Chang Tech Pro Technology Development Limited
德普科技發展有限公司
(incorporated in the Cayman Islands with limited liability)
Stock Code : 03823

Interim Report 2008

Contents

Corporate Information

Board of directors

Executive directors

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

Independent non-executive directors

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

Audit committee

Mr. Wong Chun Hung *(Committee Chairman)*
Mr. Xu Kangning
Ms. Lin Sufen

Remuneration committee

Mr. Yan Qixu *(Committee Chairman)*
Mr. Wong Chun Hung
Ms. Lin Sufen

Nomination committee

Ms. Xiang Xiaoqin *(Committee Chairman)*
Mr. Xu Kangning
Ms. Lin Sufen

Authorised representatives

Mr. Liu Xinsheng
Mr. Cheung Pui Hung, Steven

Qualified accountant and company secretary

Mr. Cheung Pui Hung, Steven *FCPA, FCCA, ACA*

Auditors

CCIF CPA Limited

Compliance advisor

Hantec Capital Limited

Principal banker

Agricultural Bank of China Changzhou Branch
Zou Qu Sub-Branch

Legal advisers on Hong Kong law

Loong & Yeung

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

Bank of Bermuda (Cayman) Limited
P.O. Box 513, Strathvale House
North Church Street, George Town
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 in the PRC

Zouqu Village
Zouqu Town
Changzhou City
Jiangsu
PRC

Principal place of business in Hong Kong

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

Company website

http://www.techprotd.com

Stock code

03823

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

The board of directors (the "Board") of Tech Pro Technology Development Limited (the "Company") and its subsidiaries (together, the "Group") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2008, together with the unaudited comparative figures for the corresponding period in 2007 as follows:

		Six months ended 30 June	
	Note	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Turnover	*4*	117,587	132,456
Cost of sales		(91,729)	(92,944)
Gross profit		25,858	39,512
Other revenue and income	*5*	1,716	322
Distribution costs		(2,365)	(1,880)
Administrative expenses		(9,483)	(4,520)
Provision for impairment on trade receivables		—	(46)
Other operating expenses		(1,389)	(210)
Operating profit		14,337	33,178
Finance costs	*6*	(3,885)	(4,164)
Profit before income tax	*7*	10,452	29,014
Income tax expense	*8*	(1,027)	(1,814)
Profit for the period		9,425	27,200
Attributable to:			
Equity holders of the Company		9,425	27,200
Earnings per share (RMB)			
Basic	*9*	0.02	0.06
Dividends	*10*	—	41,614

Condensed Consolidated Balance Sheet

As at 30 June 2008

	Note	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	102,464	90,952
Prepaid lease payments		1,948	1,964
Deposits for prepaid lease payments		320	320
Total non-current assets		104,732	93,236
Current assets			
Inventories		97,766	69,045
Prepaid lease payments		40	45
Trade and bills receivables	*12*	120,486	131,658
Other receivables		19,245	15,124
Deposits for machinery and equipment		19,288	—
Restricted bank deposits		7,700	29,910
Time deposits		64,711	72,800
Cash and cash equivalents		29,497	48,371
Total current assets		358,733	366,953
Current liabilities			
Trade and bills payables	*13*	64,462	77,551
Other payables		17,357	11,281
Amounts due to directors	*14*	2,796	1,227
Dividend payable		15,000	—
Income taxes payable		916	1,621
Bank loans — due within one year	*15*	43,000	43,000
Total current liabilities		143,531	134,680
Net current assets		215,202	232,273
Total assets less current liabilities		319,934	325,509
Non-current liabilities			
Bank loans — due after one year	*15*	60,000	60,000
NET ASSETS		259,934	265,509
CAPITAL AND RESERVES			
Share capital	*16*	5,820	5,820
Reserves		254,114	259,689
TOTAL EQUITY		259,934	265,509

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the Company							
	Paid-up capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007 (audited)	—	—	6,894	42,783	10,358	40	38,855	98,930
Profit for the period	—	—	—	—	—	—	27,200	27,200
Transfer	—	—	—	—	2,873	—	(2,873)	—
Dividends	—	—	—	—	—	—	(41,614)	(41,614)
At 30 June 2007 (unaudited)	—	—	6,894	42,783	13,231	40	21,568	84,516
At 1 January 2008 (audited)	**5,820**	**147,567**	**6,894**	**42,783**	**16,064**	**(2,020)**	**48,401**	**265,509**
Profit for the period	—	—	—	—	—	—	**9,425**	**9,425**
Transfer	—	—	—	—	**1,045**	—	**(1,045)**	—
Dividends	—	—	—	—	—	—	**(15,000)**	**(15,000)**
At 30 June 2008 (unaudited)	**5,820**	**147,567**	**6,894**	**42,783**	**17,109**	**(2,020)**	**41,781**	**259,934**

Notes:

(a) *Share premium*
The share premium account represents the excess of the issued price net of any issuance expenses over the par value of the shares issued. The application of the share premium account shall be governed by the Cayman Companies Law.

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

(c) Special reserve
Special reserve represented the difference between the net assets of Ding Sheng Company 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.

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

(e) *Exchange reserve*
The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Net cash (outflow)/inflow from operating activities	(12,323)	24,215
Net cash outflow from investing activities	(34,534)	(12,822)
Net cash outflow from financing activities	(44,817)	(37,889)
Net decrease in cash and cash equivalents	(91,674)	(26,496)
Cash and cash equivalents at 1 January	121,171	34,760
Cash and cash equivalents at 30 June	29,497	8,264
Analysis of balances of cash and cash equivalents		
Cash and bank balances	29,497	8,264

1. General information

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

Pursuant to a reorganisation ("the Reorganisation") of the Group, the Company acquired the equity interests of entities under common control and became the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 6 September 2007. Details of the Reorganisation are set out in the prospectus of the Company dated 24 August 2007 ("the Prospectus"). The unaudited condensed interim financial statements of the Group for the six months ended 30 June 2007 have been prepared as if the current group structure had been in existence throughout the period presented.

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

This unaudited condensed interim financial information was approved and authorized by the Board for issue on 8 September 2008.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standards No. 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed interim financial statements, which do not include all information and disclosures required by the annual financial statements, should be read in conjunction with the annual report for the year ended 31 December 2007 ("2007 Annual Report").

The comparative figures as at 31 December 2007 and for the six months ended 30 June 2007 are presented as if the group structure resulting from the Reorganisation, as referred in Note 1, had been in existence as at such date.

3. Significant accounting policies

The unaudited condensed interim financial statements (the "interim financial statements") have been reviewed by the Company's audit committee.

The accounting policies used in the preparation of this interim financial statements are consistent with those used in the combined financial statements for the year ended 31 December 2007. The details are set out in the financial statements included in the annual report of the year.

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for financial year ending 31 December 2008:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The following new standards and interpretations have been issued but are not effective and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 32 and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 28 (Amendment)	Investments in Associates[2]
HKAS 31 (Amendment)	Interests in Joint Ventures[2]
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement[1].
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — INT 13	Customer Loyalty Programmes[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 July 2008.

The Group expects the adoption of these new standards or interpretations will have no material impact on the financial statements of the Group and will not result in substantial changes to the Group's accounting policies.

4. Turnover and segment information

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discount and sale tax.

Turnover consisted of:

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Turnover		
Sale of goods	117,587	132,456

The Group is principally engaged in a single business segment, the manufacture and sale and trading of aluminium electrolytic capacitors and all of its operating assets are located in PRC. As a substantial proportion of the Group's turnover and operating profits are earned within the PRC, no analysis by business segment and geographical segments by location of customers are therefore provided.

In general, the Group's sales are generally higher in the last quarter of a year.

5. Other revenue and income

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Bank interest income	1,330	177
Exchange gain, net	—	3
Sundry income	386	142
	1,716	322

6. Finance costs

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Interest expenses on bank loans wholly repayable within five years	3,885	4,164

7. Profit before income tax

Profit before income tax is stated after charging the following:

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Amortisation of prepaid lease payments	20	23
Cost of inventories	91,729	92,944
Depreciation	4,985	4,275
Exchange loss, net	819	—
Loss on disposal of property, plant and equipment	79	—
Operating lease rental expenses	447	568

8. Income tax expense

(a) Consolidated Income Statement refers to:

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
PRC corporate income tax — Current period	1,027	1,814

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

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax for the period ended 30 June 2007 and 2008.

(iii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of People's Republic of China (the "New CIT Law"). Since 1 January 2008, the applicable income tax for enterprises established in the PRC will be unified to 25%. On 29 December 2007, the State Council issued a circular on the Implementation of Transitional Preferential Policies for Corporate Income Tax by Guo Fa [2007] No. 39 which became effective from 1 January 2008. According to the circular, from 1 January 2008, the enterprises that originally enjoy the preferential treatment of regular tax reduction and exemption such as "exemption from income tax in the first two profit-making years and 50% reduction in the ensuing three years" may, after the enforcement of the New Law, enjoy the original preferential treatment in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until after the expiration of the entitlement period. The Company's subsidiaries in PRC applied tax rates under the existing tax laws to provide for current tax.

Changzhou Huawei Electronics Co., Ltd. is subject to 25% corporate income tax in the PRC.

Changzhou Huaqiang Electronics Co., Ltd. and South Huawei Electronics (Shenzhen) Co., Ltd. are entitled to be exempted from two-year income tax for foreign invested enterprises since their respective profit-making year and the subsequent three-year 50% tax relief. The first profit-making years of Changzhou Huaqiang Electronics Co., Ltd. and South Huawei Electronics (Shenzhen) Co., Ltd. are both 2006, and they are subject to 12.5% and 9% corporate income tax in the PRC respectively in 2008.

(b) No provision has been made for deferred tax as at 30 June 2008 and 2007 as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

9. Earnings per share

Basic earnings per share for the period is calculated based on the consolidated profit attributable to equity holders of the Company of approximately RMB9,425,000 (2007: RMB27,200,000) and on 600,000,000 (2007: 450,000,000) shares in issue. In determining the number of shares in issue, a total of 450,000,000 shares issued in connection with the Reorganisation (note 1) and the capitalization issue were deemed to have been issued since 1 January 2007.

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Profits attributable to equity holders of the Company (RMB)	9,425,000	27,200,000
Shares in issue	600,000,000	450,000,000
Basic earnings per share (RMB)	0.02	0.06

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

10. Dividends

The Directors did not recommend payment of any interim dividend for the six months ended 30 June 2008. The final dividends announced for the year 2007 of HK 2.67 cents per share, approximately HK$16 million in total, was approved in the annual general meeting dated 16 May 2008 and distributed on 9 July 2008 by the Company since its incorporation. The dividends declared by the subsidiaries to the then shareholders prior to the Reorganisation were approximately RMB41,614,000 for the six months ended 30 June 2007.

11. Property, plant and equipment

During the six months ended 30 June 2008, the Group acquired property, plant and equipment with a cost of RMB16,666,000 (six months ended 30 June 2007: RMB12,708,000) and also disposed of property, plant and equipment with a cost of RMB280,000 (six month ended 30 June 2007: RMB Nil) and resulted in the loss on disposal of property, plant and equipment of RMB 79,000 (six months ended 30 June 2007: Nil).

12. Trade and bills receivables

The Group normally offers credit terms to its customers ranging from 30 to 180 days.

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
Trade receivables	120,486	130,228
Bills receivable	—	1,430
	120,486	131,658

Aging analysis of trade receivables at the respective balance sheet dates are as follows:

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
0–30 days	23,272	21,490
31–90 days	37,831	26,976
91–180 days	21,229	49,041
181–365 days	25,166	27,600
Over 365 days	17,085	9,218
	124,583	134,325
Provision for impairment	(4,097)	(4,097)
	120,486	130,228

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

13. Trade and bills payables

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

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
Trade payables	56,762	44,160
Bills payable	7,700	33,391
	64,462	77,551
Aging analysis of trade payables at the respective balance sheet dates are as follows:		
0–30 days	19,186	18,060
31–90 days	24,828	17,386
91–365 days	11,975	7,956
Over 365 days	773	758
	56,762	44,160

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

14. Amounts due to directors

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

15. Bank loans

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
Current		
— Secured	—	—
— Unsecured	43,000	43,000
	43,000	43,000
Non-current		
— Secured	13,000	13,000
— Unsecured	47,000	47,000
	60,000	60,000
	103,000	103,000

All the bank loans are unsecured, except for an amount of RMB13,000,000 (31 December 2007: RMB13,000,000), which is secured on the Group's buildings.

16. Share capital

	Number of shares of HK$0.01 each	Nominal value of shares HK$'000
Authorised		
At 31 December 2007 and 30 June 2008	2,000,000,000	20,000

	Number of shares of HK$0.01 each	Nominal value of shares	
		HK$'000	RMB'000
Issued and fully paid			
At 31 December 2007 and 30 June 2008	600,000,000	6,000	5,820

17. Operating lease commitments

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

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
Within one year	798	1,102
In the second to fifth years inclusive	193	753
	991	1,855

18. Pledge of assets

At the balance sheet dates, the Group pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
Buildings	3,490	5,298

19. Capital commitments

	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
Contracted but not provided for	4,562	15,234
Authorised but not contracted for	35,823	66,711
	40,385	81,945

20. Related party transactions

(a) Transactions with related parties

The Group had the following transactions with its related parties:

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Continuing transaction		
Rental expense:		
Changzhou Huawei Reflective Material Company Limited	—	120
	—	120

In the opinion of the directors, the above related party transactions were carried out on normal commercial terms in the ordinary course of business as agreed by the respective parties.

(b) Key management personnel remuneration

Remunerations for key management personnel of the Group are as follows:

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Short-term employees benefits	2,249	658
Defined retirement scheme contribution	9	10

21. Post balance sheet date events

There were no significant post balance sheet date events.

22. Ultimate holding company

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

Overview

The Group is principally engaged in the manufacturing and sales of aluminium electrolytic capacitors. In general, a capacitor is an energy storing device made up of two parallel conducting plates separated by an insulating material — the "dielectric". It can be used in a wide range of electronics devices such as audio and video consumer electronics devices, power supply equipment, telecommunications equipment and home appliances. The Group is based in Changzhou, Jiangsu Province, the PRC. In order to meet the needs of our customers, the Group manufactures a variety of capacitors with different specifications under the famous brandname "Chang".

Business review

For the six months ended 30 June 2008, the Group's unaudited turnover and gross profit decreased by 11.23% to RMB117.6 million and 34.56% to RMB 25.9 million respectively, as compared to the corresponding period of last year.

During the first half of 2008, China's economy had been affected by natural disasters such as snowstorm, earthquake and flood, etc, which in turn suppressed the market demand for electronic products while there was a continuous appreciation of Renminbi. Besides, the effects of the national macro-control policy were realized during the first half of the year while the global economic growth was slowing down. All of such unfavourable factors have resulted in the reduction in export orders and decrease in amount of export sales and profit margins. Therefore, the demand and gross profit in the end markets of the Group's products reduced significantly for the first half of the year. Facing vigorous market competitions, the Group adapted to new market conditions and adopted active sales policies so as to maintain the market shares. In view of the unavoidable increase in labour costs, the Group implemented stringent control over each section of production and operations to further reduce the consumption of materials for a better control of production cost. As described in the Prospectus, in order to increase production capacity, the Group purchased a substantial amount of machinery and equipment and they were all properly installed and tested. Due to market situation, the production capacity of certain equipment has not been fully utilized. During the period under review, the Group has been strengthening its marketing forces, using more resources to improve the results of technology research and development, and promoting new products and products embedded with sophisticated technologies to actively attract consumption from customers on such products. The Group has also been expanding the application areas of its products and actively making use of the strength of the Group's production scale to achieve better results.

As described in the Prospectus, the net profit for 2007 has been distributed in terms of dividend and has been paid to each shareholder on 9 July 2008.

Business outlook

Looking forward, the Board expects a challenging environment will prevail in the market in the second half of the year. In order to maximize the return to shareholders, the Group will actively adjust the sales policy to maintain market share and make full use of the Group's existing strength on the production scale. Moreover, the Group will target at large volume of sales set by lower prices so as to absorb fixed costs and at the same time, implement stringent cost control on each section of production and operations for promoting the Group's profitability.

Financial review

Turnover

The turnover of the Group for the six months ended 30 June 2008 was approximately RMB117.6 million which represents a reduction of 11.2% or approximately RMB14.9 million as compared with that in the corresponding period of 2007. The decrease in turnover was mainly attributable to the snow storm experienced by the mainland China in 2008, which affected the sales market in the mainland China. The subsequent earthquake in the mainland China caused the volume of products purchased by clients to drop. The household electronic market was depressed by the slowing down of the global economy and this environment was unfavourable to the Group's major clients, the finished product manufacturers whose reduced sales has adversely affected the Group's sales.

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

	For the six months ended 30 June			
	2008		2007	
	RMB'000	%	RMB'000	%
Lead wire type	93,232	79.3	115,078	86.9
Lug type and screw type	19,227	16.3	17,110	12.9
V-chip type	5,128	4.4	268	0.2
Total	117,587	100.0	132,456	100.0

The sale of lead wire type capacitors showed a decrease of approximately 19.0% from approximately RMB115.1 million in the first half of 2007 to approximately RMB93.2 million in the first half of 2008. The sale of lug type and screw type capacitors showed an increase of approximately 12.4% from approximately RMB17.1 million in the first half of 2007 to approximately RMB19.2 million in the first half of 2008. At the request of client, the Group purchased V-chip type capacitors from third parties and sold to such client. Sales had increased from approximately RMB0.3 million in the first half of 2007 to approximately RMB5.1 million in the first half of 2008, representing an increase of about 1813.4%.

Cost of sales

Cost of sales for the period ended 30 June 2008 was approximately RMB91.7 million, which decreased by approximately 1.3% from approximately RMB92.9 million for the six months ended 30 June 2007. The decrease was mainly attributed to the decrease in sales.

Gross profit margin

The Group's gross profit margin for the period ended 30 June 2008 was approximately 22.0%. There was a significant drop compared with approximately 29.8% for the period ended 30 June 2007. This was because: (i) general price level increased in 2008 causing the wages for the production labour to increase accordingly; (ii) substantial amount of machinery and equipment purchased by the Group after listing has increased depreciation charges but their production capacity has not yet been fully utilized; (iii) the unit prices of raw materials from suppliers for production consumption were increased resulting from the repercussion of raw material prices; (iv) major suppliers of foils in Sichuan were unable to supply their raw materials as a result of the Sichuan massive earthquake leading purchased from other suppliers at higher unit prices; and (v) relatively low gross profit for trading V-chip type capacitors. In view of the above factors, production cost increased significantly. The increase in unit production cost of products resulted in the reduction in gross profit margin.

Other revenue and income

For the six months ended 30 June 2008, other revenue and income of the Group was approximately RMB1.7 million, which increased by about 432.9% from approximately RMB0.3 million for the six months ended 30 June 2007. The increase in other revenue and income was primarily due to the increase in bank interest income as a result of the increase in bank balances and the sales of obsolete raw materials for production.

Distribution costs

For the six months ended 30 June 2008, distribution costs of the Group were approximately RMB2.4 million, which increased by about 25.8% from approximately RMB1.9 million for the six months ended 30 June 2007. The increase in distribution costs was primarily due to (i) the increase in overall salary attributed to the increase in the number of salespersons and their salaries; and (ii) the increase in advertising expenses.

Administrative expenses

For the six months ended 30 June 2008, administrative expenses of the Group were approximately RMB9.5 million, which increased by about 109.8% from approximately RMB4.5 million for the six months ended 30 June 2007 The increase in administrative expenses was primarily due to (i) the increase in salaries and welfare from the increase in directors' emoluments and staff salaries; and (ii) the increase in various professional fees and service charges after listing.

Other operating expenses

For the six months ended 30 June 2008, other operating expenses of the Group were approximately RMB1.4 million, which increased by about 561.4% from approximately RMB0.2 million for the six months ended 30 June 2007. The increase in other operating expenses was primarily due to (i) the increase in charitable donations; (ii) the increase in exchange loss; and (iii) the loss arising from the disposal of property, plant and equipment.

Finance costs

For the six months ended 30 June 2008, finance costs of the Group were approximately RMB3.9 million, which decreased by about 6.7% from approximately RMB4.2 million for the six months ended 30 June 2007. The decrease in finance costs was primarily due to the reduction in bank loans compared with the same period in 2007.

Dividends

At the meeting of the Board held on 8 September 2008, the directors did not recommend payment of an interim dividend for the six months ended 30 June 2008.

Liquidity, financial resources and capital structure

As at 30 June 2008, the Group had cash and cash equivalents of approximately RMB29.5 million (31 December 2007: RMB48.4 million) and total borrowings of approximately RMB103.0 million (31 December 2007: RMB103.0 million), of which RMB60.0 million was long-term bank borrowings and RMB43.0 million was short-term bank borrowings. The cash and cash equivalents comprised approximately RMB17.1 million, USD0.1 million, EUR1.0 million and HK$1.6 million (31 December 2007: RMB31.0 million, USD0.6 million and HK$14.1 million) respectively. All of the Group's bank borrowings were subject to fixed interest rates and were denominated in RMB.

As at 30 June 2008, the gearing ratio (calculated by dividing total bank borrowings by total assets) of the Group was 22.2% (31 December 2007: 22.4%), which was similar to that as at 31 December 2007.

As at 30 June 2008, the Group had current assets of approximately RMB358.7 million (31 December 2007: RMB367.0 million) and current liabilities of approximately RMB143.5 million (31 December 2007: RMB134.7 million). The current ratio (which is calculated by dividing current assets by current liabilities) was 2.5 as at 30 June 2008, which showed a decrease compared with the current ratio of 2.7 as at 31 December 2007. Such decrease was due to the increase of dividends payable for the year 2007.

Foreign exchange exposure

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

Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately RMB16.7 million, which was used in the acquisition of property, plant and equipment.

Charge on assets

As at 30 June 2008, the Group's buildings with an aggregate book value of approximately RMB3.5 million were pledged to secure banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2008, the Group had no contingent liabilities.

Employee information

As at 30 June 2008, the Group had 1,063 employees, the majority of whom were stationed in the PRC. Total remuneration for the period amounted to RMB12.0 million. The Group adopts a competitive remuneration package for its employees which promotion and salary increments are assessed on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

Use of proceeds from the Company's initial public offering

The proceeds of the Company from the issuance of new shares in September 2007 after deducting listing costs were approximately RMB153.4 million. As at 30 June 2008, the net proceeds were utilised as follows:

	RMB Million
Acquisition of production facilities	35.0
Repayment of bank loans	25.0
Research and development	0.4
Construction of new production plants	10.0
General working capital	31.2
	101.6

The remaining balances were deposited in banks in the PRC and Hong Kong.

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

As at 30 June 2008, the interests and short positions of the directors and/or chief executives of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to section 352 of the Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

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

Notes:

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

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

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

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

2. Long position in the ordinary shares of associated corporation

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

Save as disclosed above, as at 30 June 2008, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 26 July 2007. Since the Share Option Scheme has became effective upon the Company's listing, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the period under review and there are no outstanding share options under the Share Option Scheme as at 30 June 2008.

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

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

As at 30 June 2008, so far as is known to the directors, the following persons (other than the directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

1. Long position in the Shares

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

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

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

Notes:

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

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

Save as disclosed above, and as at 30 June 2008, the directors of the Company were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who has interest in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

Material acquisitions and disposal of subsidiaries and associated companies

During the six months ended 30 June 2008, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

Corporate governance

Save as described below, none of the directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not, in any time for the six months ended 30 June 2008 in due compliance with the code provisions of the Code of Corporate Governance Practices ("the Code") set out in the Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

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

Model code set out in Appendix 10 to the Listing Rules

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

Having made specific enquiry of all directors, the Board has confirmed that all directors have complied with the Model Code for the six months ended 30 June 2008. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Audit committee

The Company established an audit committee on 26 July 2007 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has three members and comprises three independent non-executive directors, namely, Mr. Xu Kangning, Mr. Wong Chun Hung and Ms. Lin Sufen. Mr. Wong Chun Hung has been appointed as the chairman of the audit committee.

The audit committee has reviewed and discussed with the Company's management regarding the Group's unaudited financial statements for the six months ended 30 June 2008 and the interim report.

Remuneration committee

The Group set up its remuneration committee on 26 July 2007 with written terms of reference in compliance with the code provisions of paragraph B1 of the Code. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other employment terms to the directors and other senior management. Currently, the remuneration committee comprises Mr. Yan Qixu, an executive director and two independent non-executive directors, namely Mr. Wong Chun Hung and Ms. Lin Sufen.

By order of the Board
Yan Qixu
Chairman

Hong Kong, 8 September 2008