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

Annual Report 2010

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Corporate Information

Executive directors

Mr. Li Wing Sang (李永生先生)
(Chairman of the board)
Mr. Yan Qixu (顏奇旭先生)
Mr. Liu Xinsheng (劉新生先生)

Independent non-executive directors

Mr. Xu Kangning (徐康寧先生)
Ms. Lin Sufen (林素芬女士)
Mr. Tam Tak Wah (譚德華先生)

Company secretary

Mr. Ng Chi Ho Dennis (吳志豪先生)

Authorised representatives

Mr. Liu Xinsheng (劉新生先生)
Mr. Ng Chi Ho Dennis (吳志豪先生)

Members of the audit committee

Mr. Tam Tak Wah (譚德華先生)
(Chairman of the committee)
Mr. Xu Kangning (徐康寧先生)
Ms. Lin Sufen (林素芬女士)

Members of the remuneration committee

Mr. Yan Qixu (顏奇旭先生)
(Chairman of the committee)
Mr. Tam Tak Wah (譚德華先生)
Ms. Lin Sufen (林素芬女士)

Members of the nomination committee

Mr. Li Wing Sang (李永生先生)
(Chairman of the committee)
Mr. Xu Kangning (徐康寧先生)
Ms. Lin Sufen (林素芬女士)

Principal place of business in the PRC

Zouqu Village
Zouqu Town
Changzhou City
Jiangsu
PRC

Principal place of business in Hong Kong

Suites 2001–2005, 20th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Auditor

CCIF CPA Limited
Certified Public Accountants
34th Floor, The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

Hong Kong branch share registrar and transfer office

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

Company's website

www.techprotd.com

Principal banker

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

Corporate Profile

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

In order to meet the needs of the customers, the Group manufactures a variety of capacitors with different specifications under the famous brand Chang. As at 31 December 2010, the Group manufactured 64 models of aluminum electrolytic capacitor products in total, comprising 34 models of lead wire type capacitors, 16 models of lug type capacitors, 5 models of screw type capacitors and 9 models of V-chip type capacitors.

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

Chairman's Statement

On behalf of Tech Pro Technology Development Limited, I am pleased to present our annual report for the year ended 31 December 2010.

We have experienced a year full of challenges. Despite the increase in number of orders and sales volume of products, cost of raw materials and labour kept rising, the Group recorded a loss for the year ended 31 December 2010.

While turnover of the Group had increased by approximately 34.5% from RMB314.6 million recorded in 2009 to RMB423.0 million, results of the Group had deteriorated from a profit of RMB6.2 million for the year 2009 to a loss of RMB45.8 million for the year 2010.

On 23 August 2010, the Group completed the acquisition of a 100% equity interest in Splendid Victory Development Limited at a consideration of RMB55 million. We believe that the acquisition will enable the Group fully control over the development, production schedule and production priority in relation to V-chip type aluminium electrolytic capacitors and in turn offer better solutions to the customers and enhance the competitiveness of the Group.

In view of the upward pressure on the prices of raw materials, Changzhou Huawei Capacitors Co., Ltd., a wholly-owned subsidiary of the Company, entered into a joint venture agreement with a joint venture partner on 14 September 2010, to invest RMB 30 million (representing 60% of the total registered capital of the joint venture) for establishing a joint venture, Sichuan Shimian Huarui Electronics Co., Ltd. ("Shimian Huarui"), in Sichuan. Shimian Huarui is expected to commence production in the middle of 2011, and will principally engage in the sales and production of electronic materials and electrical components, and the research, production and application of relevant facilities. The primary purpose of establishing Shimian Huarui is to provide a steady and continuous supply of aluminum foils, the major raw materials of electrolytic capacitors, to the Group, so that the production cost of aluminum foils could be further reduced, while our profit can be increased.

Dividends

The directors of the Company did not recommend the payment of final dividend for the year ended 31 December 2010.

Outlook

Looking forward, the Group will maintain steady growth for our capacitor business through a series of strategy including strengthening its marketing effort, enhancing utilization rate of production facilities, reducing costs and new products research and development (including the research and development of super aluminum electrolytic capacitors for automobile and other related industries), with an aim to enrich our product mix and tap into new customer regime.

On the other hand, the Group also wishes to broaden its revenue sources through diversifying its business. As the resources of the Earth has become more and more limited and the public awareness of environmental protection deepens, environmental-friendly energy saving technology and the renewable energy business are expected to have prosperous development in future. The Group, thereby, entered into an agreement with Action Victory Limited on 24 January 2011 to acquire 50% of the entire equity interest of Giga-World Industry Company Limited, which is a leading high-tech enterprise in the PRC specialized in the research and development and manufacturing of vertical axis-wind and solar hybrid power-supply system and LED lighting products. The acquisition was satisfied by cash of HK$200,000,000, issuing of 50,000,000 new ordinary shares of the Company and a promissory note of HK$20,000,000 issued by the Company.

Alongside with the national energy development policy of the PRC, the National Energy Committee has been set up in January 2010, and fresh impetus has been set by the PRC government to renewable energy industries such as wind power and solar energy. In this respect, future development of the new business of the Group will continue to be benefited from the PRC government policies and the fast-growing renewable energy sector in the PRC. We are confident about the future prospects. We believe that new opportunities will emerge by diversifying our businesses, thus bringing satisfactory returns to our shareholders.

The Group will keep on seeking for potential business opportunities with a view to improve the competitiveness of the Group. While keeping abreast with the core business, the Group will continue to look for new investments, irrespective of whether they are in line with the principal business, in order to diversify the business and to increase the value of the Company.

Acknowledge

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

Li Wing Sang
Chairman

31 March 2011

Financial review

Turnover of the Group in 2010 was approximately RMB423.0 million which represents an increase of 34.5% or approximately RMB108.4 million as compared with that in 2009. Attributed to the realization of the Group's marketing campaigns and increase in demand from both the domestic and overseas markets, the Group was able to obtain an expansion of orders from existing major customers and secure some new customers throughout the year 2010.

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

	2010		2009	
	RMB'000	%	RMB'000	%
Lead wire type	241,005	57.0	212,499	67.5
Lug type and screw type	123,508	29.2	78,031	24.8
V-chip type	58,483	13.8	24,066	7.7
	422,996	100	314,596	100

Sales of lead wire type capacitors increased by 13.4% from approximately RMB212.5 million in 2009 to approximately RMB241.0 million in 2010 whereby, sales of lug type and screw type capacitors increased by 58.3% from approximately RMB78.0 million in 2009 to approximately RMB123.5 million in 2010. The increase in sales for these two products was mainly attributed to the substantial increase in orders from manufacturers for certain renowned Korean electronic brandnames and the overseas market in Turkey. Sales of V-chip type capacitors in 2010 increased by 143.0% over last year due to the contribution from a major subsidiary which was acquired during the year ended 31 December 2010.

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

	2010	2009
	%	%
The PRC (excluding Hong Kong)	61.4	60.5
Taiwan	22.2	27.3
Turkey	5.9	4.2
Korea	1.7	0.6
Others	8.8	7.4
	100	100

The Group had kept a good and stable relationship with its customers both in the PRC and foreign countries. The Group maintained its strategy to develop new clients with renowned brandnames in order to improve its client base. The Group had strengthened its marketing effort in overseas markets, in particular Turkey and Korea, which led to a substantial increase in sales to these two countries. Sales from overseas markets on total sales of the Group had experienced a slight drop of approximately 0.9% due to the rapid expansion of the local domestic market and a shrinkage of the Taiwan market by 18.7%.

Gross profit margin

The Group's gross profit margin for the year 2010 was approximately 7.9%. There was a significant drop compared with that of approximately 13.4% for the year 2009. This is because: (a) sales of the OEM products were denominated in USD but the costs of sales of the OEM products were denominated in RMB, so the gross profit margin was adversely affected by the continuing revaluation of RMB against USD in 2010; (b) sales percentage of lug type and screw type capacitors on total sales increased from 24.8% in 2009 to 29.2% in 2010. These capacitors were of larger size and their gross profit margin was generally lower than the other product types. As their sales had grown as compared to the sales in the last year, their lower gross profit margin would have an adverse impact on the Group's gross profit margin; and (c) increase in production expenses e.g. depreciation of plant and machinery due to additions of machineries and equipment, upward adjustment for wages and salaries, and increase in utility charges had led to a surge in cost of production. These increases in expenses, however, could not be passed on to the customers as there was no sufficient room for price increase of the Group's products. The Group had to absorb these increases in expenses, which had squeezed the Group's gross profit margin.

Other revenue and income

In the year 2010, other revenue and income of the Group was approximately RMB2.7 million, which represents a significant increase of approximately 58.8% from approximately RMB1.7 million recorded in the year 2009. This is primarily due to the increase in interest income.

Distribution costs

In the year 2010, distribution costs of the Group were approximately RMB9.6 million, which represents an increase of approximately 31.5% from approximately RMB7.3 million recorded in the year 2009. Such increase is largely in line with the increase in the turnover of the Group.

Administrative expenses

In the year 2010, administrative expenses of the Group were approximately RMB29.7 million, which represents a sharp increase of approximately 44.9% from approximately RMB20.5 million recorded in the year 2009, primarily due to (i) the increase in salaries and welfare from increase in headcount and pay rise; (ii) the increase in various professional fees and service charges; and (iii) absorption of administrative expenses from the subsidiaries acquired during the year.

Allowance for impairment loss on trade receivables, net

Allowances for doubtful debts of approximately RMB7.1 million (2009: approximately RMB0.6 million), net of the reversal of allowance for impairment of RMB1.5 million (2009: RMB2.1 million), were recognised during the year ended 31 December 2010, taking into account of creditworthiness, past payment history and subsequent settlements of each customer up to date of approval of the financial statements.

Write down of inventories

During the year ended 31 December 2010, there were return of goods of approximately RMB21 million (2009: Nil) from customers due to poor quality. As a result, a write down of inventories for the said amount has been charged to profit or loss in the current year.

Other operating expenses

In the year 2010, other operating expenses of the Group were approximately RMB2.7 million, which represents a sharp increase of approximately 125.0% from approximately RMB1.2 million recorded in the year 2009. The increase in other operating expenses was primarily due to the increase in exchange loss.

Finance costs

In the year 2010, finance costs of the Group were approximately RMB9.6 million, which represents an increase of approximately 43.3% from approximately RMB6.7 million recorded in the year 2009 This is primarily due to the additional bank loans granted during the year.

Dividend

The Board did not recommend the payment of a final dividend for the year ended 31 December 2010.

Liquidity and Financial Resources

As at 31 December 2010, the Group had current assets of approximately RMB496.4 million (2009: approximately RMB454.5 million) and current liabilities of approximately RMB457.3 million (2009: approximately RMB321.5 million). The current ratio of the Group as at 31 December 2009 was approximately 1.1 (2009: 1.4). The decrease in current ratio was primarily due to the increase in trade and bills payable and bank loans.

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB34.8 million (2009: approximately RMB24.3 million), representing cash at banks and in hand of approximately RMB15.3 million (2009: RMB20.8 million) and time deposits with original maturity of less than three months of approximately RMB19.5 million (2009: RMB3.5 million). Total bank loans were approximately RMB211.8 million (2009: approximately RMB110 million), all of which were short term borrowings. All of the Group's bank loans were subject to either fixed or variable interest rates and were denominated in either RMB or HKD.

As at 31 December 2010, the gearing ratio (calculated by dividing total bank borrowings less cash and cash equivalent over total equity) of the Group was 72.7% (2009: 30.5%). The increase in gearing ratio as at 31 December 2010 as compared to that as at 31 December 2009 was principally attributable to the increase in bank loans at 31 December 2010 over that of 31 December 2009.

Exchange Risk Exposure and Contingent Liabilities

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

As at 31 December 2010, the Group had no contingent liabilities.

Capital Commitment

As at 31 December 2010, the capital commitments contracted but not provided for in respect of the purchase of property, plant and equipment and injection of capital in a subsidiary were approximately RMB29.5 million (2009: approximately RMB1.5 million) and RMB18 million (2009: RMB1.3 million) respectively. The capital commitments authorised but not provided for in respect of property, plant and equipment amounted to approximately RMB44.4 million (2009: Nil).

Employee information

As at 31 December 2010, the Group had over 1,600 employees, the majority of whom stationed in the PRC. Total employee remuneration for the year amounted to RMB43.4 million (2009: RMB31.7 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

Charge on assets

As at 31 December 2010, restricted bank deposits of approximately RMB65 million (2009: approximately RMB53.1 million), property, plant and equipment with a carrying amount of RMB53.1 million (2009: Nil) and lease prepayments with a carrying amount of RMB15.4 million (2009: Nil) were pledged to secure banking facilities granted to the Group.

Material acquisitions and disposal of subsidiaries and associated companies

On 7 May 2010, Hai Te Wai Company Limited, a wholly-owned subsidiary of the Company, and Han Zhang Company Limited entered into a sale and purchase agreement in relation to the proposed acquisition of the entire issued share capital of Splendid Victory Development Limited at a consideration of RMB55 million (the "Transaction"). The Transaction was completed on 23 August 2010. For further details, please refer to the announcements of the Company dated 7 May 2010 and 23 August 2010 respectively.

On 14 September 2010, Changzhou Huawei Capacitors Co., Ltd, ("Huawei Capacitors") a wholly-owned subsidiary of the Company, and Jiangsu Guorui Technology Joint Stock Company Limited ("Jiangsu Guorui") entered into a joint venture agreement, pursuant to which Huawei Capacitors and Jiangsu Guorui agreed to establish Sichuan Shimian Huarui Electronics Co., Ltd. with a registered capital of RMB50 million, in which Huawei Capacitors and Jiangsu Guorui would contribute RMB30 million and RMB20 million respectively. For further details, please refer to the announcement of the Company dated 14 September 2010.

Save as disclosed above, during the year ended 31 December 2010, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

Directors

Executive directors

Mr. Li Wing Sang (李永生), aged 53, an executive director of the Company, was appointed as the Chairman of the Board on 1 March 2011. He has extensive marketing and management experience in the fields of household appliance which are in senior management positions. He holds a bachelor degree from Kobe University of Commerce, Japan. He is currently an executive director of China Electric Power Technology Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. He was an executive director of Siberian Mining Group Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and resigned on 31 July 2010. Save as disclosed above, Mr. Li did not hold any directorships in any listed public company in the last three years.

Mr. Yan Qixu (顏奇旭) (alias 顏琦旭), aged 49, is an executive director of the Company. He is currently also a director of the subsidiaries of the Company set out in note 18 to the consolidated financial statements on page 82. He is responsible for the Group's overall strategic planning and overall general administration. He completed a training course for senior professional managers and an advanced course for outstanding leaders at Tsing Hua University in 2005. He obtained the senior economist qualification in November 2006 granted by Jiangsu Department of Personnel (江蘇省人事廳) recognising his knowledge and practical experience in economic management. Mr. Yan was awarded the honour of Outstanding Entrepreneur of Changzhou (常州市優秀企業家) by the People's Government of Changzhou (常州市人民政府) in February 2007. Mr. Yan joined the Group in 1993 as the general manager of Changzhou Huawei Electronics Co., Ltd. (常州華威電子有限公司) ("Huawei Electronics"), a wholly owned subsidiary of the Group. Mr. Yan has over 20 years' experience in the capacitor industry. He worked in Changzhou Electrolytic Capacitor Plant (常州市電解電容器廠) as a technician from 1980 to 1986, served as the person-in-charge of Wujin Zouqu Wireless Electronics Component Factory (武進縣鄒區無線電元件廠), responsible for overseeing the overall business operations and the overall strategic planning from 1987 to 2003, and as the chairman of Jiangsu Huawei Century Electronics Group Co., Ltd. (江蘇華威世紀電子集團有限公司) since 2003 up to now. Mr. Yan was also appointed as director of Changzhou Huawei Reflective Material Company Limited in 2003. Saved as disclosed above, Mr. Yan did not hold any directorship in any listed public company in the last three years. Mr. Yan is a director of Tong Heng Company Limited which is a shareholder of the Company and is the spouse of Ms. Xiang Xiaoqin.

Mr. Liu Xinsheng (劉新生), aged 42, is an executive director of the Company. He is responsible for the Board's general affairs. Mr. Liu graduated from Nanjing Audit College (南京審計學院) specializing in accounting in 1991. He is a registered international internal auditor, a registered tax agent of the PRC and an accounting professional. Mr. Liu has over 10 years' experience in the field of accounting and auditing. Prior to joining the Group in February 2006 as the board secretary of Huawei Electronics, he worked in the auditing department of Panda Electronics Group Company (熊貓電子集團公司) from July 1991 to December 1998, was the manager of the auditing department of Jiangsu Technology Import and Export Company (江蘇技術進出口公司) from January 1999 to February 2003, the general manager of auditing and legal department and cost control department of Nanjing Chixia Development Company Limited (南京棲霞建設股份有限公司) from February 2003 to February 2006. Mr. Liu is currently the director of Huawei Electronics and Changzhou Huawei Capacitors Co., Ltd. (常州華威電容器有限公司) ("Huawei Capacitors"). Saved as disclosed above, Mr. Liu did not hold any directorship in any listed public company in the last three years.

Independent non-executive directors

Mr. Xu Kangning (徐康寧), aged 54, is an independent non-executive director of the Company. He obtained his doctorate degree in economics at Fudan University. He has been the professor of the School of Economics and Management, Southeast University (東南大學經濟管理學院) since April 1996 and is now the dean of the same. He has obtained the first class award in the Award of Outstanding Result in Philosophy and Social Science of Jiangsu Province (江蘇省哲學社會科學優秀成果獎一等獎) and the third class award in the Award of Outstanding Result in Human Society Scientific Research of PRC High School (中國高校人文社會學研究優秀成果獎). He has enjoyed a special subsidy from the China State Council in recognition of his contribution to the development of education. Mr. Xu is an independent director of Nanjing Textiles Import & Export Corp., Ltd. (南京紡織品進出口股份有限公司) and Nanjing Chemical Fibre Co., Ltd. (南京化纖股份有限公司), both of which being companies listed on the Shanghai Stock Exchange, and Jinling Pharmaceutical Co., Ltd. (金陵藥業股份有限公司), a company listed on the Shenzhen Stock Exchange. He was also an independent director of Jiangsu Skyrun Corporation (江蘇開元股份有限公司), a company listed on the Shanghai Stock Exchange. Saved as disclosed above, Mr. Xu did not hold any directorship in any listed public company in the last three years.

Ms. Lin Sufen (林素芬), aged 70, is an independent non-executive director of the Company. She graduated from Tianjin University, majoring in wireless materials and electronic components. She has over 42 years' experience in the electronic industry and held various senior positions in the electronic related field in the PRC. During the period between August 1965 and February 1981, Ms. Lin worked as a technician and engineer in the technical division (工藝室) of China Electronics Engineering Design Institute (中國電子工程設計院). She worked in the components division (元件處) of the Department of Electronics (電子部), the Division of Basic Electronic Components (元器件局), the Section of Electronic Components & Equipments (基礎產品司) and the Department of Electrical & Mechanical Services (機電部) of the Chinese Academy of Electronics and Information Technology (中國電子科技集團公司電子科學研究院) as an engineer, senior engineer, deputy division chief (副處長) and division chief (處長) of the said departments/divisions/sections at different times during the period between 1981 and 1995. She is currently the deputy secretary of China Electronic Components Association. Saved as disclosed above, Ms. Lin did not hold any directorship in any listed public company in the last three years.

Mr. Tam Tak Wah (譚德華), aged 45, was appointed as an independent non-executive director of the Company on 7 January 2011. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Tam has over 20 years of experience in accounting, corporate finance and corporate development. He is currently an executive director of New Smart Energy Group Limited and an independent non-executive director of Siberian Mining Group Company Limited, all are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Tam was an independent non-executive director of National Arts Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, during the period from 2004 to 2009. Saved as disclosed above, Mr. Tam did not hold any directorship in any listed public company in the last three years.

Senior management

Ms. Xiang Xiaoqin (相小琴), aged 46, is currently a director of Huawei Electronics, Huawei Capacitors, South Huawei Electronics (Shenzhen) Co., Ltd. ("South Huawei"), all of which are subsidiaries of the Company. She is responsible for the Group's overall financial management. She completed a training course for senior professional managers at Tsing Hua University in 2005. She obtained the senior economist qualification in November 2006 granted by Jiangsu Department of Personnel (江蘇省人事廳) recognising her knowledge and practical experience in economic management. Ms. Xiang joined the Group in 1999 as the deputy general manager of Huawei Capacitors responsible for assisting the general manager and overseeing the purchase and financial matters. Ms. Xiang has over 10 years' experience in the capacitor industry. She worked in Jiangsu Huawei Century Electronics Group Co., Ltd. (江蘇華威世紀電子集團有限公司) during the period between 1987 and 2004. Ms. Xiang was also appointed as director of Changzhou Huawei Reflective Material Company Limited (常州華威反光材料有限公司) in 2003 responsible for assisting the general manager and overseeing the purchase and financial matters. She was an executive director of the Company from July 2007 to March 2011. Saved as disclosed above, Ms. Xiang did not hold any directorship in any listed public company in the last three years. She has a beneficial interest in the Company's Shareholder, Tong Heng Company Limited and is the spouse of Mr. Yan Qixu.

Ms. Kuang Lihua (匡麗華), aged 48, is responsible for the Group's overall financial management. Ms. Kuang graduated from Nanjing University (南京大學) specializing in public relationship in 1995. She is a registered tax agent of the PRC. Ms. Kuang has over 10 years' experience in the field of accounting and auditing. Prior to joining Huawei Electronics in May 2004, she worked in Changzhou Zhongrui Accounting Firm (常州中瑞會計師事務所) from March 1995 to December 2001 and Changzhou Kailai Accounting Firm (常州開來聯合會計師事務所) from January 2002 to April 2004. Ms. Kuang joined the Group in 2004 as the chief financial controller of Huawei Electronics and is currently the director of Huawei Electronics and Huawei Capacitors, both of which are subsidiaries of the Company. She was an executive director of the Company from July 2007 to February 2011. Saved as disclosed above, Ms. Kuang did not hold any directorship in any listed public company in the last three years.

Mr. Jin Xiao (金曉), aged 46, is the vice general manager of the Group. He is responsible for the Group's sales and marketing as well as customer relationship management and development. Mr. Jin obtained a degree of economic management from Correspondence College for Cadre, Party School of Jiangsu Committee of the Communist Party of China (中共江蘇省委黨校幹部函授學院) in 2002. Mr. Jin has over 20 years' experience in the capacitor industry. He joined the Group in 2003. Mr. Jin did not hold any directorship in any listed public company in the last three years.

Ms. Zhu Shengli (朱勝利), aged 58, is the general engineer of the Group. She is responsible for the Group's production technology management and research and development of new products. Ms. Zhu graduated from Xi'an Jiaotong University (西安交通大學) specializing in wireless components and materials in 1976. Ms. Zhu has over 27 years' experience in research of production technology and development of new products in the capacitor industry. Ms. Zhu worked in Nantong Tongfei Capacitor Company Limited (南通同飛電容器有限公司) from 1980 to 2002 and was responsible for product development and research. She then served as the general engineer in Jiguang Electronics Company of Shenzhen SDG Information Company Limited (深圳特發信息股份有限公司吉光電子分公司) during the period between August 2002 and January 2004. Ms. Zhu joined the Group in 2004. Ms. Zhu did not hold any directorship in any listed public company in the last three years.

Mr. Li Fuming (李福明), aged 47 is the head of operation supervision department of the Group. He is responsible for supervision and assessment of the Group's operation. Mr. Li has over 20 years' operation management experience in the capacitor industry. Prior to joining the Group in 1998, he worked in Jiangsu Changzhou Taining Electronics Company Limited (江蘇省常州泰寧電子有限公司) from 1980 to 1997 and was responsible for quality control, technology and production. Mr. Li did not hold any directorship in any listed public company in the last three years.

Mr. Ng Chi Ho Dennis (吳志豪), aged 52, is the company secretary and authorized representative of the Company. He holds a bachelor degree of commerce from the University of New South Wales, Australia and is a fellow and Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants. Mr. Ng is also a chartered accountant from the Institute of Chartered Accountant in Australia and an associate of the Hong Kong Institute of Chartered Secretaries. He has more than 25 years of extensive experience in accounting, auditing and corporate affairs. He joined the Group on 31 December 2009 and did not hold any directorship in any listed public company in the last three years.

The directors are pleased to present to the shareholders the annual report together with the audited financial statements for the year ended 31 December 2010.

Principal activities

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

Results and dividends

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 30. The directors did not recommend the payment of final dividend for the year ended 31 December 2010.

Group financial summary

The summary of the results of the Group for the five years ended 31 December 2010 and the assets and liabilities of the Group as at 31 December 2006, 2007, 2008, 2009 and 2010 are set out on page 108.

Donations

Donations made by the Group during the year amounted to RMB300,000.

Property, plant and equipment

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

Share capital

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

Reserves

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

Distributable reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2010 are set out in note 31 to the consolidated financial statements.

Emolument policy

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

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

Remuneration of directors and five highest paid individuals

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

Directors' interests in contracts

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

Directors and directors' service contracts

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

Executive directors:

Mr. Li Wing Sang *(Chairman)*	(appointed as Chairman on 1 March 2011)
Mr. Yan Qixu	(resigned as Chairman on 1 March 2011)
Mr. Liu Xinsheng	
Ms. Xiang Xiaoqin	(resigned on 1 March 2011)
Ms. Kuang Lihua	(resigned on 15 February 2011)

Independent non-executive directors:

Mr. Xu Kangning	
Ms. Lin Sufen	
Mr. Wong Chun Hung	(resigned on 7 January 2011)
Mr. Tam Tak Wah	(appointed on 7 January 2011)

The executive director, Mr. Yan Qixu and the independent non-executive directors, Mr. Xu Kangning and Mr. Tam Tak Wah will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the said meeting.

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

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

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 10 to 12.

Share option scheme

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

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

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

An option may be exercised at any time during a period which shall not exceed ten years from the date of grant subject to the provisions of early termination under the Scheme. There is no minimum period for which an option must be held before it can be exercised under the Scheme.

No share options were granted, exercised or cancelled by the Company under the Scheme during the year ended 31 December 2010 and there are no outstanding share options under the Scheme as at 31 December 2010. The total number of Shares available for issue under the Scheme as at the date of this report was 80,000,000 Shares which represented 10% of the issued share capital of the Company as at the date of this report.

On 19 July 2007, Tong Heng Company Limited, the sole shareholder of the Company at that time, agreed to enter into a call option deed to grant to China Construction Corporation, Hong Kong Branch an option to acquire from Tong Heng Company Limited the shares in the Company held by it, details of which are set out in note 4 under the following section headed ''Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations''.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2010, the interests and short positions of the directors and/or chief executive of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification pursuant to Divisions 7 and 8 of 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)*	393,000,000(L)	52.4%
	Interest of controlled corporation *(Note 4)*	18,000,000(S)	2.4%
Ms. Xiang Xiaoqin ("Ms. Xiang")	Interest of controlled corporation *(Note 3)*	393,000,000(L)	52.4%
	Interest of controlled corporation *(Note 4)*	18,000,000(S)	2.4%

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 393,000,000 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 393,000,000 Shares which are beneficially owned by Tong Heng for the purposes of the SFO.*

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 on the Listing Date) to CCBCHK (or its nominee) if CCBCHK exercises the Pre-IPO Share Option. The Pre-IPO Share Option is exercisable from the period commencing immediately after the expiry of a 6-month period after the Listing Date and up to the last day of the 60th month after the Listing Date (both days inclusive) at a price equal to the price under the Share Offer, subject to adjustments.*

2. Long position in the ordinary shares of associated corporation

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

Save as disclosed above, as at 31 December 2010, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2010, 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 Shareholder	Capacity/Nature	No. of Shares	Percentage of issued share capital of the Company
Tong Heng	Beneficial owner	393,000,000	52.4%
Li Xiao Hua	Beneficial owner	40,000,000	5.3%

2. Interests and short positions in underlying Shares

Name	Capacity	Description of equity derivatives	Number of underlying Shares
Tong Heng	Beneficial owner	Share option *(Note 2)*	18,000,000 Shares (S)
CCBCHK	Beneficial owner	Share option *(Note 2)*	18,000,000 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 on the Listing Date) to CCBCHK (or its nominee) if CCBCHK exercises the Pre-IPO Share Option. The Pre-IPO Share Option is exercisable from the period commencing immediately after the expiry of a 6-month period after the Listing Date and up to the last day of the 60th month after the Listing Date (both days inclusive) at a price equal to the price under the Share Offer, subject to adjustments.*

Save as disclosed above, and as at 31 December 2010, the directors of the Company were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Directors' right to acquire shares or debentures

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

Competing interests

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

Major customers and suppliers

During the year, the Group's sales to the largest and five largest customers accounted for approximately 12.2% and 36.8% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 6.9% and 23.2% respectively of the Group's purchase.

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

Related party transactions

The related party transactions for the year ended 31 December 2010 are set out in note 37 to the consolidated financial statements.

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

For the year ended 31 December 2010, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

Pre-emptive rights

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

Sufficiency of public float

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

Corporate governance

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

Event after the reporting period

The event occurring after the reporting period was set out in note 38 to the consolidated financial statements.

Closure of register of members

The register of members of the Company will be closed from 5 May 2011 to 11 May 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company to be held on 11 May 2011, unregistered holders of shares of the Company should ensure that all transfer of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 4 May 2010.

Auditor

The financial statements for the year ended 31 December 2010 have been audited by CCIF CPA Limited, who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On behalf of the Board
Mr. Li Wing Sang
Chairman

The People's Republic of China, 31 March 2011

Code on corporate governance practices

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions of the Code for the year ended 31 December 2010, save for the exception explained in this report under the section headed "Chairman and chief executive officer".

Board of directors

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

Executive Directors:

Mr. Li Wing Sang (appointed as Chairman on 1 March 2011)
Mr. Yan Qixu (resigned as Chairman on 1 March 2011)
Mr. Liu Xinsheng
Ms. Xiang Xiaoqin (resigned on 1 March 2011)
Ms. Kuang Lihua (resigned on 15 February 2011)

Independent non-executive directors:

Mr. Xu Kangning
Ms. Lin Sufen
Mr. Wong Chun Hung (resigned on 7 January 2011)
Mr. Tam Tak Wah (appointed on 7 January 2011)

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

Key information regarding the directors' academic and professional qualifications and other appointments are set out in the section headed "Directors and Senior Management" on pages 10 to 12 of this report. Except that Mr. Yan Qixu is the spouse of Ms. Xiang Xiaoqin, there is no other relationship among members of the Board and senior management.

Board meetings and attendance

The Board shall meet regularly and at least four times a year. The Board held six meetings during the year ended 31 December 2010. The attendance of the directors at the Board meetings is as follows:

	Attendance/ Meetings held
Mr. Li Wing Sang (appointed as Chairman on 1 March 2011)	6/6
Mr. Yan Qixu (resigned as Chairman on 1 March 2011)	6/6
Mr. Liu Xinsheng	6/6
Mr. Xu Kangning	6/6
Ms. Lin Sufen	6/6
Ms. Xiang Xiaoqin (resigned on 1 March 2011)	6/6
Ms. Kuang Lihua (resigned on 15 February 2011)	6/6
Mr. Wong Chun Hung (resigned on 7 January 2011)	6/6
Mr. Tam Tak Wah (appointed on 7 January 2011)	0/6

Independent non-executive directors

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

Chairman and chief executive officer

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

Mr. Yan Qixu, who acted as the chairman of the Company during the year ended 31 December 2010, was also responsible for overseeing the general operations of the Group. Mr. Li Wing Sang succeeded Mr. Yan Qixu to act as the chairman of the Company effective from 1 March 2011. As the Board would meet regularly to consider major matters affecting the operations of the Company, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

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

Appointment, re-election and removal of directors

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

Mr. Tam Tak Wah, whom was appointed as an independent non-executive director on 7 January 2011, will retire from office and offer himself for re-election at the forthcoming annual general meeting pursuant to Article 86(3) of the Articles.

In accordance with Article 87 of the Articles, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years. Any director appointed pursuant to Article 86(3) of the Articles shall not be taken into account in determining which director or the number of directors who are to retire by rotation in accordance with Article 87 of the Articles.

Ms. Yan Qixu, Mr Xu Kangning and Mr. Tam Tak Wah will retire from office as directors by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Model code set out in Appendix 10 to the Listing Rules

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

Having made specific enquiry of all directors, the directors have confirmed that they had complied with the Model Code of the Company during the year ended 31 December 2010. Moreover, no incidence of non-compliance of the Model Code by the relevant employees was noted by the Company.

Responsibilities of directors

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

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

Subsequent to 31 December 2010, Mr. Li Wing Sang succeeded Yan Qixu to act as the chairman of the Company and Ms. Xiang Xiaoqiang, Ms. Kuang Lihua, Mr. Wong Chun Hung resigned from the Board and Mr. Tam Tak Wah was appointed as an independent non-executive director. There was no change in Board members during the year ended 31 December 2010.

Supply of and access to information

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

All directors are entitled to have access to the Board minutes and related materials.

Audit committee

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

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

During the financial year under review, the Audit Committee had met with the Company's external auditors, the Board and senior management. The Audit Committee has also reviewed the Group's internal controls and the Group's interim financial results for the six-month ended 30 June 2010. The Group's final results for the year ended 31 December 2010 have been reviewed by the Audit Committee before submission to the Board for approval. There is no disagreement between the directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2010. Details of the attendance of the Audit Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Tam Tak Wah (appointed as chairman on 7 January 2011)	0/2
Mr. Wong Chun Hung (resigned as chairman on 7 January 2011)	2/2
Mr. Xu Kangning	2/2
Ms. Lin Sufen	2/2

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

Auditor's remuneration

During the year ended 31 December 2010, the fee incurred for audit and non-audit services provided by the auditor to the Group is set out as follows.

Type of services	Fee paid/ payable RMB'000
Audit services	645
Non-audit services	374
	1,019

Nomination committee

The Company established a Nomination Committee pursuant to a resolution of the Directors passed on 26 July 2007. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of directors and management of Board succession and ensure that the candidates to be nominated as directors are experienced, high calibre individuals. The Nomination Committee consists of Mr. Li Wing Sang, an executive director and two independent non-executive directors, namely Mr. Xu Kangning and Ms. Lin Sufen. Mr. Li Wing Sang is the chairman of the Nomination Committee.

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

The Nomination Committee held one meeting during the year ended 31 December 2010. Details of the attendance of the Nomination Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Li Wing Sang (appointed as chairman on 1 March 2011)	0/1
Ms. Xiang Xiaoqin (resigned as chairman on 1 March 2011)	1/1
Mr. Xu Kangning	1/1
Ms. Lin Sufen	1/1

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

Remuneration committee

The Company established a Remuneration Committee pursuant to a resolution of the Directors passed on 26 July 2007 in compliance with the code provisions of the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the directors and other senior management. The Remuneration Committee comprises Mr. Yan Qixu, an executive director and two independent non-executive directors, namely Mr. Tam Tak Wah and Ms. Lin Sufen. Mr. Yan Qixu is the chairman of the Remuneration Committee.

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

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

The Remuneration Committee held one meeting during the year ended 31 December 2010. Details of the attendance of the Remuneration Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Yan Qixu	1/1
Ms. Lin Sufen	1/1
Mr. Wong Chun Hung (resigned on 7 January 2011)	1/1
Mr. Tam Tak Wah (appointed on 7 January 2011)	0/1

At the meeting, the Remuneration Committee reviewed the remuneration policies of the directors and the senior executives and reviewed the remuneration packages and performance of the directors for the year 2010.

Directors' and auditor's responsibility for financial statements

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010. The auditor of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2010. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the directors continue to adopt the going concern approach in preparing the financial statements.

Internal control

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

The management had conducted regular reviews on the effectiveness of the system of internal controls of the Group, covering all material controls including financial, operational, compliance controls and risks management functions during the year. Results and findings arising from the reviews were discussed in the audit committee meetings.

Communication with shareholders

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

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

The 2010 annual general meeting of the Company will be held on 11 May 2011.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
TECH PRO TECHNOLOGY DEVELOPMENT LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tech Pro Technology Development Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 30 to 107, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2011

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	5	422,996	314,596
Cost of sales		(389,418)	(272,424)
Gross profit		33,578	42,172
Other revenue and income	6	2,733	1,739
Distribution costs		(9,559)	(7,254)
Administrative expenses		(29,727)	(20,489)
Allowance for impairment on trade receivables, net	20(b)	(7,135)	(560)
Allowance for impairment on other receivables	21(e)	(1,250)	–
Write down of inventories	19	(21,003)	–
Other operating expenses		(2,663)	(1,192)
Operating (loss)/profit		(35,026)	14,416
Finance costs	7	(9,593)	(6,722)
(Loss)/profit before taxation	8	(44,619)	7,694
Income tax	11	(1,197)	(1,535)
(Loss)/profit for the year		(45,816)	6,159
Attributable to:	12		
Owners of the Company		(45,718)	6,159
Non-controlling interest		(98)	–
(Loss)/profit for the year		(45,816)	6,159
(Loss)/earnings per share (RMB)	14		
— Basic and Diluted		(6.1 cents)	1 cent

The notes on pages 38 to 107 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
(Loss)/profit for the year	(45,816)	6,159
Exchange differences on translation of financial statements of foreign subsidiaries	69	4
Total comprehensive (loss)/income for the year	(45,747)	6,163
Attributable to:		
Owners of the Company	(45,649)	6,163
Non-controlling interest	(98)	–
Total comprehensive (loss)/income for the year	(45,747)	6,163

The notes on pages 38 to 107 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	190,788	146,064
Lease prepayments	17(a)	18,940	1,883
Deposits for lease prepayments	17(b)	–	320
		209,728	148,267
Current assets			
Inventories	19	198,587	143,876
Lease prepayments	17(a)	379	42
Trade and bills receivables	20	137,693	136,130
Other receivables and prepayments	21	58,917	37,160
Income tax recoverable	27(a)	1,011	–
Restricted bank deposits	22	65,000	53,050
Time deposits	22	19,500	63,500
Cash at banks and in hand	22	15,299	20,765
		496,386	454,523
Current liabilities			
Trade and bills payables	23	204,673	185,539
Other payables and accruals	24	32,681	22,194
Amounts due to directors	37(a)	7,249	3,231
Amount due to ultimate holding company	25	144	–
Bank loans	26	211,822	110,000
Income tax payable	27(a)	727	504
		457,296	321,468
Net current assets		39,090	133,055
Total assets less current liabilities		248,818	281,322
Non-current liabilities			
Deferred tax liabilities	27(b)	5,243	–
Net assets		243,575	281,322

The notes on pages 38 to 107 form an integral part of these financial statements.

	Notes	2010 RMB'000	2009 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	7,140	7,140
Reserves	31	228,533	274,182
Equity attributable to owners of the Company		235,673	281,322
Non-controlling interest		7,902	–
Total equity		243,575	281,322

Approved and authorised for issue by the board of directors on 31 March 2011

Li Wing Sang
Director

Yan Qixu
Director

The notes on pages 38 to 107 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	18	221,571	238,071
Current assets			
Other receivables and prepayments	21	60	60
Amounts due from subsidiaries	37(b)	26,749	26,749
Cash at banks and in hand	22	557	562
		27,366	27,371
Current liabilities			
Other payables and accruals	24	1,974	1,747
Amounts due to subsidiaries	37(c)	9,998	7,427
Amounts due to directors	37(a)	1,610	3,054
		13,582	12,228
Net current assets		13,784	15,143
Total assets less current liabilities		235,355	253,214
Net assets		235,355	253,214
EQUITY			
Share capital	30	7,140	7,140
Reserves	31	228,215	246,074
Total equity attributable to owners of the Company		235,355	253,214

Approved and authorised for issue by the board of directors on 31 March 2011

Li Wing Sang
Director

Yan Qixu
Director

The notes on pages 38 to 107 form an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2010

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Special reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings/ (accumulated loss) RMB'000	Total reserves RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2009	5,820	147,567	6,894	–	42,783	16,271	(2,020)	37,181	248,676	–	254,496
Equity-settled share-based payment expenses	–	–	–	1,253	–	–	–	–	1,253	–	1,253
Ordinary shares issued upon exercise of share options	264	5,450	–	(1,253)	–	–	–	–	4,197	–	4,461
Ordinary shares issued under placing	1,056	14,045	–	–	–	–	–	–	14,045	–	15,101
Ordinary share issuing expenses	–	(152)	–	–	–	–	–	–	(152)	–	(152)
Transfer	–	–	–	–	–	550	–	(550)	–	–	–
Profit for the year	–	–	–	–	–	–	–	6,159	6,159	–	6,159
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	4	–	4	–	4
Total comprehensive income for the year	–	–	–	–	–	–	4	6,159	6,163	–	6,163
At 31 December 2009 and at 1 January 2010	7,140	166,910	6,894	–	42,783	16,821	(2,016)	42,790	274,182	–	281,322
Capital injection from a non-controlling shareholder of a newly established subsidiary	–	–	–	–	–	–	–	–	–	8,000	8,000
Transfer	–	–	–	–	–	509	–	(509)	–	–	–
Loss for the year	–	–	–	–	–	–	–	(45,718)	(45,718)	(98)	(45,816)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	69	–	69	–	69
Total comprehensive loss for the year	–	–	–	–	–	–	69	(45,718)	(45,649)	(98)	(45,747)
At 31 December 2010	7,140	166,910	6,894	–	42,783	17,330	(1,947)	(3,437)	228,533	7,902	243,575

The notes on pages 38 to 107 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Operating activities			
(Loss)/profit before taxation		(44,619)	7,694
Adjustments for:			
Amortisation of lease prepayments		175	42
Depreciation of property, plant and equipment		20,463	15,697
Equity-settled share-based payment expenses	29(c)	–	1,253
Allowance for impairment on trade receivables	20(b)	8,655	2,625
Reversal of allowance for impairment on trade receivables	20(b)	(1,520)	(2,065)
Allowance for impairment on other receivables	21(e)	1,250	–
Write down of inventories	19	21,003	–
Interest expenses		9,593	6,722
Loss on disposal of property, plant and equipment		61	183
Interest income		(1,729)	(725)
Operating cash flows before changes in working capital		13,332	31,426
Increase in inventories		(22,802)	(37,866)
Decrease/(increase) in trade and bills receivables		2,646	(27,820)
Increase in other receivables and prepayments		(12,390)	(19,433)
(Decrease)/increase in trade and bills payables		(5,064)	112,051
(Decrease)/increase in other payables and accruals		(7,174)	4,316
Increase in amount due to ultimate holding company		144	–
Cash (used in)/generated from operations		(31,308)	62,674
PRC enterprise income tax paid		(2,012)	(1,385)
PRC enterprise income tax refunded		–	568
Net cash (used in)/generated from operating activities		(33,320)	61,857
Investing activities			
Interest received		1,729	725
Net cash outflow from acquisition of subsidiaries	32	(52,576)	–
Proceeds from disposal of property, plant and equipment		7	259
Purchase of property, plant and equipment		(27,923)	(25,346)
Payment of lease prepayments		(1,749)	–
Decrease/(increase) in time deposits with original maturity over three months at inception		60,000	(36,050)
Net cash used in investing activities		(20,512)	(60,412)

The notes on pages 38 to 107 form an integral part of these financial statements.

	Notes	2010 RMB'000	2009 RMB'000
Financing activities			
Interest paid		(9,593)	(6,722)
Ordinary share issuing expenses		–	(152)
Proceeds from new ordinary shares issued		–	19,562
Proceeds from new bank loans		211,822	195,000
Repayment of bank loans		(130,000)	(191,000)
Increase in restricted bank deposits		(11,950)	(43,100)
Increase in amounts due to directors		4,018	635
Net cash generated from/(used in) financing activities		64,297	(25,777)
Net increase/(decrease) in cash and cash equivalents		10,465	(24,332)
Cash and cash equivalents at beginning of year		24,265	48,593
Effect of foreign exchange rate changes		69	4
Cash and cash equivalents at end of year	22	34,799	24,265

The notes on pages 38 to 107 form an integral part of these financial statements.

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 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 (together the "Group") are principally engaged in the manufacture and sales of aluminum electrolytic capacitors and V-chip type aluminum electrolytic capacitors.

These consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries in the PRC.

2. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2010 comprise the financial statements of the Company and its subsidiaries.

The consolidated financial statements have been prepared under the historical cost convention.

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

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

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

2. Significant accounting policies (Continued)

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HK (Int) 4 (Amendment)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK (Int) 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 1 (Amendments) addresses the retrospective application of HKFRSs to particular situations (such as exempted entities using the full cost method from the retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease when the application of the other accounting requirement produces the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments have no material impact on the results and financial position of the Group.

HKFRS 1 (Revised) is issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the revisions have no material impact on the results and financial position of the Group.

HKFRS 2 (Amendments) clarifies its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments have no material impact on the results and financial position of the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (previously minority interests) at fair value; (ii) recognising gains or losses from re-measuring to the fair value of the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in profit or loss; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments have no material impact on the results and financial position of the Group.

2. Significant accounting policies (Continued)

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

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments are made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures. The amendments have no material impact on the results and financial position of the Group.

The amendment to HKAS 39 addresses the designation of one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment has no material impact on the results and financial position of the Group, as the Group has not entered into any such hedges.

HK(IFRIC) – Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments are made to HKAS 10 Events After the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the Interpretation may result in changes in accounting policy, the interpretation has no material impact on the results and financial position of the Group.

HK (IFRIC) – Int 18 addresses the accounting by recipients for transfers of property, plant and equipment from "customers" and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the assets at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with HKAS 18 Revenue. The interpretation has no material impact on the results and financial position of the Group.

HK – Int 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which states that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The amendment has no material impact on the results and financial position of the Group.

HK – Int 5 addresses the classification of term loans with a repayment on demand clause as current or non-current liabilities by entities reporting under HKFRSs. The adoption of HK-Int 5 has resulted in a change in disclosure that the entire term loan has been re-classified from repayable within one year to repayment on demand when a repayment on demand clause provides the lender with a clear and unambiguous unconditional right to demand repayment at any time as its sole discretion and a borrower does not have unconditional right to defer payment for at least 12 months after the reporting date. The interpretation has no material impact on the results and financial position of the Group.

2. Significant accounting policies (Continued)

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

HKFRS 5 (Amendments) clarifies that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation. The amendments have no material impact on the results and financial position of the Group.

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments have a material impact on the results and financial position of the Group.

HKFRS 2 Share-based Payment: It revises the scope that transactions in which an entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture do not fall under the scope of this HKFRS.

HKFRS 8 Operating Segments: It clarifies that a measure of total assets for each reportable segment should be reported only if such information is regularly provided to the chief operating decision maker.

HKAS 1 Presentation of Financial Statements: It provides guidance on the classification of current or non-current convertible instruments.

HKAS 7 Statement of Cash Flows: It specifies that only expenditures that result in recognised assets in the consolidated statement of financial position are eligible for classification as investing activities.

HKAS 17 Leases: It removes the previous classification on leases with both land and building elements and requires separate assessment of each element as a finance or an operating lease accordingly.

HKAS 18 Revenue: It provides additional guidance to determine whether an entity is acting as principal or agent.

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to measurement of fair value of an intangible asset acquired in a business combination. Intangible asset acquired in business combination may be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are also incorporated.

Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: It (i) clarifies that prepayment option is considered closely related to the host contract when the exercise price of prepayment option reimburses the lender up to the approximate present value of loan interest for the remaining term of the host contract; (ii) clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date; and (iii) also replaces the term "assets acquired or liability assumed" under cash flow hedges with "hedged forecast cash flows".

HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives: It revises the scope that this Interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control, or the formation of a joint venture.

2. Significant accounting policies (Continued)

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

The Group has not early applied any of the following new and revised standards, amendments and interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures-Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related party disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 as appropriate
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

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

(d) Subsidiaries

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

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

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

2. Significant accounting policies (Continued)

(d) Subsidiaries (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

(i) Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(ii) Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2 (k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Business combinations involving entities under common control

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

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

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

2. Significant accounting policies (Continued)

(f) Business combinations

(i) Business combinations on or after 1 January 2010

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

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

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

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

– liabilities or equity instruments relating to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

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

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

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

2. Significant accounting policies (Continued)

(f) Business combinations (Continued)

(i) Business combinations on or after 1 January 2010 (Continued)

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

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

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(ii) Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

2. Significant accounting policies (Continued)

(g) Goodwill

Goodwill represents the excess of,

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. For the purposes of equipment testing, goodwill is allocated to each of the cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

(h) Property, plant and equipment

Property, plant and equipment (excluding construction in progress) are stated at historical cost or revalued amount, being the fair value at the date of revaluation, less accumulated depreciation and impairment losses, if any.

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

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

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

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

2. Significant accounting policies (Continued)

(h) Property, plant and equipment (Continued)

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

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

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

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to government authorities in the PRC. Land use rights are carried at cost less accumulated amortisation and any impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the lease term.

(j) Construction in progress

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

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

(k) Impairment of assets

(i) Impairment on trade and other receivables

Trade and other receivables (including amounts due from subsidiaries) are stated at cost or amortised cost and are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

2. Significant accounting policies (Continued)

(k) Impairment of assets (Continued)

(i) Impairment on trade and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

(ii) Impairment on other assets

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

- property, plant and equipment;
- construction in progress;
- lease prepayments; and
- investments in subsidiaries.

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

2. Significant accounting policies (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment on other assets (Continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(l) Inventories

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

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

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

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

2. Significant accounting policies (Continued)

(m) Trade and other receivables

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

(n) Interest-bearing borrowings

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

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

(o) Trade and other payables

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

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

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

2. Significant accounting policies (Continued)

(q) Employee benefits (Continued)

(ii) Share-based payments

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

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

(iii) Termination benefits

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

(r) Income tax

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

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

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

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

2. Significant accounting policies (Continued)

(r) Income tax (Continued)

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

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

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

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

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

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

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

  – the same taxable entity; or

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

2. Significant accounting policies (Continued)

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(s)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2 (s)(iii).

(iii) Other provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of an outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of an outflow of economic benefits is remote.

2. Significant accounting policies (Continued)

(t) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts and returns.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest rate.

(iii) Government grants

Unconditional government grants are recognised in profit or loss as revenue when the grants become receivable.

(u) Government grants

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

(v) Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

2. Significant accounting policies (Continued)

(v) Foreign currency translation (Continued)

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Other borrowing costs are expressed in profit or loss in the period in which they are incurred.

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

(x) Operating lease charges

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

(y) Research and development expenditure

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

(z) Dividend distribution

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

2. Significant accounting policies (Continued)

(aa) Related parties

Parties are considered to be related to the Group if:

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

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

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

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

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

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

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

(ab) Segment reporting

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

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

3. Financial instruments and financial risk management

(a) Categories of financial instruments

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Financial assets				
Trade and bills receivables	137,693	136,130	–	–
Other receivables and prepayments				
– Loans and receivables	40,521	22,088	60	60
Amounts due from subsidiaries	–	–	26,749	26,749
Restricted bank deposits	65,000	53,050	–	–
Time deposits	19,500	63,500	–	–
Cash at banks and in hand	15,299	20,765	557	562
	278,013	295,533	27,366	27,371
Financial liabilities				
Trade and bills payables	204,673	185,539	–	–
Other payables and accruals				
– Financial liabilities measured at amortised cost	25,239	15,518	1,974	1,747
Amounts due to subsidiaries	–	–	9,998	7,427
Amounts due to directors	7,249	3,231	1,610	3,054
Amount due to ultimate holding company	144	–	–	–
Bank loans	211,822	110,000	–	–
	449,127	314,288	13,582	12,228

(b) Financial risk management and policies

Exposure to credit, liquidity, interest rate, commodity price, business and foreign currency risks arises in the normal course of the Group's business. There has been no change to the Group's exposure to these kinds of risk or the manner in which it manages and measures these risks. These risks are limited by the Group's financial management policies and practices described below.

(i) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position of the Group and the Company.

Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy and the exposures to these credit risks are monitored on an ongoing basis. Individual credit evaluations are performed on all customers' past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 30 to 180 days from the date of billing. Moreover, extended credit terms are granted to certain customers depending on the credit assessment carried out by the management on an individual basis.

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(i) Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and bills receivables and other receivables are set out in notes 20 and 21, respectively.

At the end of the reporting period, the Group has a certain concentration of credit risk as 1% (2009: 1%) and 9% (2009: 28%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers as at 31 December 2010, respectively. The Group has no significant credit risk with any of these customers since the Group maintains stable business relationships with these large customers. The Group performs ongoing credit evaluations of its customers' financial condition and does not provide any guarantee which would expose the Group to credit risk. No cash deposits nor collateral had been placed by the related debtors with the Group (2009: Nil).

Deposits with banks

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

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

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

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(ii) Liquidity risk (Continued)

The Group

	2010 Carrying amount RMB'000	2010 Total contractual undiscounted cash flow RMB'000	2010 Within 1 year or on demand RMB'000	2009 Carrying amount RMB'000	2009 Total contractual undiscounted cash flow RMB'000	2009 Within 1 year or on demand RMB'000
Trade and bills payables	204,673	204,673	204,673	185,539	185,539	185,539
Other payables and accruals	25,239	25,239	25,239	15,518	15,518	15,518
Amounts due to directors	7,249	7,249	7,249	3,231	3,231	3,231
Amount due to ultimate holding company	144	144	144	–	–	–
Bank loans	211,822	222,910	222,910	110,000	116,292	116,292
	449,127	460,215	460,215	314,288	320,580	320,580

The Company

	2010 Carrying amount RMB'000	2010 Total contractual undiscounted cash flow RMB'000	2010 Within 1 year or on demand RMB'000	2009 Carrying amount RMB'000	2009 Total contractual undiscounted cash flow RMB'000	2009 Within 1 year or on demand RMB'000
Other payables and accruals	1,974	1,974	1,974	1,747	1,747	1,747
Amounts due to subsidiaries	9,998	9,998	9,998	7,427	7,427	7,427
Amounts due to directors	1,610	1,610	1,610	3,054	3,054	3,054
	13,582	13,582	13,582	12,228	12,228	12,228

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(iii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings and fair value interest rate risk in relation to fixed-rate bank borrowings.

Interest rate profile

The Group's interest rate risk primarily derives from bank borrowings and time deposits and cash at banks. The Group did not use derivative financial instruments to hedge its debt obligations. The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets and interest-bearing financial liabilities at the end of the reporting period:

The Group

	2010		2009	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed-rate:				
Bank borrowings (PRC)	5.95%	176,410	5.72%	110,000
Variable-rate:				
Bank borrowings (HK)	1.67%	35,412	–	–
Total borrowings		211,822		110,000
Net fixed-rate borrowings as a percentage of total borrowings		83%		100%
Variable-rate:				
Cash at banks	0.36%	15,058	0.36%	20,655
Time deposits	1.98%	19,500	1.98%	63,500
Restricted time deposits	1%	65,000	0.36%	53,050
		99,558		137,205

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(iii) Interest rate risk (Continued)

Interest rate profile (Continued)

The Company

	2010 Effective interest rate	2010 RMB'000	2009 Effective interest rate	2009 RMB'000
Variable-rate:				
Cash at banks	0.001%	557	0.001%	562

Sensitivity analysis

Fixed-rate bank loans of the Group are insensitive to any change in interest rates. A change in interest rate of variable-rate bank balances and bank loans at the end of the reporting period would affect profit or loss for the year.

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after taxation for the year and accumulated losses by approximately RMB928,000 (2009: RMB325,000). Other components of equity would not be affected (2009: Nil) by the changes in interest rates.

The sensitive analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the financial instruments exposed to interest rate risk for variable-rate interest bearing financial instruments as if they had been in existence at the beginning of the year. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period.

(iv) Commodity price risk

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

(v) Business risk

The Group's sales of aluminum electrolytic products and V-chip type aluminum electrolytic capacitors are primarily to several major customers. The Group has a certain concentration of business risk as 37% (2009: 40%) of the total sales were made to the Group's five largest customers. In the event that these customers cease to purchase from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability could be adversely affected.

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(vi) Foreign currency risk

The Group is exposed to currency risk primarily through its trade receivables, bank deposits and bank loans that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HK$") and United State dollars ("US$").

Exposure to currency risk

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash and cash equivalents				
HK$	1,274	5,868	557	562
US$	86	2,210	–	–
Trade receivables				
HK$	4,125	4,855	–	–
US$	59,252	28,788	–	–
Bank loans				
HK$	(35,412)	–	–	–

Sensitivity analysis

The following table indicates the approximate change in the Group's loss/profit after taxation (and retained earnings/accumulated losses) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes trade receivables, bank deposits and bank loans where the denomination of the balances is in a currency other than the functional currency.

	The Group					
	2010			2009		
	Increase/ (decrease) in foreign exchange rates	Effect on loss after taxation and accumulated loss RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after taxation and retained earnings RMB'000	Effect on other components of equity RMB'000
HK$	5%	(1,500)	–	5%	536	–
	(5%)	1,500	–	(5%)	(536)	–
US$	5%	(2,967)	–	5%	(1,550)	–
	(5%)	2,967	–	(5%)	1,550	–

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(vi) Foreign currency risk (Continued)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of Hong Kong dollars and United States dollar against other currencies.

(vii) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.

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

The gearing ratios as at 31 December 2010 and 2009 were as follows:

	The Group	
	2010 RMB'000	2009 RMB'000
Bank loans	211,822	110,000
Bills payables	133,000	100,950
Total debt	344,822	210,950
Less: Cash and cash equivalents	(34,799)	(24,265)
Time deposits with original maturity over three months	–	(60,000)
Restricted time deposits	(65,000)	(53,050)
Net debt	245,023	73,635
Total equity	243,575	281,322
Gearing ratio	100.59%	26.17%

3. Financial instruments and financial risk management (Continued)

(b) Financial risk management and policies (Continued)

(vii) Capital management (Continued)

The directors of the Company have made due care and considerations concerning the appropriateness of the going concern in light of the Group's current financial position and the capital commitments at 31 December 2010 (note 36) and the acquisition of LED business completed after the reporting period (note 38). After having taken into account of the cashflow forecast of the Group for a period of eighteen months from 1 January 2011 to 30 June 2012 and the available unused credit facilities, in the opinion of the directors of the Company, the Group should be able to continue its business as a going concern.

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

(viii) Estimation of fair values

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

Interest-bearing loans and borrowings

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

Liquid and/or short-term assets and liabilities

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

Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services when such information is obtainable or is otherwise estimated by reference to interest rate differentials. Where reliable estimates of such information can be made, the latter is arrived at by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged had the guarantees not been available.

4. Critical accounting estimates and judgements

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

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

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

(b) Impairment on property, plant and equipment and lease prepayments

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

(c) Impairment on investments in subsidiaries

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

(d) Net realisable value of inventories

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

(e) Impairment on trade receivables and other receivables

The Group makes allowance for impairment on trade and other receivables based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history and subsequent settlements of each customer of the Group up to the date of approval of the financial statements. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. Critical accounting estimates and judgements (Continued)

(f) Impairment on the refundable deposits paid for the terminated investments

Impairment on the refundable deposits paid is made based on an assessment of the recoverability of the deposits. The identification of impairment requires management's judgements and estimates. When the actual outcome is different from the original estimates, such differences will impact the carrying amounts of the deposits and impairment loss in the period in which such estimate has been changed. The directors of the Company considered that all those deposits paid for the terminated investments can be recoverable in full and as such, no impairment on these deposits was requirement.

(g) Income taxes

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

(h) Going concern basis

The financial statements have been prepared on the basis that the Company will continue to operate throughout the next twelve months as a going concern. The directors of the Company have made due care and considerations concerning the appropriateness of the going concern in light of the Group's current financial position and the capital commitments at 31 December 2010 (note 36) and the acquisition of LED business completed after the reporting period (note 38). After having taken into account of the cashflow forecast of the Group for a period of eighteen months from 1 January 2011 to 30 June 2012 and the available unused credit facilities as detailed in note 34, in the opinion of the directors of the Company, the Group should be able to continue its business as a going concern for the next twelve months.

5. Turnover

The Group is principally engaged in the manufacture and sales of aluminum electrolytic capacitors and V-chip type aluminum electrolytic capacitors. Turnover represents the net invoiced value of goods sold less returns and allowances.

	2010 RMB'000	2009 RMB'000
Sales of aluminum electrolytic capacitors	364,513	290,530
Sales of V-chip type aluminum electrolytic capacitors	58,483	24,066
	422,996	314,596

6. Other revenue and income

	2010 RMB'000	2009 RMB'000
Bank interest income	1,729	725
Total interest income on financial assets not at fair value through profit or loss	1,729	725
Government grants *(note)*	95	218
Others	909	796
	2,733	1,739

Note: The Group received government grants totaling RMB95,000 (2009: RMB218,000) during the year for the recognition of the Group's sales performance and contribution to local community in Changzhou, the PRC. These grants were not conditional and therefore, were recognised as income when received.

7. Finance costs

	2010 RMB'000	2009 RMB'000
Interest expenses on bills payables and bank loans wholly repayable within five years	9,593	6,722
Total interest expenses on financial liabilities not at fair value through profit or loss	9,593	6,722

8. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	2010 RMB'000	2009 RMB'000
Directors' emoluments (exclude equity-settled share-based payment expenses) *(note 9)*	842	3,048
Over-provision of directors' emoluments in prior years *(note a)*	(2,222)	–
Salaries, wages and allowances	42,882	26,246
Contributions to retirement benefit schemes	1,858	1,151
Equity-settled share-based payment expenses *(note 29(c))*	–	1,253
Total staff costs	43,360	31,698
Allowance for impairment on trade receivables	8,655	2,625
Reversal of allowance for impairment on trade receivables	(1,520)	(2,065)
	7,135	560
Allowance for impairment on other receivables	1,250	–
Amortisation of lease prepayments	175	42
Auditor's remuneration		
– audit services	645	466
– non-audit services	374	–
Cost of inventories sold *(note b)*	389,418	272,424
Depreciation of property, plant and equipment	20,463	15,697
Loss on disposal of property, plant and equipment	61	183
Net exchange loss	1,836	229
Operating lease rentals in respect of properties	2,087	753
Research and development expenditures *(note c)*	4,391	1,638
Write down of inventories *(note 19)*	21,003	–

Notes:

(a) On 31 December 2010, Ms. Xiang Xiaoqin and Ms. Kuang Lihua, who subsequently resigned as directors of the Company on 1 March 2011 and 15 February 2011, respectively, waived to claim any of salaries estimated in the prior years of RMB1,728,000 and RMB494,000, respectively, which were credited to profit or loss for the year ended 31 December 2010 (2009: Nil).

(b) Cost of inventories sold includes staff costs of RMB29,087,000 (2009: RMB20,879,000) and depreciation of RMB18,565,000 (2009: RMB14,949,000) as disclosed in staff costs and depreciation of property, plant and equipment above.

(c) Research and development expenditures includes staff costs of RMB4,391,000 (2009: RMB1,638,000) incurred by the research and development department which are included in the staff costs as disclosed above.

9. Directors' emoluments

The emoluments of each director for the year ended 31 December 2010 are set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Equity-settled share-based payment expenses	Other benefits	Contributions to retirement benefits schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB000	RMB'000
Executive Directors							
Li Wing Sang	–	209	–	–	–	–	209
Yan Qixu	–	310	–	–	–	3	313
Liu Xinsheng	–	110	–	–	–	–	110
Xiang Xiaoqin (resigned on 1 March 2011)	–	–	–	–	–	–	–
Kuang Lihau (resigned on 15 February 2011)	–	–	–	–	–	–	–
Independent non-executive Directors							
Lin Sufen	–	60	–	–	–	–	60
Xu Kangning	–	60	–	–	–	–	60
Tam Tak Wah (appointed on 7 January 2011)	–	–	–	–	–	–	–
Wong Chun Hung (resigned on 7 January 2011)	–	90	–	–	–	–	90
	–	839	–	–	–	3	842

9. Directors' emoluments (Continued)

The emoluments of each director for the year ended 31 December 2009 are set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Equity-settled share-based payment expenses	Other benefits	Contributions to retirement benefits schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB000	RMB'000
Executive Directors							
Yan Qixu	–	900	–	250	–	2	1,152
Xiang Xiaoqin	–	883	–	250	–	2	1,135
Shan Biao (resigned on 7 September 2009)	–	412	–	–	–	–	412
Kuang Lihau	–	307	–	250	–	–	557
Liu Xinsheng	–	307	–	250	–	13	570
Li Wing Sang (appointed on 11 December 2009)	–	12	–	–	–	–	12
Independent non-executive Directors							
Lin Sufen	60	–	–	–	–	–	60
Xu Kangning	60	–	–	–	–	–	60
Wong Chun Hung	90	–	–	–	–	–	90
	210	2,821	–	1,000	–	17	4,048

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (note 10) as bonus which are discretionary or are based on the Company or any member of the Group's performance or as an inducement to join or upon joining the Group or as compensation for loss of office. Other than those disclosed in note 8(a), none of the directors waived any emoluments during both years.

10. Individuals with highest emoluments

The five individuals whose emoluments were the highest in the Group include two directors (2009: four) whose emoluments are reflected in the analysis in note 9 above. The emoluments payable to the remaining three individuals (2009: one) is as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and other benfits	410	412
Contributions to retirement benefit schemes	1	11
Equity-settled share-based payment expenses	–	–
	411	423

The emoluments of the individual with the highest emoluments fell within the band of Nil to HK$1,000,000 (equivalent to RMB870,000) (2009: Nil to HK$1,000,000 (equivalent to RMB880,000)).

11. Income tax

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

	2010 RMB'000	2009 RMB'000
PRC enterprise income tax		
– Current year	893	994
– Under-provision in respect of prior years	331	541
	1,224	1,535
Deferred tax *(note 27(b))*		
– Reversal of temporary differences	(27)	–
	1,197	1,535

11. Income tax (Continued)

Notes:

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

(ii) The Group is not subject to Hong Kong Profits Tax as it has no assessable income arising in or derived from Hong Kong during the years ended 31 December 2010 and 2009.

(iii) Pursuant to the Enterprise Income Tax rules and regulations of the PRC, the PRC subsidiaries of the Group are subject to enterprise income tax as follows:

– Changzhou Huawei Electronics Company Limited ("Changzhou Huawei") is entitled to a preferential tax rate of 15% for the three years since 2009 for being a high technology enterprise. For the year ended 31 December 2010, Changzhou Huawei is not subject to enterprise income tax as it has no assessable income and it was taxed at 15% for the year ended 31 December 2009.

– Changzhou Huawei Capacitors Company Limited ("Huawei Capacitors"), South Huawei (Shenzhen) Electronics Company Limited ("South Huawei") and Changzhou Ao Si Te Dayou Electronics Company Limited ("Ao Si Te Dayou") are wholly foreign-owned enterprises and are entitled to the tax concessions whereby the profit for the first two financial years beginning with the first profit-making year were exempted for enterprise income tax in the PRC, and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. The first profit-making year for Huawei Capacitors, South Huawei, and Ao Si Te Dayou was 2006, 2006 and 2007, respectively.

For the year ended 31 December 2010, Huawei Capacitors, South Huawei and Ao Si Te Dayou are entitled to a 50% tax relief from foreign enterprise income tax of 25%, 22% and 25%, respectively. Ostor Zhansheng Electronic (Shenzhen) Company Limited ("OST Zhansheng") is not subject to enterprise income tax as it has no assessable income.

For the year ended 31 December 2009, Huawei Capacitors and South Huawei were entitled to a 50% tax relief from foreign enterprise income tax of 25% and 20%, respectively. OST Zhansheng was not subject to enterprise income tax as it had not yet commenced its business in 2009.

(b) Reconciliation between income tax expense and (loss)/profit before taxation at applicable tax rates:

	2010 RMB'000	2009 RMB'000
(Loss)/profit before taxation	(44,619)	7,694
Notional tax on (loss)/profit before taxation, calculated at the rates applicable in the tax jurisdiction concerned	(10,902)	2,408
Tax effect of exemptions granted to PRC subsidiaries	(892)	(1,421)
Tax effect of non-deductible expenses	1,310	1,246
Tax effect of non-taxable income	(224)	(1,239)
Tax effect of deductible temporary differences not recognised	7,283	–
Tax effect of tax losses not recognised	4,291	–
Under-provision in respect of prior years	331	541
Income tax expense	1,197	1,535

12. (Loss)/profit attributable to owners of the Company

The consolidated (loss)/profit attributable to the owners of the Company includes a loss of RMB1,359,000 (2009: RMB5,821,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company (loss)/profit for the year:

	2010 RMB'000	2009 RMB'000
Amount of loss attributable to the owners dealt with in the Company's financial statements	(1,359)	(5,821)
Impairment loss on the amount due from a subsidiary *(note 18)*	(16,500)	–
Loss for the year *(note 31)*	(17,859)	(5,821)

13. Dividends

No dividend was paid or proposed during the year, nor has any dividend been proposed since 31 December 2010 (2009: Nil).

14. (Loss)/earnings per share

The basic loss per share for the year is calculated based on the consolidated loss attributable to owners of the Company of approximately RMB45,718,000 (2009: consolidated profit of RMB6,159,000) and on the weighted average number of approximately 750,000,000 (2009: 614,630,137) ordinary shares in issue during the year.

Weighted average number of ordinary shares

	2010	2009
Ordinary shares issued at 1 January	750,000,000	600,000,000
Effect of share options exercised	–	4,767,123
Effect of share placement	–	9,863,014
Weighted average number of ordinary shares in issue	750,000,000	614,630,137

There were no share options outstanding during the year ended 31 December 2010 and, therefore, diluted loss per share is the same as the basic loss per share.

During the year ended 31 December 2009, 30,000,000 share options were granted on 3 November 2009 and were fully exercised on 4 November 2009 (notes 29(b) and 30(a)). As the outstanding period of the share options was one day, the diluted earnings per share is the same as the basic earnings per share.

15. Segment reporting

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-makers ("CODM"), i.e. directors of the Company, for the purposes of resource allocation and performance assessment.

The CODM consider the business from both geographic and product perspective. Geographically, management considers the location at which the goods are delivered. From the product perspective, the CODM consider the performance on sales of aluminum electrolytic capacitors and V-chip type aluminum electrolytic capacitors separately.

The Group has presented the following two reportable segments. These segments are managed separately.

– aluminum electrolytic capacitors

– V-chip type aluminum electrolytic capacitors

The two reportable operating segments derive their revenue primarily from the sales of aluminum electrolytic capacitors and V-chip type aluminum electrolytic capacitors.

No reportable operating segment has been aggregated.

(a) Segment revenue, results, assets and liabilities

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs. This is the measure reported to CODM for the purposes of resource allocation and performance assessment. Taxation charge/(credit) is not allocated to reportable segment.

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

There were no sales between segments during the year. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

All assets are allocated to reportable segments other than income tax recoverable and unallocated assets which are used jointly by reportable segments; and all liabilities are allocated to reportable segments other than income tax payable, deferred tax liabilities and other unallocated liabilities which are jointly liable by reportable segments.

Segment data for the year ended 31 December 2009 were restated to reflect the newly reportable segments for the year ended 31 December 2010.

15. Segment reporting (Continued)

(a) Segment revenue, results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

	2010		
	Aluminum electrolytic capacitors RMB'000	V-chip type aluminum electrolytic capacitors RMB'000	Total RMB'000
Revenue			
– Segment revenue	364,513	58,483	422,996
– Inter-segment revenue	–	–	–
Reportable segment revenue from external customers	364,513	58,483	422,996
Reportable segment (loss)/profit before taxation	(49,171)	7,153	(42,018)
Other items:			
Interest revenue	1,703	26	1,729
Interest expenses	(8,544)	(1,049)	(9,593)
Depreciation	(19,023)	(1,440)	(20,463)
Amortisation	(69)	(106)	(175)
Material non-cash items:			
Allowance for impairment on trade receivables, net	7,135	–	7,135
Allowance for impairment on other receivables	1,250	–	1,250
Write down of inventories	21,003	–	21,003
Reportable segment assets	568,169	137,763	705,932
Reportable segment liabilities	(416,832)	(53,651)	(470,483)
Additions to property, plant and equipment	27,859	64	27,923

15. Segment reporting (Continued)

(a) Segment revenue, results, assets and liabilities (Continued)

	2009		
	Aluminum electrolytic capacitors RMB'000	V-chip type aluminum electrolytic capacitors RMB'000	Total RMB'000
Revenue			
– Segment revenue	290,530	24,066	314,596
– Inter-segment revenue	–	–	–
Reportable segment revenue from external customers	290,530	24,066	314,596
Reportable segment profit before taxation	12,601	936	13,537
Other items:			
Interest revenue	725	–	725
Interest expenses	(6,722)	–	(6,722)
Depreciation	(15,697)	–	(15,697)
Amortisation	(42)	–	(42)
Material non-cash items:			
Allowance for impairment on trade receivables, net	560	–	560
Reportable segment assets	588,968	–	588,968
Reportable segment liabilities	(316,163)	–	(316,163)
Additions to property, plant and equipment	25,346	–	25,346

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

Revenue	2010 RMB'000	2009 RMB'000
Total reportable segment's revenue	422,996	314,596
Elimination of inter-segment revenue	–	–
Consolidated revenue	422,996	314,596

15. Segment reporting (Continued)

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities (Continued)

(Loss)/profit	2010 RMB'000	2009 RMB'000
Total reportable segment's (loss)/profit	(42,018)	13,537
Elimination of inter-segment profits	–	–
Reportable segment (loss)/profit derived from Group's external customers	(42,018)	13,537
Unallocated corporate expenses	(2,601)	(5,843)
Consolidated (loss)/profit before taxation	(44,619)	7,694

Assets	2010 RMB'000	2009 RMB'000
Total reportable segment's assets	705,932	588,968
Elimination of inter-segment current accounts	(18,430)	–
	687,502	588,968
Income tax recoverable	1,011	–
Unallocated corporate assets	17,601	13,822
Consolidated assets	706,114	602,790

Liabilities	2010 RMB'000	2009 RMB'000
Total reportable segment's liabilities	470,483	316,163
Elimination of inter-segment current accounts	(18,430)	–
	452,053	316,163
Income tax payable	727	504
Deferred tax liabilities	5,243	–
Unallocated corporate liabilities	4,516	4,801
Consolidated liabilities	462,539	321,468

15. Segment reporting (Continued)

(c) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered.

Revenue from external customers	2010 RMB'000	2009 RMB'000
The PRC, excluding Hong Kong	259,899	190,208
Taiwan	94,065	85,946
Hong Kong	27,355	16,699
Turkey	25,112	13,065
Korea	7,130	1,952
Other countries	9,435	6,726
	422,996	314,596

Substantially, all of the Group's non-current assets and capital expenditure are located in the PRC and therefore, no analysis on non-current assets by location is presented.

(d) Information from major customers

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

	2010 RMB'000	2009 RMB'000
Customer A		
Revenue from aluminum electrolytic capacitors segment	46,789	56,892
Revenue from V-chip type aluminum electrolytic capacitors segment	4,923	–
	51,712	56,892

Further details of concentration of credit risk arising from these customers are set out in note 3(b)(i).

16. Property, plant and equipment

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and office equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost							
At 1 January 2009	7,660	141,428	1,637	4,836	3,119	30,190	188,870
Additions	–	14,782	7,389	700	331	2,144	25,346
Disposals	–	–	–	–	(903)	–	(903)
Transfer from CIP	32,334	–	–	–	–	(32,334)	–
At 31 December 2009 and at 1 January 2010	39,994	156,210	9,026	5,536	2,547	–	213,313
Acquisition of subsidiaries *(note 32)*	14,100	20,602	1,682	–	948	–	37,332
Additions	4,160	19,025	1,384	2,824	260	270	27,923
Disposals	–	(93)	(5)	–	(35)	–	(133)
At 31 December 2010	58,254	195,744	12,087	8,360	3,720	270	278,435
Accumulated depreciation							
At 1 January 2009	1,664	46,111	810	2,041	1,387	–	52,013
Charge for the year	1,805	12,604	309	719	260	–	15,697
Written back on disposal	–	–	–	–	(461)	–	(461)
At 31 December 2009 and at 1 January 2010	3,469	58,715	1,119	2,760	1,186	–	67,249
Charge for the year	2,260	15,078	1,780	1,043	302	–	20,463
Written back on disposal	–	(38)	(5)	–	(22)	–	(65)
At 31 December 2010	5,729	73,755	2,894	3,803	1,466	–	87,647
Carrying amount							
At 31 December 2010	52,525	121,989	9,193	4,557	2,254	270	190,788
At 31 December 2009	36,525	97,495	7,907	2,776	1,361	–	146,064

Notes:

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

(b) Building and plant and machinery with aggregate carrying amount of RMB13,861,000 (2009: Nil) and RMB39,262,000 (2009: Nil), respectively, are pledged as part of the securities for the general banking facilities of the Group (note 33).

17. Lease prepayments/deposits for lease prepayments

(a) Lease prepayments

	The Group	
	2010 RMB'000	2009 RMB'000
Cost		
At 1 January	2,090	2,090
Acquisition of subsidiaries *(note 32)*	15,500	–
Additions	2,069	–
At 31 December	19,659	2,090
Accumulated amortisation		
At 1 January	165	123
Charge of the year	175	42
At 31 December	340	165
Carrying amount		
At 31 December	19,319	1,925
Carrying amount		
Current portion	379	42
Non-current portion	18,940	1,883
	19,319	1,925

Notes:

(i) Lease prepayments represent payments for land use rights for the medium-term leasehold land in the PRC, which have remaining terms ranging from 41 to 50 years as at 31 December 2010.

(ii) Lease prepayments with carrying amount of RMB15,394,000 (2009: Nil) are pledged as part of securities for the general banking facilities of the Group (note 33).

(iii) The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

(b) Deposits for lease prepayments

As at 31 December 2009, the Group made prepayments of RMB320,000 for the acquisition of land use rights for factory buildings. The Group has obtained these land use rights certificates during the year ended 31 December 2010.

18. Investments in subsidiaries

	The Company	
	2010 RMB'000	2009 RMB'000
Cost		
Unlisted shares	238,071	84,584
Amount due from a subsidiary *(note a)*	–	153,487
Less: Impairment loss *(notes b and 12)*	(16,500)	–
Investments in subsidiaries, net	221,571	238,071

Notes:

(a) During the year ended 31 December 2010, the amount due from a subsidiary of RMB153,487,000, which was brought forward from the last year, was capitalised upon issue of one new ordinary share of US$0.01 by Huawei Group Holdings Limited, a directly wholly-owned subsidiary, to the Company. In the last year, the amount due from a subsidiary was accounted for, in substance, as equity contribution by the Company to provide for capital of this subsidiary as it would not be demanded for repayment.

(b) An allowance for the Company's investments in subsidiaries of RMB16,500,000 (2009: Nil) was recognised as at 31 December 2010 because the estimated recoverable amount of investments in subsidiaries was estimated to be less than its carrying amount.

18. Investments in subsidiaries (Continued)

Particulars of the Company's subsidiaries as at 31 December 2010 are as follows:

Name	Place of incorporation/ establishment and operation	Issued and fully paid share capital/registered capital	Percentage of issued/registered capital held by the Company Direct %	Indirect %	Principal activities
Blue Saint Enterprises Limited	The British Virgin Islands ("BVI")	US$1	–	100	Inactive
常州奧斯特大有電子有限公司 Changzhou Ao Si Te Dayou Electronics Company Limited *(note i and iv)*	The People's Republic of China ("PRC")	US$4,150,000	–	100	Manufacture and sales of V-chip type aluminum electrolytic capacitors
常州華威電子有限公司 Changzhou Huawei Electronics Company Limited ("Changzhou Huawei") *(note i)*	PRC	US$3,070,000	–	100	Manufacture and sales of aluminum electrolytic capacitors
常州華威電容器有限公司 Changzhou Huawei Capacitors Company Limited ("Huawei Capacitors") *(note i)*	PRC	US$2,100,000	–	100	Trading of aluminum electrolytic capacitors
Energy First International Limited *(note iii)*	BVI	US$10,000	–	100	Investment holding
Hai Ji Wei Company Limited	Hong Kong	HK$1	–	100	Provision of administrative services
Hai Te Wei Company Limited	Hong Kong	HK$1	–	100	Investment holding
He Yue Company Limited	BVI	US$0.01	–	100	Investment holding
Huawei Group Holdings Limited	BVI	US$0.02	100	–	Investment holding
Moralway Creation Limited *(note iv)*	Hong Kong	HK$10,000	–	100	Investment holding
南方華威電子(深圳)有限公司 South Huawei (Shenzhen) Electronics Company Limited ("South Huawei") *(note i)*	PRC	HK$1,000,000	–	100	Manufacture and sales of aluminum electrolytic capacitors
Tong Tai Company Limited	BVI	US$0.01	–	100	Investment holding
Splendid Victory Development Limited *(note iv)*	BVI	US$1	–	100	Investment holding
SunTech Holdings Limited	BVI	US$10,000	100	–	Investment holding
SunTech Resources Group Company Limited	BVI	US$10,000	–	100	Inactive
SunTech Resources International Company Limited	Hong Kong	HK$10,000	–	100	Inactive
奧斯特展盛(深圳)電子有限公司 Ostor Zhansheng Electronic (Shenzhen) Company Limited ("OST Zhansheng") *(note i)*	PRC	HK$8,000,000	–	100	Manufacture and sales of aluminum electrolytic capacitors
四川石棉華瑞電子有限公司 Sichuan Shimian Huarui Electronics Company Limited *(note ii and iii)*	PRC	RMB50,000,000	–	60	Inactive

18. Investments in subsidiaries (Continued)

Notes:

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

(ii) This entity is a limited liability company.

(iii) Incorporated during the year ended 31 December 2010.

(iv) Acquired during the year ended 31 December 2010 (note 32).

19. Inventories

	The Group	
	2010 RMB'000	2009 RMB'000
Raw materials	32,161	22,992
Work-in-progress	68,565	46,446
Finished goods	97,861	74,438
	198,587	143,876

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

	The Group	
	2010 RMB'000	2009 RMB'000
Carrying amount of inventories sold	389,418	272,424
Write down of inventories *(note)*	21,003	–
	410,421	272,424

Note:

During the year ended 31 December 2010, there were return of goods of RMB21,003,000 from customers due to unsatisfactory with the quality of the goods. As a result, a write down of inventories has been charged to profit or loss in the current year.

20. Trade and bills receivables

	The Group	
	2010 RMB'000	2009 RMB'000
Trade receivables	153,503	147,685
Less: Allowance for doubtful debts	(17,582)	(13,225)
	135,921	134,460
Bills receivables	1,772	1,670
	137,693	136,130

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

(a) Aging analysis

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

	The Group	
	2010 RMB'000	2009 RMB'000
0 – 30 days	39,671	19,896
31 – 90 days	59,056	51,759
91 – 180 days	22,333	26,899
181 – 365 days	17,476	11,390
Over 365 days	16,739	39,411
	155,275	149,355
Less: Allowance for doubtful debts	(17,582)	(13,225)
	137,693	136,130

The Group normally grants a credit period of 30 to 180 days to its customers. Further details on the Group's credit policy are set out in note 3(b)(i).

20. Trade and bills receivables (Continued)

(b) Impairment on trade receivables

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

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

	The Group	
	2010 RMB'000	2009 RMB'000
At 1 January	13,225	12,665
Reversal of impairment	(1,520)	(2,065)
Impairment recognised	8,655	2,625
Net charge to profit or loss	7,135	560
Write off against trade receivables	(2,778)	–
At 31 December	17,582	13,225

As at 31 December 2010, trade receivables of the Group amounted to RMB17,582,000 (2009: RMB13,225,000) were individually determined to be impaired and full allowance for impairment had been made. These individually impaired receivables were outstanding over 365 days as at the end of the reporting period, taking into account of creditworthiness, past payment history and subsequent settlements of each customer up to date of approval of the financial statements. Accordingly, specific allowances for doubtful debts of RMB8,655,000 (2009: RMB2,625,000) were recognised during the year.

During the year ended 31 December 2010, customers with balances of RMB2,778,000 were liquidated and these receivables had been fully impaired in previous years. In the opinion of the directors of the Company, the recovery of these amounts were remote and the allowance for impairment was written off against trade receivables during the year (2009: Nil).

No cash deposits nor collateral had been placed by the related trade debtors with the Group (2009: Nil).

20. Trade and bills receivables (Continued)

(c) Trade and bills receivables that are not impaired

Aging analysis of trade and bills receivables based on the due date that are neither individually nor collectively considered to be impaired as of the end of the reporting period is as follows:

	The Group	
	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	119,418	98,554
1-180 days	17,518	11,390
Over 180 days	757	26,186
	137,693	136,130

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

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

No cash deposits nor collateral had been placed by the related debtors with the Group (2009: Nil).

21. Other receivables and prepayments

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Other receivables and prepayments	7,771	8,888	60	60
Refundable deposits for terminated/proposed investments *(note a and b)*	16,980	13,200	–	–
Temporary loan to non-controlling shareholder of a subsidiary *(note c)*	5,000	–	–	–
Temporary loan to a supplier *(note d)*	12,020	–	–	–
	41,771	22,088	60	60
Less: Allowance for doubtful debts *(note e)*	(1,250)	–	–	–
Loans and receivables	40,521	22,088	60	60
Payments in advance to suppliers	11,015	9,591	–	–
Value-added tax refundable	7,381	5,481	–	–
	58,917	37,160	60	60

Notes:

(a) At 4 December 2009, the Group had paid a refundable deposit of HK$15,000,000 (2010: equivalent to RMB12,735,000; 2009: equivalent to RMB13,200,000) to an independent third party under a memorandum of understanding in relation to the proposed acquisition of 60% equity interest in a company, which is principally engaged in the operations of toll installation of LED street lamps in the PRC. At 30 September 2010, due to the due diligence review on this company could not be satisfactorily completed, the memorandum of understanding was terminated. On 11 March 2011, a settlement agreement was entered into between the Group and the vendor pursuant to which the deposit shall be fully repaid by 30 June 2011. In the opinion of the directors of the Company, the deposit is fully recoverable.

(b) At 12 March 2010,a refundable deposit of HK$5,000,000 (equivalent to RMB4,245,000) was paid to an independent third party under a memorandum of understanding for the proposed acquisition of the 60% equity interest in a joint-venture company. The major assets of this joint-venture company is a licence right over an iron mine in Indonesia and the rights for its management, trading, operation and import and export. At 21 September 2010, due to the due diligence on reorganisation and restructuring of this joint-venture company could not be satisfactorily completed, the memorandum of understanding was terminated. Partial deposit of HK$2,000,000 (equivalent to RMB1,698,000) was refunded subsequent to the reporting period. In the opinion of the directors of the Company, the remaining portion of HK$3,000,000 (equivalent to RMB2,547,000) is fully recoverable.

(c) Temporary loan to non-controlling shareholder of a subsidiary, 四川石棉華瑞電子有限公司 (Sichuan Shimian Huarui Electronics Company Limited) is unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, balance of the temporary loan to the non-controlling shareholder of the subsidiary is fully recoverable.

(d) Temporary loan to a supplier is unsecured, interest bearing at 5.31% per annum and repayable by 28 September 2011. In the opinion of the directors of the Company, balance of the temporary loan to the supplier is fully recoverable.

21. Other receivables and prepayments (Continued)

Notes: (Continued)

(e) Allowance for doubtful debts

	The Group	
	2010 RMB'000	2009 RMB'000
Impairment recognised in current year and at 31 December	1,250	–

At 31 December 2010, other receivables of the Group amounted to RMB1,250,000 (2009: Nil) were individually determined to be impaired and full allowance for impairment had been provided. These individually impaired receivables were in financial difficulties. In the opinion of the directors of the Company, the recoverability of the balances was remote and full allowance for impairment was made in the current year.

Except for the allowance of doubtful debts of RMB1,250,000 (2009: Nil) included in the "Other receivables and prepayments", none of the above assets is either past due or impaired and there was no recent history of default for the above receivables.

22. Cash at banks and in hand, time deposits and restricted bank deposits

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash at banks *(note a)*	15,058	20,655	557	562
Cash in hand	241	110	–	–
Cash at banks and in hand	15,299	20,765	557	562
Time deposits with original maturity less than three months *(note a)*	19,500	3,500	–	–
Cash and cash equivalents	34,799	24,265	557	562
Time deposits with original maturity over three months *(note b)*	–	60,000	–	–
Restricted bank deposits *(note c and 33)*	65,000	53,050	–	–
	99,799	137,315	557	562

22. Cash at banks and in hand, time deposits and restricted bank deposits (Continued)

Notes:

(a) The bank deposits with original maturity less than three months carried interest rate ranging from 0.001% to 1.98% (2009: 0.001% to 1.98%) per annum.

The bank deposits and cash in hand that are denominated in currencies other than functional currencies of the relevant group entities were as follows:

	The Group		The Company	
Currency	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
HK$	1,274	5,868	557	562
US$	86	2,210	–	–

(b) At 31 December 2009, time deposits with original maturity over three months were denominated in Renminbi with interest rate of 1.98% per annum.

(c) The restricted bank deposits of RMB45,500,000 (2009: RMB53,050,000) and RMB19,500,000 (2009: Nil) were pledged as part of securities for issuing bills payables to suppliers (note 23) and bank loans granted to the Group (note 26(a)), respectively. The interest rates on the restricted bank deposits was 1% (2009: 0.36%) per annum.

23. Trade and bills payables

	The Group	
	2010 RMB'000	2009 RMB'000
Trade payables	71,673	84,589
Bills payables	133,000	100,950
	204,673	185,539

All of the trade and bills payables are expected to be settled within one year.

Bills payables as at 31 December 2010 and 2009 were secured by restricted bank deposits (note 22(c)).

23.Trade and bills payables (Continued)

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

	The Group	
	2010 RMB'000	2009 RMB'000
0 – 30 days	49,033	41,161
31 – 90 days	66,982	91,028
91 – 365 days	88,437	52,693
Over 365 days	221	657
	204,673	185,539

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.

24. Other payables and accruals

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Salaries and welfare payable	4,800	4,283	–	943
Amounts payable for property, plant and equipment	6,210	8,916	–	–
Audit fee	645	466	645	466
Dividend payable to former shareholder of a subsidiary *(note)*	10,290	–	–	–
Others	3,294	1,853	1,329	338
Financial liabilities measured at amortised cost	25,239	15,518	1,974	1,747
Value-added tax payable	312	383	–	–
Receipts in advance	7,130	6,293	–	–
	32,681	22,194	1,974	1,747

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

Note:

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

25. Amount due to ultimate holding company

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

26. Bank loans

At 31 December 2010, the bank loans of the Group were as follows:

	The Group	
	2010 RMB'000	2009 RMB'000
Bank loans		
– Secured *(note a)*	90,412	55,000
– Unsecured *(note b)*	121,410	55,000
	211,822	110,000

Notes:

(a) At 31 December 2010, bank loans of RMB45,000,000 (2009: RMB55,000,000) were secured by the properties of a related company and a guarantee provided by that related company (note 37(e)).

At 31 December 2010, a bank loan of RMB10,000,000 (2009: Nil) was secured by the lease prepayments of RMB15,394,000 and buildings of RMB39,262,000 of a subsidiary, Ao Si Te Dayou, and personal guarantee provided by its director, Mr. Guan Zhilong, and a director of the Company, Mr. Yan Qixu and a former director of the Company, Ms. Xiang Xiaoqin.

At 31 December 2010, a bank loan of RMB35,412,000 (2009: Nil) was secured by the plant and equipment of RMB13,861,000 of a subsidiary, Changzhou Huawei, and time deposits of RMB19,500,000 of another subsidiary, Huawei Capacitors. This bank loan was also guaranteed by Huawei Capacitors. This bank loan was fully repaid subsequent to the end of the reporting period.

(b) At 31 December 2010, the Group's unsecured bank loans of RMB121,410,000 were guaranteed by two subsidiaries, Huawei Capacitors and Ao Si Te Dayou. In addition, Mr. Yan Qixu, a director of the Company, Ms. Xiang Xiaoqin, a former director of the Company, and Mr. Guan Zhilong, a director of a subsidiary, Ao Si Te Dayou, have provided personal guarantees for these bank loans (note 37(e)).

At 31 December 2009, the unsecured bank loans of RMB55,000,000 were guaranteed by two subsidiaries, Changzhou Huawei and Huawei Capacitors.

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

	The Group	
	2010	2009
Effective interest rates:		
Fixed-rate borrowings	5.95%	5.72%
Variable-rate borrowings	1.67%	–

(d) The Group's bank loans denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	The Group	
	2010 HK$'000	2009 HK$'000
Hong Kong dollars	41,710	–

27. Income tax in the statement of financial position

(a) Current taxation

	The Group	
	2010 RMB'000	2009 RMB'000
PRC enterprise income tax		
– Provision for the year	1,224	1,535
– Provisional tax paid	(1,508)	(1,031)
	(284)	504
Represented by:		
Income tax recoverable	1,011	–
Income tax payable	(727)	(504)
	284	(504)

(b) Deferred tax liabilities recognised

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

	The Group		
	Withholding tax on undistributed profits RMB'000	Revaluation surplus on the property, plant and equipment RMB'000	Total RMB'000
Business combination *(note 32)*	1,898	3,372	5,270
Credited to profit or loss *(note 11(a))*	–	(27)	(27)
At 31 December 2010	1,898	3,345	5,243

(c) Deferred tax assets or liabilities not recognised

At the end of the reporting period, the Group has unused tax losses of RMB17,164,000 (2009: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams of the relevant group entities. The unused tax losses expire at 31 December 2015.

Potential deferred tax assets arising from temporary differences on allowance for impairment on trade and other receivables of RMB2,032,000 (2009: Nil) and write down of inventories of RMB5,251,000 (2009: Nil) have not been recognised as it is uncertain that such assets will be crystallised in the foreseeable future.

27. Income tax in the statement of financial position (Continued)

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

28. Employee retirement benefits

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

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

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

The total cost charged to profit or loss of RMB1,861,000 (2009: RMB1,168,000) represents contributions payable to these schemes by the Group in respect of the current year.

During the year ended 31 December 2010, none of the contributions were forfeited by employers on behalf of the employees who leave the schemes prior to vesting fully in such contributions.

29. Share option scheme

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

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

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

29. Share option scheme (Continued)

(a) The total number of shares available for issue under the Share Option Scheme as at the end of the reporting period was 75,000,000 shares (2009: 75,000,000 shares) which represented 10% of the issued share capital of the Company as at the end of the reporting period. There is no minimum period for which an option to be held before it can be exercised under the Share Option Scheme. At 31 December 2010, there were no outstanding share options (2009: Nil). No share option was granted during the year ended 31 December 2010.

The terms, number and exercise prices of share options granted and a summary of the movements of the outstanding options under the Share Option Scheme during the year ended 31 December 2009 are as follows:

				Number of shares issuable under options granted				
	Exercise price per option HK$	Date of grant	Exerciseable period	Outstanding as at 1/1/2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31/12/2009
Directors								
Yan Qixu	0.169	3/11/2009	3/11/2009-2/11/2019	–	6,000,000	(6,000,000)	–	–
Xiang Xiaoqin	0.169	3/11/2009	3/11/2009-2/11/2019	–	6,000,000	(6,000,000)	–	–
Kuang Lihua	0.169	3/11/2009	3/11/2009-2/11/2019	–	6,000,000	(6,000,000)	–	–
Liu Xinsheng	0.169	3/11/2009	3/11/2009-2/11/2019	–	6,000,000	(6,000,000)	–	–
Employee	0.169	3/11/2009	3/11/2009-2/11/2019	–	6,000,000	(6,000,000)	–	–
				–	30,000,000	(30,000,000)	–	–

(b) On 3 November 2009, options for a total of 30,000,000 shares were granted as referred to note (a) above. The closing price of the shares of the Company immediately before the date of grant was HK$0.164. All of these share options were exercised on 4 November 2009. The weighted average share price at the date of exercise was HK$0.165.

(c) The estimated fair value of the options granted for the 30,000,000 shares on 3 November 2009 amounted to HK$1,424,000 (equivalent to approximately RMB1,253,000), which was calculated using the Black-Scholes Option Pricing Model (the "Model") as at the date of the grant of the share options. The followings are the key inputs to the Model:

	2009
Share price	HK$0.164
Exercise price	HK$0.169
Expected volatility	77.94%
Expected dividend yield	0%
Risk free rate	0.14%
Expected life of the share options	10 years

Expected volatility was determined by using the historical volatility of the share prices of the Company.

29.Share option scheme (Continued)

(c) (Continued)

The Group recognised a total expense of approximately HK$1,424,000 (equivalent to approximately RMB 1,253,000) for the year ended 31 December 2009 in relation to the share options granted by the Company.

The Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimates. The value of an option varies with different variables of certain subjective assumptions.

There were no service conditions or market conditions associated with the share options granted.

30.Share capital

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000
Authorised:		
At 31 December 2009 and 31 December 2010	2,000,000,000	20,000

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares	
		HK$'000	RMB'000
Issued and fully paid			
At 1 January 2009	600,000,000	6,000	5,820
Ordinary shares issued:			
– Exercise of share options *(note a)*	30,000,000	300	264
– Placing of shares *(note b)*	120,000,000	1,200	1,056
At 31 December 2009 and 31 December 2010	750,000,000	7,500	7,140

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

Notes:

(a) Issue of new ordinary shares upon exercise of share options

On 4 November 2009, 30,000,000 new ordinary shares of HK$0.01 each were issued at HK$0.169 per ordinary share under the share options granted on 3 November 2009 as referred in note 29 to the consolidated financial statements. The proceeds amounted to HK$5,070,000, of which HK$300,000 (equivalent to RMB264,000) was credited to share capital and the balance of HK$4,770,000 (equivalent to RMB4,197,000), including the fair value of the share options of HK$1,424,000 (equivalent to RMB1,253,000) as referred to note 29(c), was credited to the share premium account.

30. Share capital (Continued)

Notes: (Continued)

(b) Issue of new ordinary shares under placing of shares

On 2 December 2009, the Company issued 120,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.143 per ordinary share. The proceeds amounted to HK$17,160,000, out of which HK$1,200,000 (equivalent to RMB1,056,000) was recorded in share capital with the balance of HK$15,960,000 (equivalent to RMB14,045,000) was credited to the share premium account.

All the new ordinary shares issued during the year ended 31 December 2009 rank pari passu in all respects with the then existing ordinary shares of the Company.

31. Reserves

The Group

	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Special reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2009	147,567	6,894	–	42,783	16,271	(2,020)	37,181	248,676
Equity-settled share-based payment expenses	–	–	1,253	–	–	–	–	1,253
Ordinary shares issued upon exercise of share options	5,450	–	(1,253)	–	–	–	–	4,197
Ordinary shares issued under placing	14,045	–	–	–	–	–	–	14,045
Ordinary share issuing expenses	(152)	–	–	–	–	–	–	(152)
Transfer	–	–	–	–	550	–	(550)	–
Profit for the year	–	–	–	–	–	–	6,159	6,159
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	4	–	4
Total comprehensive income for the year	–	–	–	–	–	4	6,159	6,163
At 31 December 2009 and at 1 January 2010	166,910	6,894	–	42,783	16,821	(2,016)	42,790	274,182
Transfer	–	–	–	–	509	–	(509)	–
Loss for the year	–	–	–	–	–	–	(45,718)	(45,718)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	69	–	69
Total comprehensive loss for the year	–	–	–	–	–	69	(45,718)	(45,649)
At 31 December 2010	166,910	6,894	–	42,783	17,330	(1,947)	(3,437)	228,533

31. Reserves (Continued)

The Company

	Share premium RMB'000	Share option reserve RMB'000	Special reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	147,567	–	84,516	469	232,552
Equity-settled share-based payment expenses	–	1,253	–	–	1,253
Ordinary shares issued upon exercise of share options	5,450	(1,253)	–	–	4,197
Ordinary shares issued under placing	14,045	–	–	–	14,045
Ordinary share issuing expenses	(152)	–	–	–	(152)
Loss for the year	–	–	–	(5,821)	(5,821)
Total comprehensive loss for the year	–	–	–	(5,821)	(5,821)
At 31 December 2009 and at 1 January 2010	166,910	–	84,516	(5,352)	246,074
Loss for the year	–	–	–	(17,859)	(17,859)
Total comprehensive loss for the year	–	–	–	(17,859)	(17,859)
At 31 December 2010	166,910	–	84,516	(23,211)	228,215

Notes:

(a) **Share premium**
The share premium account represents the excess of the issue price net of any issuance expenses over the par value of the ordinary shares issued and has been credited to the share premium account of the Company. The application of the share premium account is governed by Section 34 under the Companies Law of the Cayman Islands.

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

(c) **Share option reserve**
The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments. All the balance was transferred to share premium account following the issue of new ordinary shares upon exercise of all these options granted as referred to notes 29 and 30 (a).

31. Reserves (Continued)

Notes: (Continued)

(d) **Special reserve**
Special reserve represents the difference between the net assets of Huawei Group Holdings Limited and its subsidiaries acquired by the Company and the nominal value of one nil-paid issued share of the Company through an exchange of shares.

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

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

(g) **Distributability of reserves**
At 31 December 2010, the aggregate amount of reserves available for distribution to owners of the Company was RMB228,215,000 (2009: RMB246,074,000). The funds in the share premium account are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

32. Business combination

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

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

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

32. Business combination (Continued)

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

	Fair value RMB'000
Property, plant and equipment *(note a)*	37,332
Lease prepayments *(note a)*	15,500
Inventories	52,912
Trade and bills receivables *(note b)*	11,344
Other receivables and prepayments *(note b)*	2,617
Cash at banks and in hand	2,424
Trade and bills payables	(24,198)
Other payables and accruals	(4,923)
Dividend payables	(10,290)
Withholding tax	(2,448)
Bank loans	(20,000)
Deferred tax liabilities	(5,270)
Net identifiable assets and liabilities	55,000
Consideration	55,000
Analysis of net cash outflow on acquisition:	
Cash paid	55,000
Cash and cash equivalent acquired	(2,424)
Net cash outflow	52,576

Notes:

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

(b) The acquired trade and bills receivables and other receivables and prepayments with fair values of RMB11,344,000 and RMB2,617,000, respectively, had gross contractual amounts of RMB11,344,000 and RMB2,617,000, respectively. All of the trade and bills receivables and other receivables and prepayments are expected to be fully recovered at the best estimate at the acquisition date on 23 August 2010.

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

33. Pledged assets

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

	The Group	
	2010 RMB'000	2009 RMB'000
Lease prepayments *(note 17(a)(ii))*	15,394	–
Property, plant and equipment *(note 16(b))*	53,123	–
Restricted bank deposits *(note 22)*	65,000	53,050
	133,517	53,050

34. Available unused credit facilities

At the end of the reporting period, the total credit facilities of the Group amounted to RMB533,412,000 (2009: RMB247,000,000), which were utilised to the extent of bills payables of RMB133,000,000 (2009: RMB100,950,000), secured bank loans of RMB90,412,000 (2009: RMB55,000,000) and unsecured bank loans of RMB121,410,000 (2009: RMB55,000,000). The available unused credit facilities were RMB188,590,000 (2009: RMB36,050,000) at 31 December 2010.

After the end of the reporting period, Mr. Yan Qixu, a director and substantial shareholder of the Company, provided a loan of HK$200,000,000 to the Group for financing the cash portion of the consideration for the acquisition of 50% equity interest in Giga World Industry Company Limited as detailed in note 38.

35. Operating lease commitments

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

	The Group	
	2010 RMB'000	2009 RMB'000
Within one year	2,271	633
In the second to fifth year, inclusive	1,715	936
	3,986	1,569

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

The Company had no operating lease commitments at the end of the reporting period (2009: Nil).

36. Capital commitments

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

	The Group	
	2010 RMB'000	2009 RMB'000
Contracted but not provided for		
– Purchase of property, plant and equipment	29,509	1,493
– Injection of capital in a subsidiary	18,000	1,311
	47,509	2,804
Authorised but not contracted for		
– Purchase of property, plant and equipment	44,449	–
	91,958	2,804

The Company had no material capital commitments at the end of the reporting period (2009: Nil).

37. Material related party transactions

During the years ended 31 December 2010 and 2009, the directors of the Company are of the view that the following are related parties of the Group and the Company:

Name of the party	Relationship
Li Wing Sang	Executive director
Yan Qixu	Executive director
Liu Xinsheng	Executive director
Xiang Xiaoqin (resigned on 1 March 2011)	Executive director
Kuang Lihua (resigned on 15 February 2011)	Executive director
Lin Sufen	Non-executive director
Xu Kangning	Non-executive director
Wong Chun Hung (resigned on 7 January 2011)	Non-executive director
Changzhou Huawei Reflective Material Company Limited ("Reflective Material")	Mr. Yan Qixu and Ms. Xiang Xiaoqin are common directors and controlling shareholders
Enercon Capacitor Company Limited	Related company, Mr. Guan Zhilong, a director of Ao Si Te Dayou, is director and controlling shareholder
深圳市吉泰龍電子有限公司	Related company, Mr. Guan Zhilong, a director of Ao Si Te Dayou, is director and controlling shareholder
Blue Saint Enterprise Limited	Subsidiary
Changzhou Ao Si Te Dayou Electronics Company Limited ("Ao Si Te Dayou")	Subsidiary
Changzhou Huawei Electronics Company Limited	Subsidiary
Energy First International Limited	Subsidiary
Hai Te Wei Limited	Subsidiary
He Yue Company Limited	Subsidiary
Huawei Group Holdings Limited	Subsidiary
Sichuan Shimian Huarui Electronics Company Limited ("Sichuan Shimian Huarui")	Subsidiary
SunTech Holdings Limited	Subsidiary
SunTech Resources Group Company Limited	Subsidiary

37. Material related party transactions (Continued)

(a) Amounts due to directors

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Li Wing Sang	5,130	12	220	12
Yan Qixu	1,392	797	663	668
Liu Xinsheng	590	597	590	597
Xiang Xiaoqin	–	1,080	–	1,047
Kuang Lihua	–	608	–	593
Lin Sufen	39	39	39	39
Xu Kangning	39	39	39	39
Wong Chun Hung	59	59	59	59
	7,249	3,231	1,610	3,054

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

(b) Amounts due from subsidiaries

	The Company	
	2010 RMB'000	2009 RMB'000
Blue Saint Enterprises Limited	8	8
Hai Te Wei Limited	6,018	6,018
Huewei Group Holdings Limited	7,523	7,523
SunTech Resources Group Company Limited	13,200	13,200
	26,749	26,749

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

37. Material related party transactions (Continued)

(c) Amounts due to subsidiaries

	The Company	
	2010 RMB'000	2009 RMB'000
Changzhou Huawei Electronics Company Limited	9,425	7,024
Energy First International Limited	170	–
He Yue Company Limited	335	335
SunTech Holdings Limited	68	68
	9,998	7,427

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

(d) Trading transactions

	The Group	
	2010 RMB'000	2009 RMB'000
Sales of goods		
Enercon Capacitor Company Limited	23,701	–
深圳市吉泰龍電子有限公司	4,244	–
	27,945	–

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

	The Group	
	2010 RMB'000	2009 RMB'000
Trade and bills receivables		
Enercon Capacitor Company Limited	5,155	–
深圳市吉泰龍電子有限公司	2,854	–
	8,009	–

37. Material related party transactions (Continued)

(d) Trading transactions (Continued)

Sales of goods to related companies were made in the ordinary course of business and at normal commercial terms at the Group's regular listed prices.

The amounts outstanding are unsecured and will be settled in cash and have been included in trade receivables. No guarantees have been given or received. No expenses have been recognised in the current or prior years for doubtful debts in respect of the amount due by the related companies.

(e) Securities and guarantees

At 31 December 2010, the Group's bank loans of RMB45,000,000 (2009: RMB55,000,000) were secured by certain properties and a guarantee provided by Reflective Material.

At 31 December 2010, Mr. Yan Qixu, a director of the Company, Ms. Xiang Xiaoqiu, a former director of the Company, and Mr. Guan Zhilong, a director of Ao Si Te Dayou, have provided personnal guarantees to the Group's unsecured bank loans of RMB121,400,000 (2009: Nil).

(f) Key management personnel remuneration

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

	The Group	
	2010 RMB'000	2009 RMB'000
Short-term employee benefits	1,249	3,233
Contributions to retirement benefit schemes	3	29
Equity-settled share-based payment expenses	–	1,253
	1,252	4,515

38. Event after the reporting period

On 31 January 2011, Energy First International Limited ("Energy First"), a wholly-owned subsidiary of the Company, acquired from Action Victory Limited ("Action Victory"), an independent third party, 50% equity interest in Giga World Industry Company Limited ("Giga World"), which is engaged in the operation of the manufacturing, assembling, installation and maintenance of LED street lamps in the PRC and research and development and manufacturing of vertical axis-wind and solar hybrid power-supply system, at the consideration of HK$320,000,000 based on an agreement dated 24 January 2011. The consideration was satisfied by cash of HK$200,000,000, 50,000,000 new ordinary shares of HK$0.01 each of the Company and a promissory note of HK$20,000,000 issued by the Company. A loan agreement dated 24 January 2011 was made between Mr. Yan Qixu, a director and substantial shareholder of the Company, and the Company, pursuant to which, a loan of HK$200,000,000 from Mr. Yan Qixu was drawn down on 27 January 2011 and applied to settle cash portion of the consideration of the acquisition. 50,000,000 new ordinary shares of HK$0.01 each of the Company were issued at the price of HK$2.00 each which were credited as fully paid and HK$20,000,000 promissory note, which is unsecured, interest-free and repayable at 31 January 2013, was issued as part of the consideration.

Pursuant to the supplemental agreement dated 31 January 2011, Action Victory assigned its remaining voting right of 10% on the shareholders' meeting in Giga World to Energy First, and therefore, Energy First has held 60% voting right on the shareholders' meeting in Giga World which will be accounted for as a subsidiary of the Group.

Further details of the acquisition are set out in the Company's announcement dated 24 January 2011.

The latest unaudited assets and liabilities provided by the management of Giga World at 31 December 2010, provisionally stated, are as follows,

	Provisional fair value on acquisition RMB'000
Property, plant and equipment	11,642
Intangible assets	–
Lease prepayments	648
Inventories	40,161
Trade receivables	19,730
Other receivables and prepayments	11,241
Cash at banks and in hand	5,169
Trade payables	(4,729)
Other payables and accruals	(1,459)
Net identifiable assets	82,403
Non-controlling interests (50% equity interest in Giga World)	(41,201)
Goodwill arising on acquisition	223,508
Total consideration	264,710

38. Event after the reporting period (Continued)

	HK$'000
Fair value of consideration:	
Cash paid *(note a)*	200,000
New ordinary shares issued *(note b)*	95,000
Promissory note issued *(note c)*	16,790
	311,790
	RMB'000
	264,710

The initial unaudited accounting for the acquisition of Giga World involves identifying and determining the fair values to be assigned to the identifiable assets (including intangible assets), liabilities and contingent liabilities. However, the identification and determination of the fair values of identifiable assets (including intangible assets), liabilities and contingent liabilities could only be performed provisionally and pending finalisation as at the date of approval of these financial statements. Hence, the carrying amounts of the assets (including intangible assets), liabilities, contingent liabilities and goodwill as listed above may be subject to further changes upon finalisation of their fair values by experts and therefore, the allocation of the purchase consideration is subject to adjustment.

Notes:

(a) The cash portion of HK$200,000,000 of the consideration was financed by a loan from Mr. Yan Qixu, a director and substantial shareholder of the Company. The loan from Mr. Yan Qixu is unsecured, interest-free and repayable at 24 January 2012.

(b) 50,000,000 new ordinary shares of HK$0.01 each of the Company at the issue price of HK$2.00 each were issued on 31 January 2011. The fair value of these shares amounted to HK$95,000,000 based on the closing price of HK$1.9 of the Company's shares at the date of completion on 31 January 2011.

(c) HK$20,000,000 promissory note, which is unsecured, interest-free and repayable at 31 January 2013, was issued by the Company on 31 January 2011. The fair value of the promissory note was HK$16,790,000 determined by a firm of independent professional valuers, Norton Appraisals Limited, who has among their staff, member of Registered Business Valuer of the Hong Kong Business Valuation Forum, with recent experience in the similar instruments being valued, using the discount rate of 9.15% in the estimated cash flow.

Pursuant to the sale and purchase agreement, there is a profit guarantee of not less than RMB40,000,000 of the profit before taxation for the twelve months from 1 February 2011 to 31 January 2012. Out of the above consideration shares issued by the Company, 20,000,000 ordinary shares of HK$0.01 each of the Company are held by the Company as security for the profit guarantee.

39. Immediate and ultimate holding Company

At 31 December 2010, the directors of the Company regard Tong Heng Company Limited, a company incorporated in the British Virgin Islands, as being the immediate and ultimate holding company of the Group.

Group Financial Summary

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Results					
Turnover	422,996	314,596	237,596	287,567	256,744
Operating (loss)/profit	(35,026)	14,416	13,463	71,118	67,692
Finance costs	(9,593)	(6,722)	(8,712)	(8,194)	(7,821)
(Loss)/profit before taxation	(44,619)	7,694	4,751	62,924	59,871
Income tax	(1,197)	(1,535)	(1,666)	(6,058)	(3,094)
(Loss)/profit for the year	(45,816)	6,159	3,085	56,866	56,777
Attributable to:					
Owners of the Company	(45,718)	6,159	3,085	56,866	56,777
Non-controlling interest	(98)	—	—	—	—
(Loss)/earnings per share					
– Basic	(6.1 cents)	1 cents	0.5 cents	11 cents	13 cents
– Diluted	(6.1 cents)	1 cents	0.5 cents	11 cents	13 cents
Assets and liabilities					
Non-current assets	209,728	148,267	139,102	93,236	66,608
Current assets	496,386	454,523	315,662	366,953	204,100
Current liabilities	(457,296)	(321,468)	(140,268)	(134,680)	(111,778)
Total assets less current liabilities	248,818	281,322	314,496	325,509	158,930
Non-current liabilities	(5,243)	—	(60,000)	(60,000)	(60,000)
Net assets	243,575	281,322	254,496	265,509	98,930
Equity					
Share capital	7,140	7,140	5,820	5,820	—
Reserves	228,533	274,182	248,676	259,689	98,930
Equity attributable to owners of the Company	235,673	281,322	254,496	265,509	98,930
Non-controlling interest	7,902	—	—	—	—
Total equity	243,575	281,322	254,496	265,509	98,930