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 2009

Contents

Corporate Information

Board of directors

Executive directors

Mr. Yan Qixu *(Chairman)*
Ms. Xiang Xiaoqin
Ms. Kuang Lihua
Mr. Liu Xinsheng
Mr. Shan Biao (resigned on 7 September 2009)

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

Company secretary

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

Auditors

CCIF CPA 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

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 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 2009

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 2009, together with the unaudited comparative figures for the corresponding period in 2008 as follows:

		Six months ended 30 June	
	Note	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Turnover	*4*	116,256	117,587
Cost of sales		(112,647)	(91,729)
Gross profit		3,609	25,858
Other revenue and income	*6*	811	1,716
Distribution costs		(7,149)	(2,365)
Administrative expenses		(10,106)	(9,483)
Impairment loss for trade receivables		(2,828)	—
Other operating expenses		(175)	(1,389)
Operating (loss)/profit		(15,838)	14,337
Finance costs	*7*	(3,722)	(3,885)
(Loss)/profit before income tax	*8*	(19,560)	10,452
Income tax expense	*9*	(474)	(1,027)
(Loss)/profit for the period		(20,034)	9,425
Attributable to:			
Equity holders of the Company		(20,034)	9,425
(Loss)/earnings per share (RMB)			
Basic	*10*	(0.03)	0.02
Dividends	*11*	—	—

Condensed Consolidated Balance Sheet

As at 30 June 2009

	Note	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	133,870	136,857
Prepaid lease payments		2,041	1,925
Deposits for prepaid lease payments		320	320
Total non-current assets		136,231	139,102
Current assets			
Inventories		122,093	106,010
Prepaid lease payments		42	42
Trade and bills receivables	13	122,265	108,870
Other receivables	14	67,475	17,727
Income tax recoverable		—	520
Restricted bank deposits		8,080	9,950
Time deposits		22,800	43,950
Cash and cash equivalents		29,435	28,593
Total current assets		372,190	315,662
Current liabilities			
Trade and bills payables	15	124,457	73,488
Other payables		17,604	17,878
Amounts due to directors	16	1,559	2,596
Income taxes payable		339	306
Bank loans — due within one year	17	70,000	46,000
Total current liabilities		213,959	140,268
Net current assets		158,231	175,394
Total assets less current liabilities		294,462	314,496
Non-current liabilities			
Bank loans — due after one year	17	60,000	60,000
NET ASSETS		234,462	254,496
CAPITAL AND RESERVES			
Share capital	18	5,820	5,820
Reserves		228,642	248,676
TOTAL EQUITY		234,462	254,496

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	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 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
At 1 January 2009 (audited)	**5,820**	**147,567**	**6,894**	**42,783**	**16,271**	**(2,020)**	**37,181**	**254,496**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(20,034)**	**(20,034)**
At 30 June 2009 (unaudited)	**5,820**	**147,567**	**6,894**	**42,783**	**16,271**	**(2,020)**	**17,147**	**234,462**

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 2009

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Net cash outflow from operating activities	(36,675)	(12,323)
Net cash outflow from investing activities	(4,744)	(34,534)
Net cash inflow/(outflow) from financing activities	22,261	(44,817)
Net decrease in cash and cash equivalents	(19,158)	(91,674)
Cash and cash equivalents at 1 January	48,593	121,171
Cash and cash equivalents at 30 June	29,435	29,497
Analysis of balances of cash and cash equivalents		
Cash and bank balances	29,435	29,497

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. Its principal place of business is located at Zouqu Village, Zouqu Town, Changzhou City, Jiangsu, in the People's Republic of China ("PRC"). The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of aluminium electrolytic capacitors.

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

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

This condensed interim financial information has not been audited and was approved and authorized by the Board for issue on 18 September 2009.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2009 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 2008 ("2008 Annual Report").

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 2008. The details are set out in the financial statements included in the annual report of the year.

The following new standards and amendments to standards are relevant to the Group and are mandatory for the financial year beginning on 1 January 2009:

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments but has had no impact on the interim results or financial position of the Group.

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the interim results or financial position of the Group.

HKFRS 7 (Amendment) Financial instruments: disclosures

Amendment to HKFRS 7 increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk which will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make relevant disclosures in its financial statements ending 31 December 2009, if any.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for the financial year beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 39 (Amendment)	Eligible hedged items[2]
HKFRS 3 (Revised)	Business Combinations[2]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[2]

1 Effective for annual periods beginning on or after 1 January 2010 except for the amendments to HKFRS 2, HK(IFRIC) 9 and 16, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 July 2009

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

4. Turnover

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	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Turnover		
Sale of goods	116,256	117,587

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

5. Segment reporting

(a) Business segments

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

(b) Geographical segments

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

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
The PRC, other than Hong Kong	64,051	100,899
Taiwan	37,214	5,402
Other countries	14,991	11,286
	116,256	117,587

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

6. Other revenue and income

	Six months ended 30 June 2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Bank interest income	408	1,330
Sundry income	403	386
	811	1,716

7. Finance costs

	Six months ended 30 June 2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Interest expenses on bank loans wholly repayable within five years	3,722	3,885

8. (Loss)/profit before income tax

(Loss)/profit before income tax is stated after charging the following:

	Six months ended 30 June 2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Amortisation of prepaid lease payments	29	20
Cost of inventories	112,647	91,729
Depreciation	6,876	4,985
Exchange loss, net	10	819
Loss on disposal of property, plant and equipment	—	79
Operating lease rental expenses	347	447
Impairment loss for inventories (included in cost of inventories disclosed above)	3,789	—

9. Income tax expense

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
PRC Foreign Enterprise Income Tax — Current period	474	1,027

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

(ii) No Hong Kong Profits Tax has been provided as the Group has no estimated assessable profit in Hong Kong for the period ended 30 June 2009 and 2008.

(iii) Pursuant to the Corporate Income Tax Law of the PRC (the "CIT Law"), the tax rate applicable to enterprises established in the PRC is 25% with certain grandfather provisions and preferential provisions.

The subsidiary Changzhou Huawei Electronics Co., Ltd. is qualified as New/High Technology Enterprise in the Jiangsu Province and is subject to 15% Corporate Income Tax during the period.

The subsidiaries Huawei Capacitor Co., Ltd. (previously known as Changzhou Huaqiang Electronics Co., Ltd.) ("Huawei Capacitor") and South Huawei (Shenzhen) Electronics Co., Ltd. ("South Huawei") were entitled to the exemptions from Foreign Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The first profit-making year for both Huawei Capacitor and South Huawei was 2006. Pursuant to the CIT Law, Huawei Capacitor and South Huawei continue to be entitled to a 50% tax relief from Foreign Enterprise Income Tax of 25% and 18% respectively during the period.

(b) No provision has been made for deferred tax as at 30 June 2009 and 2008 as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

10. (Loss)/earnings per share

Basic (loss)/earnings per share for the period is calculated based on the consolidated loss attributable to equity holders of the Company of approximately RMB20,034,000 (2008: profit of RMB9,425,000) and on 600,000,000 (2008: 600,000,000) shares in issue.

	Six months ended 30 June	
	2009 (unaudited)	2008 (unaudited)
(Loss)/profit attributable to equity holders of the Company (RMB)	(20,034,000)	9,425,000
Shares in issue	600,000,000	600,000,000
Basic (loss)/earnings per share (RMB)	(0.03)	0.02

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

11. Dividends

The Directors did not recommend payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

12. Property, plant and equipment

During the six months ended 30 June 2009, the Group acquired property, plant and equipment with a cost of RMB4,994,000 (six months ended 30 June 2008: RMB16,666,000) and also disposed of property, plant and equipment with a cost of RMB Nil (six month ended 30 June 2008: RMB280,000) and resulted in the loss on disposal of property, plant and equipment of RMB Nil (six months ended 30 June 2008: RMB79,000).

13. Trade and bills receivables

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

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Trade receivables	122,265	108,344
Bills receivable	—	526
	122,265	108,870

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

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
0–30 days	20,766	17,699
31–90 days	31,406	24,824
91–180 days	20,497	28,403
181–365 days	24,703	30,599
Over 365 days	40,386	20,010
	137,758	121,535
Provision for impairment	(15,493)	(12,665)
	122,265	108,870

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

14. Other receivables

Included in other receivables were earnest monies for a property development co-operating project in the PRC of approximately RMB46.6 million which was subsequently cancelled. No binding agreement has been signed in respect of the above project and the project did not proceed. The earnest monies were fully recovered on or before 1 September 2009.

15. 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 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Trade payables	82,377	34,338
Bills payable	42,080	39,150
	124,457	73,488
Aging analysis of trade payables at the respective balance sheet dates are as follows:		
0–30 days	17,472	42,128
31–90 days	65,357	15,275
91–365 days	38,217	15,499
Over 365 days	3,411	586
	124,457	73,488

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

16. Amounts due to directors

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

17. Bank loans

	Note	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Current			
— Unsecured	*(a)*	70,000	46,000
		70,000	46,000
Non-current			
— Secured	*(b)*	—	35,000
— Unsecured	*(a)*	60,000	25,000
		60,000	60,000
		130,000	106,000

(a) The banks loans of RMB130,000,000 as at 30 June 2009 were guaranteed by a related company (note 22(a)), a subsidiary and an independent third party. The bank loans of RMB71,000,000 as at 31 December 2008 were guaranteed by a related company, two subsidiaries and an independent third party.

(b) The bank loans of RMB35,000,000 as at 31 December 2008 were secured on the Group's properties and a related company's properties and its guarantee.

18. Share capital

	Number of shares of HK$0.01 each	Nominal value of shares HK$'000
Authorised		
At 31 December 2008 and 30 June 2009	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 2008 and 30 June 2009	600,000,000	6,000	5,820

19. 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 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Within one year	1,153	744
In the second to fifth years inclusive	864	9
	2,017	753

20. 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 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Leasehold properties	—	3,359
Restricted bank deposits	8,080	9,950
	8,080	13,309

21. Capital commitments

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Contracted but not provided for	2,078	2,613
Authorised but not contracted for	18,321	26,271
	20,399	28,884

22. Material related party transactions

The directors are of the view that the following company is related party to the Group:

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

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

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

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

The Group's unsecured bank loans totalling RMB45,000,000 as at 30 June 2009 were guaranteed by Reflective Material (31 December 2008: RMB55,000,000 secured and unsecured bank loans were secured by the properties of Reflective Material and its guarantee).

(b) Key management personnel remuneration

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

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Short-term employees benefits	2,216	2,249
Defined retirement scheme contribution	5	9

23. Post balance sheet date events

There were no significant post balance sheet date events.

24. 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.

Management Discussion and Analysis

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 2009, the Group's unaudited turnover and gross profit decreased by approximately 1.1% to RMB116.3 million and 86.0% to RMB3.6 million respectively, as compared to the corresponding period of last year.

During the first half of 2009, the economy of mainland China continued to be affected by the global financial crisis, in which most manufacturers were negatively affected. Market demand for electronic products was low. The effects of the national economic stimulus policy in China were not significantly influential to the industry.

The machineries and equipment purchased by the Group during the first half of the year were all properly installed and tested, and they resulted in a great production capacity. Facing the unfavourable market conditions, the Group invested additional resources in sales and marketing. Different types of the Group's premier products were promoted to the customers for free. The Group's proactive attitude successfully maintained its market share in China, and also effectively explored new markets overseas, which resulted in significant increase in the exports volume.

However, as competitions were vigorous, and the production capability had not been fully utilized, the costs in raw materials, depreciation and staff unavoidably increased. As such, the gross profit margin decreased significantly.

The Group expressed its concern to the market outlook for the second half of the year. Taking into account the Group's stability for the future development, the Group had made provisions to the impairment loss of inventories and trade receivables.

On 1 April 2009, Hai Te Wei Company Limited ("Purchaser"), a wholly-owned subsidiary of the Company, and Mr. Guan Zhilong ("Vendor") entered into a sale and purchase agreement ("Sale and Purchase Agreement") pursuant to which the Purchaser had conditionally agreed to acquire, and the Vendor had conditionally agreed to sell, the entire issued share capital of Han Zhang Company Limited at the consideration amounted to RMB90 million. On 1 June 2009, the Purchaser and the Vendor entered into a termination deed and mutually agreed to terminate the Sale and Purchase Agreement with effect from the date of the termination deed.

For details, please refer to the announcements of the Company dated 6 April 2009, 24 April 2009 and 1 June 2009.

Business outlook

Looking forward, the Group will continue to make full use of the Group's existing strength on the production scale. The Group will actively maintain the newly explored overseas markets, and stabilize the developed market shares in China. Aggressive sales strategies such as lower profit margin for a higher turnover will be adopted with an aim to consume the fixed costs. Expansion of sales volume will be the Group's further target.

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

The Group believes that the global economy has already bottomed out. It is only a matter of time for the China economy to recover. The trend of economy in China is undeniably favourable. In the meanwhile, as soon as the Group can maintain and further expand its market share, it will eventually enjoy a bright and promising return in the foreseeable future.

Financial review

Turnover

The turnover of the Group for the six months ended 30 June 2009 was approximately RMB116.3 million which represents a reduction of 1.1% or approximately RMB1.3 million as compared to the corresponding period of 2008. The decrease in turnover was mainly attributable to the slowing down of the global economy and consequently the household electronic market was depressed. This environment 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			
	2009		2008	
	RMB'000	%	RMB'000	%
Lead wire type	74,042	63.7	93,232	79.3
Lug type and screw type	32,921	28.3	19,227	16.3
V-chip type	9,293	8.0	5,128	4.4
Total	116,256	100.0	117,587	100.0

The sale of lead wire type capacitors showed a decrease of approximately 20.6% from approximately RMB93.2 million in the first half of 2008 to approximately RMB74.0 million in the first half of 2009. The sale of lug type and screw type capacitors showed an increase of approximately 71.2% from approximately RMB19.2 million in the first half of 2008 to approximately RMB32.9 million in the first half of 2009. At the request of clients, the Group purchased V-chip type capacitors from third parties and sold to such clients. Sales increased from approximately RMB5.1 million in the first half of 2008 to approximately RMB9.3 million in the first half of 2009, representing an increase of about 81.2%.

Cost of sales

Cost of sales for the period ended 30 June 2009 was approximately RMB112.6 million, which increased by approximately 22.8% from approximately RMB91.7 million for the six months ended 30 June 2008. The increase was mainly attributed to (i) increase in raw materials cost due to the higher requirements from customers for the quality of raw materials; (ii) the increase in the number of production labour and wages; (iii) the increase in provisions for depreciation due to the increase in machinery and equipment purchased by the Group; (iv) the increase in electricity and water expenses as a result of the operation of the new production plant in Changzhou; (v) major suppliers of foils in Sichuan were unable to supply raw materials as a result of the Sichuan massive earthquake in May 2008 leading to the purchase from other suppliers at higher unit prices; (vi) the increase in impairment loss for inventories; and (vii) increase in the volume of purchase for trading V-chip type capacitors. In view of the above factors, cost of sales increased significantly.

Gross profit margin

The Group's gross profit margin for the period ended 30 June 2009 was approximately 3.1%. That was a significant drop compared with approximately 22.0% for the period ended 30 June 2008. This was because: (i) increase in raw materials cost due to the higher requirements from customers for the quality of raw materials; (ii) the increase in the number of production labour and wages; (iii) the increase in machinery and equipment purchased by the Group has increased provisions for depreciation but their production capacity has not yet been fully utilized; (iv) the increase in electricity and water expenses as a result of the operation of the new production plant in Changzhou; (v) major suppliers of foils in Sichuan were unable to supply their raw materials as a result of the Sichuan massive earthquake in May 2008 leading to the purchase from other suppliers at higher unit prices; (vi) the increase in impairment loss for inventories; and (vii) 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 2009, other revenue and income of the Group was approximately RMB0.8 million, which decreased by about 52.7% from approximately RMB1.7 million for the six months ended 30 June 2008. The decrease in other revenue and income was primarily due to the decrease in bank interest income as a result of the decrease in bank balances.

Distribution costs

For the six months ended 30 June 2009, distribution costs of the Group were approximately RMB7.1 million, which increased by about 202.3% from approximately RMB2.4 million for the six months ended 30 June 2008. The increase in distribution costs was primarily due to the increase in marketing and promotion expenses. Free samples for different types of products were promoted to customers in order to expand the sales network.

Administrative expenses

For the six months ended 30 June 2009, administrative expenses of the Group were approximately RMB10.1 million, which increased by about 6.6% from approximately RMB9.5 million for the six months ended 30 June 2008. The increase in administrative expenses was primarily due to the increase in staff salaries and welfare.

Impairment loss for trade receivables

For the six months ended 30 June 2009, impairment loss for trade receivables of the Group was approximately RMB2.8 million, which was resulted from the significant changes in the market and economic environment under the current global economic condition, whereas no impairment loss was made for the six months ended 30 June 2008.

Other operating expenses

For the six months ended 30 June 2009, other operating expenses of the Group were approximately RMB0.2 million, which decreased by about 87.4% from approximately RMB1.4 million for the six months ended 30 June 2008. The decrease in other operating expenses was primarily due to (i) the decrease in charitable donations; and (ii) the decrease in exchange loss.

Finance costs

For the six months ended 30 June 2009, finance costs of the Group were approximately RMB3.7 million, which decreased by about 4.2% from approximately RMB3.9 million for the six months ended 30 June 2008. The decrease in finance costs was primarily due to the reduction in bank interest rate compared with the same period in 2008.

As a result of the foregoing factors, the Group's loss for the period was approximately RMB20.0 million as compared with a profit of approximately RMB9.4 million for the six months ended 30 June 2008.

Dividends

At the meeting of the Board held on 18 September 2009, the directors did not recommend payment of an interim dividend for the six months ended 30 June 2009.

Liquidity, financial resources and capital structure

As at 30 June 2009, the Group had cash and cash equivalents of approximately RMB29.4 million (31 December 2008: RMB48.5 million) and total borrowings of approximately RMB130.0 million (31 December 2008: RMB106.0 million), of which RMB60.0 million was long-term bank borrowings and RMB70.0 million was short-term bank borrowings. The cash and cash equivalents comprised approximately RMB28.7 million and HK$0.8 million (31 December 2008: RMB47.1 million, USD0.01 million and HK$1.6 million) respectively. All of the Group's bank borrowings were subject to fixed interest rates and were denominated in RMB.

As at 30 June 2009, the gearing ratio (calculated by dividing total bank borrowings less cash and cash equivalent by total equity) of the Group was 42.9% (31 December 2008: 22.6%). In the 2008 interim report of the Group, the gearing ratio was calculated by dividing total bank borrowings by total assets but the basis was changed during the period. The increase in gearing ratio as at 30 June 2009 as compared to that as at 31 December 2008 was principally attributable to the increase in bank borrowings.

As at 30 June 2009, the Group had current assets of approximately RMB372.2 million (31 December 2008: RMB315.7 million) and current liabilities of approximately RMB214.0 million (31 December 2008: RMB140.3 million). The current ratio (which is calculated by dividing current assets by current liabilities) was 1.7 as at 30 June 2009, which showed a decrease compared with the current ratio of 2.3 as at 31 December 2008. Such decrease was due to the increase in bank borrowings to finance the Group's liquidity requirements.

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 RMB5 million, which was used in the acquisition of property, plant and equipment.

Charge on assets

As at 30 June 2009, the Group's restricted bank deposits of approximately RMB8.1 million were pledged to secure banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2009, the Group had no contingent liabilities.

Employee information

As at 30 June 2009, the Group had 1,296 employees, the majority of whom were stationed in the PRC. Total remuneration for the period amounted to RMB15.3 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.

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

As at 30 June 2009, 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 2009, 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 2009.

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 2009, 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 2009, 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 2009.

Material acquisitions and disposal of subsidiaries and associated companies

During the six months ended 30 June 2009, 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 2009 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 2009. 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 2009 and this 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, 18 September 2009