 8,360 | 3,720 | – | 270 | 278,435 |
| Acquisition of subsidiaries (note 35(a) to (e)) | – | 38,662 | 148 | – | 495 | 42 | 1,652 | 40,999 |
| Additions | 3 | 25,276 | 822 | 921 | 5,018 | 766 | 59,952 | 92,758 |
| Disposals | – | (802) | – | – | (65) | – | – | (867) |
| Reclassification | 1,155 | 22,971 | 1,738 | – | (54) | – | (25,810) | – |
| Exchange adjustments | – | (18) | (2) | – | – | (18) | (41) | (79) |
| At 31 December 2011 | 59,412 | 281,833 | 14,793 | 9,281 | 9,114 | 790 | 36,023 | 411,246 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2010 | 3,469 | 58,715 | 1,119 | 2,760 | 1,186 | – | – | 67,249 |
| Charge for the year | 2,260 | 15,078 | 1,780 | 1,043 | 302 | – | – | 20,463 |
| Written back on disposal | – | (38) | (5) | – | (22) | – | – | (65) |
| At 31 December 2010 and at 1 January 2011 | 5,729 | 73,755 | 2,894 | 3,803 | 1,466 | – | – | 87,647 |
| Charge for the year | 2,812 | 21,796 | 2,185 | 954 | 1,051 | 46 | – | 28,844 |
| Written back on disposal | – | (387) | – | – | (5) | – | – | (392) |
| Exchange adjustments | – | – | – | – | – | (1) | – | (1) |
| At 31 December 2011 | 8,541 | 95,164 | 5,079 | 4,757 | 2,512 | 45 | – | 116,098 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2011 | 50,871 | 186,669 | 9,714 | 4,524 | 6,602 | 745 | 36,023 | 295,148 |
| At 31 December 2010 | 52,525 | 121,989 | 9,193 | 4,557 | 2,254 | – | 270 | 190,788 |

Notes:

(a) All of the Group's buildings and plant and machinery are located in the PRC. The carrying amount of the properties of the Group comprises buildings on land under medium-term leases in the PRC.

(b) At 31 December 2011, certain buildings and plant and machinery with an aggregate carrying amount of RMB12,826,000 (2010: RMB53,123,000) were pledged as security to a bank for a bank loan and banking facilities granted to the Group (note 36).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 16. LEASE PREPAYMENTS

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| **Cost** | | |
| At 1 January | **19,659** | 2,090 |
| Acquisition of subsidiaries (note 35(f)) | **–** | 15,500 |
| Additions | **–** | 2,069 |
| At 31 December | **19,659** | 19,659 |
| **Accumulated amortization** | | |
| At 1 January | **340** | 165 |
| Charge of the year | **401** | 175 |
| At 31 December | **741** | 340 |
| **Carrying amount** | | |
| At 31 December | **18,918** | 19,319 |
| **Carrying amount** | | |
| Current portion | **401** | 379 |
| Non-current portion | **18,517** | 18,940 |
| | **18,918** | 19,319 |

Notes:

(a) Lease prepayments represent payments for land use rights for the medium-term leasehold lands in the PRC, which have remaining terms ranging from 41 to 46 years as at 31 December 2011.

(b) Lease prepayments with carrying amount of RMB2,642,000 (2010: RMB15,394,000) were pledged to a bank as security for a bank loan granted to the Group (note 36).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 17. GOODWILL

| | The Group<br>RMB'000 |
|---|---|
| Cost | |
| Arising on acquisition of subsidiaries (note 35(a)(b)(c)(d) and (e)) and at 31 December 2011 | 394,141 |

Goodwill acquired in business combinations, as detailed in note 35 (a) to (e) to the consolidated financial statements, was allocated to each individual cash-generating unit (CGU) which management considers represent separate cash generating unit. At the end of the reporting period, the carrying amount of goodwill arose from the acquisition of the following CGUs:

| | **2011**<br>**RMB'000** |
|---|---|
| Giga World Group (note 35(a)) | **84,072** |
| Shine Link Group (note 35(b)) | **87,585** |
| Kings Honor Group (note 35(c)) | **89,701** |
| Pacific King Group (note 35(d)) | **80,320** |
| Starry View Group and Mega Wide Group (note 35(e)) | **52,463** |
| | **394,141** |

**Impairment test for cash-generating units containing goodwill**
For the purpose of impairment testing, the carrying amount of goodwill as at 31 December 2011, has been allocated to the above individual CGUs under the LED lightings segment.

The recoverable amounts of the CGUs above are determined based on value-in-use calculations as of the end of the reporting period by Peak Vision Appraisals Limited ("Peak Vision"), a firm of independent professional valuers. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 2.5%, which is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the business in which the CGU operates. The appraiser estimates the discount rates as presented below, using the Capital Assets Pricing Model based on stock prices of comparable companies listed on the recognized stock exchanges, plus a risk premium to reflect the specific risk of the individual CGUs. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 17. GOODWILL (Continued)

**Impairment test for cash-generating units containing goodwill (Continued)**

| | **Pre-tax discount rate** | **Growth rate beyond 5 years** |
|---|---|---|
| Giga World Group | 17.51% | 2.5% |
| Shine Link Group | 19.89% | 2.5% |
| Kings Honor Group | 16.35% | 2.5% |
| Pacific King Group | 16.19% | 2.5% |
| Starry View Group | 16.55% | 2.5% |
| Mega Wide Group | 18.98% | 2.5% |

The recoverable amounts of these CGUs are higher than their carrying amounts with reference to the valuations. Accordingly, no impairment loss on goodwill is required at the end of the reporting period. Management believes any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause their recoverable amounts to be less than their carrying amounts.

## 18. OTHER INTANGIBLE ASSETS

| | **The Group** | | | |
|---|---|---|---|---|
| | **Customer relationships** RMB'000 | **Patents** RMB'000 | **Trademarks** RMB'000 | **Total** RMB'000 |
| Cost | | | | |
| Acquired on acquisition of subsidiaries (note 35(a), (b), (c), (d) and (e)) | 478,900 | 243,300 | 50,000 | 772,200 |
| At 31 December 2011 | 478,900 | 243,300 | 50,000 | 772,200 |
| Amortisation | | | | |
| At 1 January 2011 | – | – | – | – |
| Charge for the year | 20,614 | 21,166 | 416 | 42,196 |
| At 31 December 2011 | 20,614 | 21,166 | 416 | 42,196 |
| Carrying amount | | | | |
| At 31 December 2011 | 458,286 | 222,134 | 49,584 | 730,004 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 18. OTHER INTANGIBLE ASSETS (Continued)

The Group's other intangible assets arose from the acquisition of subsidiaries during the year ended 31 December 2011 as referred to in note 35 (a) to (e) and were revalued as of the completion dates of acquisitions and at 31 December 2011 by Peak Vision Appraisals Limited, an independent firm of professional valuers, on the following basis:

Customer relationships represent the long-term co-operation agreements with the customers with remaining contractual period of 14 years. In estimating the fair value of the customer relationships, the premium profits method under income-based approach was adopted. The premium profit method involves comparing the forecasted profit stream or cash flows that would be earned using the customer relationships with those that would be earned without the use of such customer relationships. The forecasted incremental profits or cash flows to be generated through the use of the customer relationships during the contractual periods are based on the budgeted sales and gross margin estimated by the management for the expected life of the customer relationships, with reference to management's expectation of the future LED market development. The discount rate (see below) was used to discount the estimated future free-cash-flows during the forecasted period to derive the present values for the customer relationships.

Trademarks represent the names of LEDUS and "萊德斯" which are registered in Hong Kong and are pending for approvals of registration in Europe, the PRC and Macau as at 31 December 2011. The Group considers the trademarks offer recognisability, profitability, versatility and identification with positive attributes that distinguish itself from the competitors. Patents represent various patents which protect the design and specification in the manufacturing of LED products.

The fair value of patents and trademarks were determined based on the relief-from-royalty method under the income-based approach. In estimating the fair value of the patents and trademarks, the relief-from-royalty method under income-based approach was adopted, which involves comparing the value of the hypothetical royalty payments that would be saved through owning the patents and trademarks, as compared with licensing the patents and trademarks from a third party. The hypothetical royalty payments, based on the expected future cash flows to be generated from the patents and trademarks, over the life of the patents and trademarks are discounted at a discount rate (see below) to reflect the specific risk of the patents and trademarks.

In estimating the recoverable amount of the other intangible assets at 31 December 2011, the present values of the net future cash flows attributable to the other intangible assets were determined using pre-tax discount rates as follows:

| | |
|---|---|
| Customer relationships | 17.35% to 20.89% |
| Patents | 17.19% to 18.51% |
| Trademarks | 17.55% |

Based on the assessments on the recoverable amounts of other intangible assets as at 31 December 2011, no impairment on other intangibles was required.

Customer relationships, patents and trademarks have finite useful lives and are amortised on a straight-line basis over their contractual periods as follows:

| | |
|---|---|
| Customer relationships | 14 years |
| Patents | 5.5 to 10 years |
| Trademarks | 10 years |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 19. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At cost | | |
| Unlisted shares | **238,071** | 238,071 |
| Amount due from a subsidiary (note (a)) | **801,623** | – |
| Less: Impairment loss (note (b)) | **(16,500)** | (16,500) |
| Investments in subsidiaries, net | **1,023,194** | 221,571 |

Notes:

(a) The amount due from a subsidiary is accounted for, in substance, as equity contribution by the Company to provide for capital of this subsidiary as it will not be demanded for repayment.

(b) An allowance for the Company's investments in subsidiaries of RMB16,500,000 (2010: RMB16,500,000) was recognised as at 31 December 2011 because the estimated recoverable amount of interests in subsidiaries was estimated to be less than its carrying amount.

(c) Particulars of the Company's subsidiaries as at 31 December 2011 are as follows:

| **Name** | **Place of incorporation/ establishment and operation** | **Issued and fully paid share capital/ registered capital** | **Percentage of issued/registered capital held by the Company Direct %** | **Indirect %** | **Principal activities** |
|---|---|---|---|---|---|
| Blue Saint Enterprises Limited | The British Virgin Islands ("BVI") | US$1 | – | 100 | Inactive |
| 常州奧斯特大有電子有限公司 Changzhou Ao Si Te Dayou Electronics Company Limited (note i) | The People's Republic of China (the "PRC") | US$4,150,000 | – | 100 | Manufacture and sale of chip type electronic components |
| 常州華威電子有限公司 Changzhou Huawei Electronics Company Limited ("Changzhou Huawei") (note i) | PRC | US$3,070,000 | – | 100 | Manufacture and sale of aluminum electrolytic capacitors |
| 常州華威電容器有限公司 Changzhou Huawei Capacitors Company Limited ("Huawei Capacitors") (note i) | PRC | US$2,100,000 | – | 100 | Trading of aluminum electrolytic capacitors |
| Energy First International Limited | BVI | US$10,000 | – | 100 | Investment holding |
| Hai Ji Wei Company Limited | Hong Kong | HK$1 | – | 100 | Inactive |
| Hai Te Wei Company Limited | Hong Kong | HK$1 | – | 100 | Provision of administrative services |
| He Yue Company Limited | BVI | US$0.01 | – | 100 | Investment holding |
| Huawei Group Holdings Limited | BVI | US$0.02 | 100 | – | Investment holding |
| Moralway Creation Limited | Hong Kong | HK$10,000 | – | 100 | Investment holding |
| 南方華威電子(深圳)有限公司 South Huawei (Shenzhen) Electronics Company Limited ("South Huawei") (note i) | PRC | HK$1,000,000 | – | 100 | Manufacture and sale of aluminum electrolytic capacitors |
| Tong Tai Company Limited | BVI | US$0.01 | – | 100 | Investment holding |
| Splendid Victory Development Limited | BVI | US$1 | – | 100 | Investment holding |
| SunTech Holdings Limited | BVI | US$10,000 | 100 | – | Investment holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 19. INVESTMENTS IN SUBSIDIARIES (Continued)

(c) (Continued)

| Name | Place of incorporation/ establishment and operation | Issued and fully paid share capital/ registered capital | Percentage of issued/registered capital held by the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| SunTech Resources Group Company Limited | BVI | US$10,000 | – | 100 | Investment holding |
| SunTech Resources International Company Limited | Hong Kong | HK$10,000 | – | 100 | Provision of administrative services |
| 奧斯特展盛(深圳)電子有限公司 Ostor Zhansheng Electronic (Shenzhen) Company Limited ("OST Zhansheng") (note i) | PRC | HK$8,000,000 | – | 100 | Manufacture and sale of aluminum electrolytic capacitors |
| 四川石棉華瑞電子有限公司 Sichuan Shimian Huarui Electronics Company Limited (notes i and ii) | PRC | RMB50,000,000 | – | 100 | Manufacture and sale of aluminum electrolytic capacitors |
| Giga-World Industry Company Limited (notes iv and v) | Hong Kong | HK$2,500,000 | – | 50 | Investment holding |
| 深圳風光新能源有限公司 Shenzhen Wind and Solar New Energy Company Limited (notes i, iv & v) | PRC | HK$38,000,000 | – | 50 | Manufacture and sale of LED lightings |
| Shine Link Technology Limited (notes iii & iv) | BVI | US$10,000 | – | 100 | Investment holding |
| U Young Technology Holdings Limited (notes iii & iv) | Hong Kong | HK$10,000 | – | 70 | Investment holding |
| 尤陽(廈門)光電科技有限公司 U Young (Xiamen) Light Technology Company Limited (notes i & iv) | PRC | US$2,100,000 | – | 70 | Manufacture and sale of LED lightings |
| Kings Honor Technology Limited (notes iii & iv) | BVI | US$10,000 | – | 60 | Investment holding |
| Wei Guang Holdings Limited (notes iii & iv) | Hong Kong | HK$10,000 | – | 60 | Investment holding |
| 江西藍田偉光科技有限公司 Jiangxi Lantian Wei Guang Technology Company Limited (notes i, iii & iv) | PRC | HK$10,000,000 | – | 57 | Manufacture and sale of LED lightings |
| Pacific King Technology Limited (notes iii & iv) | BVI | US$10,000 | – | 60 | Investment holding |
| Da Zhen (Hong Kong) Holdings Limited (notes iii & iv) | Hong Kong | HK$1 | – | 60 | Investment holding |
| 深圳市崇正電子科技有限公司 Shenzhen Chong Zhen Electronics Technology Company Limited (notes i, iii & iv) | PRC | HK$10,000,000 | – | 60 | Manufacture and sale of LED lightings |
| Starry View Investments Limited (notes iii & iv) | BVI | US$10,000 | – | 100 | Investment holding |
| Light Resource Environment Company Limited (note iv) | Hong Kong | HK$10,000 | – | 100 | Investment holding and trading of LED lightings |
| Light Resource Environment Limited (note iii) | Macau | MOP$100,000 | – | 65 | Inactive |
| Meeting (HK) Holdings Limited (notes iii & iv) | Hong Kong | HK$10,000 | – | 60 | Investment holding |
| Mega Wide Investments Limited (notes iii & iv) | BVI | US$10,000 | – | 100 | Investment holding |
| Tecdoa Limited (notes iii & iv) | Hong Kong | HK$10,000 | – | 70 | Investment holding |
| Tecdoa Energy S.A. (notes iii & iv) | Spain | EUR15,000 | – | 70 | Provision of energy efficiency services |

Notes:

(i) These entities are wholly-owned foreign enterprises established in the PRC.

(ii) This entity is a limited liability company.

(iii) Incorporated during the year ended 31 December 2011.

(iv) Acquired during the year ended 31 December 2011 (note 35).

(v) Pursuant to an agreement dated 31 January 2011 made with a non controlling interest of Giga-World Industry Company Limited which holds 100% equity interest in Shenzhen Wind and Solar New Energy Company Limited, the Group can effectively command 60% voting rights of Giga-World Industry Company Limited and Shenzhen Wind and Solar New Energy Company Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 20. INVENTORIES

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Raw materials | **38,194** | 32,161 |
| Work-in-progress | **41,121** | 68,565 |
| Finished goods | **166,619** | 97,861 |
| | **245,934** | 198,587 |

The analysis of the amount of inventories recognised as expenses is as follows:

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Carrying amount of inventories sold | **331,091** | 389,418 |
| Write-down of inventories (note) | **–** | 21,003 |
| | **331,091** | 410,421 |

Note:

During last year ended 31 December 2010, there were return of goods with cost of RMB21,003,000 from customers due to unsatisfactory qualify of goods, against which write-downs of RMB21,003,000 were recognised in the consoldiated income statement for the year ended 31 December 2010.

At 31 December 2011, there were obsolete goods with cost of RMB6,698,908, against which, write-downs of RMB6,698,908 were recognised aforesaid and brought forward from the last year.

## 21. TRADE AND BILLS RECEIVABLES

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Trade receivables | **159,108** | 153,503 |
| Less: Allowance for doubtful debts | **(19,183)** | (17,582) |
| | **139,925** | 135,921 |
| Bills receivables | **28,664** | 1,772 |
| | **168,589** | 137,693 |

All of the trade and bills receivables are expected to be recovered within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 21. TRADE AND BILLS RECEIVABLES (Continued)

### (a) Aging analysis

Aging analysis of trade receivables based on the invoice date and bills receivables based on the invoiced date as of the end of the reporting period is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| 0-30 days | **69,897** | 39,671 |
| 31-90 days | **49,765** | 59,056 |
| 91-180 days | **29,231** | 22,333 |
| 181-365 days | **9,253** | 17,476 |
| Over 365 days | **29,626** | 16,739 |
| | **187,772** | 155,275 |
| Less: Allowance for doubtful debts | **(19,183)** | (17,582) |
| | **168,589** | 137,693 |

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

### (b) Impairment on 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 receivables directly.

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At 1 January | **17,582** | 13,225 |
| Reversal of impairment | **(4,322)** | (1,520) |
| Impairment recognised | **5,923** | 8,655 |
| Net charge to profit or loss | **1,601** | 7,135 |
| Write off against trade receivables | **–** | (2,778) |
| At 31 December | **19,183** | 17,582 |

As at 31 December 2011, trade receivables of the Group amounted to RMB19,183,000 (2010: RMB17,582,000) were individually determined to be impaired and full allowance for impairment had been made. These individually impaired receivables were outstanding over 365 days as at the end of the reporting period, taking into account of creditworthiness, past payment history and subsequent settlements of each customer up to date of approval of the financial statements. Accordingly, allowance for doubtful debts of RMB5,923,000 (2010: RMB8,655,000) was recognised during the year.

No cash deposit or collateral had been placed by the related trade debtors with the Group (2010: RMB Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 21. TRADE AND BILLS RECEIVABLES (Continued)

### (c) Trade and bills receivables that are not impaired

The aging analysis of trade and bills receivables based on the due date that are neither individually nor collectively considered to be impaired are as follows:

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Neither past due nor impaired | **147,252** | 119,418 |
| 1-180 days | **8,455** | 17,518 |
| Over 180 days | **12,882** | 757 |
| | **168,589** | 137,693 |

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.

## 22. OTHER RECEIVABLES AND PREPAYMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Other receivables and prepayments | **12,159** | 7,771 | **60** | 60 |
| Refundable deposits for terminated/proposed investments (note (a) and (b)) | **5,672** | 16,980 | **–** | – |
| Temporary loan to non-controlling shareholder of a subsidiary (note (c)) | **–** | 5,000 | **–** | – |
| Temporary loan to a supplier (note (d)) | **11,800** | 12,020 | **–** | – |
| | **29,631** | 41,771 | **60** | 60 |
| Less: Allowance for doubtful debts (note (e)) | **(250)** | (1,250) | **–** | – |
| | **29,381** | 40,521 | **60** | 60 |
| Payments in advance to suppliers | **3,156** | 11,015 | **–** | – |
| Value-added tax refundable | **5,093** | 7,381 | **–** | – |
| Amounts due from non-controlling interests (note 40(h)) | **106** | – | **–** | – |
| Amount due from a related company (note 40(i)) | **11,731** | – | **–** | – |
| Consultancy fee receivable | **5,040** | – | **–** | – |
| Compensation from profit guarantee (note 35(a)(ii)) | **20,727** | – | **–** | – |
| | **75,234** | 58,917 | **60** | 60 |

All of the other receivables and prepayments are expected to be recovered within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 22. OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes:

(a) At 4 December 2009, the Group had paid a refundable deposit of HK$15,000,000 (equivalent to RMB12,735,000) to an independent third party under a memorandum of understanding in relation to the proposed acquisition of 60% equity interest in a company, which is principally engaged in the operations of toll installation of LED street lamps in the PRC. At 30 September 2010, due to the due diligence review on this company could not be completed, the memorandum of understanding was terminated. On 11 March 2011, a settlement agreement was entered into between the Group and the vendor pursuant to which the deposit shall be fully repaid by 30 June 2011. The deposit was fully collected by the Group as to HK$8,000,000 during the year ended 31 December 2011 and as to HK$7,000,000 after 31 December 2011.

(b) At 12 March 2010, a refundable deposit of HK$5,000,000 (equivalent to RMB4,245,000) was paid to an independent third party under memorandum of understanding for the proposed acquisition of the 60% equity interest in a joint-venture company. The major assets of this joint-venture company is a licence right over an iron mine in Indonesia and the rights for its management, trading, operation and import and export. At 21 September 2010, due to the reorganisation and restructuring of this joint-venture company could not be completed, the memorandum of understanding was terminated. The deposit of HK$5,000,000 was fully collected by the Group in 2011.

(c) The temporary loan to non-controlling shareholder of a subsidiary, 四川石棉華瑞電子有限公司 (Sichuan Shimian Huarui Electronics Company Limited) was unsecured, interest-free and repayable on demand. The loan was fully settled during the current year.

(d) Temporary loan to a supplier is unsecured, interest bearing at 6.88% per annum and repayable by 28 March 2012. Subsequent to 31 December 2011, the Group collected approximately RMB10,740,000 from this supplier. In the opinion of the directors of the Company, the balance of the loan to the supplier is fully recoverable.

(e) Allowance for doubtful debts

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Impairment recognised in current year and at 31 December | **250** | 1,250 |

At 31 December 2011, other receivables of the Group amounted to RMB250,000 (2010: RMB1,250,000) were individually determined to be impaired and full allowance for impairment had been provided. A reversal of allowance for doubful debts of RMB1,000,000 was credited to the consolidated income statement for the year end 31 December 2011 as the amount was fully collected by the Group. These individually impaired receivables were in financial difficulties. In the opinion of the directors of the Company, the recoverability of the balances was remote and full allowance for impairment was made in the current year.

Except for the allowance for doubtful debts of RMB250,000 (2010: RMB1,250,000) included in the "Other receivables and prepayments", none of the above assets is either past due or impaired and there was no recent history of default for the above receivables.

## 23. SHORT-TERM INVESTMENT

Short-term investment represents investment in a quoted fund managed by a bank in the PRC and is carried at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 24. CASH AND BANK BALANCES, TIME DEPOSITS AND RESTRICTED BANK DEPOSITS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash at banks | **29,571** | 15,058 | **6,198** | 557 |
| Cash in hand | **878** | 241 | **–** | – |
| Cash at banks and in hand | **30,449** | 15,299 | **6,198** | 557 |
| Time deposits with original maturity less than three months (note (a)) | **–** | 19,500 | **–** | – |
| Cash and cash equivalents in the consolidated statement of cash flows | **30,449** | 34,799 | **6,198** | 557 |
| Restricted bank deposits (note (b)) | **67,702** | 65,000 | **–** | – |
| | **98,151** | 99,799 | **6,198** | 557 |

Notes:

(a) The bank deposits were denominated in Renminbi with an average maturity of less than three months. The interest rate on cash at banks and time deposits as at 31 December 2011 ranged from 0.001% to 0.5% (2010: 0.001% to 1.98%) per annum.

(b) The restricted bank deposits of RMB67,702,000 (2010: RMB65,000,000) were pledged as security for issuing bills payables to suppliers (note 25) and bank loans granted to the Group (note 27(a)). The effective average interest rate on the restricted bank deposits was 1.62% (2010: 1%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 25. TRADE AND BILLS PAYABLES

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Trade payables | **74,676** | 71,673 |
| Bills payables | **147,680** | 133,000 |
| | **222,356** | 204,673 |

All of the trade and bills payables are expected to be settled within one year. Bills payables as at 31 December 2011 and 2010 were secured by restricted bank deposits (note 24(b)).

Aging analysis of trade payables based on the invoice date and bills payables based on the issuance date of relevant bills as of the end of the reporting period is as follows:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| 0-30 days | **27,863** | 49,033 |
| 31-90 days | **97,360** | 66,982 |
| 91-365 days | **96,197** | 88,437 |
| Over 365 days | **936** | 221 |
| | **222,356** | 204,673 |

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

## 26. OTHER PAYABLES AND ACCRUALS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 | **2011** **RMB'000** | 2010 RMB'000 |
| Salaries and welfare payable | **5,522** | 4,800 | **–** | – |
| Amounts payable for property, plant and equipment | **21,648** | 6,210 | **–** | – |
| Accrued audit fee | **1,116** | 645 | **1,116** | 645 |
| Dividend payable to former shareholder of a subsidiary | **10,290** | 10,290 | **–** | – |
| Others | **20,540** | 3,294 | **1,207** | 1,329 |
| Financial liabilities measured at amortised cost | **59,116** | 25,239 | **2,323** | 1,974 |
| Value-added tax payable | **2,115** | 312 | **–** | – |
| Receipts in advance | **12,696** | 7,130 | **–** | – |
| | **73,927** | 32,681 | **2,323** | 1,974 |

All of the other payables and accruals are expected to be settled within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 27. BANK LOANS

At 31 December 2011, the bank loans of the Group were secured as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Bank loans | | |
| – Secured (note (a)) | **45,000** | 90,412 |
| – Unsecured (note (b)) | **178,963** | 121,410 |
| | **223,963** | 211,822 |

Notes:

(a) At 31 December 2011, bank loans of RMB35,000,000 (2010: RMB45,000,000) were secured on the properties of a related company and a guarantee provided by that related company (note 40(j)). The bank loans bear interest at rates ranging from 6.12% to 6.88% (2010: 5.31% to 5.85%) per annum.

At 31 December 2011, a bank loan of RMB10,000,000 (2010: RMB10,000,000) granted to a subsidiary, Ao Si Te Dayou was secured by the lease prepayments of RMB2,642,000 and buildings of RMB12,826,000 together with personal guarantee provided by its director, Mr. Guan Zhilong, and a director of the Company, Mr. Yan Qixu. The bank loan bears interest of 6.88% (2010: 5.31%) per annum.

(b) At 31 December 2011, the Group's unsecured bank loans of RMB178,963,000 (2010: RMB121,410,000) were guaranteed by two subsidiaries, Huawei Capacitors and Ao Si Te Dayou, and personal guarantees provided by Mr. Yan Qixu, a substantial shareholder and director of the Company, and Ms. Xiang Xiaoqin (spouse of Mr. Yan Qixu and a former director of the Company) and Mr. Guan Zhilong, a director of a subsidiary, Ao Si Te Dayou.

(c) The effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| Effective interest rates: | | |
| Fixed-rate borrowings | **6.31% to 8.3%** | 5.95% |
| Variable-rate borrowings | **–** | 1.67% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 28. PROMISSORY NOTES PAYABLE

| | The Group and The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Promissory notes payable to: | | |
| – Action Victory Limited (note (a)) | **7,372** | – |
| – Sandtac Limited (note (b)) | **7,074** | – |
| – Pride Energy Enterprises Limited (note (c)) | **25,259** | – |
| – Supreme Creation Limited (note (d)) | **7,067** | – |
| – Yorken Group Limited (note (e)) | **14,012** | – |
| | **60,784** | – |
| Analysed as: | | |
| Current | **534** | – |
| Non-current | **60,250** | – |
| | **60,784** | – |

Notes:

(a) On 31 January 2011, the Group issued promissory note with a principal value of HK$20,000,000 as part of the consideration for the acquisition as disclosed in note 35(a). The promissory note is unsecured, interest-free and repayable on 31 January 2013. The fair value of promissory note was determined at HK$16,790,000 on 31 January 2011 by reference to a valuation performed by an independent firm of professional valuers, Norton Appraisals Limited ("Norton"). The effective interest rate is 9.13% per annum. The promissory note is carried at amortised cost basis.

During the year ended 31 December 2011, the Group early repaid a portion of the promissory note with a nominal value of HK$10,000,000 (equivalent to RMB8,221,000). A loss of RMB1,105,000 between the carrying value and the nominal value of the repaid portion of promissory note is recognised in profit or loss.

An analysis of the promissory note is as follows:

| | **2011** |
|---|---|
| | **RMB'000** |
| Issued on acquisition of subsidiaries (note 35(a)) | **14,233** |
| Early redemption | **(8,221)** |
| Imputed interest charged | **799** |
| Loss on early redemption | **1,105** |
| Exchange adjustments | **(544)** |
| At 31 December 2011 | **7,372** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 28. PROMISSORY NOTES PAYABLE (Continued)

(b) On 5 July 2011, the Group issued promissory note with a principal value of HK$20,000,000 as part of the consideration for the acquisition as disclosed in note 35(b). The promissory note is unsecured, interest-free and repayable on 4 July 2013. The fair value of promissory note was determined at HK$16,680,000 on 5 July 2011 by reference to a valuation performed by an independent firm of professional valuers, Norton. The effective interest rate is 9.49% per annum. The promissory note is carried at amortised cost basis.

During the year ended 31 December 2011, the Group early repaid a portion of the promissory note with a nominal value of HK$10,000,000 (equivalent to RMB8,140,000). A loss of RMB1,055,000 between the carrying value and the nominal value of the repaid portion of promissory note is recognised in profit or loss.

An analysis of the promissory note is as follows:

| | 2011<br>RMB'000 |
|---|---|
| Issued on acquisition of subsidiaries (note 35(b)) | 13,873 |
| Early redemption | (8,140) |
| Imputed interest charged | 625 |
| Loss on early redemption | 1,055 |
| Exchange adjustments | (339) |
| At 31 December 2011 | 7,074 |

(c) On 20 July 2011, the Group issued promissory note with a principal value of HK$40,000,000 as part of the consideration for the acquisition as disclosed in note 35(c). The promissory note is unsecured, with interest rate 1% per annum and repayable on 19 July 2013. The fair value of promissory note was determined at HK$34,160,000 on 20 July 2011 by reference to a valuation performed by an independent firm of professional valuers, Norton. The effective interest rate is 9.49% per annum. The promissory note is carried at amortised cost basis.

During the year ended 31 December 2011, the Group early repaid a portion of the promissory note with a nominal value of HK$5,000,000 (equivalent to RMB4,072,000). A loss of RMB465,000 between the carrying value and the nominal value of the repaid portion of promissory note is recognised in profit or loss.

An analysis of the promissory note is as follows:

| | 2011<br>RMB'000 |
|---|---|
| Issued on acquisition of subsidiaries (note 35(c)) | 28,322 |
| Early redemption | (4,072) |
| Imputed interest charged | 1,195 |
| Loss on early redemption | 465 |
| Exchange adjustments | (651) |
| At 31 December 2011 | 25,259 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 28. PROMISSORY NOTES PAYABLE (Continued)

(d) On 31 October 2011, the Group issued promissory note with a principal value of HK$10,000,000 as part of the consideration for the acquisition as disclosed in note 35(d). The promissory note is unsecured, with interest rate 1% per annum and repayable on 30 October 2013. The fair value of promissory note was determined at HK$8,581,000 on 31 October 2011 by reference to a valuation performed by an independent firm of professional valuers, Peak Vision Appraisals Limited ("Peak Vision"). The effective interest rate is 9.06% per annum. The promissory note is carried at amortised cost basis.

An analysis of the promissory note is as follows:

| | 2011<br>RMB'000 |
|---|---|
| Issued on acquisition of subsidiaries (note 35(d)) | 7,030 |
| Imputed interest charged | 116 |
| Exchange adjustments | (79) |
| At 31 December 2011 | 7,067 |

(e) On 30 November 2011, the Group issued promissory note with a principal value of HK$20,000,000 as part of the consideration for the Acquisition as disclosed in note 35(e). The promissory note is unsecured, with interest rate 1% per annum and repayable on 29 November 2013. The fair value of promissory note was determined at HK$17,147,000 on 30 November 2011 by reference to a valuation performed by an independent firm of professional valuers, Peak Vision. The effective interest rate is 9.11% per annum. The promissory note is carried at amortised cost basis.

An analysis of the promissory note is as follows:

| | 2011<br>RMB'000 |
|---|---|
| Issued on acquisition of subsidiaries (note 35(e)) | 14,055 |
| Imputed interest charged | 121 |
| Exchange adjustments | (164) |
| At 31 December 2011 | 14,012 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 29. CONVERTIBLE NOTES

On 25 May 2011, the Company issued RMB84,000,000 10% convertible notes with a principal amount of RMB84,000,000. The convertible notes are convertible at the option of the note holder into ordinary shares of the Company on or before 25 May 2013 at a conversion price of HK$1.95 per share (subject to adjustments). If the convertible right is not exercised by the note holder, the convertible notes will be redeemed on 24 May 2013 at the principle amount together with interest accrued on that date. Interest will be paid annually with the interest payment date falling on 24 May 2012 and 2013. The interest accrued up to 31 December 2011 is classified as current liabilities as at 31 December 2011. The convertible notes are unsecured.

The convertible notes contain two components, liability component and embedded derivative. The conversion option of the convertible notes will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument, that is, ordinary shares of the Company. The embedded option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss. The fair value of the conversion option derivative was determined by Norton Appraisals Limited, an independent firm of professional valuers, upon issuance, and are carried as financial liabilities measured at fair value, with changes in fair value recognised in profit or loss. The effective interest rate of the liability component is 36.53% per annum. The liability component is carried at amortised cost basis.

The movement of the liability component and embedded derivative of the convertible notes for the year is set out as follows:

| | The Group and The Company | | |
|---|---|---|---|
| | **Embedded derivative** | **Liability component** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2011 | – | – | – |
| Issued of convertible notes | 28,316 | 55,684 | 84,000 |
| Imputed interest charged to profit or loss | – | 12,317 | 12,317 |
| Change in fair value | 33,577 | – | 33,577 |
| At 31 December 2011 | 61,893 | 68,001 | 129,894 |

The fair value of embedded derivative on initial recognition and at the end of the reporting period were determined by Norton Appraisals Limited and Peak Vision Appraisals Limited, respectively, using the binomial model. The inputs into the model were as follows:

| | At 25/5/2011 | At 31/12/2011 |
|---|---|---|
| Share price | HK$1.77 | HK$2.97 |
| Conversion price | HK$1.95 | HK$1.95 |
| Option life | 2 years | 1.4 years |
| Risk-free rate | 3.2% | 2.75% |
| Expected volatility | 62.44% | 55.78% |
| Expected dividend yield | Nil | Nil |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 30. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

### (a) Current taxation

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Provision for Hong Kong Profits Tax for the year | **4,134** | – |
| PRC Enterprise Income Tax | | |
| – Provision for the year | **3,274** | 1,224 |
| – Provisional tax paid | **(391)** | (1,508) |
| | **7,017** | (284) |
| Represented by: | | |
| Income tax recoverable | **283** | 1,011 |
| Income tax payable | **(7,300)** | (727) |
| | **(7,017)** | 284 |

### (b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **Customer relationships** RMB'000 | **Patents** RMB'000 | **Trademarks** RMB'000 | **Property, plant and equipment** RMB'000 | **Withholding tax on unremitted earnings** RMB'000 | **Total** RMB'000 |
| At 1 January 2010 | – | – | – | – | – | – |
| Acquisition of subsidiaries (note (35(f)) | – | – | – | 3,372 | 1,898 | 5,270 |
| Credited to profit or loss (note 9(a)) | – | – | – | (27) | – | (27) |
| At 31 December 2010 and I January 2011 | **–** | **–** | **–** | **3,345** | **1,898** | **5,243** |
| Acquisition of subsidiaries (note 35(a) to (e)) | **126,205** | **60,825** | **8,250** | **42** | **–** | **195,322** |
| Credited to profit or loss (note 9(a)) | **(5,192)** | **(5,291)** | **(69)** | **(90)** | **–** | **(10,642)** |
| At 31 December 2011 | **121,013** | **55,534** | **8,181** | **3,297** | **1,898** | **189,923** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 30. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (Continued)

**(c) Deferred tax assets or liabilities not recognised**

At the end of the reporting period, the Group has unused tax losses of RMB23,053,000 (2010: RMB17,164,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams of the relevant group entities. The unused tax losses expire at 31 December 2015.

Potential deferred tax assets arising from temporary differences on allowance for impairment on trade and other receivables of RMB4,858,000 (2010: RMB2,032,000) and write down of inventories of RMB1,675,000 (2010: RMB5,251,000) have not been recognised as it is uncertain that such assets will be crystallised in the foreseeable future.

**(d)** Under the Enterprise Income Tax rules and regulations of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in profit or loss arising since 1 January 2008 because the Group is in a position to control the quantum and timing of the distribution thereof. Deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

## 31. EMPLOYEE RETIREMENT BENEFITS

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 MPF Scheme is a defined contribution retirement plan 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") organised 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 only obligation of the Group with respect to the Scheme is to make the specified contributions.

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

## 32. SHARE OPTION SCHEME

Pursuant to a share option scheme (the "Share Option Scheme") approved by a resolution of the shareholders of the Company dated 26 July 2007, the Company may grant options to employees, directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group, or substantial shareholder of the Group, to attract and retain the best available personnel, to provide additional incentive to employees and to promote the success of the business of the Group. The subscription price of the share option of the Company is HK$1.00 upon each grant of options offered and the options granted must be taken up within seven days from the date of grant.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 32. SHARE OPTION SCHEME (Continued)

The Share Option Scheme shall be valid and effective for a period of 10 years ending on 25 July 2017 after which no further options will be granted. The exercise price of the options will be at least the higher of: (a) The closing price of the shares on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheets) on the Offer Date, which must be a business date; (b) The average closing price of the Shares on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheets) for the five business days immediately preceding the Offer Date; and (c) the nominal value of the shares.

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.

The total number of shares available for issue under the Share Option Scheme as at the end of the reporting period was 102,700,000 shares (2010: 75,000,000 shares) which represented 10% of the issued share capital of the Company as at the end of the reporting period. There is no minimum period for which an option to be held before it can be exercised under the Share Option Scheme. At 31 December 2011, there were no outstanding share options (2010: Nil). No share option was granted during the year ended 31 December 2011.

## 33. SHARE CAPITAL

| | **Number of shares of HK$0.01 each** | **Nominal value of ordinary shares** HK$'000 |
|---|---|---|
| **Authorised:** | | |
| At 31 December 2010 and 2011 | 2,000,000,000 | 20,000 |

| | **Number of shares of HK$0.01 each** | **Nominal value of ordinary shares** HK$'000 | RMB'000 |
|---|---|---|---|
| **Issued and fully paid:** | | | |
| At 1 January 2010 and 31 December 2010 | 750,000,000 | 7,500 | 7,140 |
| Issue of new ordinary shares | | | |
| – upon acquisition of subsidiaries (note (a)) | 250,000,000 | 2,500 | 2,077 |
| – upon exercise of unlisted warrants (note (b)) | 27,000,000 | 270 | 222 |
| At 31 December 2010 and 31 December 2011 | 1,027,000,000 | 10,270 | 9,439 |

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 33. SHARE CAPITAL (Continued)

Notes:

(a) **Issue of new ordinary shares upon acquisition of subsidiaries**

On 31 January 2011, the Company issued 50,000,000 new ordinary shares at a price of HK$1.90 per share, being the closing market price of the shares of the Company of the date of acquisition as a partial consideration for the acquisition of subsidiaries (see note 35(a)).

On 5 July 2011, the Company issued 80,000,000 new ordinary shares at a price of HK$1.96 per share, being the closing market price of the shares of the Company of the date of acquisition as a partial consideration for the acquisition of subsidiaries (see note 35(b)).

On 20 July 2011, the Company issued 40,000,000 new ordinary shares at a price of HK$2.23 per share, being the closing market price of the shares of the Company of the date of acquisition as a partial consideration for the acquisition of subsidiaries (see note 35(c)).

On 31 October 2011, the Company issued 40,000,000 new ordinary shares at a price of HK$2.07 per share, being the closing market price of the shares of the Company of the date of acquisition as a partial consideration for the acquisition of subsidiaries (see note 35(d)).

On 30 November 2011, the Company issued 40,000,000 new ordinary shares at a price of HK$2.88 per share, being the closing market price of the shares of the Company of the date of acquisition as a partial consideration for the acquisition of subsidiaries (see note 35(e)).

(b) **Issue of unlisted warrants and new ordinary shares upon exercise of unlisted warrants**

On 7 June 2011, the Company issued 40,000,000 unlisted warrants at a subscription price of HK$0.05 each. The unlisted warrant holders are entitled at any time during the period from 7 July 2011 to 6 July 2013 (both dates inclusive) to exercise for fully paid ordinary shares at a subscription price of HK$1.82 per share. During the year ended 31 December 2011, 27,000,000 new ordinary shares were issued upon exercise of 27,000,000 unlisted warrants. As at 31 December 2011, the Company has 13,000,000 outstanding unlisted warrants.

All the new shares issued during the year ended 31 December 2011 rank pari passu in all respects with the then existing ordinary shares of the Company.

## 34. RESERVES

### The Group

| | Share premium RMB'000 (note (a)) | Capital reserve RMB'000 (note (b)) | Warrant reserve RMB'000 (note (c)) | Other reserve RMB'000 (note (d)) | Special reserve RMB'000 (note (e)) | Statutory reserve RMB'000 (note (f)) | Exchange reserve RMB'000 (note (g)) | Retained earnings/ (accumulated loss) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 166,910 | 6,894 | – | – | 42,783 | 16,821 | (2,016) | 42,790 | 274,182 |
| Transfer | – | – | – | – | – | 509 | – | (509) | – |
| Loss for the year | – | – | – | – | – | – | – | (45,718) | (45,718) |
| Exchange differences on translation of financial statements of foreign subsidiaries | – | – | – | – | – | – | 69 | – | 69 |
| Total comprehensive loss for the year | – | – | – | – | – | – | 69 | (45,718) | (45,649) |
| **At 31 December 2010 and 1 January 2011** | **166,910** | **6,894** | **–** | **–** | **42,783** | **17,330** | **(1,947)** | **(3,437)** | **228,533** |
| Issue of unlisted warrants (note 33(b)) | **–** | **–** | **1,620** | **–** | **–** | **–** | **–** | **–** | **1,620** |
| Issue of new shares: | | | | | | | | | |
| – upon acquisition of subsidiaries (note 33(a)) | **445,203** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **445,203** |
| – upon exercise of unlisted warrants (note 33(b)) | **41,290** | **–** | **(1,094)** | **–** | **–** | **–** | **–** | **–** | **40,196** |
| Acquisition of additional interests in subsidiary | **–** | **–** | **–** | **(716)** | **–** | **–** | **–** | **–** | **(716)** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(48,779)** | **(48,779)** |
| Exchange differences on translation of financial statements of foreign subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **226** | **–** | **226** |
| Total comprehensive loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **226** | **(48,779)** | **(48,553)** |
| At 31 December 2011 | **653,403** | **6,894** | **526** | **(716)** | **42,783** | **17,330** | **(1,721)** | **(52,216)** | **666,283** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 34. RESERVES (Continued)

### The Company

| | Share premium RMB'000 (note (a)) | Warrant reserve RMB'000 (note (c)) | Special reserve RMB'000 (note (e)) | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 166,910 | – | 84,516 | (5,352) | 246,074 |
| Loss for the year | – | – | – | (17,859) | (17,859) |
| Total comprehensive loss for the year | – | – | – | (17,859) | (17,859) |
| At 31 December 2010 and 1 January 2011 | **166,910** | **–** | **84,516** | **(23,211)** | **228,215** |
| Issue of unlisted warrants (note 33(b)) | **–** | **1,620** | **–** | **–** | **1,620** |
| Issue of new shares: | | | | | |
| – upon acquisition of subsidiaries (note 35) | **445,203** | **–** | **–** | **–** | **445,203** |
| – upon exercise of unlisted warrants (note 33(b)) | **41,290** | **(1,094)** | **–** | **–** | **40,196** |
| Loss for the year | **–** | **–** | **–** | **(48,431)** | **(48,431)** |
| Total comprehensive loss for the year | **–** | **–** | **–** | **(48,431)** | **(48,431)** |
| At 31 December 2011 | **653,403** | **526** | **84,516** | **(71,642)** | **666,803** |

Notes:

**(a) Share premium**

The share premium account represents the excess of the issue price net of any issuance expenses over the par value of the shares issued and has been credited to the share premium account of the Company. 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) Warrant reserve**

Warrant reserve represents the net proceeds received from the issue of unlisted warrants of the Company. This reserve will be transferred to share capital and share premium account upon exercise of unlisted warrants.

**(d) Other reserve**

Other reserve arose from acquisition of additional 40% equity interest in a subsidiary, Sichuan Shimian Huarui Electronics Company Limited, during the year, which represented the deemed distribution to the non-controlling interests.

**(e) Special reserve**

Special reserve represents the difference between the net assets of Huawei Group Holdings Limited 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.

**(f) Statutory reserve**

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

**(g) Exchange reserve**

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

**(h) Distributability of reserves**

At 31 December 2011, the aggregate amount of reserves available for distribution to owners of the Company was RMB666,277,000 (2010: RMB228,215,000). The funds in the share premium account are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 34. RESERVES (Continued)

Notes: (Continued)

**(i) Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2010.

The Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by total equity. The Group defines net debt as interest-bearing bank loans, bills payables, loan from a director, promissory notes payable and convertible notes less cash and cash equivalents, time deposits with original maturity over three months and restricted deposits.

The gearing ratios as at 31 December 2011 and 2010 were as follows:

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Bank loans | **223,963** | 211,822 |
| Bills payable | **147,680** | 133,000 |
| Loan from a director | **162,060** | – |
| Promissory notes payable | **60,784** | – |
| Convertible notes | **129,894** | – |
| Total debt | **724,381** | 344,822 |
| Less: Cash and cash equivalents | **(30,449)** | (34,799) |
| Restricted time deposits | **(67,702)** | (65,000) |
| Net debt | **626,230** | 245,023 |
| Total equity | **929,818** | 243,575 |
| Gearing ratio | **67.35%** | 100.59% |

The directors of the Company have made due care and considerations concerning the appropriateness of the going concern in light of the Group's current financial position and the capital commitments at 31 December 2011 (note 39). After having taken into account of the cash flow forecast of the Group for a period of eighteen months from 1 January 2012 to 30 June 2013 and the available unused credit facilities, in the opinion of the directors of the Company, the Group should be able to continue its business as a going concern.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS

**(a) Acquisition of Giga – World Industry Company Limited – 2011**

On 31 January 2011, the Group completed the acquisition 50% equity interest of Giga – World Industry Company Limited ("Giga World"), an investment holding company, from Action Victory Limited ("Action Victory"), an independent third party. Giga World owns 100% equity interest in Shenzhen Wind and Solar New Energy Company Limited ("Giga World Group"). Giga World Group are engaged in the operation of the manufacturing, assembling, installation of LED street lamps in the PRC, research and development, and manufacturing of vertical axis-wind and solar hybrid power-supply system for LED lightings. Pursuant to the supplementary agreement dated 31 January 2011, as part of the acquisition, Action Victory assigned its remaining 10% voting rights of Giga World in the shareholders' meeting to the Group, therefore, the Group has 60% voting rights in the shareholders' meeting of Giga World which is accounted for as a subsidiary of the Group upon completion of the acquisition. The acquisition was a strategic move to enable the Group to gain access to the LED business.

| | RMB'000 |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | 29,297 |
| Other intangible assets-customer relationships (note (vi) below) | 221,300 |
| Other intangible assets-patents (note (iv) below) | 165,900 |
| Inventories | 28 |
| Trade and other receivables | 1,512 |
| Cash in banks | 1,028 |
| Trade and other payables | (3,255) |
| Deferred tax liabilities | (96,800) |
| Total identified net assets | 319,010 |
| Non-controlling interests | (159,505) |
| Goodwill | 84,072 |
| | 243,577 |
| Fair value of consideration transferred: | |
| Cash consideration paid | 169,540 |
| Promissory note issued (note 28(a)) (note (i) below) | 14,233 |
| 50,000,000 consideration shares at HK$1.90 each (note (i) below) | 80,531 |
| Total consideration paid | 264,304 |
| Adjustment for fair value of contingent consideration (note (ii) below) | (20,727) |
| | 243,577 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (a) Acquisition of Giga-World Industry Company Limited – 2011 (Continued)

Notes:

(i) The fair value of the consideration was satisfied by HK$200,000,000 (equivalent to RMB169,540,000) in cash, 50,000,000 consideration shares at HK$1.90 per share, which was the closing market price of the shares of the Company at the issue date, and promissory note (with principal value of HK$20,000,000) at fair value of HK$16,790,000 (equivalent to RMB14,233,000) at the issue date on 31 January 2011 when the acquisition was completed.

(ii) Under the terms of the sale and purchase agreement dated 24 January 2011 and as part of the transaction, Action Victory has provided a profit guarantee to the Group that the actual profit before tax of Giga World Group for the period from 1 February 2011 to 31 January 2012 shall not be less than RMB40,000,000, failing which, Action Victory shall pay a compensation, as a contingent negative consideration which is secured by 20,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the pre-agreed formula as stipulated in the sale and purchase agreement. Based on the financial information of Giga World Group for the period from 1 February 2011 to 31 January 2012, the fair value of the compensation as negative consideration receivable from Action Victory of RMB20,727,000 was deducted against the original consideration paid by the Group at the acquisition date.

(iii) Giga World Group had revenue of RMB30,854,000 and profit after tax of RMB15,408,000 (before deducting the amortisation of customer relationships and patents of RMB31,967,000 net of deferred tax reversal credits of RMB7,991,000, charged on the Group level) for the period from 1 February 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group's revenue and loss for the year ended 31 December 2011 would have been increased by RMB1,214,000 and RMB3,164,000 respectively.

The proforma information is for illustration purposes only and is not necessarily an indication of revenue and the results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

(iv) Acquisition-related costs of RMB543,000 have been included in administrative expenses in the consolidated income statement for the year ended 31 December 2011.

(v) Goodwill represented mainly the work-force and expected future profitability in the LED business.

(vi) The fair value of the customer relationships and patents of Giga World Group at the acquisition date were determined by Peak Vision Appraisals Limited using the premium-profit method and relief-from-royalty method under income-based approach respectively as further detailed in Note 18.

### (b) Acquisition of Shine Link Technology Limited – 2011

On 5 July 2011, the Group completed the acquisition 100% equity interest of Shine Link Technology Limited ("Shine Link"), an investment holding company, from Sandtac Limited ("Sandtac"), an independent third party. Shine Link owns 70% equity interest in U Young Technology Holdings Limited which in turn holds 100% equity interest in 尤陽(廈門)光電科技有限公司 (collectively, "Shine Link Group"), which are engaged in the research and production of semi-conductor parts and accessories of lamps, and manufacturing, assembling and processing of LED lightings in the PRC. The acquisition of Shine Link Group was to continue the expansion of the Group's LED business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (b) Acquisition of Shine Link Technology Limited – 2011 (Continued)

| | RMB'000 |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | 2,447 |
| Other intangible assets-customer relationships (provisional) (note (ii) below) | 156,600 |
| Other receivables and prepayments | 522 |
| Cash in banks | 8,016 |
| Tax recoverable | 223 |
| Other payables | (186) |
| Deferred tax liabilities (provisional) | (39,192) |
| Total identified net assets (provisional) | 128,430 |
| Non-controlling interests (provisional) | (38,475) |
| Fair value of profit guarantee receivable (provisional) (note (ii) below) | – |
| Goodwill (provisional) (note (vi)) | 87,585 |
| | 177,540 |
| Fair value of consideration transferred | |
| Cash consideration paid | 33,256 |
| Promissory note issued (note 28(b)) | 13,873 |
| 80,000,000 consideration shares at HK$1.96 each | 130,411 |
| Total consideration paid | 177,540 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (b) Acquisition of Shine Link Technology Limited – 2011 (Continued)

Notes:

(i) The consideration was satisfied by HK$40,000,000 (equivalent to RMB33,256,000) in cash, 80,000,000 consideration shares at HK$1.96 per share, which was the closing market price of the share of the Company at the issue date and promissory note (with principal value of HK$20,000,000) at fair value of HK$16,680,000 (equivalent to RMB13,873,000) at the issue date on 5 July 2011 when the acquisition was completed.

(ii) The initial accounting for the business combination has not yet been completed. After the acquisition date and up to the date of approval of the consolidated financial statements for the year ended 31 December 2011, the management is still evaluating all the factors and circumstances in respect of Shine Link Group that existed at the acquisition date. The management of the Group has not yet completed its assessment of the economic benefits of the existing customer relationships of Shine Link Group at the acquisition date. Based on an independent professional valuation conducted by Peak Vision Appraisals Limited, an independent firm of professional valuers which has the experience and qualification in similar intangible assets, the customer relationship was determined, on a provisional basis, to be RMB156,600,000 at the acquisition date on 5 July 2011.

(iii) Under the terms of the sale and purchase agreement dated 20 June 2011 and as part of the transaction, Sandtac has provided a profit guarantee to the Group such that the actual profit before tax of Shine Link Group for the period from 6 July 2011 to 5 July 2012 shall not be less than RMB30,000,000, failing which, Sandtac shall pay a compensation, as a contingent negative consideration secured by 30,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. At the acquisition date, the fair value of the profit guarantee receivable, as a contingent negative consideration, was determined on a provisional basis to be zero.

(iv) Shine Link Group had revenue of RMB56,000 and loss after tax of RMB860,000 (before including the amortisation of customer relationships of RMB3,496,000 net of deferred tax reversal credit of RMB1,165,000, charged on Group level) for the period from 6 July 2011 to 31 December 2011.

If the acquisition was completed on 1 January 2011, the Group's revenue and loss for the year ended 31 December 2011 would have been increased by RMB255,000 and RMB6,086,000 for the year ended 31 December 2011. The proforma information is for illustration purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

(v) Acquisition-related costs of RMB167,000 have been included in administrative expenses in the consolidated income statement for the year ended 31 December 2011.

(vi) Goodwill, determined on a provisional basis for reasons as disclosed in note (iii) above, was mainly attributable to the work-force, expected future profitability of Shine Link Group and synergies of integration with the existing LED related business of the Group at the acquisition date and the increase in the price of the consideration shares between the agreement date and the completion date of the acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

**(c) Acquisition of Kings Honor Technology Limited – 2011**

On 20 July 2011, the Group completed the acquisition 60% equity interest of Kings Honor Technology Limited ("Kings Honor") from Pride Energy Enterprises Limited ("Pride"), an independent third party. Kings Honor owns 100% equity interest in Wei Guang Holdings Limited which in turn holds 95% equity interest in Jiangxi Lantian Wei Guang Technology Limited ("Kings Honor Group"). Kings Honor Group is engaged in the production of LED lightings and accessories of lamps in the PRC. The acquisition of Kings Honor Group was to continue the expansion of the Group's LED business.

| | RMB'000 |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | 6,272 |
| Other intangible assets-customer relationships (provisional) | 36,200 |
| Other intangible assets-patents (provisional) | 31,400 |
| Other receivables | 7,920 |
| Cash in banks | 913 |
| Other payables | (120) |
| Deferred tax liabilities (provisional) | (16,900) |
| Total identified net assets (provisional) | 65,685 |
| Non-controlling interests (provisional) | (28,235) |
| Fair value of profit guarantee receivable (provisional) (note (ii) below) | – |
| Goodwill (provisional) (note (vi)) | 89,701 |
| | 127,151 |
| Fair value of consideration transferred | |
| Cash consideration paid | 24,873 |
| 40,000,000 consideration shares at HK$2.23 each | 73,956 |
| Promissory note issued (note 28(c)) | 28,322 |
| Total consideration paid | 127,151 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (c) Acquisition of Kings Honor Technology Limited – 2011 (Continued)

Notes:

(i) The consideration was satisfied by HK$30,000,000 (equivalent to RMB24,873,000) in cash, 40,000,000 consideration shares at HK$2.23 per share, which was the closing market price of the shares of the Company at the issue date, and promissory note (with a principal value of HK$40,000,000) at fair value of HK$34,160,000 (equivalent to RMB28,322,000) at the issue date on 20 July 2011 when the acquisition was completed.

(ii) The initial accounting for the business combination has not yet been completed. After the acquisition date and up to the date of approval of consolidated financial statements, the management is still evaluating all the factors and circumstances in respect of Kings Honor Group that existed at the acquisition date for the year ended 31 December 2011. The management of the Group has not yet completed its assessment of the economic benefits of the existing customer relationships and patents of Kings Honor Group existed acquisition date on 20 July 2011. Based on an independent professional valuation conducted by Peak Vision Appraisals Limited, an independent firm of professional valuers which has the experience and qualification in similar intangible assets, the customer relationships and the patents were determined, on a provisional basis, to be RMB36,200,000 and RMB31,400,000 at the acquisition date on 20 July 2011, using an income-based approach as detailed in note 18.

(iii) Under the terms of the sale and purchase agreement dated 7 July 2011 and as part of the transaction, Pride has provided a profit guarantee to the Group such that the actual profit before tax of Kings Honor Group for the period from 21 July 2011 to 20 July 2012 shall not be less than RMB25,000,000, failing which, Pride shall pay a compensation, as a contingent negative consideration which is secured by 15,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. At the acquisition date, the fair value of the profit guarantee receivable, as a contingent negative consideration, was determined on a provisional basis to be zero.

(iv) Kings Honor Group had turnover of RMB19,790,000 and profit after tax of RMB7,841,000 (before deducting the amortisation of customer relationships of RMB3,584,000 less deferred tax reversal credit of RMB896,000) for the period from 21 July 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group's revenue and loss for the year would have been increased by zero and RMB3,788,000, respectively.

The proforma information is for illustration purposes only and is not necessarily an indication of revenue and the results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

(v) Acquisition-related costs of RMB166,000 have been included in administrative expenses in the consolidated income statement for the year ended 31 December 2011.

(vi) Goodwill determined on a provisional basis for reasons as disclosed in note (iii) above, was mainly attributable to the work-force, expected future profitability of Kings Honor Group and synergies of integration with the existing LED related business of the Group at the acquisition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

**(d) Acquisition of Pacific King Technology Limited – 2011**

On 31 October 2011, the Group completed the acquisition 60% equity interest of Pacific King Technology Limited ("Pacific King"), from Supreme Creation Limited ("Supreme"), an independent third party. Pacific King owns 100% equity interest in Da Zhen (Hong Kong) Holdings Limited which in turn holds 100% equity interest Shenzhen Chong Zheng Electronic Technology Limited (collectively "Pacific King Group"). Pacific King Group is engaged the manufacturing of printed circuit boards ("PCB) for LED lightings. The acquisition of Pacific King Group was to integrate with the Group's LED business.

| | RMB'000 |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | 2,928 |
| Other intangible assets-patents (provisional) | 46,000 |
| Trade and other receivables | 7,165 |
| Cash in banks | 2,373 |
| Trade and other payables | (1,416) |
| Deferred tax liabilities (provisional) | (11,500) |
| Total net assets identified (provisional) | 45,550 |
| Non-controlling interests (provisional) | (18,220) |
| Fair value of profit guarantee receivable (provisional) (note (ii) below) | – |
| Goodwill (provisional) (note (vi)) | 80,320 |
| | 107,650 |
| Fair value of consideration transferred: | |
| Cash consideration paid | 32,806 |
| 40,000,000 consideration shares at HK$2.07 each | 67,814 |
| Promissory note issued (note 28(d)) | 7,030 |
| Total consideration paid | 107,650 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (d) Acquisition of Pacific King Technology Limited – 2011 (Continued)

Notes:

(i) The consideration was satisfied by HK$40,000,000 (equivalent to RMB32,806,000) in cash, 40,000,000 consideration shares at HK$2.07 per share, which was the closing market price of the shares of the Company at the issue date, and promissory note (with a principal value of HK$10,000,000) at a fair value of HK$8,581,000 (equivalent to RMB7,030,000) at the issue date on 31 October 2011 when the acquisition was completed.

(ii) The initial accounting for the business combination has not yet been completed. After the acquisition date and up to the date of approval of consolidated financial statements, the management is still evaluating all the factors and circumstances in respect of Pacific King Group that existed at the acquisition date. Pacific King Group holds the beneficial interests in five patents in relation to the manufacture and production of the PCB components for LED lightings. Up to the date of approval for the consolidated financial statements for the year ended 31 December 2011, the Group's management has not yet completed its assessment on the future economic benefits of these five patents attributable to Pacific King Group. Based on an independent professional valuation conducted by Peak Vision Appraisals Limited, an independent firm of professional valuers which has the experience and qualification in similar intangible assets, the patents were determined, on a provisional basis, to be RMB46,000,000 at the acquisition date on 31 October 2011, using an income-based approach as detailed in note 18.

(iii) Under the terms of the sale and purchase agreement dated 24 August 2011 and as part of the transaction, Supreme has provided a profit guarantee to the Group such that the actual profit before tax of Pacific King Group for the period from 1 November 2011 to 30 October 2012 shall not be less than RMB20,000,000, failing which, Supreme shall pay a compensation, as a contingent negative consideration which is secured by 10,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. At the acquisition date, the fair value of the profit guarantee receivable, as a contingent negative consideration, was determined on a provisional basis to be zero.

(iv) Pacific King Group had revenue of RMB15,301,000 and profit after tax of RMB2,016,000 (before including the amortisation of customer relationships of RMB1,181,000 less deferred tax reversal credit of RMB295,000, charged on Group level) for the period from 1 November 2011 to 31 December 2011.

If the acquisition was completed on 1 January 2011, the Group's revenue and loss for the year ended 31 December 2011 would have been increased by RMB965,000 and RMB4,513,000 for the year ended 31 December 2011. The proforma information is for illustration purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

(v) Acquisition-related costs of RMB162,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2011.

(vi) Goodwill, determined on a provisional basis for reasons as disclosed in note (ii) above, was mainly attributable to the work-force, expected future profitability of Pacific King Group and synergies of integration with the existing LED business of the Group at the acquisition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

**(e) Acquisition of Starry View Investments Limited and Mega Wide Investments Limited**

On 30 November 2011, the Group completed the acquisition from an independent third party, Yorken Group Limited ("Yorken"), 100% equity interests in Starry View Investments Limited ("Starry View") and Mega Wide Investments Limited ("Mega Wide"). Starry View owns 100% equity interest in Light Resources Environment Co., Limited which in turn holds 60% equity interest in Meeting (Hong Kong) Holdings Limited and 65% equity interest in Light Resource Environment Limited in Macau (collectively "Starry View Group"). Starry View Group is engaged in sales of LED products under the brand name of "LEDUS". Mega Wide owns 70% equity interest in Tecdoa Limited which in turn holds 100% equity interest in Tecdoa Energy S.A. (collectively "Mega Wide Group") which is engaged in energy efficiency projects in Spain.

The acquisitions of Starry View Group and Mega Wide Group were to integrate with the existing LED business of the Group and to gain direct access to the distribution channels and markets of LED products.

| | RMB'000 |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | 55 |
| Other intangible assets – customer relationships (provisional) | 64,800 |
| Other intangible assets – trademarks (provisional) | 50,000 |
| Inventories | 25 |
| Other receivables | 996 |
| Cash at banks | 1,014 |
| Other payables | (776) |
| Deferred tax liabilities (provisional) | (30,930) |
| Total identified net assets (provisional) | 85,184 |
| Non-controlling interests (provisional) | (12,670) |
| Fair value of profit guarantee receivable (provisional) (note (ii) below) | – |
| Goodwill (provisional) (note (iv)) | 52,463 |
| | 124,977 |
| Fair value of consideration transferred: | |
| Cash consideration paid | 16,354 |
| 40,000,000 consideration shares at HK$2.88 | 94,568 |
| Promissory note issued (note 28(e)) | 14,055 |
| Total consideration paid | 124,977 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (e) Acquisition of Starry View Investments Limited and Mega Wide Investments Limited (Continued)

Notes:

(i) The consideration was satisfied by HK$20,000,000 (equivalent to RMB16,354,000) in cash, 40,000,000 consideration shares at HK$2.88 per share, which was the closing market price of the shares of the Company at the issue date, and promissory note (with a principal value of HK$20,000,000) at a fair value of HK$17,147,000 (equivalent to RMB14,055,000) at the issue date on 30 November 2011 when the acquisition was completed.

(ii) The initial accounting for the business combination has not yet been completed. After the acquisition date and up to the date of approval of financial statements, the management is still evaluating all the factors and circumstances in respect of Starry View Group and Mega Wide Group that existed at the acquisition date. At the acquisition date, Starry View Group holds the trademarks of "LEDUS" and "萊德斯" registered in Hong Kong and submissions for application for trademarks to be registered in Europe, Mainland China and Macau SAR were still in progress at the acquisition date and up the date of approval of the consolidated financial statements for the year ended 31 December 2011. The directors of the Company considered that the trademarks, if duly approved and registered in the name of Starry View Group, can protect recognisability, profitability, versatility and identification with the positive attributes that distinguish the Group's LED products from the competitors. In addition, at the acquisition date, Mega Wide Group had sales network in Europe and obtained some pioneer energy efficiency projects in Spain. However, the Group's management is still in the process of assessing the future economic benefits these customer relationships and trademarks at the acquisition date and at the reporting period end at 31 December 2011. Based on an independent professional valuation conducted by Peak Vision Appraisals Limited, an independent firm of professional valuers which has the experience and qualification in similar intangible assets, customer relationships and trademarks were determined, on a provisional basis, to be RMB64,800,000 and RMB50,000,000, respectively, at the acquisition date on 30 November 2011, using the income-based approach as detailed in note 18.

(iii) Under the terms of the sale and purchase agreement dated 11 November 2011 and as part of the transaction, Yorken has provided a profit guarantee to the Group such that the actual profit before tax of Starry View Group and Mega Wide Group for the period from 1 December 2011 to 30 November 2012 shall not be less than HKD20,000,000, failing which, Yorken shall pay a compensation, as a contingent negative consideration which is secured by 10,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. At the acquisition date, the fair value of the profit guarantee receivable, as a contingent negative consideration, was determined on a provisional basis to be zero.

(iv) Starry View Group and Mega Wide Group had combined revenue of RMB745,000 and loss after tax of RMB427,000 (before including the amortisation of customer relationships and trademarks of RMB802,000 less deferred tax reversal credit of RMB204,000, charged on Group level) for the period from 1 December 2011 to 31 December 2011.

If the acquisition was completed on 1 January 2011, the Group's revenue and loss for the year ended 31 December 2011 would have been increased by RMB1,712,000 and RMB7,742,000 for the year ended 31 December 2011. The proforma information is for illustration purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

(v) Acquisition-related costs of RMB162,000 have been included in administrative expenses in the consolidated income statement for the year ended 31 December 2011.

(vi) Goodwill, determined on a provisional basis for reasons as disclosed in note (ii) above, was mainly attributable to the expected future profitability of Starry View Group and Mega Wide Group, synergies of integration with the LED related existing business of the Group at the acquisition date, and the increase in the price of the issued consideration shares of the company between the agreement date and the issue date which caused the fair value of consideration shares (note (i) above) to increase by HK$34,800,000 (equivalent to RMB28,456,000) at the completion date of acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (f) Acquisition of Splendid Victory Company Limited – 2010

On 23 August 2010, the Group acquired control of Changzhou Ao Si Te Dayou Electronic Company Limited through the acquisition of the entire equity interest in Splendid Victory Development Limited ("Splendid Victory Group"), a company engaged in the manufacture and sales of chip type electronic components which are the common materials applied in thin electronic circuits of laptop computers, from Han Zhang Company Limited, an independent third party, for a cash consideration of RMB55,000,000.

Prior to the acquisition of Splendid Victory Group, the Group did not manufacture these chip type electronic components. The directors of the Company believe that subsequent to the acquisition, the Group can fully control the development, production schedule and production priority in relation to chip type electronic components and thus offer a better solution to its customers.

For the period from 24 August 2010 to 31 December 2010, Splendid Victory Group contributed revenue of RMB21,795,000 and net profit for the year of RMB4,657,000 to the consolidated net loss for the year of the Group for the year ended 31 December 2010. Had the acquisition occurred on 1 January 2010, the Group's revenue and consolidated loss of the Group for the year ended 31 December 2010 would have been RMB436,235,000 and RMB43,983,000 respectively. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor was it intended to be a projection of future results.

The amounts recognised as of the completion date for each major class of assets acquired and liabilities assumed were as follows:

| | **Fair value**<br>RMB'000 |
|---|---|
| Property, plant and equipment (note (i)) | 37,332 |
| Lease prepayments (note (i)) | 15,500 |
| Inventories | 52,912 |
| Trade and bills receivables (note (ii)) | 11,344 |
| Other receivables (note (ii)) | 2,617 |
| Cash at banks and in hand | 2,424 |
| Trade and bills payables | (24,198) |
| Other payables | (4,923) |
| Dividend payables | (10,290) |
| Withholding tax | (2,448) |
| Bank loans | (20,000) |
| Deferred tax liabilities | (5,270) |
| Net identifiable assets and liabilities | 55,000 |
| Cash consideration | 55,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. BUSINESS COMBINATIONS (Continued)

### (f) Acquisition of Splendid Victory Company Limited – 2010 (Continued)

Notes:

(i) Property, plant and equipment and lease prepayments at the acquisition date were revalued by a firm of independent professional valuers, Asset Appraisal Limited, at their open market value by reference to the market price of comparable items with similar size, character and location and weighted against all the respective advantages and disadvantages of each item, except for equipment, the fair value of which were based on the costs of reproducing or replacing the assets, less depreciation from physical deterioration, and functional and economic or external obsolescence. Assets Appraisal Limited has among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of assets being valued.

(ii) The acquired trade and bills receivables and other receivables with fair values of RMB11,344,000 and RMB2,617,000, respectively, had gross contractual amount of RMB11,344,000 and RMB2,617,000, respectively. All of the trade and bills receivables and other receivables were expected to be fully recovered at the best estimate at the acquisition date.

(iii) Acquisition-related costs amounted to RMB1,155,000 had been excluded from the consideration transferred and have been recognised as an expense classified in the 'administrative expenses' line item in the consolidated income statement for the year ended 31 December 2010.

### (g) Net cash outflow arising on business combinations

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Analysis of net cash outflow on acquisitions: | | |
| Cash consideration paid | **276,829** | 55,000 |
| Cash and cash equivalents acquired | **(13,344)** | (2,424) |
| Net cash outflows | **263,485** | 52,576 |

## 36. PLEDGED ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure general banking facilities granted to the Group:

| | **The Group** | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Lease prepayments (note 16(b)) | **2,642** | 15,394 |
| Property, plant and equipment (note 15(b)) | **12,826** | 53,123 |
| Restricted bank deposits (note 24(b)) | **67,680** | 65,000 |
| | **83,148** | 133,517 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 37. AVAILABLE UNUSED CREDIT FACILITIES

At the end of the reporting period, the total credit facilities of the Group amounted to RMB650,750,000 (2010: RMB533,412,000), which were utilized to the extent of bills payables of RMB147,680,000 (2010: RMB133,000,000), secured bank loans of RMB45,000,000 (2010: RMB90,412,000) and unsecured bank loans of RMB178,963,000 (2010: RMB121,410,000). The available unused credit facilities were RMB279,107,000 (2010: RMB188,590,000) at 31 December 2011.

During the year ended 31 December 2011, Mr. Yan Qixu, a director of the Company, provided a loan of HK$200,000,000 to the Group for financing the cash portion of the consideration of acquisition of 50% equity interest in Giga-World Industry Company Limited as detailed in note 35(a).

## 38. OPERATING LEASE COMMITMENTS

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

| | The Group | |
|---|---|---|
| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
| Within one year | **6,927** | 2,271 |
| In the second to fifth year, inclusive | **13,145** | 1,715 |
| | **20,072** | 3,986 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of three years. None of the leases includes contingent rentals.

The Company had no operating lease commitments at the end of the reporting period (2010: RMB nil).

## 39. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had capital commitments in respect of the purchase of property, plant and equipment as follows:

| | The Group | |
|---|---|---|
| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
| Contracted but not provided for | | |
| – Purchase of property, plant and equipment | **31,875** | 29,509 |
| – Injection of capital in a subsidiary | **–** | 18,000 |
| Authorised but not contracted for | | |
| – Purchase of property, plant and equipment | **8,348** | 44,449 |
| | **40,223** | 91,958 |

The Company had no material capital commitments at the end of the reporting period (2010: RMB nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 40. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2011 and 2010, the directors are of the view that the following are related parties of the Group and the Company:

| Name of the party | Relationship |
|---|---|
| Li Wing Sang | Executive director |
| Yan Qixu | Executive director |
| Xiang Xiaoqin (resigned on 1 March 2011) | Executive director |
| Liu Xinsheng | Executive director |
| Lin Sufen | Non-executive director |
| Wong Chun Hung (resigned on 7 January 2011) | Non-executive director |
| Xu Kangning | Non-executive director |
| Changzhou Huawei Reflective Material Company Limited (“Reflective Material”) | Mr. Yan Qixu and Ms. Xiang Xiaoqin are common directors and controlling shareholders |
| Enercon Capacitor Company Limited | Related company, Mr. Guan Zhilong, a director of Ao Si Te Dayou, is director and controlling shareholder |
| 深圳市吉泰龍電子有限公司 | Related company, Mr. Guan Zhilong, a director of Ao Si Te Dayou, is director and controlling shareholder |
| 江蘇華威世紀電子集團有限公司 | Related company, Mr. Yan Qixu is common director |
| Blue Saint Enterprise Limited | Subsidiary |
| Changzhou Ao Si Te Dayou Electronic Company Limited (“Ao Si Te Dayou”) | Subsidiary |
| Changzhou Huawei Electronics Co., Ltd | Subsidiary |
| Energy First International Limited | Subsidiary |
| Hai Te Wei Limited | Subsidiary |
| He Yue Company Limited | Subsidiary |
| Huawei Group Holdings Limited | Subsidiary |
| SunTech Holdings Limited | Subsidiary |
| SunTech Resources Group Company Limited | Subsidiary |
| Giga – World Industry Company Limited | Subsidiary |
| Tong Heng Company Limited | A shareholder of the Company |
| 深圳市藍田偉光電子有限公司 | A related company controlled by 皮德權, a director of Jiangxi Lantian Wei Guang Technology Company Limited |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 40. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (a) Sales of goods

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Sales to: | | |
| 深圳市吉泰龍電子有限公司 | **1,667** | 4,244 |
| Enercon Capacitor Company Limited | **23,275** | 23,701 |
| | **24,942** | 27,945 |

The following balances arising from trading transactions were outstanding at the end of the reporting period and included in "Trade and bills receivables".

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| 深圳市吉泰龍電子有限公司 | **1,396** | 2,854 |
| Enercon Capacitor Company Limited | **11,747** | 5,155 |
| | **13,143** | 8,009 |

Sales of goods to related companies were made in the ordinary course of business and at normal commercial terms at the Group's regular listed prices. Year end balances due from these related companies arising from sales of goods are shown in note 21.

### (b) Amount due to a related company

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| 江蘇華威世紀電子集團有限公司 | **23,360** | – |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 40. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (c) Amounts due to directors

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Yan Qixu | **1,732** | 1,392 | **663** | 663 |
| Liu Xinsheng | **590** | 590 | **590** | 590 |
| Li Wing Sang | **1,596** | 5,130 | **485** | 220 |
| Xu Kangning | **–** | 39 | **–** | 39 |
| Wong Chun Hung | **–** | 59 | **–** | 59 |
| Lin Sufen | **–** | 39 | **–** | 39 |
| | **3,918** | 7,249 | **1,738** | 1,610 |

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

### (d) Amount due to a shareholder

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Tong Heng Company Limited | **144** | 144 |

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

### (e) Loan from a director

Loan from a director, Mr. Yan Qixu, is unsecured, interest-free and repayable on 24 January 2012. On 31 December 2011, Mr. Yan Qixu has entered into a letter of undertaking with the Company such that Mr Yan Qixu has agreed to further extend the repayment date till 31 January 2013.

### (f) Amounts due from subsidiaries

| | The Company | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Huewei Group Holdings Limited | **–** | 7,523 |
| Hai Te Wei Limited | **6,057** | 6,018 |
| Blue Saint Enterprises Limited | **8** | 8 |
| SunTech Resources Group Company Limited | **9,180** | 13,200 |
| Energy First International Limited | **1,279** | – |
| | **16,524** | 26,749 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 40. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (g) Amounts due to subsidiaries

| | The Company | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| He Yue Company Limited (note (ii)) | **–** | 335 |
| Huawei Group Holdings Limited | **2,875** | – |
| Changzhou Huawei Electronics Company Limited (note (iii)) | **–** | 9,425 |
| SunTech Holdings Limited | **68** | 68 |
| Energy First International Limited | **–** | 170 |
| Giga-world Industry Company Limited | **9,992** | – |
| | **12,935** | 9,998 |

Notes:

(i) The amounts due are unsecured, interest-free and repayable on demand.

(ii) At 31 December 2011, pursuant to the debt transfer agreement entered into between He Yue Company Limited, Huawei Group Holdings Limited and the Company, a receivable of RMB329,000 by He Yue Company Limited from the Company was assigned to Huawei Group Holdings Limited.

(iii) At 31 December 2011, pursuant to the debt transfer agreement entered into between Changzhou Huawei Electronics Company Limited, Huawei Group Holdings Limited and the Company, a receivable of RMB10,626,000 by the Changzhou Huawei Electronics Company Limited from the Company was assigned to Huawei Group Holdings Limited.

### (h) Amounts due from non-controlling interests

These balances are unsecured, interest free and repayable on demand (note 22).

### (i) Amount due from a related company

The balance due form 深圳藍田偉光電子有限公司 is unsecured, interest-free and repayable on demand (note 22). The non-controlling interest of Jiangxi Lantian Wei Guang Technology Company Limited has agreed to pledge its 5% equity interest in Jiangxi Lantian Wei Guang Technology Company Limited as security on the amount due. In the opinion of the directors of the Company, the balance can be recoverable in full.

### (j) Securities and guarantees

At 31 December 2011, the Group's bank loans of RMB35,000,000 (2010: RMB45,000,000) were secured by certain properties and corporate guarantee of Reflective Material.

At 31 December 2011, Mr. Yan Qixu, a director of the Company, and Ms. Xiang Xiaoqin (spouse of Mr. Yan Qixu and a former director of the Company) and Mr. Guan Zhilong, a director of a subsidiary, Ao Si Te Dayou, have provided personal guarantees to the Group's unsecured bank loans of RMB178,963,000 (2010: RMB121,410,000).

### (k) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as referred to in note 10 and certain of highest paid employees as disclosed in note 11, is as follows:

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Short-term employee benefits | **1,265** | 1,249 |
| Contributions to defined retirement plans | **11** | 3 |
| | **1,276** | 1,252 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 41. EVENTS AFTER THE REPORTING PERIOD

(a) On 9 January 2012, a wholly-owned subsidiary of the Company entered into a non-legally binding memorandum of understanding ("MOU") with an independent third party (the "Purchaser") to dispose of the entire equity interest in a wholly-owned subsidiary of the Company, He Yue Company Limited and its subsidiaries (together "the Disposal Group") at a consideration for not less than HK$160 million. A cash deposit of HK$80 million has been paid by the Purchaser on 9 January 2012 upon signing of the MOU.

(b) On 3 February 2012, the Company entered into a placing agreement with a placing agent, based on which, 140,000,000 unlisted warrants were issued at HK$0.05 per warrant to several investors at an aggregate consideration of HK$7,000,000. Each warrant entitles its warrant-holder to subscribe for shares of the Company at the exercise price of HK$2.65 per share.

## 42. POSSIBLE IMPACT OF AMENDMENTS, STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| HKAS 19 (as revised in 2011) | Employee Benefits[2] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

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

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

# GROUP FINANCIAL SUMMARY

| | **2011 RMB'000** | 2010 RMB'000 | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | **411,981** | 422,996 | 314,596 | 237,596 | 287,567 |
| Operating (loss)/profit | **(22,278)** | (35,026) | 14,416 | 13,463 | 71,118 |
| Finance costs | **(33,362)** | (9,593) | (6,722) | (8,712) | (8,194) |
| (Loss)/profit before taxation | **(55,640)** | (44,619) | 7,694 | 4,751 | 62,924 |
| Income tax credit/(expenses) | **3,234** | (1,197) | (1,535) | (1,666) | (6,058) |
| (Loss)/profit for the year | **(52,406)** | (45,816) | 6,159 | 3,085 | 56,866 |
| Attributable to: | | | | | |
| Owners of the Company | **(48,779)** | (45,718) | 6,159 | 3,085 | 56,866 |
| Non-controlling interests | **(3,627)** | (98) | – | – | – |
| (Loss)/earnings per share | | | | | |
| – Basic | **(5.59 cents)** | (6.1 cents) | 1 cents | 0.5 cents | 11 cents |
| – Diluted | **(5.59 cents)** | (6.1 cents) | 1 cents | 0.5 cents | 11 cents |

| | **2011 RMB'000** | 2010 RMB'000 | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | |
| Non-current assets | **1,437,810** | 209,728 | 148,267 | 139,102 | 93,236 |
| Current assets | **589,637** | 496,386 | 454,523 | 315,662 | 366,953 |
| Current liabilities | **(562,927)** | (457,296) | (321,468) | (140,268) | (134,680) |
| Total assets less current liabilities | **1,464,520** | 248,818 | 281,322 | 314,496 | 325,509 |
| Non-current liabilities | **(534,702)** | (5,243) | – | (60,000) | (60,000) |
| Net assets | **929,818** | 243,575 | 281,322 | 254,496 | 265,509 |
| **Capital and reserves** | | | | | |
| Share capital | **9,439** | 7,140 | 7,140 | 5,820 | 5,820 |
| Reserves | **666,283** | 228,533 | 274,182 | 248,676 | 259,689 |
| Equity attributable to owners of the Company | **675,722** | 235,673 | 281,322 | 254,496 | 265,509 |
| Non-controlling interests | **254,096** | 7,902 | – | – | – |
| Total equity | **929,818** | 243,575 | 281,322 | 254,496 | 265,509 |