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

INTERIM REPORT 2012

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CORPORATE INFORMATION

Board of directors

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

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

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

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

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

Authorized representatives
Mr. Liu Xinsheng
Mr. Ng Chi Ho Dennis

Company secretary
Mr. Ng Chi Ho Dennis

Auditor
CCIF CPA Limited

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

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

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

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

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

Company website
http://www.techprotd.com

Stock code
03823

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		Six months ended 30 June	
	Note	**2012 RMB'000 (unaudited)**	2011 RMB'000 (unaudited)
Turnover	5	**271,710**	197,451
Cost of sales		**(219,046)**	(161,033)
Gross profit		**52,664**	36,418
Other revenue and income	5, 6	**4,542**	3,328
Distribution costs		**(7,030)**	(5,160)
Administrative expenses		**(51,308)**	(19,975)
Amortization of other intangible assets		**(35,661)**	–
Changes in fair value on the embedded derivative of convertible notes	19	**5,407**	1,583
Loss on redemption of promissory notes	18	**(6,041)**	–
Other operating expenses		**(1,017)**	(327)
Finance costs	7	**(22,299)**	(11,512)
(Loss)/profit before taxation	8	**(60,743)**	4,355
Income tax credit/(expense)	9	**2,715**	(365)
(Loss)/profit for the period		**(58,028)**	3,990
Attributable to:			
Owners of the Company		**(55,753)**	4,513
Non-controlling interests		**(2,275)**	(523)
(Loss)/profit for the period		**(58,028)**	3,990
(Loss)/earnings per share (RMB)	10		
– Basic		**(5.3 cents)**	0.6 cents
– Diluted		**(5.3 cents)**	0.6 cents

The notes of pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Loss)/profit for the period	**(58,028)**	3,990
Other comprehensive income for the period		
Exchange differences on translation of financial statements of foreign subsidiaries	**129**	171
Total comprehensive (loss)/income for the period	**(57,899)**	4,161
Attributable to:		
Owners of the Company	**(55,624)**	4,684
Non-controlling interests	**(2,275)**	(523)
Total comprehensive (loss)/income for the period	**(57,899)**	4,161

The notes of pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	**As at 30 June 2012 RMB'000 (unaudited)**	As at 31 December 2011 RMB'000 (audited) (restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	**296,581**	295,148
Lease prepayments		**18,317**	18,517
Goodwill	13	**372,441**	372,441
Other intangible assets	14	**694,343**	730,004
		1,381,682	1,416,110
Current assets			
Inventories		**244,018**	245,934
Lease prepayments		**401**	401
Trade and bills receivables	15	**238,015**	168,589
Other receivables and prepayments		**93,801**	96,934
Income tax recoverable		**6**	283
Short-term investment		**2,000**	1,045
Restricted bank deposits		**70,051**	67,702
Cash at banks and in hand		**61,679**	30,449
		709,971	611,337
Current liabilities			
Trade and bills payables	16	**269,535**	222,356
Other payables and accruals		**160,268**	73,927
Amount due to a related company	25(c)	**9,047**	23,360
Amounts due to directors	25(d)	**4,268**	3,918
Amount due to a shareholder	25(e)	**144**	144
Bank loans	17	**282,890**	223,963
Promissory notes payable	18	**659**	534
Convertible notes – liability portion	19	**66,550**	7,425
Convertible notes – embedded derivatives	19	**53,493**	–
Income tax payable		**13,559**	7,300
		860,413	562,927
Net current (liabilities)/assets		**(150,442)**	48,410
Total assets less current liabilities		**1,231,240**	1,464,520
Non-current liabilities			
Loan from a director	25(f)	**96,996**	162,060
Promissory notes payable	18	**14,376**	60,250
Convertible notes – liability portion	19	**–**	60,576
Convertible notes – embedded derivatives	19	**–**	61,893
Deferred tax liabilities	20	**180,949**	189,923
		292,321	534,702
Net assets		**938,919**	929,818

The notes of pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	**As at 30 June 2012 RMB'000 (unaudited)**	As at 31 December 2011 RMB'000 (audited) (restated)
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	**9,676**	9,439
Reserves		**677,422**	666,283
		687,098	675,722
Non-controlling interests		**251,821**	254,096
Total equity		**938,919**	929,818

The notes of pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Warrant reserve RMB'000	Other reserve RMB'000	Special reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings/ (accumulated loss) RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011 (audited)	7,140	166,910	6,894	–	–	42,783	17,330	(1,947)	(3,437)	7,902	243,575
Proceeds from issue of unlisted warrants	–	–	–	1,661	–	–	–	–	–	–	1,661
Issue of ordinary shares upon the acquisition of subsidiaries	422	79,844	–	–	–	–	–	–	–	–	80,266
Non-controlling interests arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	12,653	12,653
Profit for the period	–	–	–	–	–	–	–	–	4,513	(523)	3,990
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	–	171	–	–	171
Total comprehensive income for the period	–	–	–	–	–	–	–	171	4,513	(523)	4,161
At 30 June 2011 (unaudited)	7,562	246,754	6,894	1,661	–	42,783	17,330	(1,776)	1,076	20,032	342,316
At 1 January 2012 (audited)	9,439	653,403	6,894	526	(716)	42,783	17,330	(1,721)	(52,216)	254,096	929,818
Proceeds from issue of unlisted warrants	–	–	–	5,630	–	–	–	–	–	–	5,630
Issue of ordinary shares upon the conversion of convertible notes	26	8,705	–	–	–	–	–	–	–	–	8,731
Issue of ordinary shares upon the exercise of unlisted warrants	211	53,460	–	(1,032)	–	–	–	–	–	–	52,639
Loss for the period	–	–	–	–	–	–	–	–	(55,753)	(2,275)	(58,028)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	–	129	–	–	129
Total comprehensive loss for the period	–	–	–	–	–	–	–	129	(55,753)	(2,275)	(57,899)
At 30 June 2012 (unaudited)	9,676	715,568	6,894	5,124	(716)	42,783	17,330	(1,592)	(107,969)	251,821	938,919

The notes of pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash generated from/(used in) operating activities	**82,575**	(36,149)
Net cash used in investing activities	**(16,537)**	(14,925)
Net cash (used in)/generated from financing activities	**(35,736)**	102,687
Net increase in cash and cash equivalents	**30,302**	51,613
Cash and cash equivalents at 1 January	**30,449**	34,799
Effect of foreign exchange rate changes	**928**	171
Cash and cash equivalents at 30 June	**61,679**	86,583

The notes of pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. GENERAL INFORMATION

Tech Pro Technology Development Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its principal place of business is located at Unit 1402, 14/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the following activities:

(a) Manufacture and sale of aluminum electrolytic capacitors;
(b) Manufacture and sale of chip type electronic components; and
(c) Manufacture and sale of LED lightings.

These unaudited condensed consolidated interim financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand. Renminbi is the functional and presentation currency of the Group.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation adopted in these condensed consolidated interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2011 and these condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report contains condensed consolidated interim financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performances of the Group since the annual financial statements for the year ended 31 December 2011. The condensed consolidated interim financial statements and notes thereon do not include all the information required for a full set of financial statements prepared in accordance with HKFRSs.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumption that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011, with the exception of changes in estimates that are required in determining the provision for income taxes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

2. BASIS OF PREPARATION (Continued)

This interim financial report has been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The directors of the Company have made due care and considerations concerning the appropriateness of the going concern in light of the Group's future liquidity requirements and the capital commitments as at 30 June 2012. The deficiency in net current assets of RMB150,442,000 as at 30 June 2012 was driven mainly by the reclassification of convertible notes to current liabilities as at 30 June 2012 which was non-current liabilities as at 31 December 2011. For the six months ended 30 June 2012, the Group generated positive cash flow from operating activities of RMB82,575,000 and the available unused credit facilities were RMB27,110,000 as at 30 June 2012. Further, after having taken into account of the cash flow forecast of the Group for a period of eighteen months from 1 July 2012 to 31 December 2013, funding of HK$329,910,000 will be raised upon full exercise of the subscription rights attaching to the unlisted warrants issued by the Company on 16 June 2011 and 15 February 2012 respectively, an aggregate of 127,000,000 ordinary shares of the Company would be issued. Subsequent to the end of the reporting period, amount of HK$1,820,000 has been raised from the exercise of these unlisted warrants. 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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new or revised HKFRSs that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods.

The following new or revised HKFRSs, potentially relevant to the Group, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRS 1 Amendments	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 Amendments	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

[1] effective of annual periods beginning on or after 1 July 2012
[2] effective for annual periods beginning on or after 1 January 2013
[3] effective for annual periods beginning on or after 1 January 2014
[4] effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs in the period of their initial application.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, currency risk, equity price risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in the risk management policies since last year end.

(b) Fair values

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

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June 2012 and 31 December 2011:

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000
As at 30 June 2012 (unaudited)			
Assets			
– Short-term investment	2,000	–	–
Liabilities			
– Convertible notes – embedded derivatives	–	–	53,493
As at 31 December 2011 (audited)			
Assets			
– Short-term investment	1,045	–	–
Liabilities			
– Convertible notes – embedded derivatives	–	–	61,893

There are no significant transfer of financial assets or liabilities between instrument Level 1, Level 2 and Level 3 during the six months ended 30 June 2012 and year ended 31 December 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair values (Continued)

The movement in fair value measurement of instrument Level 3 during the period is as follows:

	2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
As at 1 January	**61,893**	–
Issue of convertible notes	**–**	28,316
Changes in fair value recognized in profit or loss	**(5,407)**	33,577
Conversion into new ordinary shares	**(3,641)**	–
Exchange adjustments	**648**	–
As at 30 June 2012	**53,493**	
As at 31 December 2011		61,893

5. SEGMENT REPORTING

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

– aluminum electrolytic capacitors

– chip type electronic components

– LED lightings

Segment revenue, results, assets and liabilities

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

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

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 amortization of assets attributable to those segments.

The basis of measurement used for segment profit or loss is "Reportable segment results". "Reportable segment results" is the operating profit or loss by the segment and finance costs directly attributable to the segment, without the allocation of corporate administrative costs.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

5. SEGMENT REPORTING (Continued)

Segment revenue, results, assets and liabilities (Continued)

"Reportable segment adjusted EBITDA" is used as one of the measures for reportable segment profit or loss since the year 2012, as the CODM believes "Reportable segment adjusted EBITDA", which does not take into account of non-operating factors such as the finance costs, non-cash expenses and non-recurring expenses, can reflect the performance of each segment from its operating activities. "Reportable segment adjusted EBITDA" represents the "earnings/(loss) before interest, tax, depreciation and amortization", where "interest" is regarded as investment income and finance costs and "depreciation and amortization" are regarded as including impairment losses on non-current assets. This measurement basis excludes the effect of non-recurring expenditures from the operating segments, such as loss on redemption of promissory notes and changes in fair value on embedded derivative of convertible notes. To arrive at adjusted EBITDA, the Group's earning/(loss) are further adjusted for items not specifically attributed to individual segments, such as corporate administrative costs. Reconciliation from "Reportable segment adjusted EBITDA" to "Reportable segment results" are also presented for the condensed consolidated interim financial statements.

In addition to receiving segment information concerning adjusted EBITDA, the Group's CODM are provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortization, loss on redemption of promissory notes and changes in fair value on embedded derivative of convertible notes by the segments in their operations.

Segment data for the six months ended 30 June 2011 were restated to reflect the consistent presentation of segment information for the current period.

Information regarding the Group's reportable segments revenue and results for the six months ended 30 June 2012 and 2011 are set out below:

	Six months ended 30 June 2012			
	Aluminum electrolytic capacitors RMB'000 (unaudited)	Chip type electronic components RMB'000 (unaudited)	LED Lightings RMB'000 (unaudited)	Total RMB'000 (unaudited)
Turnover	**147,671**	**32,053**	**101,195**	**280,919**
Other revenue	**2,024**	**89**	**2,429**	**4,542**
Reportable segment revenue and other revenue from external customers	**149,695**	**32,142**	**103,624**	**285,461**
Reportable segment adjusted EBITDA	**(10,619)**	**1,781**	**25,791**	**16,953**
Reportable segment results	**(28,840)**	**(2,149)**	**(25,961)**	**(56,950)**
Other information:				
Interest income	**1,318**	**89**	**–**	**1,407**
Interest expenses	**(7,814)**	**(1,506)**	**(12,979)**	**(22,299)**
Amortization of lease prepayments	**(41)**	**(159)**	**–**	**(200)**
Amortization of other intangible assets	**–**	**–**	**(35,661)**	**(35,661)**
Depreciation	**(11,684)**	**(2,354)**	**(2,478)**	**(16,516)**
Loss on redemption of promissory notes	**–**	**–**	**(6,041)**	**(6,041)**
Changes in fair value on embedded derivative of convertible notes	**–**	**–**	**5,407**	**5,407**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

5. SEGMENT REPORTING (Continued)

Segment revenue, results, assets and liabilities (Continued)

	Six months ended 30 June 2011			
	Aluminum electrolytic capacitors RMB'000 (unaudited)	Chip type electronic components RMB'000 (unaudited)	LED Lightings RMB'000 (unaudited)	Total RMB'000 (unaudited)
Turnover	161,270	40,105	4,279	205,654
Other revenue	1,802	26	1,500	3,328
Reportable segment revenue and other revenue from external customers	163,072	40,131	5,779	208,982
Reportable segment adjusted EBITDA	22,648	7,523	564	30,735
Reportable segment results	8,681	2,815	(3,288)	8,208
Other information:				
Interest income	903	26	–	929
Interest expenses	(5,365)	(2,318)	(3,829)	(11,512)
Amortization of lease prepayments	(141)	(159)	–	(300)
Depreciation	(9,364)	(2,257)	(1,606)	(13,227)
Changes in fair value on embedded derivative of convertible notes	–	–	1,583	1,583

Information regarding the Group's reportable segments assets and liabilities as at 30 June 2012 and 31 December 2011 are set out below:

	As at 30 June 2012			
	Aluminum electrolytic capacitors RMB'000 (unaudited)	**Chip type electronic components RMB'000 (unaudited)**	**LED Lightings RMB'000 (unaudited)**	**Total RMB'000 (unaudited)**
Assets	**671,552**	**116,359**	**1,283,079**	**2,070,990**
Liabilities	**520,857**	**59,148**	**308,909**	**888,914**

	As at 31 December 2011			
	Aluminum electrolytic capacitors RMB'000 (audited)	Chip type electronic components RMB'000 (audited)	LED Lightings RMB'000 (audited)	Total RMB'000 (audited)
Assets	602,103	155,689	1,255,461	2,013,253
Liabilities	452,103	67,039	377,530	896,672

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

5. SEGMENT REPORTING (Continued)

Segment revenue, results, assets and liabilities (Continued)

Reconciliation of reportable segment revenue, results, assets and liabilities are provided as follows:

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue		
Total reportable segment turnover	**280,919**	205,654
Elimination of inter-segment turnover – chip type electronic components segment	**(9,209)**	(8,203)
Consolidated turnover	**271,710**	197,451
Total reportable segment other revenue and income	**4,542**	3,328
Elimination of inter-segment other revenue and income	**–**	–
Consolidated other revenue and income	**4,542**	3,328
Consolidated revenue	**276,252**	200,779
Results		
Reportable segment adjusted EBITDA derived from Group's external customers	**16,953**	30,735
Interest income	**1,407**	929
Interest expenses	**(22,299)**	(11,512)
Amortization of lease prepayments	**(200)**	(300)
Amortization of other intangible assets	**(35,661)**	–
Depreciation	**(16,516)**	(13,227)
Loss on redemption of promissory notes	**(6,041)**	–
Changes in fair value on embedded derivative of convertible notes	**5,407**	1,583
Reportable segment results derived from Group's external customers	**(56,950)**	8,208
Unallocated corporate expenses	**(3,793)**	(3,853)
Consolidated net (loss)/profit before taxation	**(60,743)**	4,355

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Assets		
Reportable segment assets	**2,070,990**	2,013,253
Elimination of inter-segment receivables	**–**	–
	2,070,990	2,013,253
Income tax recoverable	**6**	283
Unallocated corporate assets	**20,657**	13,911
Consolidated assets	**2,091,653**	2,027,447
Liabilities		
Reportable segment liabilities	**888,914**	896,672
Elimination of inter-segment payables	**–**	–
	888,914	896,672
Income tax payables	**13,559**	7,300
Deferred tax liabilities	**180,949**	189,923
Unallocated corporate liabilities	**69,312**	3,734
Consolidated liabilities	**1,152,734**	1,097,629

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

5. SEGMENT REPORTING (Continued)

Segment revenue, results, assets and liabilities (Continued)

There has been no material change in total assets from the amount disclosed in the last annual financial statements.

There are no differences from the last annual financial statements in the basis of segmentation.

6. OTHER REVENUE AND INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	**1,407**	929
Gain on disposal of property, plant and equipment	**5**	–
Rental income from property, plant and equipment	**1,800**	1,500
Reversal of allowance for doubtful debts	**279**	–
Sundry income	**1,051**	899
	4,542	3,328

7. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on bank loans and bills payables wholly repayable within five years	**9,320**	7,683
Effective interest on convertible notes (note 19)	**11,991**	2,223
Effective interest on promissory notes (note 18)	**808**	–
Imputed interest on promissory notes (note 18)	**180**	1,606
	22,299	11,512

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

8. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**34,495**	26,681
Contributions to defined contribution retirement plans	**2,644**	1,784
	37,139	28,465
Others		
Amortization of lease prepayments	**200**	300
Amortization of other intangible assets	**35,661**	–
Cost of inventories sold	**219,046**	161,033
Depreciation	**16,516**	13,227
(Gain)/loss on disposal of property, plant and equipment	**(5)**	116
Operating lease rentals in respect of land and buildings	**2,964**	1,583

9. INCOME TAX

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax		
– Current period	**2,211**	–
PRC Enterprise Income Tax		
– Current period	**4,048**	405
Deferred tax		
– Reversal of temporary differences (note 20)	**(8,974)**	(40)
	(2,715)	365

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

9. INCOME TAX (Continued)

(a) 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.

(b) The provision for Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the period.

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

(i) Changzhou Huawei Electronics Company Limited ("Changzhou Huawei") is entitled to a preferential tax rate of 15% for the three years since 2011 for being a high technology enterprise.

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

(d) Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate for the year ending 31 December 2012 is 25% and the estimated tax rate for the six months ended 30 June 2012 was 25%.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB55,753,000 (profit attributable to owners of the Company for the six months ended 30 June 2011: RMB4,513,000) and the weighted average number of 1,044,061,800 (30 June 2011: 791,712,707) ordinary shares in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	2012 (unaudited)	2011 (unaudited)
Shares issued at 1 January	**1,027,000,000**	750,000,000
Effect of shares issued for acquisition of subsidiaries	**–**	41,712,707
Effect of shares issued for exercise of unlisted warrants	**17,044,198**	–
Effect of shares issued for conversion of convertible notes	**17,602**	–
Weighted average number of ordinary shares for the purpose of basic (loss)/ earnings per share at 30 June	**1,044,061,800**	791,712,707

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

10. (LOSS)/EARNINGS PER SHARE (Continued)

(b) Diluted (loss)/earnings per share

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes and unlisted warrants as their exercise would result in a decrease in loss per share for the six months ended 30 June 2012.

For the six months ended 30 June 2011,the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of approximately RMB5,153,000 and the weighted average number of 886,469,195 ordinary shares in issue, calculated as follows:

Profit attributable to owners of the Company

	Six months ended 30 June 2011 RMB'000 (unaudited)
Earnings for the purpose of basic earnings per share	4,513
Changes in fair value of the convertible notes – embedded derivatives	(1,583)
After tax effect of effective interest on the convertible notes – liability portion	2,223
Earnings for the purpose of diluted earnings per share	5,153

Weighted average number of ordinary shares

	As at 30 June 2011 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	791,712,707
Effect of deemed conversion of convertible notes	54,756,488
Effect of deemed exercise of unlisted warrants	40,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	886,469,195

11. DIVIDENDS

The directors did not recommend payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired property, plant and equipment with a cost of RMB18,037,000 (six months ended 30 June 2011: RMB43,068,000), none (six months ended 30 June 2011: RMB27,807,000) of which was acquired from acquisition of subsidiaries. In addition, the Group disposed of property, plant and equipment with a carrying amount of RMB88,000 (six months ended 30 June 2011: RMB178,000).

13. GOODWILL

	2012 RMB'000 (unaudited)	2011 RMB'000 (audited) (restated)
Cost		
As at 1 January	**372,441**	–
Arising from acquisition of subsidiaries	**–**	394,141
Negative consideration receivable (note 22(b))	**–**	(21,700)
As at 30 June 2012	**372,441**	
As at 31 December 2011		372,441

Goodwill acquired in the business combination during the year ended 31 December 2011 as referred to note 22 to the condensed consolidated interim financial statements, which related to the acquisition of Giga-World Industry Company Limited ("Giga-World") and its subsidiary (collectively "Giga-World Group"), Shine Link Technology Limited ("Shine Link") and its subsidiaries (collectively "Shine Link Group"), Kings Honor Technology Limited ("Kings Honor") and its subsidiaries (collectively "Kings Honor Group"), Pacific King Technology Limited ("Pacific King") and its subsidiaries (collectively "Pacific King Group"), Starry View Investments Limited ("Starry View") and its subsidiaries (collectively "Starry View Group") and Mega Wide Investments Limited ("Mega Wide") and its subsidiaries (collectively "Mega Wide Group"), was allocated to each individual cash-generating unit ("CGU") which management considers represent separate cash generating unit. At the end of the reporting period, the carrying amount of goodwill arose from the acquisition of the following CGUs:

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited) (restated)
Giga-World Group (note 22 (a))	**84,072**	84,072
Shine Link Group (note 22 (b)) (restated)	**65,885**	65,885
Kings Honor Group (note 22 (c))	**89,701**	89,701
Pacific King Group (note 22 (d))	**80,320**	80,320
Starry View Group and Mega Wide Group (note 22 (e))	**52,463**	52,463
	372,441	372,441

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

13. GOODWILL (Continued)

Impairment test for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill arising from acquisition is allocated to the Group's CGU engaged in manufacture and of sale LED lightings in the PRC.

The recoverable amounts of the CGUs are determined based on value in use calculations as of the end of the reporting period by Peak Vision Appraisal Limited ("Peak Vision"), a firm of independent professional valuers. These calculations use cash flow projections based on the financial budgets approved by the management covering a five-year period. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 2.6% which is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the business in which CGU operates. The appraiser estimates the discount rates as presented below, using the Capital Assets Pricing Model based on stock prices of comparable companies listed on the recognized stock exchanges, plus a risk premium to reflect the specific risk of the individual CGUs. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

	Pre-tax discount rate (unaudited)	**Growth rate beyond 5 years (unaudited)**
Giga-World Group	17.64%	2.6%
Shine Link Group	20.25%	2.6%
Kings Honor Group	16.50%	2.6%
Pacific King Group	16.36%	2.6%
Starry View Group	16.87%	2.6%
Mega Wide Group	19.93%	2.6%

At 30 June 2012, the recoverable amounts of these CGUs are higher than their carrying amounts with reference to the valuations performed by an independent firm of professional valuers, Peak Vision. Accordingly, no impairment loss on goodwill is required at the end of the reporting period. Management believes any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause their recoverable amounts to be less than their carrying amounts.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

14. OTHER INTANGIBLE ASSETS

	Customer relationship RMB'000	Patents RMB'000	Trade marks RMB'000	Total RMB'000
Cost				
Acquired on acquisition of subsidiaries	478,900	243,300	50,000	772,200
At 31 December 2011 (audited) and 1 January 2012	478,900	243,300	50,000	772,200
At 30 June 2012 (unaudited)	478,900	243,300	50,000	772,200
Accumulated amortization				
Charge for the year	20,614	21,166	416	42,196
At 31 December 2011 (audited) and 1 January 2012	20,614	21,166	416	42,196
Charge for the period	17,104	16,057	2,500	35,661
At 30 June 2012 (unaudited)	37,718	37,223	2,916	77,857
Carrying amount				
At 30 June 2012 (unaudited)	441,182	206,077	47,084	694,343
At 31 December 2011 (audited)	458,286	222,134	49,584	730,004

The Group's other intangible assets arose from the acquisition of subsidiaries during the year ended 31 December 2011 as referred to note 22 to the condensed consolidated interim financial statements and were revalued as of the completion dates of acquisitions by Peak Vision, a firm of independent professional valuers, on the following basis:

Customer relationships represent the long-term co-operation agreements with the customer.

Patents represent various patents which protect the design and specification in the manufacturing of LED lightings.

Trade marks, representing the registered names of "LEDUS" and "萊德斯", are registered with the relevant vendors at the time of the acquisitions and whose titles were legally transferred to the Group upon completion of the relevant acquisitions. The directors of the Company consider the trade marks offer recognisability, profitability, versatility and identification with positive attributes that distinguish itself from the competitors.

At 30 June 2012, no indicator of impairment on other intangible assets are identified.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

15. TRADE AND BILLS RECEIVABLES

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Trade receivables	**248,740**	159,108
Less: Allowance for doubtful debts	**(18,904)**	(19,183)
	229,836	139,925
Bills receivables	**8,179**	28,664
	238,015	168,589

The Group normally grants a credit period of 30 to 180 days to its customers. For the sales of aluminum electrolytic capacitors and chip type electronic components businesses, because of the industry nature in the PRC, certain well-established customers who have strong financial strength, good repayment history and creditworthiness, where the terms are extended beyond 180 days. Each customer has a maximum credit limit.

Aging analysis of trade and bills receivables based on the invoice date at the reporting date was as follows:

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
0–30 days	**56,212**	69,897
31–90 days	**96,967**	49,765
91–180 days	**42,736**	29,231
181–365 days	**34,277**	9,253
Over 365 days	**26,727**	29,626
	256,919	187,772
Less: Allowance for doubtful debts	**(18,904)**	(19,183)
	238,015	168,589

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

16. TRADE AND BILLS PAYABLES

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Trade payables	**134,918**	74,676
Bills payables	**134,617**	147,680
	269,535	222,356

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.

Bills payables as at 30 June 2012 and 31 December 2011 were secured by restricted bank deposits.

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

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
0–30 days	**73,998**	27,863
31–90 days	**113,053**	97,360
91–365 days	**81,283**	96,197
Over 365 days	**1,201**	936
	269,535	222,356

17. BANK LOANS

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Secured (note a)	**94,481**	45,000
Unsecured (note b)	**188,409**	178,963
	282,890	223,963

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

17. BANK LOANS (Continued)

(a) On 30 June 2012, bank loans of RMB60,000,000 (31 December 2011: RMB35,000,000) were secured on the properties of a related company and a guarantee provided by that related company. In addition, a substantial shareholder and director of the Company, Mr. Yan Qixu and Ms. Xiang Xiaoqin, a spouse of Mr. Yan Qixu and a former director of the Company, have provided personal guarantees for these bank loans.

On 30 June 2012, a bank loan of RMB10,000,000 (31 December 2011: RMB10,000,000) was secured by the lease prepayments of RMB14,855,000 (31 December 2011: RMB2,642,000) and buildings of RMB13,805,000 (31 December 2011: RMB12,826,000) 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.

On 30 June 2012, a bank loan of RMB24,481,000 (31 December 2011: Nil) was secured by the plant and machinery of RMB21,126,000 (31 December 2011: Nil) of a subsidiary, Sichuan Shimian Huarui Electronics Company Limited and time deposits of RMB62,000,000 (31 December 2011: Nil) of another subsidiary, Changzhou Huawei.

(b) On 30 June 2012, the Group's unsecured bank loans of RMB188,409,000 (31 December 2011: RMB178,963,000) were guaranteed by two subsidiaries, Changzhou Huawei and Ao Si Te Dayou. In addition, Mr. Yan Qixu, a substantial shareholder and director of the Company, Ms. Xiang Xiaoqin, a spouse of Mr. Yan Qixu and a former director of the Company, and Mr. Guan Zhilong, a director of a subsidiary, Ao Si Te Dayou, have provided personal guarantees for these bank loans.

18. PROMISSORY NOTES PAYABLES

	As at 30 June 2012			As at 31 December 2011
	Principal RMB'000 (unaudited)	**Accrued interest RMB'000 (unaudited)**	**Total RMB'000 (unaudited)**	Total RMB'000 (audited)
Promissory notes payable to:				
– Action Victory Limited (note a)	**–**	**–**	**–**	7,372
– Sandtac Limited (note b)	**–**	**–**	**–**	7,074
– Pride Energy Enterprises Limited (note c)	**–**	**474**	**474**	25,259
– Supreme Creation Limited (note d)	**–**	**59**	**59**	7,067
– Yorken Group Limited (note e)	**14,376**	**126**	**14,502**	14,012
	14,376	**659**	**15,035**	60,784
Analysed as:				
Current			**659**	534
Non-current			**14,376**	60,250
			15,035	60,784

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

18. PROMISSORY NOTES PAYABLES (Continued)

(a) On 31 January 2011, the Company issued a promissory note with principal value of HK$20,000,000 as part of the consideration for the acquisition of 50% equity interests in Giga-World. The promissory note is unsecured, interest-free and repayable on 30 January 2013. The fair value of promissory note was determined at HK$16,790,000 on 31 January 2011 by reference to a valuation performed by an independent firm of professional valuers, Norton Appraisal Limited ("Norton"). The effective interest rate is 9.13% per annum. The promissory note is carried at amortized cost basis.

During the year ended 31 December 2011, the Group early repaid HK$10,000,000 and during the six months ended 30 June 2012, the promissory note was fully settled. An analysis of the promissory note is as follows:

	RMB'000
Issued on acquisition of Giga-World	14,233
Early redemption during the year	(8,221)
Imputed interest charge	799
Loss on early redemption	1,105
Exchange adjustments	(544)
At 31 December 2011 (audited) and 1 January 2012	7,372
Early redemption during the period	(8,121)
Imputed interest charge	84
Loss on early redemption	622
Exchange adjustments	43
At 30 June 2012 (unaudited)	–

(b) On 5 July 2011, the Company issued a promissory note with principal value of HK$20,000,000 as part of the consideration for the acquisition of 100% equity interests in Shine Link. The promissory note is unsecured, interest-free and repayable on 4 July 2013. The fair value of promissory note was determined at HK$16,680,000 on 5 July 2011 by reference to a valuation performed by an independent firm of professional valuers, Norton. The effective interest rate is 9.49% per annum. The promissory note is carried at amortized cost basis.

During the year ended 31 December 2011, the Group early repaid HK$10,000,000 and during the six months ended 30 June 2012, the promissory note was fully settled. An analysis of the promissory note is as follows:

	RMB'000
Issued on acquisition of Shine Link	13,873
Early redemption during the year	(8,140)
Imputed interest charge	625
Loss on early redemption	1,055
Exchange adjustments	(339)
At 31 December 2011 (audited) and 1 January 2012	7,074
Early redemption during the period	(8,121)
Imputed interest charge	96
Loss on early redemption	922
Exchange adjustments	29
At 30 June 2012 (unaudited)	–

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

18. PROMISSORY NOTES PAYABLES (Continued)

(c) On 20 July 2011, the Company issued a promissory note with principal value of HK$40,000,000 as part of the consideration for the acquisition of 60% equity interests in Kings Honor. The promissory note is unsecured, with interest rate 1% per annum and repayable on 19 July 2013. The fair value of promissory note was determined at HK$34,160,000 on 20 July 2011 by reference to a valuation performed by an independent firm of professional valuers, Norton. The effective interest rate is 9.49% per annum. The promissory note is carried at amortized cost basis.

During the year ended 31 December 2011, the Group early repaid HK$5,000,000 and during the six months ended 30 June 2012, the promissory note was fully settled. An analysis of the promissory note is as follows:

	RMB'000
Issued on acquisition of Kings Honor	28,322
Early redemption during the year	(4,072)
Effective interest charge	1,195
Loss on early redemption	465
Exchange adjustments	(651)
At 31 December 2011 (audited) and 1 January 2012	25,259
Early redemption during the period	(28,430)
Effective interest charge	198
Loss on early redemption	3,416
Exchange adjustments	(443)
At 30 June 2012 (unaudited)	–

(d) On 31 October 2011, the Company issued a promissory note with principal value of HK$10,000,000 as part of the consideration for the acquisition of 60% equity interests in Pacific King. The promissory note is unsecured, with interest rate 1% per annum and repayable on 30 October 2013. The fair value of promissory note was determined at HK$8,581,000 on 31 October 2011 by reference to a valuation performed by an independent firm of professional valuers, Peak Vision. The effective interest rate is 9.06% per annum. The promissory note is carried at amortized cost basis.

During the six months ended 30 June 2012, the promissory note was fully settled. An analysis of the promissory note is as follows:

	RMB'000
Issued on acquisition of Pacific King	7,030
Effective interest charge	116
Exchange adjustments	(79)
At 31 December 2011 (audited) and 1 January 2012	7,067
Early redemption during the period	(8,109)
Effective interest charge	31
Loss on early redemption	1,081
Exchange adjustments	(70)
At 30 June 2012 (unaudited)	–

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

18. PROMISSORY NOTES PAYABLES (Continued)

(e) On 30 November 2011, the Company issued a promissory note with principal value of HK$20,000,000 as part of the consideration for the acquisition of 100% equity interests in Starry View and Mega Wide. The promissory note is unsecured, with interest rate 1% per annum and repayable on 29 November 2013. The fair value of promissory note was determined at HK$17,147,000 on 30 November 2011 by reference to a valuation performed by an independent firm of professional valuers, Peak Vision. The effective interest rate is 9.11% per annum. The promissory note is carried at amortized cost basis.

An analysis of the promissory note is as follows:

	RMB'000
Issued on acquisition of Starry View and Mega Wide	14,055
Effective interest charge	121
Exchange adjustments	(164)
At 31 December 2011 (audited) and 1 January 2012	14,012
Effective interest charge	579
Exchange adjustments	(89)
At 30 June 2012 (unaudited)	14,502

19. CONVERTIBLE NOTES

On 25 May 2011, the Company issued two-year 10% coupon convertible notes with principal amount of RMB84,000,000. The convertible notes entitle the holders to convert the notes into ordinary shares of the Company on or before 25 May 2013 at the conversion price of HK$1.95 per share (subject to adjustments) at any time on the first anniversary from the date of issue of the convertible notes up to the tenth day immediately before the second anniversary from the date of issue of the convertible notes. The convertible notes carry a coupon rate of 10% per annum payable in arrears.

The convertible notes contain two components, liability component and embedded derivative. The conversion option of the convertible notes will not result in settlement by the exchange of a fixed number of equity instrument, that is, ordinary shares of the Company. The embedded option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss. The fair value of the conversion option derivative was determined by Peak Vision, an independent firm of professional valuers, at the reporting date. The effective interest rate of the liability component is 36.53% per annum and the liability component is carried at amortized cost basis.

On 29 June 2012, the note holders converted part of the convertible notes with an aggregate amount of RMB5,000,000 and 3,186,000 shares were issued and allotted accordingly subject to the terms of the convertible notes.

Subsequent to the end of the reporting period, the note holders converted part of the convertible notes with an aggregate amount of RMB7,000,000 and 4,492,000 ordinary shares were issued and allotted accordingly subject to the terms of the convertible notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

19. CONVERTIBLE NOTES (Continued)

The movements of the liability component and embedded derivative of the convertible notes during the six months ended 30 June 2012 are as follows:

	Liability component RMB'000 (unaudited)	**Embedded derivative** RMB'000 (unaudited)	**Total** RMB'000 (unaudited)
At 1 January 2012	68,001	61,893	129,894
Conversion into new ordinary shares	(5,000)	(3,641)	(8,641)
Repayment on interest	(8,400)	–	(8,400)
Effective interest expenses charge	11,991	–	11,991
Changes in fair value of the embedded derivative	–	(5,407)	(5,407)
Exchange adjustments	(42)	648	606
At 30 June 2012	66,550	53,493	120,043

The fair value of embedded derivative was measured at fair value using the Binomial Option Pricing Model, by Peak Vision, an independent firm of professional valuers, and the inputs into the model are as follows:

	As at 30 June 2012 (unaudited)	As at 31 December 2011 (audited)
Share price	**HK$3.00**	HK$2.97
Conversion price	**HK$1.95**	HK$1.95
Option life	**0.9 years**	1.4 years
Risk free rate	**2.24%**	2.75%
Expected volatility	**22.64%**	55.78%
Expected dividend yield	**Nil**	Nil

20. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognized in the condensed consolidated interim financial statements and the movements during the six months ended 30 June 2012 are as follows:

	2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
Cost		
As at 1 January	**189,923**	5,243
Arising from acquisition of subsidiaries	**–**	195,322
Charge to profit or loss (note 9)	**(8,974)**	(10,642)
As at 30 June 2012	**180,949**	
As at 31 December 2011		189,923

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

21. SHARE CAPITAL

	Number of shares of HK$0.01 each	**Nominal value of ordinary shares** HK$'000
Authorised:		
At 30 June 2012 and 31 December 2011	2,000,000,000	20,000

	Number of shares of HK$0.01 each	**Nominal value of ordinary shares** HK$'000	RMB'000
Issued and fully paid:			
At 1 January 2012	1,027,000,000	10,270	9,439
Issue of new ordinary shares			
– Upon exercise of unlisted warrants (note a)	26,000,000	260	211
– Upon conversion of convertible notes (note 19)	3,186,000	32	26
At 30 June 2012 (unaudited)	1,056,186,000	10,562	9,676

(a) On 7 June 2011, the Company issued 40,000,000 unlisted warrants at a subscription price of HK$0.05 each. The unlisted warrant holders are entitled at any time during the period from 7 June 2011 to 6 June 2013 (both dates inclusive) to exercise for fully paid ordinary shares at a subscription price of HK$1.82 per share. During the six months ended 30 June 2012, 5,000,000 new ordinary shares were issued upon exercise of 5,000,000 unlisted warrants.

On 15 February 2012, the Company issued another batch of 140,000,000 unlisted warrants at a subscription price of HK$0.05 each. The unlisted warrant holders are entitled at any time during the period from 15 February 2012 to 14 February 2014 (both dates inclusive) to exercise for fully paid ordinary shares at a subscription price of HK$2.65 per share. During the six months ended 30 June 2012, 21,000,000 new ordinary shares were issued upon exercise of 21,000,000 unlisted warrants.

22. BUSINESS COMBINATION

(a) Acquisition of Giga-Word Industry Company Limited

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

(a) Acquisition of Giga-Word Industry Company Limited (Continued)

	RMB'000
Fair value of net assets acquired:	
Property, plant and equipment	29,297
Other intangible assets-customer relationship	221,300
Other intangible assets-patents	165,900
Inventories	28
Trade and other receivables	1,512
Cash in banks	1,028
Trade and other payables	(3,255)
Deferred tax liabilities	(96,800)
Total identified net assets	319,010
Non-controlling interests	(159,505)
Goodwill (note 13)	84,072
	243,577
Fair value of consideration transferred (note i):	
Cash consideration paid	169,540
50,000,000 consideration shares at HK$1.90 each	80,531
Promissory note issued	14,233
Adjustment for fair value of contingent consideration (note ii)	(20,727)
	243,577

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

(ii) The Company received the guarantee certificate which was issued by the auditor of the Company, the actual profit of Giga-World Group for the period from 1 February 2011 to 31 January 2012 was RMB19,273,000 (approximately equivalent to HK$23,794,000). Accordingly, the fair value of the compensation as negative consideration receivable from Action Victory of divergence to be paid by Action Victory to the Group would be RMB20,727,000 (approximately equivalent to HK$25,589,000) which was deducted against the original consideration paid by the Group at the acquisition date. The Group has received HK$25,589,000 from Action Victory and the balance of the escrowed consideration shares was released to Action Victory already. Details of which was set out in the announcement of the Company dated 23 May 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

(b) Acquisition of Shine Link Technology Limited

On 5 July 2011, the Group completed the acquisition 100% equity interests of Shine Link Technology Limited, an investment holding company, from Sandtac Limited ("Sandtac"), an independent third party. Shine Link owns 70% equity interests in U Young Technology Holdings Limited which in turn holds 100% equity interests in U Young (Xiamen) Light Technology Company Limited. Shine Link Group is engaged in the research and production of semi-conductor parts and accessories of lamps, and manufacturing, assembling and processing of LED lightings in the PRC. The acquisition of Shine Link Group was to continue the expansion of the Group's LED lightings business.

	RMB'000
Fair value of net assets acquired:	
Property, plant and equipment	2,447
Other intangible assets-customer relationship (provisional) (note ii)	156,600
Other receivables and prepayments	522
Cash in banks	8,016
Tax recoverable	223
Other payables	(186)
Deferred tax liabilities (provisional)	(39,192)
Total identified net assets (provisional)	128,430
Non-controlling interests (provisional)	(38,475)
Goodwill (provisional) (note 13)	65,885
	155,840
Fair value of consideration transferred (note i):	
Cash consideration paid	33,256
80,000,000 consideration shares at HK$1.96 each	130,411
Promissory note issued	13,873
Adjustment for fair value of contingent consideration (note iii)	(21,700)
	155,840

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

(b) Acquisition of Shine Link Technology Limited (Continued)

(iii) Under the terms of the sale and purchase agreement dated 20 June 2011 and as part of the transaction, Sandtac has provided a profit guarantee to the Group such that the actual profit before tax of Shine Link Group for the period from 6 July 2011 to 5 July 2012 shall not be less than RMB30,000,000, failing which, Sandtac shall pay a compensation, as a contingent negative consideration secured by 30,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. Based on the unaudited financial information of Shine Link Group provided by its management for the period from 6 July 2011 to 5 July 2012, the fair value of the compensation as negative consideration receivable from Sandtac of RMB21,700,000, attributable to shortfall of guarantee profit, was deducted against retrospectively the original consideration paid by the Group at the acquisition date. This negative consideration receivable will be subject to adjustments on the actual profit to be audited by the auditor of the Company on or before 5 October 2012.

(c) Acquisition of Kings Honor Technology Limited

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

	RMB'000
Fair value of net assets acquired:	
Property, plant and equipment	6,272
Other intangible assets-customer relationship (provisional) (note ii)	36,200
Other intangible assets-patents (provisional) (note ii)	31,400
Other receivables	7,920
Cash in banks	913
Other payables	(120)
Deferred tax liabilities (provisional)	(16,900)
Total identified net assets (provisional)	65,685
Non-controlling interests (provisional)	(28,235)
Goodwill (provisional) (note 13)	89,701
	127,151
Fair value of consideration transferred (note i):	
Cash consideration paid	24,873
40,000,000 consideration shares at HK$2.23 each	73,956
Promissory note issued	28,322
Total consideration paid	127,151

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

(c) Acquisition of Kings Honor Technology Limited (Continued)

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

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

(iii) Under the terms of the sale and purchase agreement dated 7 July 2011 and as part of the transaction, Pride Energy has provided a profit guarantee to the Group such that the actual profit before tax of Kings Honor Group for the period from 21 July 2011 to 20 July 2012 shall not be less than RMB25,000,000, failing which, Pride Energy shall pay a compensation, as a contingent negative consideration which is secured by 15,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. Based on the unaudited financial information of Kings Honor Group provided by its management for the period from 21 July 2011 to 20 July 2012, its estimated profit before tax would exceed RMB25,000,000 and there will be no compensation as negative consideration receivable from Pride Energy. This negative consideration receivable will be subject to adjustments on the actual profit to be audited by the auditor of the Company on or before 20 October 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

(d) Acquisition of Pacific King Technology Limited

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

	RMB'000
Fair value of net assets acquired:	
Property, plant and equipment	2,928
Other intangible assets-patents (provisional) (note ii)	46,000
Trade and other receivables	7,165
Cash in banks	2,373
Trade and other payables	(1,416)
Deferred tax liabilities (provisional)	(11,500)
Total net assets identified (provisional)	45,550
Non-controlling interests (provisional)	(18,220)
Fair value of profit guarantee receivable (provisional) (note iii)	–
Goodwill (provisional) (note 13)	80,320
	107,650
Fair value of consideration transferred (note i):	
Cash consideration paid	32,806
40,000,000 consideration shares at HK$2.07 each	67,814
Promissory note issued	7,030
Total consideration paid	107,650

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

(d) Acquisition of Pacific King Technology Limited (Continued)

(iii) Under the terms of the sale and purchase agreement dated 24 August 2011 and as part of the transaction, the Supreme Creation has provided a profit guarantee to the Group that the actual profit before tax of Pacific King Group for the period from 1 November 2011 to 31 October 2012 shall not be less than RMB20,000,000, failing which, Supreme Creation shall pay a compensation, as a contingent negative consideration which is secured by 10,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. At the reporting date, the fair value of the profit guarantee receivable, as a contingent negative consideration, was determined on a provisional basis to be zero.

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

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

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

	RMB'000
Fair value of net assets acquired:	
Property, plant and equipment	55
Other intangible assets – customer relationship (provisional) (note ii)	64,800
Other intangible assets – trade marks (provisional) (note ii)	50,000
Inventories	25
Other receivables	996
Cash at banks	1,014
Other payables	(776)
Deferred tax liability (provisional)	(30,930)
Total identified net assets (provisional)	85,184
Non-controlling interests (provisional)	(12,670)
Fair value of profit guarantee receivable (note iii)	–
Goodwill (provisional) (note 13)	52,463
	124,977
Fair value of consideration transferred (note i):	
Cash consideration paid	16,354
40,000,000 consideration shares at HK$2.88	94,568
Promissory note issued	14,055
Total consideration paid	124,977

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. BUSINESS COMBINATION (Continued)

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

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

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

(iii) Under the terms of the sale and purchase agreement dated 11 November 2011 and as part of the transaction, Yorken has provided a profit guarantee to the Group such that the actual profit before tax of Starry View Group and Mega Wide Group for the period from 1 December 2011 to 30 November 2012 shall not be less than HKD20,000,000, failing which, Yorken shall pay a compensation, as a contingent negative consideration which is secured by the promissory note with a principal value of HK$20,000,000 and 10,000,000 consideration shares of the Company issued as referred to note (i) above, to the Group at the stipulated pre-agreed formula. At the reporting date, the fair value of the profit guarantee receivable, as a contingent negative consideration, was determined on a provisional basis to be zero.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

23. 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:

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Lease prepayments	**14,855**	2,642
Property, plant and equipment	**34,931**	12,826
Restricted bank deposits	**70,051**	67,702
	119,837	83,170

24. CAPITAL COMMITMENTS

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

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Contracted but not provided for		
– Purchase of property, plant and equipment	**14,777**	31,875
Authorised but not contracted for		
– Purchase of property, plant and equipment	**–**	8,348
	14,777	40,223

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

25. MATERIAL RELATED PARTY TRANSACTIONS

The directors of the Company are of the view that the following are related parties of the Group:

Name of the party	Relationship
Li Wing Sang	Executive director
Yan Qixu	Executive director
Liu Xinsheng	Executive director
Xiang Xiaoqin	Spouse of Mr. Yan Qixu and a former executive director of the Company
Changzhou Huawei Reflective Material Company Limited ("Reflective Material")	Related company, Mr. Yan Qixu is common director and controlling shareholder
Enercon Capacitor Company Limited	Related company, Mr. Guan Zhilong, a director of Ao Si Te Dayou, is director and controlling shareholder
深圳市吉泰龍電子有限公司	Related company, Mr. Guan Zhilong, a director of Ao Si Te Dayou, is director and controlling shareholder
江蘇華威世紀電子集團有限公司	Related company, Mr. Yan Qixu is common director
Tong Heng Company Limited	A shareholder of the Company
深圳藍田偉光電子有限公司	Related company, 皮德權, a director of Jiangxi Lantian Wei Guang Technology Company Limited, is a director and controlling shareholder

(a) Trading transactions

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale to:		
Enercon Capacitor Company Limited	**11,142**	15,075
深圳市吉泰龍電子有限公司	**748**	1,240
	11,890	16,315

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

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Enercon Capacitor Company Limited	**19,871**	11,747
深圳市吉泰龍電子有限公司	**1,520**	1,396
	21,391	13,143

Sale 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

25. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Amount due from a related company

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
深圳藍田偉光電子有限公司	**2,275**	11,731

The amount due is unsecured, interest-free and repayable on demand and included in the "Other receivables and prepayments" at the end of the reporting period.

(c) Amount due to a related company

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
江蘇華威世紀電子集團有限公司	**9,047**	23,360

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

(d) Amounts due to directors

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Li Wing Sang	**1,583**	1,596
Yan Qixu	**1,983**	1,732
Liu Xinsheng	**702**	590
	4,268	3,918

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

25. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(e) Amount due to a shareholder

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Tong Heng Company Limited	**144**	144

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

(f) Loan from a director

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

At 30 June 2012, Mr. Yan has agreed not to demand of repayment of its loan within the next twelve months unless the Group has sufficient working capital to continue as a going concern in the foreseeable future.

(g) Securities and guarantees

At 30 June 2012, the Group's bank loans of RMB60,000,000 (31 December 2011: RMB35,000,000) were secured by certain properties and a guarantee provided by Reflective Material. In addition, Mr. Yan Qixu and Ms. Xiang Xiaoqin, have provided personal guarantees to these bank loans.

At 30 June 2012, Mr. Yan Qixu and Mr. Guan Zhilong have provided personal guarantees to the Group's secured bank loans of RMB10,000,000 (31 December 2011: RMB10,000,000).

At 30 June 2012, Mr. Yan Qixu, Ms. Xiang Xiaoqin and Mr. Guan Zhilong, have provided personal guarantees to the Group's unsecured bank loans of RMB188,409,000 (31 December 2011: RMB178,963,000).

(h) Key management personnel remuneration

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

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Short-term employee benefits	**1,397**	761
Contributions to defined contribution retirement plans	**12**	3
	1,409	764

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

26. EVENTS AFTER THE REPORTING PERIOD

The Group had the following events after the reporting period:

(a) On 20 July 2012, the convertible notes holders converted part of the convertible notes with an aggregate amount of RMB7,000,000 and 4,492,000 ordinary shares were issued and allotted accordingly subject to the terms of convertible notes.

(b) On 17 August 2012, the Company issued 1,000,000 ordinary shares upon exercise of 1,000,000 unlisted warrants by a warrant holder at a subscription price of HK$1.82 per share.

27. COMPARATIVE FIGURES

As a result of the compensation as negative consideration receivable from vendor detailed in note 22(b), certain comparative figures have been adjusted to conform to current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group has experienced a challenging period for the six months ended 30 June 2012 (the "**Period under Review**"). Under the impact of Europe sovereign debt crisis, the uncertainty factors were still hanging over Europe and the global economy. In addition, US markets have not yet recovered as expected, together with the slowing down of the economic growth, reduction in domestic demands, increasing in costs of production and the tight monetary policies in the PRC, all these unfavourable factors affected the results of the Group during the first half of 2012.

During the Period under Review, the Group recorded a turnover of approximately RMB271.7 million, representing an increase of approximately 37.6% (approximately RMB74.2 million) from the corresponding period in last year. The increase was primarily contributed by the new business of LED lightings even there was a significant decrease of approximately 11.7% (approximately RMB22.7 million) in aluminum electrolytic capacitors and chip type electronic components segments.

The Group has recorded an adjusted EBITDA (i.e. adjusted earnings before interest, tax, depreciation, amortization, non-recurring expenditure and corporate administrative costs) of approximately RMB17.0 million, decreasing by about 44.6% from approximately RMB30.7 million for that of the corresponding period in 2011. The decrease was primarily due to the loss from the aluminum electrolytic capacitors segment. LED lightings segment has recorded an adjusted EBITDA of approximately RMB25.8 million, a significant increase of approximately 42.0 times (approximately RMB25.2 million) as compared with the corresponding period in last year.

The Group recorded a loss of approximately RMB58.0 million during the Period under Review as compared to approximately RMB4.0 million net profit recorded for the corresponding period in 2011. The loss was mainly brought by (i) a substantial loss in the aluminum electrolytic capacitors and chip type electronic components businesses; (ii) an increase of amortization of other intangible assets; (iii) loss on redemption of promissory notes; (iv) effective interest incurred on the convertible notes, for the Period under Review.

Business Review

Electrolytic Capacitors and Electronic Components

Uncertain market conditions brought adverse impacts on various traditional industries, such as, the aluminum electrolytic capacitors and chip type electronic components sectors. During the Period under Review, the Group spent its efforts to maintain the relationship with existing customers and improve production efficiency, yet the sales in domestic and overseas markets decreased due to the unstable and weak economic environment.

For the six months ended 30 June 2012, the Group has recorded a turnover of approximately RMB170.5 million from the sales of aluminum electrolytic capacitors and chip type electronic components, representing a decrease of approximately 11.7% from that of the corresponding period in 2011. The Group paid its effort to secure orders and improve production efficiency, yet the aluminum electrolytic capacitors segment and chip type electronic components segment recorded a substantial loss during the Period under Review.

LED Lightings

The Group has entered into LED lightings business since 2011 by acquiring five groups of LED-related business companies. Each of the groups under this business segment is at the different stages of production chain, mainly from the mid-stream to down-stream, in the LED lightings industry. The Group combined these new subsidiaries with potential for significant cost synergies, by consolidating the mid-stream component lines, assembly facilities, product research and design, and engineering talents, forming the Group an integrated LED lightings products and solution provider in the global market.

During the Period under Review, LED lightings business recorded a turnover of approximately RMB101.2 million, representing an increase of approximately 22.5 times as compared to approximately RMB4.3 million recorded for the corresponding period in 2011. Each subsidiary not only contributes revenue and profit to the Group by selling its own products to its customers, but also acts as a backup platform by providing parts and components, technology and design, enabling the Group to manufacture its own LED lightings products.

MANAGEMENT DISCUSSION AND ANALYSIS

The LED lightings products manufactured by the Group are under its self-own brand name – “LEDUS” and “萊德斯”. The brand names and trade marks of “LEDUS” and “萊德斯” have been registered in Hong Kong, Macau and Europe successfully, and is pending for approval in the PRC, Japan, South Africa, Taiwan, Zimbabwe and Malaysia. The “LEDUS” and “萊德斯” brand LED lightings products include different series of light bulbs, light tubes, spotlights and par lights, which are sold to customers in different business sectors in the PRC, Europe, Hong Kong and Malaysia. These LED lightings products are mainly used to replace the traditional lightings products and to renovate the lightings systems in the premises such as retail shops, beauty salons, car parks and residential apartments in these countries.

During the Period under Review, the Group appointed a sole agent in Malaysia to explore and develop the LED lightings sale channels in Malaysia. Partnering with agents is one of the Group’s strategies to expand its LED lightings product market share in the global market. The criteria of selecting the sole agents include possessing a strong commercial networks, solid financial background and uniqueness to other competitors in the assigned area.

Business Outlook

LED lightings is widely recognized as an energy saving products throughout the world. As it is still at an initial stage of application in a number of countries worldwide, the long-term future growth potential is enormous. In the PRC, LED lightings industry is one of the “Seven Strategically Emerging New Sectors” to promote energy saving technology and product under the “Twelfth Five-Year Plan”. The Group expects that the LED lightings business will have a prosperous development and a robust growth in coming years in the PRC. It will be brought by the launch of new government subsidies for energy savings LED lightings, the growing street lighting demand given the “10-Cities-10-Thousand-Lights” program and the increasing commercial and/or industrial uses.

The Group will put more resources into the LED lightings business in order to improve its technology, enhance the productivity, reduce the cost of production and assure the quality control. The Group’s ultimate aim is to build up “LEDUS” and “萊德斯” as one of the most prominent and leading LED lightings brands worldwide. Other than developing the technology of its own, the Group will keep on looking for any technology which will enhance and strengthen the Group’s research and development of LED lightings products. For those markets we have entered, the Group intends to expand the distribution channels, and further boost the sales to both domestic and overseas markets, eventually to increase the Group’s market share in the LED lightings industry.

The Group is confident of the prospects of the LED lightings business. Nevertheless, facing the uncertain global economic environment ahead, the Group will be prudent and cautious when developing new business. The Group will strive to secure significant orders from existing customers, explore new markets to broaden customer base and collaborate with customers to provide tailor made lighting solutions. On the other hand, the Group will make use of the resources cautiously to avoid over production and over capacity. The Group believes that LED lightings business will contribute encouraging benefits and returns to the Group and the shareholders in the future.

Attributed to the continuous slowdown in the global market and weak demand in the domestic market, it is not practical to expect a significant growth in sales of aluminum electrolytic capacitors and chip type electronic components segments. In addition, due to the traditional low profit margin and the rising of production cost, profitability of these two segments may be continuously be eroded and the future performance is not optimistic.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

The turnover of the six months ended 30 June 2012 was approximately RMB271.7 million which represents a significant increase of approximately 37.6% or approximately RMB74.2 million as compared to the corresponding period of 2011. The increase in turnover was primarily attributable to the contribution from the new business of LED lightings. In the first half of 2012, customers generally took a cautious approach in procurement so as to observe how the economy developed before they placed their orders.

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

For the six months ended 30 June

	2012		2011	
	RMB'000	%	RMB'000	%
Aluminum electrolytic capacitors	147,671	54.3	161,270	81.6
Chip type electronic components	22,844	8.4	31,902	16.2
LED lightings	101,195	37.3	4,279	2.2
Total	271,710	100.0	197,451	100.0

Sale of aluminum electrolytic capacitors showed a decrease of approximately 8.4% from approximately RMB161.3 million in the first half of 2011 to approximately RMB147.7 million in the first half of 2012. Sale of chip type electronic components showed a decrease of approximately 28.5% from approximately RMB31.9 million in the first half 2011 to approximately RMB22.8 million in the first half of 2012.

Sale of LED lightings showed an increase of approximately 22.5 times from approximately RMB4.3 million in the first half of 2011 to approximately RMB101.2 million in the first half of 2012. The increase was mainly due to five LED lightings subsidiaries was consolidated into the Group in the first half of 2012 as compared to one LED lightings subsidiary was consolidated in the first half of 2011.

Gross Profit Margin

Even the gross profit margin of LED lightings business was approximately 35.4%, the Group's gross profit margin for the six months ended 30 June 2012 was narrowed to approximately 19.4% which has slightly increased by approximately 1.0% as compared to approximately 18.4% for that of the corresponding period in 2011. This is mainly attributed to the significant reduction in the gross profit margin of the overall aluminum electrolytic capacitors business and chip type electronic components business to approximately 8.8% in respect of the six months ended 30 June 2012 as compared to approximately 18.7% in respect of the corresponding six months in 2011. The aforesaid reduction in gross profit margin was resulted from: (i) decrease in sales volume; (ii) increase in wages and salaries by about approximately 15% in order to retain factory workers due to high turnover; (iii) high turnover rate for labour led to increase in production wastage; (iv) increase in electricity cost of approximately 1.4 times; and (v) increase in unit cost of production for the new Sichuan plant as the new products required a relatively higher consumption of water and power. As the aforesaid increase in costs cannot be passed on to the customers due to the weak markets, the overall aluminum electrolytic capacitors business and chip type electronic components business suffered from a reduction in gross profit margin.

Other Revenue and Income

For the six months ended 30 June 2012, other revenue and income of the Group was approximately RMB4.5 million, increasing by about approximately 36.4% from approximately RMB3.3 million for that of the corresponding period in 2011. The substantial increase in other revenue and income was largely due to the increase in bank interest income and the rental income generated from hiring of machineries.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Costs

For the six months ended 30 June 2012, distribution costs of the Group were approximately RMB7.0 million, increasing by about approximately 34.6% from approximately RMB5.2 million for that of the corresponding period in 2011. The increase in distribution costs was primarily due to the additional costs absorbed from five LED lightings subsidiaries in the first half of 2012 as compared to one LED lightings subsidiary in the first half of 2011.

Administrative Expenses

For the six months ended 30 June 2012, administrative expenses of the Group were approximately RMB51.3 million, increasing by about 157.8% from approximately RMB19.9 million for that of the corresponding period in 2011. The substantially increase in administrative expenses was largely due to (i) additional costs absorbed from five LED lightings subsidiaries in the first half of 2012 as compared to one LED lightings subsidiary in the first half of 2011; (ii) setting up an office in Hong Kong; (iii) the increase in salary and wages expenses by about approximately 36.6% in aluminum electrolytic capacitors segment and chip type electronic components segment; and (iv) the increase in research and development expenditure by about approximately 76.4% in aluminum electrolytic capacitors segment.

Other Operating Expenses

For the six months ended 30 June 2012, other operating expenses of the Group were approximately RMB1.0 million, which represents an increase of about approximately 233.3% from approximately RMB0.3 million for that of the corresponding period in 2011. The increase in other operating expenses was primarily due to the additional costs absorbed from five LED lightings subsidiaries in the first half of 2012 as compared to one LED subsidiary in the first half of 2011.

Finance Costs

For the six months ended 30 June 2012, finance costs of the Group were approximately RMB22.3 million, representing an increase of about approximately 93.9% from approximately RMB11.5 million for that of the corresponding period in 2011. The increase in finance costs was largely due to (i) the increase in the volume of trade loans, (ii) the imputed and effective interest expenses on convertible notes and the promissory notes.

As a result of the foregoing factors, the loss attributable to the equity holders of the Company for the six months ended 30 June 2012 amounting to approximately RMB55.8 million as compared to the profit recorded of the corresponding six months ended 30 June 2011 amounting to approximately RMB4.5 million.

Dividends

At the meeting of the Board held on 23 August 2012, the directors did not recommend payment of an interim dividend for the six months ended 30 June 2012.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2012, the Group had cash at banks and in hand of approximately RMB61.7 million (31 December 2011: approximately RMB30.4 million). Total short term bank borrowings amounted to approximately RMB282.9 million (31 December 2011: approximately RMB224.0 million). Majority of the Group's bank borrowings were subject to fixed interest rates and were denominated in Renminbi. As at 30 June 2012, a loan from a director, convertible notes and promissory notes amounted to approximately RMB97.0 million (31 December 2011: approximately RMB162.1 million), approximately RMB120.0 million (31 December 2011: approximately 129.9 million) and approximately RMB15.0 million (31 December 2011: approximately RMB60.8 million) respectively. Except for a promissory note with principal amount of HK$20.0 million (31 December 2011: HK$20.0 million), all of the convertible notes and promissory notes were denominated in Renminbi.

As at 30 June 2012, the gearing ratio (calculated by dividing the total borrowings less cash and cash equivalent, by total equity) of the Group was approximately 48.3% (31 December 2011: approximately 58.8%). The decrease in gearing ratio as at 30 June 2012 as compared to that as at 31 December 2011 was principally attributable to (i) the decrease in borrowings by repayment of promissory notes and loan from a director; and (ii) the increase in the base of equity by issue of new ordinary shares from exercise of unlisted warrants and conversion of convertible notes.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2012, the Group had current assets of approximately RMB710.0 million (31 December 2011: approximately RMB611.3 million (restated)) and current liabilities of approximately RMB860.4 million (31 December 2011: approximately RMB562.9 million). The current ratio (which is calculated by dividing current assets by current liabilities) was approximately 0.8 as at 30 June 2012, which showed a decrease compared with the current ratio of approximately 1.1 (restated) as at 31 December 2011. Such decrease was due to the convertible notes became current liabilities which was non-current liabilities as at 31 December 2011 and an increase in bank loan, trade payables and other payables during the Period under Review.

Foreign Exchange Exposure

The Group's sales were principally made in Renminbi, Hong Kong Dollars, US Dollars and Euro Dollars, with the majority denominated in Renminbi. 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 Period under Review. However, in view of the continuing upward appreciation of Renminbi against Hong Kong Dollars, US Dollars and Euro Dollars, the Group will adopt all applicable financial instruments to hedge against currency risks whenever necessary.

Capital Commitment

As at 30 June 2012, the capital commitments contracted but not provided for in respect of purchase of property, plant and equipment was approximately RMB14.8 million (31 December 2011: approximately RMB31.9 million). The capital commitments authorized but not provided for in respect of purchase of property, plant and equipment was nil (31 December 2011: approximately RMB8.3 million).

Charge on Assets

As at 30 June 2012, the Group's restricted bank deposit of approximately RMB70.1 million (31 December 2011: approximately RMB67.7 million), property, plant and equipment with a carrying amount of approximately RMB34.9 million (31 December 2011: approximately RMB12.8 million) and lease prepayments with a carrying amount of approximately RMB14.9 million (31 December 2011: approximately RMB2.6 million) were pledged to secure banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2012, the Group had no contingent liabilities.

Employee Information

As at 30 June 2012, the Group had approximately 1,900 employees, the majority of whom were stationed in the PRC. Total remuneration for the period amounted to approximately RMB37.1 million (six months ended 30 June 2011: approximately RMB28.5 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

FURTHER INFORMATION

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

As at 30 June 2012, the interests and short positions of the directors and/or chief executives of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to section 352 of the Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("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	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the company
Executive director:			
Mr. Yan Qixu ("Mr. Yan") (Note)	Interests in controlled corporation	113,000,000 (Long position)	10.70%
Mr. Li Wing Sang	Beneficial owner	86,156,000 (Long position)	8.16%
Mr. Chiu Chi Hong	Beneficial owner	43,500,000 (Long position)	4.12%

Note: Mr. Yan is the beneficial owner of 69.69% of the issued shares in Tong Heng Company Limited ("Tong Heng") and therefore Mr. Yan is deemed, or taken to be, interested in the 113,000,000 shares which are beneficially owned by Tong Heng for the purposes of the SFO. Mr. Yan is also the sole director of Tong Heng. Mr. Yan is the spouse of Ms. Xiang Xiaoqin ("Ms. Xiang"), a senior management of the Company.

2. Long position in the ordinary shares of associated corporation

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

Save as disclosed above, as at 30 June 2012, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and The Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and The Stock Exchange pursuant to the Model Code.

Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 26 July 2007. It 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 Share Option Scheme.

During the six months ended 30 June 2012, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme and there are no outstanding share options under the Share Option Scheme as at 30 June 2012.

FURTHER INFORMATION

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

As at 30 June 2012, so far as is known to the directors, the following persons (other than the directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

1. Long position in the shares

Name of shareholders	Capacity/Nature	No of Shares	Percentage of issued share capital of the Company
Tong Heng	Beneficial owner	113,000,000	10.70%

Save as disclosed above, and as at 30 June 2012, 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 therein.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

Material acquisitions and disposal of subsidiaries and associated companies

On 9 January 2012, Huawei Group Holdings Limited ("the Vendor"), a wholly owned subsidiary of the Company, entered into a non-binding memorandum of understanding ("MOU") with Grand Vista Investment Limited ("the Purchaser") in relation to the possible disposal of entire issued share capital of He Yue Company Limited ("the Target", together with its subsidiaries "the Target Group"). The Target is incorporated in BVI with limited liability. The Target Group is principally engaged in manufacturing and sales of aluminum electrolytic capacitors. The Target directly holds (i) 100% equity interest in Huawei Capacitors Company Limited (常州華威電容器有限公司), a limited company incorporated in the PRC, which in turn holds 100% equity interest in Hai Ji Wei Company Limited (海吉威有限公司) and 100% equity interest in 四川石棉華瑞電子有限公司 (transliterated as Sicuan Shi Mian Hua Rui Electronics Limited); and (ii) 100% equity interest in Huawei Electronics Company Limited (常州華威電子有限公司). Both the Vendor and the Purchaser will proceed to the negotiation for a legally-binding formal agreement on or before the date falling 90 days from the date of the MOU (or such later date to be agreed by the parties thereto). A cash deposit of HK$80,000,000 has been paid by the Purchaser upon signing of the MOU. On 9 April 2012, an extension letter was signed between the Vendor and the Purchaser to extend the exclusivity period to 9 June 2012. For details, please see the announcement of the Company dated 9 January 2012 and 9 April 2012. As at the date of this report, the Vendor is still negotiating with the Purchaser for a legally-binding formal agreement even the MOU was lapsed. Announcement will be published if there is any further information in relation to the result of the possible disposal.

Save as disclosed above, during the six months ended 30 June 2012, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

Corporate governance

Save as described below, none of the directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not, in any time for the six months ended 30 June 2012 in due compliance with the code provisions of the Code on Corporate Governance Practices ("the Code") set out in the Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

FURTHER INFORMATION

Mr. Li Wing Sang, who acted as the chairman of the Company during the six months ended 30 June 2012, was also responsible for overseeing the general operations of the Group. 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 enabling the Group to operate efficiently.

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

Under code provision A.6.7 of the Code, non-executive directors should attend the Company's general meeting. Due to other business engagements, Mr. Ng Wai Hung and Mr. Lau Wan Cheung, independent non-executive directors, were unable to attend the annual general meeting of the Company held on 18 May 2012.

Model code set out in Appendix 10 to the Listing Rules

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

Having made specific enquiry of all directors, the Board has confirmed that all directors have complied with the Model Code for the six months ended 30 June 2012. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Audit Committee

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

The audit committee has three members and comprises three independent non-executive directors, namely, Mr. Tam Tak Wah, Mr. Ng Wai Hung and Mr. Lau Wan Cheung. Mr. Tam Tak Wah is the chairman of the audit committee.

The audit committee has reviewed and discussed with the Company's management regarding the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012 and this interim report. The audit committee has confirmed that this interim report is in compliance with all applicable laws and regulations, including but not limited to the Listing Rules.

Remuneration Committee

The Group set up its remuneration committee on 26 July 2007 with written terms of reference in compliance with the code provisions of paragraph B1 of the Code. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other employment terms to the directors and other senior management. Currently, the remuneration committee comprises Mr. Yan Qixu, an executive director and three independent non-executive directors, namely Mr. Tam Tak Wah, Mr. Ng Wai Hung and Mr. Lau Wan Cheung.

By order of the Board
Li Wing Sang
Chairman

Hong Kong, 23 August 2012