CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of Sunrise (China) Technology Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shan Xiaochang
(Board Chairman and Chief Executive Officer)
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing
Mr. Yang Ching Yau

Independent Non-executive Directors

Mr. Lee Kam Fan, Andrew
Mr. Wang Jialian
Mr. Wang Zhihua

COMPANY SECRETARY

Mr. Chan Chi Hung

AUDIT COMMITTEE

Mr. Lee Kam Fan, Andrew
(Committee's Chairman)
Mr. Wang Jialian
Mr. Wang Zhihua

NOMINATION COMMITTEE

Mr. Shan Xiaochang
(Committee's Chairman)
Mr. Lee Kam Fan, Andrew
Mr. Wang Jialian

REMUNERATION COMMITTEE

Mr. Lee Kam Fan, Andrew
(Committee's Chairman)
Mr. Shan Xiaochang
Mr. Wang Zhihua

AUTHORISED REPRESENTATIVES

Mr. Shan Xiaochang
Mr. Chan Chi Hung

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 01-03, 28th Floor
Shui On Centre
6-8 Harbour Road
Wan Chai, Hong Kong

COMPLIANCE OFFICER

Mr. Shan Xiaochang

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

LISTING INFORMATION

The Growth Enterprise Market of the Stock of Exchange of Hong Kong Limited
Stock code: 8226

COMPANY'S WEBSITE

www.sunrisechina-tech.com

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the published consolidated statement of comprehensive income and consolidated statement of financial position of the Group:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011** **HK$'000**
Turnover	429,972	389,131	434,766	653,722	**724,008**
Cost of sales	(353,702)	(328,764)	(336,876)	(490,797)	**(576,142)**
Gross profit	76,270	60,367	97,890	162,925	**147,866**
Other revenue, gains and losses (net)	2,695	10,104	(433)	(63,703)	**(17,427)**
Selling and marketing costs	(16,434)	(13,721)	(13,051)	(18,185)	**(23,475)**
Administrative expenses	(50,929)	(64,186)	(60,337)	(115,809)	**(130,017)**
Finance costs	(11,100)	(11,808)	(10,178)	(10,182)	**(10,428)**
Profit/(loss) before income tax expense	502	(19,244)	13,891	(44,954)	**(33,481)**
Income tax expense	1,704	(1,549)	(947)	(10,207)	**(9,162)**
Profit/(loss) after income tax expense	2,206	(20,793)	12,944	(55,161)	**(42,643)**
Non-controlling interests	(3,940)	6,373	(16,157)	(22,746)	**(7,137)**
Loss attributable to owners of the Company	(1,734)	(14,420)	(3,213)	(77,907)	**(49,780)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011** **HK$'000**
Total assets	424,974	421,659	534,066	639,741	**844,032**
Total liabilities	(258,037)	(260,304)	(352,754)	(361,463)	**(562,529)**
Total assets less total liabilities	166,937	161,355	181,312	278,278	**281,503**
Non-controlling interests	(74,671)	(80,769)	(98,817)	(127,108)	**(153,397)**
Equity attributable to owners of the Company	92,266	80,586	82,495	151,170	**128,106**

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of the Directors, I am pleased to present the annual report of Sunrise (China) Technology Group Limited (together with its subsidiaries, the "Group") for the year ended 31 December 2011.

THE YEAR UNDER REVIEW

2011 was a milestone for the Group to shift from its existing loudspeaker business, a continuing business, to industrial environmental project development. As the Group was optimistic about the market development of environmental protection industry, together with the strategy to seek for opportunities for sustainable development, the Group proactively participated in the development of and expansion in environment related business in emerging markets.

During the year, the Group successfully acquired Confident Echo Holdings Limited and its subsidiaries (the "Shengyi Technology Group") and Time Pro International Co., Ltd ("Time Pro"). The Group is currently developing its environmental technology businesses in China and Thailand through the Shengyi Technology Group and Time Pro respectively. The Shengyi Technology Group possesses the patent for its self-developed desulphurisation technology that was recognised by the market and extensively applied in the desulphurisation process through electric generating units fueled by coal, natural gas or petroleum oil products, aiming to reduce the release of sulfur dioxide and hydrogen sulfide. The Shengyi Technology Group also has a strong capacity on R&D and is currently conducting the R&D on a new generation of technology in order to further expand its market. This will bring about a continuous growth and revenue in environment related business for the Group. Time Pro is currently developing a heat generating project that uses syngas extracted from biomass as a fuel. The syngas is highly inflammable of lower cost and is an efficient substitute for traditional fossil fuel.

For the past year, the condition of global economy was affected by the debt crisis emerged in the Europe and the U.S., which led to an obvious slowdown or recession. Meanwhile, under the macro-control of the Chinese government, the tightened credit policy in the banking industry and the rising prices in raw materials both put pressure on the manufacturing industry and downstream industries in terms of financing and cost. Regarding the loudspeaker business, benefited from the rapid growth in the automobile market in Mainland China and the prudent capital operating model and strategic adjustment of the Group, the Group will continue to expand in the consumer sectors in Mainland China during this year. The sales volume and net profit margin still recorded a stable growth while experiencing a rather slow macro-economic development. In 2011, turnover of the Group amounted to HK$724.0 million, representing an increase of 10.8% as compared with HK$653.7 million in 2010.

LOOKING AHEAD

In the coming few years, the new issue for the sustainable development in the world will be energy and the environment. Sufficient energy will ensure a rapid development in the society and a clean environment will greatly improve the living quality of local people. The Twelfth Five-Year Plan of the Chinese government expressly states that, in the coming five years, China will gradually improve the traditional production model, instead of creating a rapid development for the society by harming the environment and should adhere to its concept on sustainable development by making great efforts in developing green energy, comprehensive utilization and comprehensive treatment for the environment. This policy not only sets a direction for the development of the society but also provides a new opportunity for the Group on its development.

CHAIRMAN'S STATEMENT

In 2011, the Group successfully acquired the Shengyi Technology Group and Time Pro and both of them are equipped with mature skills and rich experience in operation in clean energy and environmental technology areas. The Group will grasp this chance for a new development and start to develop the environmental technology market in China and the Asia-Pacific region with an aim to become a leader who provides environmental protection services in the world. In 2012, the Group will progressively seek for a better opportunity for development based on its current condition so as to get a foothold and further expand in the Mainland's market and even be determined to provide clean energy and related ancillary services worldwide and finally spread out its concept on environmental protection all over the world in the coming few years.

Besides, the Group will continue to streamline the operation for core businesses, strictly control risks, strengthen internal management and integrate dominant resources in order to pursue a more solid and efficient operation and management model and create a better investment return for its shareholders.

APPRECIATION

On behalf of the Board and management, I would like to express gratitude to the Group's staff for their unwavering dedication and hard work during the year. I would also like to extend my thanks to shareholders, investors, and business partners who have supported the Company throughout its ups and downs.

Shan Xiaochang
Chairman

Hong Kong, 23 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

According to the Twelfth Five-year Plan of the Chinese government, desulphurisation is one of the seven key environmental protection fields supported by the RMB5 trillion funding from government; by 2020, 7.8 million tonnes of sulfur dioxide emissions will be reduced. Compulsory enforcement of desulphurisation caused fume-emitting factories, such as coal-fired plants, to recycle the sulphur extracted from the hydrogen sulfide (H2S), a toxic acid gas, or the factories will be subject to suspension. In China, 95% of the fossil fuel are coal, of which about one-third are high in sulphur content. Therefore, desulphurisation business is expected to have huge growth potential.

In Thailand, government subsidies are provided to support the development of biomass industry. The Ministry of Industry of Thailand has highlighted the green energy sector as one of the selected sectors to support with over THB14 billion funding. The Thailand Board of Investment has also set out Thailand's Energy Policy and Development Plan in 2006, which is to promote alternative energy development, including applications of biomass, by providing both tax and non-tax incentives.

The sales volume of automobiles in China has been increasing in recent years, with a compound annual growth rate (CAGR) of 25.8% during 2006 to 2010. As the passenger vehicle penetration rate is still low as compared with other developed countries, the growth potential of loudspeaker systems for automobiles in China is very huge.

BUSINESS REVIEW

During the year under review, the Group diversified its businesses in the environment related industry in light of the increasingly sanguine market conditions for environmental protection industry and the Company's strategy to seek sustainable business operations.

In 2011, the Company acquired 51% equity interest in Confident Echo Holdings Limited, a private limited company incorporated in the British Virgin Islands at cash consideration of HK$9,500,000. Confident Echo Holdings Limited indirectly holds 100% equity interests in Jiangsu Shengyi Environmental Technology Co., Ltd. and 80% equity interests in Shaanxi Shengyi Environmental Technology Co., Ltd., both which were incorporated in the People's Republic of China (the "PRC") with limited liabilities. The Shengyi Technology Group is principally engaged in the business of environmental technology engineering and construction. It excels in the areas of desulphurisation, which are of particular emphasis for toxin-emitting industries, such as coal chemical processing.

As the only coal-chemical desulphurisation specialist in Jiangsu, the Shengyi Technology Group stationed in the National Hi-Tech Industrial Development Zone, which has been uniquely and professionally implementing the technology research, development and application of sulphur recycling. The Shengyi Technology Group provides professional services with self-developed technologies which incurs 3 patents, namely direct oxidization, tail gas recycling dilution and C-C two sectioned method. As at 31 December 2011, there are 6 outstanding uncompleted orders on hand not yet recognized, with total contract sum of approximately RMB99.5 million (equivalent to approximately HK$121.7 million) and certain of them are expected to generate profit in 2012.

On 18 January 2011, the Group completed acquisition of 100% equity interest in Time Pro, a private limited company incorporated in Thailand at cash consideration of HK$5,500,000. This acquisition aims to facilitate negotiation with regards to investment in certain heat generation projects in Thailand. In September 2011, Time Pro entered into a contract with a vendor to purchase 2 sets of gasifier machines for a total consideration of US$4,000,000 (equivalent to approximately HK$31,200,000) to supply heat energy. In the same month, Time Pro also entered into a contract with a contractor to undertake the construction work for the construction of a heat production plant employing biomass gasification system in Thailand at an aggregate consideration of THB174,000,000 (equivalent to approximately HK$42,800,000).

MANAGEMENT DISCUSSION AND ANALYSIS

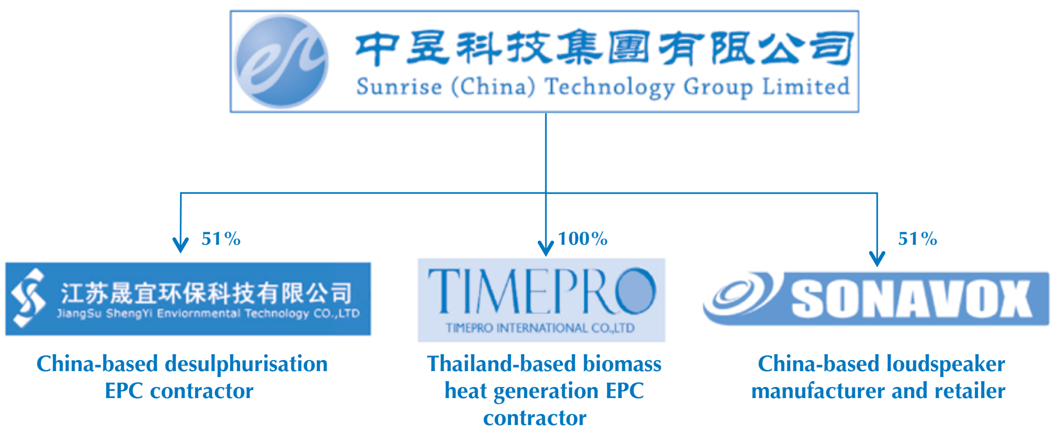
Time Pro is the first company to provide biomass heat generation service in Thailand by utilizing bio-waste into green alternative energy. It provides cost saving and green solution to industrial manufacturers in Thailand. Through full installation and plant operation, the systems are installed and connected at the client's factory. Most of the projects are ceramic industry related, which require huge amount of heat generation.

The Group expects that the new business opportunities will strengthen and diversify the Group's revenue base, and provide synergistic benefits to the long term development of the Group in China and Thailand.

The Group also continued to strengthen its business and streamline group operations in the manufacturing and sale of quality and high performance loudspeaker systems for leading global automobiles. On the back of improving economic conditions and global consumer appetite, the Group recorded an improvement in turnover of 23.2% from continuing operations to approximately HK$724.0 million for the year ended 31 December 2011 (2010: HK$587.6 million). Mainland China and Germany are the major markets for the Group's turnover, contributing to 39.5% and 38.7% respectively of the Group's turnover from continuing operations for the year ended 31 December 2011 (2010: 46.8% and 29.7% respectively). The Group has secured a position as a leading loudspeaker manufacturer in China with its steadfast business relationships with leading automobile players.

The graph below shows the corporate structure of the Group as of 31 December 2011:

Corporate Structure



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, businesses of the Group continued to record healthy growth in its sales. Sales of loudspeaker systems from continuing operations increased by 23.2% to approximately HK$724.0 million for the year ended 31 December 2011 (2010: HK$587.6 million). The increase in overall sales is primarily attributable to the continual growth of the automobile market. During the year ended 31 December 2011, sales of loudspeaker systems for automobiles increased by 24.2% to approximately HK$701.7 million (2010: HK$565.2 million), while the Group recorded sales of loudspeaker systems for home theatres of approximately HK$22.3 million (2010: HK$22.4 million). The Group's gross profit ratio from continuing operations was decreased to 20.4% for the year ended 31 December 2011 (2010: 25.9%) mainly because of the fluctuation in the raw material pricing.

On 9 August 2011, the Company issued five-year 12% convertible loan notes (the "Convertible Loan Notes") in principal amount of RMB33,000,000 (equivalent to approximately HK$40,000,000) and 40 unlisted warrants (the "Warrants") at subscription proceeds of HK$800,000. The Convertible Loan Notes could be converted into ordinary shares of the Company at latest reset conversion price of HK$0.715 per share, while the warrants could be exercised at latest reset exercise price of HK$0.715 per share. The net proceeds from the issue of the Convertible Loan Notes and the Warrants in aggregate of approximately HK$38.0 million would be used for the business development and operation of the environment related business in Thailand, financing investments of the Group and/or the general working capital of the Group.

During the year ended 31 December 2011, the Group recorded net loss of approximately HK$42.6 million (2010: HK$55.2 million). Such loss was mainly attributable to (i) the fair value loss (the "Fair Value Loss") of approximately HK$13.9 million and HK$18.1 million recognized by the Company for the Warrants issued by the Company and share options granted by the Company respectively during the year ended 31 December 2011; and (ii) the increase in administrative expenses of the Group resulting from expansion of its manufacturing and sales of loudspeaker systems and development of its new environment related business. The Fair Value Loss was non-cash in nature and did not have any impact on the operating cash flows of the Group.

PROSPECTS

As the market demand for desulphurisation in chemical industries in China and biomass heat generation for ceramic industries in Thailand continue to increase, combined with the government support and subsidize to green business, the Group is expected to obtain more projects and generate greater revenue in the future.

The Board believes that the environmental protection sector carries immense growth potential and it is sanguine about the future prospects of the businesses and that the businesses will be value accretive to the Group. It is anticipated that with the insight and experience of the Shengyi Technology Group and Time Pro, the Group will be able to build a dedicated platform in environmental protection in the Asia Pacific and emerge as a key player.

Riding on the rapidly recuperating global economy and improving sentiment in consumer spending, the Group is positive on the prospects of the loudspeaker business and the environment related business.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2011, the Group's major business operations took place in China, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 31 December 2011, the Group had cash and bank balances together with restricted and pledged bank deposits of approximately HK$149,950,000 (2010: HK$86,788,000). The increase in cash and bank deposits was primarily attributable to the cash generating from operating activities and proceeds from increase in corporate borrowings during the year. As at 31 December 2011, the Group's total indebtedness comprised liability portion of outstanding Convertible Loan Notes and the short-term bank loans with aggregate amount of approximately HK$145,962,000 (2010: HK$80,287,000). The Convertible Loan Notes, if not converted nor early redeemed, would be due for repayment in August 2016. The Convertible Loan Notes were denominated in Renminbi and bore coupon rate at 12% per annum and yield to maturity rate at 15% per annum compounded annually whereas the short-term bank loans were denominated in Renminbi and bore interest rates ranging from 5.2% to 7.5% per annum with repayment within a year.

As at 31 December 2011, the Group's outstanding number of issued shares of HK$0.01 each was 431,764,974 shares. During the year ended 31 December 2011, the Company allotted and issued 9,800,000 shares of the HK$0.01 each in the share capital of the Company as a result of the exercise of share options.

The Group's gearing ratio, as a percentage of total indebtedness over total indebtedness and total equity, as at 31 December 2011 was 34.1% (2010: 22.4%).

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2011, the Group has a capital commitment of approximately HK$81,137,000 (2010: HK$74,285,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK$3,412,000 (2010: HK$4,285,000).

As at 31 December 2011, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, the Group's transactions were mainly denominated in Renminbi, Hong Kong dollars, US dollars and Euro which exposed the Group to currency risk. The Group currently does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

PLEDGE OF ASSETS

At 31 December 2011, the Group's certain leasehold land and buildings and investment properties with aggregate carrying amount of approximately HK$122,674,000 (2010: HK$118,483,000 were pledged to secure general banking facilities granted to the Group.

At 31 December 2011, bank deposits denominated in Renminbi of HK$28,445,000 (2010: HK$12,000,000) were pledged to secure the banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2011, the Group had about 2,462 (2010: 2,107) employees including directors. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits scheme contribution but excluding equity-settled share-based payment expenses, amounted to approximately HK$133,552,000 (2010: HK$117,431,000). The equity-settled share-based payment expenses of HK$18,070,000 (2010: HK$1,398,000) represented fair value of share options granted to a director and employees (2010: employees and consultants) of the Group and were not resulted in any cash outflow. The variables and assumptions in computing the fair value of the share options are based on management's best estimate. The fair value of the share options varies with different variables of certain subjective assumptions.

The Group believes that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The Group is also committed to providing appropriate on-going training to staff members to equip them for future career development.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Shan Xiaochang, aged 47, is the executive Director, the chairman (the "Chairman") and the chief executive officer (the "Chief Executive Officer") of the Company. He is an entrepreneur in the PRC with over 16 years of experience in corporate finance, operation and cashflow management and research and development. He also held senior positions in various private companies engaged in agriculture, environmental protection and chemical fertilizers in the PRC. Mr. Shan is an uncle of Ms. Shan Zhuojun, the executive Director.

Ms. Shan Zhuojun, aged 35, is the executive Director. She has obtained her bachelor degree in North China University of Technology with a major at Accounting and Audit. She has 16 years of experience in accounting and financial management. She is currently a financial controller of a PRC private company principally engaged in environmental protection and chemical fertilizers business. Ms. Shan is a niece of Mr. Shan Xiaochang, the executive Director, the Chairman and the Chief Executive Officer.

Mr. Ma Arthur On-hing, aged 43, is the executive Director. He has over 17 years of experience in investment, fund management and financial management. He is a member of the American Institute of Certified Public Accountants and is a US Certified Public Accountant. He obtained his bachelor degree in Accounting and Finance from San Francisco of State University, a master degree in Finance from Golden Gate University, and a master degree in Linguistics from Chinese University of Hong Kong.

Mr. Yang Ching Yau, aged 42, is the executive Director. He has over 20 years of experience in the sales, engineering, marketing and manufacturing of loudspeaker systems. He is responsible for the sales and marketing, as well as operations of the loudspeaker business of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Kam Fan, Andrew, aged 50, is the independent non-executive Director. He has an experience of over 29 years in account and finance, and is an associate member of Tax Institute of Hong Kong Certified Public Accountant (Practising) of Hong Kong Institute of Certified Public Accountants (the "HKICPA") and associate member of Association of International Accountants. He obtained his bachelor degree of Business Administration in the Open University of Hong Kong and his master degree of Professional Accounting in Hong Kong Polytechnic University.

Mr. Wang Jialian, aged 60, is the independent non-executive Director. Mr. Wang Jialian has worked in Tiajian Academy of Environmental Sciences for more than 31 years and mainly focused on researches relating to environmental protection and technical treatment for water pollution. He has been appointed as a consultant by various governmental authorities in the PRC focusing on environmental protection. He has obtained his bachelor degree of Chemistry in Nankai University in the PRC.

Mr. Wang Zhihua, aged 67, is the independent non-executive Director. Mr. Wang Zhihua graduated from Beijing University of Chemical Technology (previously named as Beijing College of Chemical Technology (北京化工學院)) with a major in Inorganic Chemistry, and has solid experience and expertise in device installation of chemical fertilizers.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Mr. Shao Zhihui, aged 33, general manager of the Shengyi Environmental Group. Mr. Shao joined the Shengyi Technology Group since 2007 and has been responsible for operation and administration matters, and the organisation of technology R&D for and business promotion of environmental technology business. Before joining the Shengyi Technology Group, he was a deputy chief engineer and deputy general manager of a Chinese private company that engaged in environmental protection business, including sulphur recovery and the treatment for, technology R&D on and application of wastewater and waste gas. Mr. Shao has over 8 years of experience in environmental technology R&D. He participated in various R&D projects and obtained a number of invention patents and utility model patents and was awarded the "Person of Innovation and Invention in High-Technology of Jiangsu Province" in 2009. Mr. Shao holds a Bachelor's degree in the related discipline majoring in mechanical design and manufacturing and automation profession.

Mr. Zhou Jian Ming, aged 54, is the general manager of the loudspeaker business of the Group. He is responsible for the general administration of the subsidiaries principally engaged in manufacturing and sales of loudspeaker systems. He obtained a master's degree in business administration from Nanjing University in Mainland China. He has extensive experience in enterprise management and has over 19 years of experience in the production management of loudspeaker systems. Mr. Zhou had worked for Wuxian Radio Components First Factory (吳縣無綫電元件一廠) and was responsible for corporate administration works. Currently, he is also involved in the sales and marketing activities in Mainland China and overseas.

Mr. Pan Hui Hua, aged 56, is the production manager and assistant general manager of the subsidiaries principally engaged in manufacturing and sales of loudspeaker systems. Mr. Pan joined the Group in 1994 and is responsible for the production of loudspeaker systems. He has over 22 years of experience in the development and production of loudspeaker systems. Mr. Pan had worked for Likou Town Government Industrial Co. ("LTGIC") (蠡口鎮政府工業總公司) as manager and was responsible for monitoring the operations of factories under the control of LTGIC.

Mr. Chan Chi Hung, aged 36, is the chief financial officer and the company secretary of the Group. Mr. Chan is responsible for the overall financial and accounting management of the Group. Mr. Chan holds a bachelor degree in Business Administration in Accounting from The Hong Kong University of Science and Technology in 1997. He is a member of the HKICPA and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over 14 years of experience in auditing and accounting areas and worked for a private and a listed company at management level before joining the Group.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board and senior management are committed to maintaining a high standard of corporate governance practices with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders. The Board believes that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The Board is of the view that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") to the Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2011, except for certain deviations as explained below. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealing as set out in rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2011. Having made specific enquiry of all Directors, the Directors have complied such code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

The Board currently comprises:

Executive Directors:

Mr. Shan Xiaochang *(Chairman)*
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing
Mr. Yang Ching Yau

Independent Non-executive Directors:

Mr. Lee Kam Fan, Andrew
Mr. Wang Jialian
Mr. Wang Zhihua

The Board is collectively responsible for the oversight of the management of the Company's business and affairs of the organisation with the objective of enhancing shareholder value. The Board approves and monitors the Group's business strategies and policies. The Board is also responsible to the shareholders of the Company for overseeing the Group's overall business, strategic decisions and directions, annual budget, and other major corporate matters. Besides, the Board delegated the management team with the authority and responsibility for the daily operations and administration of the Group.

CORPORATE GOVERNANCE REPORT

The Board has normally scheduled four regular meetings a year each at quarterly interval and meets as and when required. In addition, the Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Director. During the year ended 31 December 2011, the Board held 16 meetings and the attendance of each Director is as follows:

	Number of meetings attended/ eligible to attend
Executive Directors:	
Mr. Shan Xiaochang	16/16
Ms. Shan Zhuojun	10/16
Mr. Ma Arthur On-hing	12/16
Mr. Yang Ching Yau	3/16
Independent non-executive Directors:	
Mr. Lee Kam Fan, Andrew	6/16
Mr. Wang Jialian	6/16
Mr. Wang Zhihua	6/16

Ms. Shan Zhuojun, the executive Director is a niece of Mr. Shan Xiaochang, the Chairman and the Chief Executive Officer. Save as disclosed above, there is no family or other material relationship among members of the Board.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses, in order to discharge their duties to the Company.

Appropriate insurance cover has been arranged in respect of legal action against its Directors.

All independent non-executive Directors are appointed for a specific term of not more than 2 years. Save for the Chairman, all Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

In compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of the Directors, the Board follows the requirements set out in the GEM Listing Rule.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board is led by the Chairman and the Chief Executive Officer, Mr. Shan Xiaochang, who is responsible for corporate planning, business development strategy and overall direction of the Group. The senior management is responsible for the day-to-day operations of the Group under the leadership of Mr. Shan Xiaochang.

Under Code Provision A.2.1. of the CG Code, the roles of chairman and chief executive officer should be segregated and should not be exercised by the same individual. Mr. Shan Xiaochang, an executive Director, has served both roles as the Chairman and the Chief Executive Officer since September 2010. In view of the scale and operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives, the Board is of the view that this has not compromised accountability and independent decision-making. In addition, the audit committee of the Company composed exclusively of independent non-executive Directors and the independent non-executive Directors have free and direct access to the Company's external auditor and independent professional advisors when considered necessary.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company currently comprises one executive Director, namely Mr. Shan Xiaochang, and two independent non-executive Directors, namely Mr. Lee Kam Fan, Andrew and Mr. Wang Zhihua. Mr. Lee Kam Fan, Andrew is the chairman of the remuneration committee of the Company. The main role and function of the remuneration committee include the formulation of the Company's remuneration policy, the approval or recommendation of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

The remuneration committee of the Company meets regularly to determine the policy for the remuneration of Directors and assess the performance of the executive Directors. During the year, one meeting of the remuneration committee has been held and all members of the remuneration committee of the Company attended the meeting.

Details of the Director's remuneration are set out in note 15 to the consolidated financial statements.

NOMINATION OF DIRECTORS

The nomination committee of the Company currently comprises one executive Director, namely Mr Shan Xiaochang and two independent non-executive Directors, namely Mr. Lee Kam Fan, Andrew and Mr. Wang Jialian. Mr. Shan Xiaochang is the chairman of the nomination committee of the Company. The works carried out by the nomination committee members are set out below:

a. to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;

b. to assess the suitability and qualification of candidates put forward by the Chief Executive Officer and to become new board members and to report to the Board on their assessment;

c. to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and

d. to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairman and the Chief Executive Officer.

One meeting of the nomination committee has been held during the year. All members of the nomination committee attended the meeting.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2011, the fees paid and payable to auditors in respect of audit services to the Group were approximately HK$1,108,000 (2010: HK$430,000). No other non-audit related services were performed by the auditors.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Lee Kam Fan, Andrew, Mr. Wang Jialian and Mr. Wang Zhihua with Mr. Lee Kam Fan, Andrew as the chairman.

The primary role and function of the audit committee of the Company are to oversee the relationship with the external auditors, to review the Group's preliminary quarterly results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

During the year ended 31 December 2011, four meetings of the audit committee of the Company have been held for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board, with the following attendances:

	Number of meetings attended/ eligible to attend
Mr. Lee Kam Fan, Andrew	4/4
Mr. Wang Jialian	4/4
Mr. Wang Zhihua	4/4

ACCOUNTABILITY AND AUDIT

The Board acknowledged their responsibility for preparing the financial statements of the Group and ensured the financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The statement of the auditor of the Company about their responsibilities on the financial statement of the Group is set out in the independent auditor's report.

INTERNAL CONTROL

The Board has overall responsibilities for the internal control system of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining sound and effective internal control system to safeguard the interests of the shareholders and the assets of the Company. The Board will from time to time conduct a review of the Group's internal control systems. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Group, covering financial, operational, compliance and risk management aspects of the Group.

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

CHANGE OF THE COMPANY NAME

Pursuant to a special resolution passed by the shareholders of the Company in the extraordinary general meeting held on 4 January 2011, the Company had changed its name from "Sonavox International Holdings Limited" and "上聲國際控股有限公司" to "Sunrise (China) Technology Group Limited" and "中昱科技集團有限公司" to provide the Company with a fresh new corporate image and identity. The Certificate of Incorporation on Change of Name issued by the Registrar of Companies in the Cayman Islands and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company issued by the Registrar of Companies in Hong Kong have certified that the Company's name was changed and registered with effect from 4 January 2011 and 9 February 2011 respectively.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by operating segments is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income statement on page 27.

The Directors do not recommend the payment of any dividends in respect of the year (2010: HK$Nil).

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 3 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group's investment properties with carrying values of approximately HK$31.3 million as at 31 December 2011 comprised five blocks of industrial buildings built on two parcels of land located at East of Jufeng Road, Beiquao Township, Xiangcheng District, Suzhou City, Jiangsu Province, the PRC. The land use rights of the two parcels of land are held for a term of 50 years for industrial use commencing from 14 September 2004 and 24 January 2008 respectively.

Details of movements in the investment properties of the Group are set out in note 18 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

In order to enhancing the working capital and strengthening the capital base and financial position for possible future investments of the Group, the Company has carried out the following activities:

(a) On 9 August 2011, the Company issued the Convertible Loan Notes in principal amount of RMB33,000,000 (equivalent to approximately HK$40 million) at its face value and net proceeds was approximately HK$38 million. Assuming full conversion of the Convertible Loan Notes at the accreted amount on maturity date and the latest reset conversion price of HK$0.715 per conversion share, a maximum number of 66,710,865 new ordinary share of HK$0.01 each in the share capital of the Company (the "Shares") (subject to adjustments) will fall to be allotted and issued by the Company; and

(b) On 9 August 2011, the Company issued the Warrants at subscription proceeds of HK$800,000. Assuming full exercise of the subscription rights attaching to the Warrants at the accreted amount of maturity date and the latest reset warrant exercise price of HK$0.715 per warrant subscription share, a maximum number of 55,944,056 new Shares (subject to adjustments) will be allotted and issued by the Company.

RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 31.

DISTRIBUTABLE RESERVES

Under the provisions of the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive directors:

Mr. Shan Xiaochang
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing
Mr. Yang Ching Yau

Independent non-executive directors:

Mr. Lee Kam Fan, Andrew
Mr. Wang Jialian
Mr. Wang Zhihua

In accordance with article 108(A) of the articles of association of the Company, Ms. Shan Zhuojun, Mr. Ma Arthur On-hing and Mr. Lee Kam Fan, Andrew shall retire by rotation at the forthcoming annual general meeting and being eligible, offer himself for re-election.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 11 to 12 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Shan Xiaochang, Ms. Shan Zhuojun and Mr. Ma Arthur On-hing entered into an appointment letter with the Company on 10 September 2010. They have no fixed term of service with the Company save that they are subject to retirement by rotation in accordance with the articles of association of the Company.

Mr. Yang Ching Yau has not entered into any service contract with the Company or any of its subsidiaries. He does not have a proposed length of service and is subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

Each of Mr. Lee Kam Fan, Andrew, Mr. Wang Jialian and Mr. Wang Zhihua entered into a 2-year service contract with the Company and they are subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to rule 5.09 of the GEM Listing Rules. The Company based on such confirmation, considers all of the independent non-executive Directors are independent.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section "Connected/Related Party Transactions" below and note 38 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MATERIAL CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed under the section "Connected/Related Party Transactions" below, there is no material contract between the Group and the controlling shareholder or its subsidiaries during the year.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Mr. Shan Xiaochang	Interest of a controlled corporation	239,556,536 *(Note 1)*	–	239,556,536	55.48%
	Beneficial owner	–	35,000,000 *(Note 2)*	35,000,000	8.11%
		239,556,536	35,000,000	274,556,536	63.59%

Notes:

1. These shares are held by Zhongyu Group Holdings Limited. The entire issued share capital of Zhongyu Group Holdings Limited is beneficially owned by Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Total number of shares to be alloted and issued upon exercise in full of options under share option scheme adopted by the Company on 8 July 2002. These share options were conditionally granted to Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.

Save as disclosed above, none of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2011.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Zhongyu Group Holdings Limited *(Note 1)*	Beneficial owner	239,556,536	–	239,556,536	55.48%
Mr. Shan Xiaochang *(Note 1)*	Interest of a controlled corporation	239,556,536	–	239,556,536	55.48%
	Beneficial owner	–	35,000,000 *(Note 2)*	35,000,000	8.11%
		239,556,536	35,000,000	274,556,536	63.59%
Ms. Wu Shuhua *(Note 3)*	Interest of spouse	239,556,536	35,000,000	274,556,536	63.59%
Mr. Chan Ping Yee	Beneficial owner	73,675,000	–	73,675,000	17.06%
Ms. Liu Sau Wan *(Note 4)*	Interest of spouse	73,675,000	–	73,675,000	17.06%
Concept Capital Management Limited	Beneficial owner	–	122,654,921	122,654,921	28.41%

Notes:

1. The entire issued share capital of Zhongyu Group Holdings Limited was solely and beneficially owned by Mr. Shan Xiaochang, the chairman and the chief executive officer and the executive director of the Company, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Total number of shares to be alloted and issued upon exercise in full of options under share scheme adopted by the Company on 8 July 2002. These share options were conditionally granted for Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.

3. Ms. Wu Shuhua is the spouse of Mr. Shan Xiaochang and, under section 316 of the SFO, is therefore deemed to be interested in all 274,556,536 shares in which Mr. Shan Xiaochang is interested.

4. Ms. Liu Sau Wan is the spouse of Mr. Chan Ping Yee and, under section 316 of the SFO, is therefore deemed to be interested in all 73,675,000 shares in which Mr. Chan Ping Yee is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2011.

REPORT OF THE DIRECTORS

SHARE OPTIONS

The Company operates a share option scheme for the purpose of to enable the Company to grant share options to the eligible participants as incentives or rewards for their contribution to the Group. Eligible participants include any employees, directors, consultants or professional advisors, shareholders and suppliers or customers of the Group. The share option scheme became effective on 8 July 2002 and, will remain valid until 7 July 2012. Shares options granted prior to the expiry of the share option scheme will continue to be valid and exercisable in accordance with the rules of the share option scheme. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. As at 31 December 2011, the Company had 62,700,000 (31 December 2010: 32,000,000) share options outstanding under the share option scheme adopted by the Company on 8 July 2002, which represented approximately 14.5% (31 December 2010: 7.6%) on that date.

The maximum number of share issued and which may fall to be issued upon exercise of the share options granted under the share option scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue unless it is approved by shareholders (other than the grantees and/or their respective associates) in a general meeting of the Company. Any share option granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in general meeting of the Company.

The offer of a grant of share option under the share option scheme may be accepted, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option granted under the share option scheme may be exercised in whole or in part in the manner provided in the share option scheme by a grantee giving notice in writing to the Company at any time during a period not exceed 10 years from the date an share option granted under the share option scheme is offered.

The exercise price of the share options is a price determined by the Board, in its absolute discretion, but in any case is not less than whichever is the highest of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of the Shares.

The following table discloses movements in the Company's share options during the year:

Name or category of participant	Exercisable period	Exercise price per share of the Company HK$	Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2011
Directors							
Mr. Shan Xiaochang	20 October 2011 to 1 September 2021	0.962	–	35,000,000	–	–	35,000,000
Employees (other than Directors)							
In aggregate	25 November 2010 to 24 November 2020	0.666	4,000,000	–	(3,000,000)	–	1,000,000
	2 September 2011 to 1 September 2021	0.962	–	5,500,000	–	–	5,500,000
			4,000,000	40,500,000	(3,000,000)	–	41,500,000
Others							
In aggregate	25 November 2010 to 24 November 2020	0.666	28,000,000	–	(6,800,000)	–	21,200,000
			32,000,000	40,500,000	(9,800,000)	–	62,700,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in note 39 to the consolidated financial statements, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED/RELATED PARTY TRANSACTIONS

The related party transactions are set out in note 38 to the consolidated financial statements. All the related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rule.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Yang Ching Yau, executive Director, is engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited, Asian Elite International Company Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacturing and sales of loudspeakers for automotive aftermarket, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15 July 2002 with the Company pursuant to which Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUAL

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 15 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set out by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the Directors is decided by the remuneration committee of the Company, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share options scheme as an incentive to the Directors and eligible employees. Details of the scheme are set out in note 39 to the consolidated financial statements.

Details of pension scheme arrangement of the Group are set out in note 40 to the consolidated financial statements.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the five largest customers accounted for approximately 48% (2010: approximately 47%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 28% (2010: approximately 20%) of the Group's total purchases. The largest customer of the Group accounted for approximately 16% (2010: approximately 19%) of the Group's total turnover while the largest supplier accounted for approximately 12% (2010: approximately 5%) of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

Corporate governance report of the Company is set out on pages 13 to 16 of the annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period of the Group are set out in note 43 to the consolidated financial statements.

AUDITOR

The financial statements in respect of the previous two financial years and the accompanying financial statements for the year ended 31 December 2011 have been audited by BDO Limited.

BDO Limited will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Shan Xiaochang
Chairman

23 March 2012

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF
SUNRISE (CHINA) TECHNOLOGY GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sunrise (China) Technology Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 27 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

INDEPENDENT AUDITOR'S REPORT

control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Turnover	7	**724,008**	587,562
Cost of sales		**(576,142)**	(435,318)
Gross profit		**147,866**	152,244
Other revenue, gains and losses (net)		**(4,248)**	9,755
Loss arising from fair value change of derivative financial instrument		**(13,179)**	(74,290)
Selling and marketing costs		**(23,475)**	(16,828)
Administrative expenses		**(130,017)**	(105,845)
Finance costs	8	**(10,428)**	(6,673)
Loss before income tax expense		**(33,481)**	(41,637)
Income tax expense	11	**(9,162)**	(10,207)
Loss for the year from continuing operations		**(42,643)**	(51,844)
Discontinued operations			
Loss for the year from discontinued operations		**–**	(3,317)
Loss for the year	10	**(42,643)**	(55,161)
Other comprehensive income			
– gain on revaluation of properties		**–**	6,395
– income tax relating to revaluation of properties		**–**	(1,130)
– exchange differences on translating foreign operations		**1,797**	9,437
– reclassification adjustment relating to disposal of subsidiaries		**–**	(2,358)
Other comprehensive income for the year, net of tax		**1,797**	12,344
Total comprehensive income for the year		**(40,846)**	(42,817)
(Loss)/profit attributable to:			
– owners of the Company		**(49,780)**	(77,907)
– non-controlling interests		**7,137**	22,746
		(42,643)	(55,161)
Total comprehensive income attributable to:			
– owners of the Company		**(46,865)**	(71,231)
– non-controlling interests		**6,019**	28,414
		(40,846)	(42,817)
Loss per share from continuing operations (2010: continuing and discontinued operations) (HK cents) – basic and diluted	13	**(11.61)**	(23.52)
Loss per share from continuing operations (HK cents) – basic and diluted	13	**(11.61)**	(22.52)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**237,746**	179,737
Investment properties	18	**31,340**	30,170
Payments for leasehold land held for own use under operating leases	19	**19,618**	16,173
Deferred tax assets	20	**324**	233
Prepayments	21	**27,708**	–
Intangible assets	22	**16,444**	–
Goodwill	23	**3,204**	–
Other financial asset	24	**3,736**	–
Total non-current assets		**340,120**	226,313
Current assets			
Inventories	25	**96,686**	57,220
Trade and note receivables	26	**228,339**	234,999
Prepayments, deposits and other receivables		**28,937**	31,487
Amount due from a non-controlling shareholder of a subsidiary		**–**	2,934
Restricted and pledged bank deposits	27	**28,445**	12,000
Cash and cash equivalents		**121,505**	74,788
Total current assets		**503,912**	413,428
Total assets		**844,032**	639,741
Current liabilities			
Trade and note payables	28	**230,131**	169,640
Accruals and other payables		**93,777**	88,742
Amounts due to directors	29	**2,848**	2,110
Amounts due to non-controlling shareholders of subsidiaries	30	**46,927**	12,346
Bank borrowings – due within one year	31	**121,186**	80,287
Current tax liabilities		**776**	5,354
Total current liabilities		**495,645**	358,479
Net current assets		**8,267**	54,949
Total assets less current liabilities		**348,387**	281,262

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Deferred tax liabilities	20	**11,535**	2,984
Embedded derivatives	32	**15,837**	–
Convertible loan notes	32	**24,776**	–
Unlisted warrants	33	**14,736**	–
Total non-current liabilities		**66,884**	2,984
NET ASSETS		**281,503**	278,278
Capital and reserves attributable to owners of the Company			
Share capital	34	**4,318**	4,220
Reserves	35	**123,788**	146,950
Equity attributable to owners of the Company		**128,106**	151,170
Non-controlling interests		**153,397**	127,108
TOTAL EQUITY		**281,503**	278,278

On behalf of the Board

Shan Xiaochang
Chairman

Shan Zhuojun
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Investments in subsidiaries	17	**24,150**	14,650
Property, plant and equipment		**1**	3
Total non-current assets		**24,151**	14,653
Current assets			
Prepayments and deposits		**248**	100
Amounts due from subsidiaries	17	**81,712**	41,611
Cash and bank balances		**469**	23,244
Total current assets		**82,429**	64,955
Total assets		**106,580**	79,608
Current liabilities			
Accruals and other payables		**2,241**	1,690
Net current assets		**80,188**	63,265
Total assets less current liabilities		**104,339**	77,918
Non-current liabilities			
Embedded derivatives	32	**15,837**	–
Convertible loan notes	32	**24,776**	–
Unlisted warrants	33	**14,736**	–
Total non-current liabilities		**55,349**	–
NET ASSETS		**48,990**	77,918
Capital and reserves			
Share capital	34	**4,318**	4,220
Reserves	35	**44,672**	73,698
TOTAL EQUITY		**48,990**	77,918

On behalf of the Board

Shan Xiaochang *Chairman*	**Shan Zhuojun** *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Statutory reserves *(Note (a))* HK$'000	Share-based payment reserve HK$'000	Merger reserve *(Note (b))* HK$'000	Cumulative translation adjustment reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	3,251	27,682	11,680	6,812	1,623	2,441	14,179	14,827	82,495	98,817	181,312
(Loss)/profit for the year	–	–	–	–	–	–	–	(77,907)	(77,907)	22,746	(55,161)
Other comprehensive income for the year											
– gain on revaluation of properties	–	–	4,172	–	–	–	–	–	4,172	2,223	6,395
– income tax relating to revaluation of properties	–	–	(737)	–	–	–	–	–	(737)	(393)	(1,130)
– exchange difference on translating foreign operations	–	–	–	–	–	–	5,599	–	5,599	3,838	9,437
– reclassification adjustment relating to disposal of subsidiaries	–	–	–	–	–	–	(2,358)	–	(2,358)	–	(2,358)
Total comprehensive income for the year	–	–	3,435	–	–	–	3,241	(77,907)	(71,231)	28,414	(42,817)
Disposal of subsidiaries	–	–	(3,822)	–	–	–	–	3,822	–	–	–
Cancellation of share options previously granted	–	–	–	–	(1,623)	–	–	1,623	–	–	–
Transfer of reserve	–	–	–	764	–	–	–	(893)	(129)	(123)	(252)
Recognition of equity-settled share-based payment	–	–	–	–	11,185	–	–	–	11,185	–	11,185
Issuance of shares upon conversion of convertible loan notes (Note 32)	969	127,881	–	–	–	–	–	–	128,850	–	128,850
At 31 December 2010 and 1 January 2011	4,220	155,563	11,293	7,576	11,185	2,441	17,420	(58,528)	151,170	127,108	278,278
(Loss)/profit for the year	–	–	–	–	–	–	–	(49,780)	(49,780)	7,137	(42,643)
Other comprehensive income for the year											
– exchange difference on translation foreign operations	–	–	–	–	–	–	2,915	–	2,915	(1,118)	1,797
Total comprehensive income for the year	–	–	–	–	–	–	2,915	(49,780)	(46,865)	6,019	(40,846)
Transfer of reserve	–	–	–	4,315	–	–	–	(5,111)	(796)	(765)	(1,561)
Recognition of equity-settled share-based payment	–	–	–	–	18,070	–	–	–	18,070	–	18,070
Issuance of shares upon conversion of share options (Note 39)	98	9,854	–	–	(3,425)	–	–	–	6,527	–	6,527
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	21,035	21,035
At 31 December 2011	4,318	165,417	11,293	11,891	25,830	2,441	20,335	(113,419)	128,106	153,397	281,503

Notes:

(a) Statutory reserves

Pursuant to the articles of association of the group entities in the People's Republic of China (the "PRC"), appropriations are made from the retained earnings to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in the PRC. Such appropriations to reserves would be made only with approval from the board of directors of those group entities.

(b) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the shares issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
Cash flows from operating activities		
Loss before income tax expense from:		
– continuing operations	**(33,481)**	(41,637)
– discontinued operations	**–**	(3,317)
	(33,481)	(44,954)
Adjustments for:		
Interest income	**(678)**	(313)
Finance costs	**10,428**	10,182
Depreciation and amortisation	**22,397**	19,116
(Gain)/loss arising from fair value change of embedded derivatives	**(757)**	83,080
Loss arising from fair value change on unlisted warrants	**13,936**	–
Impairment loss on other financial asset	**1,186**	–
(Reversal of)/provision for impairment loss on trade receivables	**(1,155)**	3,426
Loss on disposal of property, plant and equipment	**96**	47
(Reversal of)/provision for impairment loss on inventories	**(602)**	1,308
Gain on disposal of subsidiaries	**–**	(10,221)
Loss/(gain) on fair value change of investment properties	**1,979**	(3,267)
Equity-settled share-based payment expenses	**18,070**	11,185
Operating profit before working capital changes	**31,419**	69,589
Increase in inventories	**(28,265)**	(9,969)
Decrease/(increase) in trade and note receivables	**30,306**	(116,219)
Decrease/(increase) in prepayments, deposits and other receivables	**11,233**	(7,548)
Increase in amounts due to directors	**738**	2,110
Increase in trade and note payables	**56,535**	62,677
(Decrease)/increase in accruals and other payables	**(30,148)**	29,419
Cash generated from operations	**71,818**	30,059
Income tax paid in the PRC	**(11,057)**	(8,469)
Net cash from operating activities	**60,761**	21,590
Cash flows from investing activities		
Payment of acquisition of property, plant and equipment	**(54,963)**	(28,510)
Addition of investment properties	**(2,067)**	–
Proceeds from disposal of property, plant and equipment	**442**	163
Acquisition of subsidiaries	**(19,096)**	–
Increase in prepayments	**(27,708)**	–
Payment of acquisition of other financial asset	**(4,922)**	–
Net proceeds from disposal of subsidiaries	**–**	21,730
(Increase)/decrease in pledged bank deposits	**(16,445)**	3,766
Interest received	**678**	313
Net cash used in investing activities	**(124,081)**	(2,538)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Cash flows from financing activities		
Proceeds from shares issued under share option scheme	**6,527**	–
Proceeds from issue of unlisted warrants	**800**	–
Proceeds from issue of convertible loan notes	**38,001**	–
Interest paid	**(7,470)**	(5,386)
Convertible loan notes interest expense	**–**	(8,360)
Proceeds from bank borrowings	**121,186**	90,417
Repayment of bank borrowings	**(80,287)**	(85,926)
Advance from non-controlling shareholders of subsidiaries	**37,515**	526
Repayment of principal portion of obligations under finance lease	**–**	(52)
Advance from a parent of a non-controlling shareholder of a subsidiary included in other payables	**–**	17,711
Additional advance from former ultimate holding company	**–**	5,400
Net cash from financing activities	**116,272**	14,330
Net increase in cash and cash equivalents	**52,952**	33,382
Cash and cash equivalents at beginning of year	**74,788**	39,406
Effect of foreign exchange rate changes	**(6,235)**	2,000
Cash and cash equivalents at end of year	**121,505**	74,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

The principal activities of Sunrise (China) Technology Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") were investment holding and manufacturing and sales of loudspeaker systems to customers in the PRC and overseas markets respectively.

During the year, the Group acquired several subsidiaries engaged in heat generation projects, environment related business and manufacturing and sales of loudspeaker systems, respectively. Details of which are set out in note 36 to the consolidated financial statements.

The Company is a limited liability company incorporated in the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section. The directors regard Zhongyu Group Holdings Limited, a company incorporated in the British Virgin Islands ("BVI"), as the ultimate holding company.

The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 July 2002.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2011

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

The adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implantation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)*

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of the new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. *BASIS OF PREPARATION*

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for land and buildings, investment properties and financial instruments, which are measured at revalued amounts or fair values as appropriate and explained in the accounting policies set out below.

4. *SIGNIFICANT ACCOUNTING POLICIES*

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair values of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is carried at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(d) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the property revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the property revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

Other property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	Remaining useful life
Leasehold improvements	5 – 10 years
Machinery, furniture and equipment	3 – 20 years
Motor vehicles	2 – 5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and building elements of property leases are considered separately for the purpose of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

(h) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

(i) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales.

Patent	10 years
Order backlog	1.5 years to 3 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(i) Intangible assets (continued)

(ii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired.

(j) Financial instruments

(i) Financial assets

The Group classifies its financial assets into loans and receivables and available-for-sale financial assets based on the purpose for which the asset was acquired. Financial assets are initially recognised at fair value plus any directly attributable transaction costs.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

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

– granting concession to a debtor because of debtors' financial difficulty;

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

For loan and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For Available-for-sale financial assets

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, accruals and other payables, amounts due to directors and non-controlling shareholders of subsidiaries, bank borrowings and the debt element of convertible loan notes issued by the Group, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

(iv) Convertible loan notes

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion derivative is recognised at fair value, any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the convertible loan notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible loan notes are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(j) Financial instruments (continued)

(vii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 –"Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 -"Revenue".

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(k) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Revenue recognition

Revenue from sales of goods, moulds and scrap materials is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Service fee income represents royalties which is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Rental income under operating leases is recognised in a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(n) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Foreign currency (continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as cumulative translation adjustment reserve (attributable to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as cumulative translation adjustment reserve attributable to non-controlling interests as appropriate.

On disposal of a foreign operation, the cumulative exchange differences recognised in the cumulative translation adjustment reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the cumulative translation adjustment reserve.

(o) Employee benefits

(i) Defined contribution retirement plans

The group entities incorporated in Hong Kong make monthly contributions to a Mandatory Provident Fund Scheme (the "MPF Scheme"), which is a defined contribution scheme managed by an independent trustee for those employees who are eligible to participate in the MPF Scheme. The Group makes contributions based on a percentage of the eligible employees' salaries funded by the Group and charges to profit or loss as they become payable in accordance with the rules of the MPF scheme.

In addition, the group entities incorporated in the PRC make monthly contributions to a stated-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to relevant laws and regulations in the PRC issued by local social security authorities.

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of reporting period. Employee entitlements to non-accounting compensated absences are not recognised until the time of leave.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(o) Employee benefits (continued)

(iii) Termination benefits

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

(p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. If the fair value of goods and services received cannot be measured reliably, the fair value of the options granted is recognised in profit or loss instead. A corresponding increase in equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepayments for leasehold land held for own use under operating leases;

– intangible assets; and

– investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased in carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

(r) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Government grants

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

4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(u) Related parties

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Useful life and residual value of property, plant and equipment

The Group determines the depreciation amount of property, plant and equipment based on the estimated useful life and residual value, which are reviewed at each reporting period end. The principal assumptions for the Group's estimation of the useful life and residual value include those related to the mode of operations, government regulations and scrap value of property, plant and equipment in future.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

During the year, the Group had two reportable segments, namely the manufacturing and sales of loudspeaker systems and environment related business. They were managed separately based on their business nature. In 2010, the Group had two reportable segments managed separately based on their geographical locations, namely the mainland China and North America. On 25 August 2010, the North America segment was disposed of and was presented as a discontinued operation. As the management actively developed the environment related business in 2011, the management considered that the change in reportable segments could better reflect the nature and financial effects of the business activities in which the Group engages and the economic environments in which the Group operates. Corresponding information for the year ended 31 December 2010 has been restated accordingly.

The segment information provided to the chief operating decision-maker for reportable segments and reconciliation of the segments total to the amounts reported by the Group in the consolidated financial statements are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. *SEGMENT REPORTING (CONTINUED)*

Year ended 31 December 2011

	Manufacturing and sales of loudspeaker systems HK$'000	Environment related business HK$'000	Unallocated *(Note (c))* HK$'000	Consolidated HK$'000
Revenue from external customers *(Note (a))*	724,008	–	–	724,008
Reportable segment profit/(loss) *(Note (b)(i))*	25,248	(22,293)	(36,436)	(33,481)
Depreciation and amortisation	19,752	2,363	282	22,397
Interest income	639	39	–	678
Interest expense	7,470	2,958	–	10,428
Reversal of impairment loss on inventories	602	–	–	602
Reversal of impairment loss on trade receivables	808	–	–	808
Gain arising from fair value change of embedded derivatives	–	757	–	757
Loss arising from fair value change of unlisted warrants	–	13,936	–	13,936
Impairment loss on other financial asset	–	1,186	–	1,186
Loss arising from fair value change of investment properties	1,979	–	–	1,979
Income tax expense/(credit)	9,550	(388)	–	9,162
Reportable segment assets *(Note (b)(ii))*	759,686	81,595	2,751	844,032
Reportable segment liabilities *(Note (b)(iii))*	475,597	84,398	2,534	562,529
Addition to non-current assets:				
– property, plant and equipment	53,905	998	60	54,963
– investment properties	2,067	–	–	2,067
– prepayments	–	27,708	–	27,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. *SEGMENT REPORTING (CONTINUED)*

Year ended 31 December 2010 (restated)

	Manufacturing and sales of loudspeaker systems HK$'000	Environment related business HK$'000	Unallocated *(Note (c))* HK$'000	Consolidated HK$'000
Revenue from external customers	653,722	–	–	653,722
Reportable segment profit/(loss)	48,040	–	(92,994)	(44,954)
Depreciation and amortisation	18,918	–	198	19,116
Interest income	313	–	–	313
Interest expense	8,424	–	1,758	10,182
Impairment loss on inventories	1,308	–	–	1,308
Impairment loss on trade receivables	3,426	–	–	3,426
Loss arising from fair value change of embedded derivatives	8,790	–	74,290	83,080
Gain arising from fair value change of investment properties	3,267	–	–	3,267
Income tax expense	10,207	–	–	10,207
Reportable segment assets	612,425	–	27,316	639,741
Reportable segment liabilities	357,159	–	4,304	361,463
Addition to non-current assets: – property, plant and equipment	27,629	–	881	28,510

Notes:

(a) The following is an analysis of Group's revenue from its major customers during the year and is attributable to the reportable segment of "Manufacturing and sales of loudspeaker systems":

	2011 HK$'000	2010 HK$'000
Customer A	**113,950**	123,089
Customer B	**–**	73,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. *SEGMENT REPORTING (CONTINUED)*

Notes: (continued)

(b) The differences in respect of the measurements of the reportable segments' profit or loss, segment assets and liabilities to the Group's profit or loss before income tax expense, assets and liabilities, respectively, are as follows:

(i) The amount mainly represents share-based payment, staff salaries and welfare expenses and other benefits.

(ii) The amount mainly represents cash and bank balances in Hong Kong.

(iii) The amount mainly represents accruals and other payables of the Group.

(c) Reconciliation represents unallocated corporate income and expenses, assets and liabilities as follows:

	2011 HK$'000	2010 HK$'000
Loss before income tax expense from continuing operations		
Reportable segment profit	**2,955**	48,040
Segment loss from discontinued operations	**–**	3,317
Depreciation and amortisation	**(282)**	(198)
Directors' emoluments *(Note 15(a))*	**(18,383)**	(1,086)
Others	**(17,771)**	(91,710)
Loss before income tax expense from continuing operations	**(33,481)**	(41,637)
Assets		
Reportable segment assets	**841,281**	612,425
Unallocated corporate assets	**2,751**	27,316
Consolidated total assets	**844,032**	639,741
Liabilities		
Reportable segment liabilities	**559,995**	357,159
Unallocated corporate liabilities	**2,534**	4,304
Consolidated total liabilities	**562,529**	361,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. *SEGMENT REPORTING (CONTINUED)*

Notes: (continued)

(d) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets"):

	Revenue from external customers		**Specified non-current assets**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Hong Kong (place of domicile)	**–**	4,496	**888**	861
Mainland China	**285,967**	277,888	**304,808**	225,165
United States	**121,561**	149,165	**–**	–
Germany	**280,055**	174,278	**26**	54
Thailand	**1,204**	857	**30,338**	–
Other countries	**35,221**	47,038	**–**	–
	724,008	653,722	**336,060**	226,080

7. *TURNOVER*

Turnover, which is also the revenue, represents the net invoiced value of goods sold or service performed, net of discounts and sales related taxes.

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Turnover	**724,008**	587,562	**–**	66,160	**724,008**	653,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. *FINANCE COSTS*

	Continuing operations		Discontinued operations		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Interest on:						
– bank and other borrowings wholly repayable within five years *(Note 31)*	**7,226**	4,915	**–**	359	**7,226**	5,274
– mortgage loan repayable over five years	**–**	41	**–**	–	**–**	41
– convertible loan notes *(Note 32)*	**2,958**	1,717	**–**	3,140	**2,958**	4,857
– finance lease	**–**	–	**–**	3	**–**	3
– discounted bills	**244**	–	**–**	–	**244**	–
– other	**–**	–	**–**	7	**–**	7
	10,428	6,673	**–**	3,509	**10,428**	10,182

9. *STAFF COSTS*

	Continuing operations		Discontinued operations		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Staff costs (including directors' emoluments *(Note 15(a))* comprise:						
– salaries and welfare expenses and other benefits	**121,815**	97,408	**–**	8,714	**121,815**	106,122
– contributions on defined contribution retirement plan	**11,737**	10,833	**–**	476	**11,737**	11,309
– share-based payment (equity-settled)	**18,070**	1,398	**–**	–	**18,070**	1,398
	151,622	109,639	**–**	9,190	**151,622**	118,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. LOSS FOR THE YEAR

Loss for the year is arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Inventories recognised as an expense	**576,744**	434,010	**–**	55,479	**576,744**	489,489
(Reversal of)/provision for impairment loss on inventories	**(602)**	1,308	**–**	–	**(602)**	1,308
Cost of sales	**576,142**	435,318	**–**	55,479	**576,142**	490,797
Depreciation of property, plant and equipment	**19,916**	16,777	**–**	918	**19,916**	17,695
Amortisation of intangible assets	**2,071**	–	**–**	1,035	**2,071**	1,035
Amortisation of payments for leasehold land held for own use under operating leases	**410**	386	**–**	–	**410**	386
Auditor's remuneration	**1,108**	430	**–**	–	**1,108**	430
Research and development costs	**23,493**	20,667	**–**	5,005	**23,493**	25,672
Minimum lease payments under operating leases	**1,901**	1,652	**–**	610	**1,901**	2,262
Loss on disposal of property, plant and equipment	**96**	47	**–**	–	**96**	47
Loss/(gain) on change in fair value of investment properties	**1,979**	(3,267)	**–**	–	**1,979**	(3,267)
Gain on disposal of subsidiaries	**–**	(445)	**–**	(9,776)	**–**	(10,221)
Exchange loss (net)	**14,980**	4,763	**–**	157	**14,980**	4,920
(Gain)/loss arising from fair value change of embedded derivatives	**(757)**	74,290	**–**	8,790	**(757)**	83,080
Loss arising from fair value change of unlisted warrants	**13,936**	–	**–**	–	**13,936**	–
Impairment loss on other financial asset	**1,186**	–	**–**	–	**1,186**	–
(Reversal of)/impairment loss on trade receivables	**(808)**	3,426	**–**	–	**(808)**	3,426
Rental income	**(5,276)**	(2,120)	**–**	–	**(5,276)**	(2,120)
Interest income	**(678)**	(309)	**–**	(4)	**(678)**	(313)
Mould income	**(2,981)**	(1,222)	**–**	–	**(2,981)**	(1,222)
Net income from sales of scrap materials	**(1,012)**	(289)	**–**	–	**(1,012)**	(289)
Royalty income	**–**	–	**–**	(5,909)	**–**	(5,909)
Subsidy income *(Note)*	**(954)**	(1,283)	**–**	–	**(954)**	(1,283)

Note:

Subsidy income represents local government subsidies paid to the Group based on the pre-determined level of expenditures spent on certain advanced technology projects by the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as there is no assessable profits for the group entities operated in Hong Kong during the year ended 31 December 2011.

With effect from 1 January 2008, the PRC Enterprise Income Tax ("EIT") rate is 25%, subject to preferential tax treatments.

Taxation arising in other jurisdictions is calculated at the rates in the respective jurisdictions.

The amount of taxation in the consolidated statement of comprehensive income represents:

	Continuing operations		Discontinued operations		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Current tax						
– PRC EIT	**5,501**	10,030	**–**	–	**5,501**	10,030
– Under provision of EIT in prior years	**1,098**	–	**–**	–	**1,098**	–
Deferred tax *(Note 20)*						
– Current year	**2,563**	177	**–**	–	**2,563**	177
Income tax expense	**9,162**	10,207	**–**	–	**9,162**	10,207

The income tax expense for the year can be reconciled to the loss per the consolidated statement of comprehensive income as follows:

	2011 HK$'000	2010 HK$'000
Loss before income tax expense		
– from continuing operations	**(33,481)**	(41,637)
– from discontinued operations	**–**	(3,317)
	(33,481)	(44,954)
Tax calculated at the domestic tax rate of 16.5% (2010: 16.5%)	**(5,524)**	(7,417)
Effect of different tax rates of subsidiaries in other jurisdictions	**2,123**	5,194
Tax effect of expenses not deductible for tax purposes	**19,074**	22,068
Tax effect of revenue not taxable for tax purposes	**(5,719)**	(3,369)
Utilisation of previously unrecognised tax losses	**–**	(31)
Tax loss not recognised	**1,495**	1,036
Effect of tax exemptions granted to PRC subsidiaries	**(3,385)**	(7,274)
Under provision in respect of prior years	**1,098**	–
Income tax expense	**9,162**	10,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders includes an amount of HK$53,525,000 (2010: HK$98,635,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2011	2010
Loss	HK$'000	HK$'000
Loss for the purposes of calculating basic and diluted loss per share	49,780	77,907
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	428,587	331,224

The computation of diluted loss per share does not assume the conversion of the Company's convertible loan notes, share options and unlisted warrants since their exercise would result in a decrease in loss per share.

Discontinued operations

No basic and diluted earnings or loss per share for the discontinued operations for the reporting period have been presented as it was disposed in the year 2010.

14. DIVIDENDS

The Directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2011 is set out below:

Name of directors	Directors' fees HK$'000	Basic salaries, other allowance and benefits in kind HK$'000	Contributions on defined contribution retirement plan HK$'000	Sub-total HK$'000	Share-based payment HK$'000	Total HK$'000
Executive:						
– Mr. Shan Xiaochang *(Note i)*	–	2,008	–	2,008	14,739	16,747
– Ms. Shan Zhuojun	–	520	–	520	–	520
– Mr. Ma Arthur On-hing	–	520	12	532	–	532
– Mr. Yang Ching Yau	–	260	–	260	–	260
Independent non-executive:						
– Mr. Lee Kam Fan, Andrew	108	–	–	108	–	108
– Mr. Wang Jialian	108	–	–	108	–	108
– Mr. Wang Zhihua	108	–	–	108	–	108
	324	3,308	12	3,644	14,739	18,383

The remuneration of each director for the year ended 31 December 2010 is set out below:

Name of directors	Directors' fees HK$'000	Basic salaries, other allowance and benefits in kind HK$'000	Contributions on defined contribution retirement plan HK$'000	Total HK$'000
Executive:				
– Mr. Shan Xiaochang	–	159	–	159
– Ms. Shan Zhuojun	–	159	–	159
– Mr. Ma Arthur On-hing	–	159	4	163
– Mr. Yang Tsu Ying	–	45	–	45
– Mr. Yang Ching Yau	–	260	–	260
Independent non-executive:				
– Mr. Lee Kam Fan, Andrew	33	–	–	33
– Mr. Wang Jialian	33	–	–	33
– Mr. Wang Zhihua	33	–	–	33
– Mr. Fan Chi Fai, Paul	67	–	–	67
– Mr. Yiu Chi Wah	67	–	–	67
– Mr. Lee Fang Yu	67	–	–	67
	300	782	4	1,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (continued)

Notes:

(i) Total emoluments include a bonus of HK$1,500,000 which was discretionary (2010: HK$ Nil) and the estimated value of share options granted to the director under the Company's share option scheme (2010: HK$Nil). The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4(p).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 39 to the consolidated financial statements.

(ii) The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one was director (2010: Nil). The emoluments of the five (2010: five) highest paid individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries, other allowance and other benefits	**8,175**	4,062
Contribution to pension scheme	**295**	311
Share-based payment	**18,070**	1,225
	26,540	5,598

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following bands:

	2011 No. of individuals	2010 No. of individuals
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**1**	1
>HK$1,500,000	**4**	1
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *(Note)* HK$'000	Leasehold improvements HK$'000	Machinery, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2010	100,265	29,756	124,919	3,122	13,085	271,147
Additions at cost	–	2,855	10,646	234	14,775	28,510
Transfer from construction in progress	–	388	35	–	(423)	–
Transfer to investment properties *(Note 18)*	–	–	–	–	(18,088)	(18,088)
Disposals	–	–	(1,186)	(369)	–	(1,555)
Disposal of subsidiaries	(8,300)	(2,114)	(15,066)	(227)	–	(25,707)
Surplus on revaluation	1,959	–	–	–	–	1,959
Translation adjustments	3,557	1,120	4,409	89	394	9,569
At 31 December 2010	97,481	32,005	123,757	2,849	9,743	265,835
Comprising:						
At cost	–	32,005	123,757	2,849	9,743	168,354
At valuation 2010	97,481	–	–	–	–	97,481
At 31 December 2010 and 1 January 2011	**97,481**	**32,005**	**123,757**	**2,849**	**9,743**	**265,835**
Additions at cost	**4,633**	**1,893**	**5,773**	**1,455**	**41,209**	**54,963**
Acquisition of subsidiaries	**9,934**	**368**	**4,243**	**2,119**	**50**	**16,714**
Transfer from construction in progress	**–**	**–**	**3,234**	**–**	**(3,234)**	**–**
Disposals	**–**	**–**	**(974)**	**(442)**	**–**	**(1,416)**
Translation adjustments	**3,534**	**1,150**	**4,485**	**40**	**872**	**10,081**
At 31 December 2011	**115,582**	**35,416**	**140,518**	**6,021**	**48,640**	**346,177**
Comprising:						
At cost	**–**	**35,416**	**140,518**	**6,021**	**48,640**	**230,595**
At valuation 2011	**115,582**	**–**	**–**	**–**	**–**	**115,582**
	115,582	**35,416**	**140,518**	**6,021**	**48,640**	**346,177**
Accumulated depreciation						
At 1 January 2010	–	10,571	74,206	1,809	–	86,586
Charge for the year	4,436	4,512	8,296	451	–	17,695
Eliminated on disposal of subsidiaries	–	(1,253)	(14,100)	(57)	–	(15,410)
Eliminated on disposals	–	–	(1,068)	(277)	–	(1,345)
Eliminated on revaluation	(4,436)	–	–	–	–	(4,436)
Translation adjustments	–	474	2,471	63	–	3,008
At 31 December 2010 and 1 January 2011	**–**	**14,304**	**69,805**	**1,989**	**–**	**86,098**
Charge for the year	**4,637**	**6,196**	**8,538**	**545**	**–**	**19,916**
Eliminated on disposals	**–**	**–**	**(541)**	**(337)**	**–**	**(878)**
Translation adjustments	**63**	**594**	**2,586**	**52**	**–**	**3,295**
At 31 December 2011	**4,700**	**21,094**	**80,388**	**2,249**	**–**	**108,431**
Net book value						
At 31 December 2011	**110,882**	**14,322**	**60,130**	**3,772**	**48,640**	**237,746**
At 31 December 2010	97,481	17,701	53,952	860	9,743	179,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

Bank borrowings are secured by buildings with the carrying amount of approximately HK$ 101,034,000 (2010: HK$97,481,000) (Note 31).

Had the revalued buildings been measured on a historical cost basis, carrying values would have been HK$ 77,935,000 (2010: HK$68,675,000).

The revaluation of the Group's buildings situated in the PRC as at 31 December 2011 has been arrived at on the basis of valuations on that date and was carried by Malcolm & Associates Limited ("Malcolm & Associates"), an independent qualified valuer having appropriate qualifications and experience in respect of property valuation and is a member of the Hong Kong Institute of Surveyors.

The valuation has been valued by the depreciated replacement cost approach arrived at the aggregate amount of the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factor.

17. INTERESTS IN SUBSIDIARIES

(a) Investments in subsidiaries

	2011 HK$'000	2010 HK$'000
Unlisted shares/equity investments, at cost	**24,150**	14,650

The directors are of the opinion that a complete list of the particular of all the subsidiaries will be of excess length and therefore the following list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.

Name of subsidiary	Place of incorporation/ operation	Class of share held	Issued/paid up share capital	Proportion ownership interest held by the Company Directly	Proportion ownership interest held by the Company Indirectly	Principal activities
Honest Smart Investment Limited	Hong Kong	Ordinary	HK$1	–	100%	Provision of management services to the group companies
Shangsheng Electrics[1] (蘇州上聲電子有限公司)	PRC	Registered capital	USD5,000,000	–	51%	Manufacture and sales of loudspeaker systems for automobiles
Sonavox Acoustics[1] (蘇州上昇音響有限公司)	PRC	Registered capital	USD2,500,000	–	51%	Manufacture and sales of loudspeaker systems for home theatres

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

(a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of share held	Issued/paid up share capital	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
Shangsheng Technology[1] (蘇州上聲科技有限公司)	PRC	Registered capital	USD5,130,000	–	51%	Manufacture and sales of loudspeaker systems
Suzhou Hesheng[1] (蘇州和盛實業有限公司)	PRC	Registered capital	USD1,120,000	–	51%	Provision of rental services
Detroit Sonavox Inc.	United States of America	Ordinary	USD200,000	–	51%	Provision of after-sales services
Sonavox Europe GmbH	Germany	Ordinary	EUR25,000	–	51%	Provision of after-sales services
Time Pro International Co., Ltd[2]	Thailand	Ordinary	Baht40,000,000	–	100%	Provision of services in environment related business
Jiangsu Shengyi[2] (江蘇晟宜環保科技有限公司)	PRC	Registered capital	RMB16,000,000	–	51%	Provision of services in environment related business
Suzhou Yanlong Electronic Product Co. Ltd.[2] ("Yanlong") (蘇州延龍電子有限公司)	PRC	Registered capital	USD1,690,000	–	31%	Manufacture and sales of loudspeaker systems

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

Notes:

1. These entities are registered as sino-foreign equity joint ventures under the PRC law. The English translation of these names is for reference only. The official names of these entities are in Chinese.

2. These entities were acquired during the year.

(b) Amounts due from subsidiaries

	2011 HK$'000	2010 HK$'000
Amounts due from subsidiaries	**96,124**	44,152
Less: Accumulated impairment loss	**(14,412)**	(2,541)
	81,712	41,611

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17. INTERESTS IN SUBSIDIARIES (CONTINUED)

(b) Amounts due from subsidiaries (continued)

As at 31 December 2011, amount due from a subsidiary of HK$14,412,000 (2010: HK$2,541,000) were impaired and provided for. The impaired receivable was related to a subsidiary, which there is no expectation of recovery. The remaining balances of HK$81,712,000 were not impaired as there is no expectation of default based on expected future operation cash flows of these subsidiaries.

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

18. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 1 January 2010	7,933
Change in fair value	3,267
Transfer from property, plant and equipment *(Note 16)*	18,088
Translation adjustments	882
At 31 December 2010 and 1 January 2011	**30,170**
Additions	**2,067**
Change in fair value	**(1,979)**
Translation adjustments	**1,082**
At 31 December 2011	**31,340**

Three blocks of buildings are under application process for title deed certificates at the end of reporting period.

The Group's investment properties were revalued at 31 December 2011 on market value basis by Malcolm & Associates. The valuation has been valued by depreciated replacement cost approach.

Bank borrowings are secured by investment properties with carrying amount of approximately HK$8,730,000 (2010: HK$8,020,000) (Note 31).

19. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The payments for leasehold land held for own use under operating leases represent land use rights and their carrying values are analysed as follows:

	2011 **HK$'000**	2010 HK$'000
Leasehold land in the PRC, held under medium-term lease	**19,618**	16,173

Bank borrowings are secured by land use rights with the carrying amounts of approximately HK$12,910,000 (2010: HK$12,982,000) (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. DEFERRED TAX

For the purposes of presentation for the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2011 HK$'000	2010 HK$'000
Deferred tax assets	**324**	233
Deferred tax liabilities	**(11,535)**	(2,984)
Deferred tax liabilities, net	**(11,211)**	(2,751)

Deferred tax assets/(liabilities)

The movement in deferred tax assets and liabilities during the year, without taking account of the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation allowance HK$'000	Provisions and impairment losses HK$'000	Revaluation of lands and buildings HK$'000	Revaluation of intangible assets HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2010	3,109	6,745	(5,682)	–	457	4,629
(Charged)/credited to profit or loss	(787)	1,449	(839)	–	–	(177)
Charged to equity	–	–	(1,130)	–	–	(1,130)
Disposal of subsidiaries	–	(6,279)	755	–	(457)	(5,981)
Translation adjustments	96	56	(244)	–	–	(92)
At 31 December 2010 and 1 January 2011	**2,418**	**1,971**	**(7,140)**	**–**	**–**	**(2,751)**
(Charged)/credited to profit or loss	**(390)**	**(2,861)**	**170**	**518**	**–**	**(2,563)**
Charged to equity	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of subsidiaries (Note (a))	**–**	**–**	**(1,127)**	**(4,629)**	**–**	**(5,756)**
Translation adjustments	**81**	**31**	**(253)**	**–**	**–**	**(141)**
At 31 December 2011	**2,109**	**(859)**	**(8,350)**	**(4,111)**	**–**	**(11,211)**

Notes:

(a) The balance included deferred tax arising from revaluation of leasehold lands in the PRC.

(b) At the end of reporting period, deferred tax has not been provided for in the consolidated financial statements in respect of taxable temporary differences attributable to the profits earned by the PRC subsidiaries for the year amounting to HK$14,653,000 (2010: HK$42,690,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences totalling approximately HK$13,145,000 (2010: HK$5,549,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences for the year ended 31 December 2011 due to the unpredictability of future profit streams. Losses amounting to approximately HK$13,145,000 (2010: HK$5,549,000) will expire during 2012 to 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. PREPAYMENTS

The balance represented prepayments for construction on an environment related project.

22. INTANGIBLE ASSETS

	Order backlog HK$'000 *(Note 36)* *(Note (a))*	Trademark and patents HK$'000 *(Note 36)* *(Note (a))*	Total HK$'000
Cost			
At 1 January 2010	–	22,939	22,939
Disposal of subsidiaries	–	(22,933)	(22,933)
Translation adjustments	–	(6)	(6)
At 31 December 2010 and 1 January 2011	**–**	**–**	**–**
Addition			
– through business acquisition	**17,173**	**1,342**	**18,515**
At 31 December 2011	**17,173**	**1,342**	**18,515**
Amortisation			
At 1 January 2010	–	6,118	6,118
Charge for the year	–	1,035	1,035
Eliminated on disposal of subsidiaries	–	(7,135)	(7,135)
Translation adjustments	–	(18)	(18)
At 31 December 2010 and 1 January 2011	**–**	**–**	**–**
Charge for the year	**2,038**	**33**	**2,071**
At 31 December 2011	**2,038**	**33**	**2,071**
Net book value			
At 31 December 2011	**15,135**	**1,309**	**16,444**
At 31 December 2010	–	–	–

Notes:

(a) Order backlog acquired through acquisition of business is amortised over the estimated completion period of each project, ranging from 1.5 years to 3 years.

Patent acquired through acquisition of business is amortised over their useful lives of 10 years.

(b) The amortisation charge for the year is included in administrative expense in the consolidated statement of comprehensive income.

23. GOODWILL

	HK$'000
Cost	
At 1 January 2010	5,788
Disposal of the subsidiaries	(5,787)
Translation adjustments	(1)
At 31 December 2010 and 1 January 2011	**–**
Acquisition of subsidiaries *(Note 36)*	**3,204**
At 31 December 2011	**3,204**
Impairment	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	**–**
Carrying value	
At 31 December 2011	**3,204**
At 31 December 2010	–

For the purpose of impairment testing, goodwill is allocated to the cash generating units ("CGU") identified according to operating segment as follows:

	2011 HK$'000	2010 HK$'000
Manufacturing and sales of loudspeaker systems	**1,149**	–
Environment related business	**2,055**	–
Carrying value at 31 December	**3,204**	–

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

24. OTHER FINANCIAL ASSET

	2011 HK$'000	2010 HK$'000
Available-for-sale investment		
Cost		
At 1 January	**–**	–
Acquisition of investment in unlisted securities	**4,922**	–
	4,922	–
Less: Impairment	**(1,186)**	–
Carrying value at 31 December	**3,736**	–

Note:

The available-for-sale investment represents 10% of equity interest in STFE., Ltd., which is incorporated in Thailand, as at 31 December 2011.

As the investment does not have a quoted market price in an active market and their fair value cannot be reliably measured, it is stated at cost less any accumulated impairment losses.

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25. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	36,523	29,476
Work-in-progress	25,044	8,228
Finished goods	35,119	19,516
	96,686	57,220

26. TRADE AND NOTE RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade and note receivables		
– third parties	234,983	239,718
– related parties *(Note 38(c))*	452	10
	235,435	239,728
Less: Accumulated impairment losses	(7,096)	(4,729)
	228,339	234,999

The aging analysis of trade and note receivables, net of impairment losses, prepared based on delivery date is as follows:

	2011 HK$'000	2010 HK$'000
Within 90 days	187,847	182,897
91 – 180 days	21,838	38,105
181 – 365 days	13,133	12,740
More than 365 days	1,869	1,257
	224,687	234,999
Retention monies	3,652	–
	228,339	234,999

In respect of certain environment related projects at the end of reporting period, the amount of retention monies receivable from customers, included within 'Trade and note receivables' at 31 December 2011 is HK$3,652,000 (2010: HK$Nil). The amount of those retentions expected to be recovered after more than one year is HK$3,091,000 (2010: HK$Nil).

26. *TRADE AND NOTE RECEIVABLES (CONTINUED)*

The majority of the Group's sales are on open account in accordance with terms specified in the contracts governing relevant transactions. An average credit period is generally for 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At 31 December 2011, an aging analysis of the Group's trade and note receivables, that are past due but not impaired is as follows:

	2011	2010
	HK$'000	HK$'000
Past due:		
91 – 180 days	**21,838**	36,877
181 – 365 days	**13,133**	12,740
More than 365 days	**1,869**	1,257
	36,840	50,874

The Group reviews customer credit limit regularly based on historical repayment record. Trade receivables that were neither past due nor impaired related to a number of independent customers that have good repayment track record with the Group.

The below table reconciled the impairment loss of trade and note receivables for the year:

	2011	2010
	HK$'000	HK$'000
At 1 January	**4,729**	2,680
Impairment loss (written back)/recognised	**(1,155)**	3,426
Acquisition of a subsidiary	**3,402**	–
Disposal of subsidiaries	**–**	(56)
Amounts written off as uncollectible	**–**	(1,403)
Translation adjustments	**120**	82
At 31 December	**7,096**	4,729

Included in the allowance for bad and doubtful debts are individually impaired trade receivables of approximately HK$7,096,000 (2010: HK$4,729,000). The Group does not hold any collateral over these balances.

27. *RESTRICTED AND PLEDGED BANK DEPOSITS*

Restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers. The balances carried fixed interest rate of 0.50% (2010: 0.40%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in Renminbi.

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28. TRADE AND NOTE PAYABLES

	2011 HK$'000	2010 HK$'000
Trade and note payables	230,131	169,640

In general, the credit terms granted by suppliers ranged from 30 to 180 days. An aging analysis of the Group's trade and note payables is as follows:

	2011 HK$'000	2010 HK$'000
Within 30 days	94,462	61,679
31 – 90 days	79,195	78,616
91 – 180 days	55,912	27,771
181 – 365 days	87	1,187
More than 365 days	475	387
	230,131	169,640

29. AMOUNTS DUE TO DIRECTORS

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

30. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

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

31. BANK BORROWINGS

	2011 HK$'000	2010 HK$'000
Interest bearing short-term bank loans secured	108,236	80,287
Discounted bills and factoring loans	12,950	–
	121,186	80,287

At 31 December 2011, all (2010: all) of the bank loans are due on demand or within one year.

Bank borrowings of HK$121,186,000 (2010: HK$80,287,000) are secured by buildings of HK$101,034,000 (2010: HK$97,481,000), payments for leasehold land held for own use under operating leases of HK$12,910,000 (2010: HK$12,982,000) and investment properties of HK$8,730,000 (2010: HK$8,020,000) respectively.

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For the year ended 31 December 2011

32. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES

The Group and the Company

On 9 August 2011 (the "Issue Date"), the Company issued 12% convertible redeemable notes (the "Convertible Loan Notes") due 2016 (the "Maturity Date") at a principal amount of RMB33,000,000 (equivalent to approximately HK$40,000,000) to an independent subscriber. The Convertible Loan Notes will be redeemed on the Maturity Date at a yield of 15% per annum. The Convertible Loan Notes could be initially converted at HK$1.50 each (the "Conversion Price"), subject to Conversion Price reset adjustment of which the Conversion Price will be adjusted to the lower of (i) the Conversion Price at the dates falling each three month anniversaries after the Issue Date (the "Price Reset Dates"); and (ii) the average closing price per share at the respective Price Reset Dates, subject to a minimum reset price of 40% of the initial Conversion Price, i.e. HK$0.60 per share. As at 31 December 2011, the Conversion Price has been reset to HK$0.715 and the Convertible Loan Notes can be converted up to an aggregate 66,710,865 ordinary shares of the Company, assuming a full conversion of the Convertible Loan Notes at the accreted amount at a yield of 15% per annum on the Maturity Date and the latest reset Conversion Price of HK$0.715.

The Company shall have the option to redeem the Convertible Loan Notes in whole or in part at the last day of the 24th calendar month from the Issue Date at a yield of 16% per annum. The amount payable shall be the principal amount of the Convertible Loan Notes so redeemed together with interest accrued thereon up to the redemption date. On the 26th, 36th and 48th calendar month from the Issue Date the noteholder shall have the option to require the Company to redeem the Convertible Loan Notes at a yield of 15% per annum redeemed together with interest accrued thereon up to the redemption date.

The Convertible Loan Notes contain two components, a liability component and an embedded derivative. The fair value of the liability component, included in non-current liabilities, amounted to approximately HK$21,407,000, net of transaction costs, at the Issue Date. The fair value of embedded derivatives were estimated at the issuance date by reference to the Black-Scholes Option Pricing Model. The effective interest rate of the liability component is 34.66%. The embedded derivatives are subsequently measured at fair value with change in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. *CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES (CONTINUED)*

The movement of the liability component and embedded derivatives is set out as follows:

The Group and the Company

	Liability component HK$'000	**Embedded derivatives** HK$'000
At 1 January 2010	41,858	7,426
Interest charge *(Note 8)*	4,857	–
Interest paid	(8,360)	–
Loss arising from fair value change	–	83,080
Translation adjustment	(11)	–
Conversion to shares	(38,344)	(90,506)
At 31 December 2010 and 1 January 2011	–	–
Convertible loan notes issued	**21,407**	**16,594**
Interest charge *(Note 8)*	**2,958**	–
Gain arising from fair value change	–	**(757)**
Translation adjustment	**411**	–
At 31 December 2011	**24,776**	**15,837**

The fair value of the embedded derivatives at the issuance date and the end of the reporting period were calculated using Black-Scholes Option Pricing Model by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified valuer having appropriate qualifications and experience in respect of financial instrument valuation.

The inputs into the model were as follows:

	As at issuance date	**As at 31 December 2011**
Risk-free rate	0.83%	0.88%
Expected volatility	80.65%	79.39%
Credit spread	4.50%	5.07%
Dividend yield	Nil	Nil

The risk-free rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the convertible loan notes.

The expected volatility was determined based on the historical volatility of the share prices of the Company.

Credit spread was determined with reference to the Option Adjusted Spread of companies of similar credit rating.

33. *UNLISTED WARRANTS*

The Group and the Company

	2011	2010
	HK$'000	HK$'000
At 1 January	**–**	–
Proceeds from issue of unlisted warrants	**800**	–
Loss arising from fair value change	**13,936**	–
At 31 December	**14,736**	–

On 9 August 2011, the Company issued 40 unlisted warrants to an independent investor, for a consideration of HK$800,000. Each of the unlisted warrants entitles the holder to subscribe for 26,666,680 ordinary shares of the Company at an initial exercise price of HK$1.50 per share (the "Exercise Price"). The Exercise Price will be adjusted to the lower of i) the Exercise Price at the Price Reset Dates; and ii) the average closing price per share at the respective Price Reset Dates, subject to a minimum reset price of 40% of the initial Exercise Price. The Conversion Price has been reset to HK$0.715 and the unlisted warrants can be converted up to 55,944,056 ordinary shares of the Company, assuming a full conversion of the unlisted warrants as at 31 December 2011.

There is no movement of the unlisted warrants up to 31 December 2011.

The fair value of the unlisted warrants was calculated using Black-Scholes Option Pricing Model by Grant Sherman.

The inputs into the model were as follows:

	As at 31 December 2011
Risk-free rate	**0.88%**
Expected volatility	**79.39%**
Expected life	**4.58 years**
Dividend yield	**Nil**

The risk-free rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the contractual tenor of the unlisted warrants.

The expected volatility was determined based on the historical volatility of the share prices of the Company.

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34. SHARE CAPITAL

	The Company			
	2011	**2011**	2010	2010
Authorised	**'000**	**HK$'000**	'000	HK$'000
Ordinary shares of HK$0.01 each	**20,000,000**	**200,000**	20,000,000	200,000

	2011	**2011**	2010	2010
Issued and fully paid	**'000**	**HK$'000**	'000	HK$'000
Ordinary shares of HK$0.01 each				
At beginning of the year	**421,965**	**4,220**	325,090	3,251
Debt conversion rights exercised	**–**	**–**	96,875	969
Share options exercised	**9,800**	**98**	–	–
At end of the year	**431,765**	**4,318**	421,965	4,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. RESERVES

The Group

	Share premium HK$'000	Property revaluation reserve HK$'000	Statutory reserves HK$'000	Share-based payment reserve HK$'000	Merger reserve HK$'000	Cumulative translation adjustment reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At January 2010	27,682	11,680	6,812	1,623	2,441	14,179	14,827	79,244
Loss for the year	–	–	–	–	–	–	(77,907)	(77,907)
Other comprehensive income for the year								
– gain on revaluation of properties	–	4,172	–	–	–	–	–	4,172
– income tax relating to revaluation of properties	–	(737)	–	–	–	–	–	(737)
– exchange difference on translating foreign operations	–	–	–	–	–	5,599	–	5,599
– reclassification adjustment relating to disposal of subsidiaries	–	–	–	–	–	(2,358)	–	(2,358)
Total comprehensive income for the year	–	3,435	–	–	–	3,241	(77,907)	(71,231)
Disposal of subsidiaries	–	(3,822)	–	–	–	–	3,822	–
Cancellation of share options previously granted	–	–	–	(1,623)	–	–	1,623	–
Transfer of reserve	–	–	764	–	–	–	(893)	(129)
Recognition of equity-settled share-based payment	–	–	–	11,185	–	–	–	11,185
Issuance of shares upon conversion of convertible loan notes *(Note 32)*	127,881	–	–	–	–	–	–	127,881
At 31 December 2010 and 1 January 2011	155,563	11,293	7,576	11,185	2,441	17,420	(58,528)	146,950
Loss for the year	–	–	–	–	–	–	(49,780)	(49,780)
Other comprehensive income for the year								
– exchange difference on translating foreign operations	–	–	–	–	–	2,915	–	2,915
Total comprehensive income for the year	–	–	–	–	–	2,915	(49,780)	(46,865)
Transfer of reserve	–	–	4,315	–	–	–	(5,111)	(796)
Recognition of equity-settled share-based payment	–	–	–	18,070	–	–	–	18,070
Issuance of shares upon conversion of share options *(Note 39)*	9,854	–	–	(3,425)	–	–	–	6,429
At 31 December 2011	165,417	11,293	11,891	25,830	2,441	20,335	(113,419)	123,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. RESERVES (CONTINUED)

The Company

	Share premium	Share-based payment reserve	Merger reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	27,682	1,623	19,550	(15,588)	33,267
Loss for the year	–	–	–	(98,635)	(98,635)
Cancellation of share options previously granted	–	(1,623)	–	1,623	–
Recognition of equity-settled share-based payment	–	11,185	–	–	11,185
Issuance of shares upon conversion of convertible loan notes *(Note 32)*	127,881	–	–	–	127,881
At 31 December 2010 and 1 January 2011	155,563	11,185	19,550	(112,600)	73,698
Loss for the year	–	–	–	(53,525)	(53,525)
Recognition of equity-settled share-based payment	–	18,070	–	–	18,070
Issuance of shares upon conversion of share options *(Note 39)*	9,854	(3,425)	–	–	6,429
At 31 December 2011	165,417	25,830	19,550	(166,125)	44,672

36. ACQUISITION OF BUSINESSES

On 18 January 2011, the Group acquired 100% equity interest in Time Pro, with cash consideration of HK$5,500,000. This acquisition aims to facilitate negotiation with regards to investment in certain heat generation projects in Thailand in the future.

On 5 January 2011, the Company entered into a sale and purchase agreement with an independent third party for the acquisition of 51% of equity interest in Confident Echo Holdings Limited and its subsidiaries (collectively referred as the "Shengyi Technology Group"). Pursuant to the subsequent supplemental agreement, the consideration was finalized at HK$9,500,000. The acquisition was completed on 1 October 2011.

The acquisition of Shengyi Technology Group was made with the aim to diversify the current operation of the Group and to develop the environment related business through its PRC subsidiaries.

On 7 November 2011, the Group acquired 60% of equity interest in Yanlong. The acquisition was made with the aims to expand the Group's existing scale of operation and to secure the source of raw material supplies.

36. *ACQUISITION OF BUSINESSES (CONTINUED)*

The fair value of identifiable assets and liabilities of the acquirees as at the date of acquisition were:

	Fair value			
	Time Pro	**Yanlong**	**Shengyi Technology Group**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Net assets acquired:				
Property, plant and equipment	1	14,520	2,193	16,714
Payments from leasehold land held for own use under operating leases	–	3,280	–	3,280
Patent *(Note 22)*	–	–	1,342	1,342
Order backlog *(Note 22)*	–	–	17,173	17,173
Inventories	–	4,014	6,585	10,599
Cash and bank balances	3,916	1,696	1,863	7,475
Trade and other receivables *(Note(a))*	–	12,624	18,550	31,174
Trade and other payables	(222)	(4,771)	(24,878)	(29,871)
Tax payable	–	(21)	–	(21)
Deferred tax liabilities	–	(1,127)	(4,629)	(5,756)
Non-controlling interest	–	–	(60)	(60)
Fair value of identifiable net assets	3,695	30,215	18,139	52,049
Less: Non-controlling interest	–	(12,086)	(8,889)	(20,975)
Goodwill *(Note 23)*	1,805	1,149	250	3,204
	5,500	19,278	9,500	34,278
Total consideration				
– settled by cash	5,500	11,571	9,500	26,571
– included in accruals and other payables	–	7,707	–	7,707
	5,500	19,278	9,500	34,278

Notes:

(a) The fair value and gross amount of trade and other receivables of the Shengyi Technology Group at the date of acquisition amounted to HK$18,550,000. The gross contractual amount of those trade and other receivables acquired amounted to HK$21,952,000 at the date of acquisition. The best estimate at acquisition date of contractual cash flows not expected to be collected amounted to HK$3,402,000.

None of the receivables of Yanlong have been impaired and it is expected that the full contractual amounts can be collected.

(b) Since the acquisition date, Time Pro, the Shengyi Technology Group and Yanlong have contributed HK$Nil, HK$Nil and HK$2,366,000 to Group's revenue and loss of HK$2,452,000, HK$576,000 and profit of HK$70,000 to profit or loss respectively. If the acquisition had occurred on 1 January 2011, Group revenue and loss would have been HK$747,886,000 and HK$62,507,000 respectively.

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37. COMMITMENTS

(a) Capital commitment

	At 31 December	
	2011	2010
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements	**81,137**	74,285

(b) Operating leases

The Group as lessee

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

	At 31 December	
	2011	2010
	HK$'000	HK$'000
Within the first year	**2,049**	1,652
In the second to the fifth year inclusive	**1,363**	2,633
	3,412	4,285

Operating lease payments represent rental payables by the Group for certain of its office premises. Leases and rentals are negotiated and fixed respectively for an average of three years.

The Group as lessor

The Group has certain investment properties leased to tenants with lease and rental negotiated for an average of five years. At the end of reporting period, the minimum rental receivables under non-cancellable operating leases are as follows:

	At 31 December	
	2011	2010
	HK$'000	HK$'000
Within the first year	**4,481**	1,887
In the second to the fifth year inclusive	**8,062**	5,362
	12,543	7,249

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38. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

(a) Sales and purchases

	2011 HK$'000	2010 HK$'000
Sonavox Electronics (Suzhou Industrial Park) Company Limited ("SSIP") (上聲電子(蘇州工業園區)有限公司)		
– purchase of machineries	**–**	4,084
– sales of goods	**120**	116

(b) Key management personnel compensation

	2011 HK$'000	2010 HK$'000
Salaries and other short-term employee benefits	**10,014**	4,844
Contribution to pension	**307**	315
Share-based payment	**15,648**	1,225
	25,969	6,384

(c) Amounts due from/(to) related parties

	At 31 December	
	2011 HK$'000	2010 HK$'000
Amount due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, a non-controlling shareholder of a subsidiary (蘇州市相城區元和鎮集體資產經營公司) *(Note 30)*	**–**	2,934
Amount due to Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, a non-controlling shareholder of a subsidiary (蘇州市相城區元和鎮集體資產經營公司) *(Note 30)*	**(3,578)**	(11,807)
Amount due to Wuxian City Likou Town Collective Assets Operation Company a non-controlling shareholder of a subsidiary (蘇州市相城區無線電元一廠)*(Note 30)*	**(544)**	(539)
Trade receivables from SSIP (上聲電子(蘇州工業園區)有限公司)*(Note 26)*	**452**	10

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38. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) During the year, Asian Elite International Company Limited, a related company of the Group with common director, had pledged land and buildings of carrying amount of HK$36,896,000 to a bank for granting a loan of HK$12,230,000 to a group entity.

39. SHARE-BASED PAYMENT

The Group adopted a share option scheme (the "Scheme") which became effective on 8 July 2002. Under which, share options are granted to any employees, consultants or professional advisors, and suppliers or customers of the Group.

The exercise price or the granted options is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under the Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

During the year ended 31 December 2011, share options of 40,500,000 ordinary shares of the Company were issued, of which 35,000,000 ordinary shares was issued to a director, Mr Shan Xiaochang. At 31 December 2011, the number of shares of the Company in respect of which options had remained outstanding under the share option scheme of the Company was 62,700,000 (2010: 32,000,000), representing 14.5% (2010: 9.2%) of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

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39. SHARE-BASED PAYMENT (CONTINUED)

Movements in the number of share options outstanding and their exercise prices are as follows:

	2011					2010				
	Weighted average exercise price	Number of option				Weighted average exercise price	Number of option			
		Directors	Employees	Others	Total		Directors	Employees	Others	Total
	HK$	'000	'000	'000	'000	HK$	'000	'000	'000	'000
Outstanding at the beginning of the year	0.666	–	4,000	28,000	32,000	0.345	4,000	6,000	–	10,000
Granted during the year *(Note (a))*	0.962	35,000	5,500	–	40,500	0.666	–	4,000	28,000	32,000
Exercised during the year	0.666	–	(3,000)	(6,800)	(9,800)	–	–	–	–	–
Lapsed during the year	–	–	–	–	–	0.345	(4,000)	(6,000)	–	(10,000)
Outstanding at the end of the year	0.857	35,000	6,500	21,200	62,700	0.666	–	4,000	28,000	32,000
Exercisable at the end of the year	0.857	35,000	6,500	21,200	62,700	0.666	–	4,000	28,000	32,000

Note:

(a) The validity period of the share options of the Company granted to employees and a director during the year is from 2 September 2011 and 20 October 2011 to 1 September 2021 and there is no vesting condition for the share options. No share options have been granted to chief executive or substantial shareholder of the Company nor associate (as defined in the GEM Listing Rules) of any of them.

The fair value for the share options granted amounted to HK$14,739,000 and HK$3,331,000 for the director and employees respectively and was calculated using the Black-Scholes option pricing model by Grant Sherman.

The inputs into the model were as follows:

The Group and the Company

	Employees As at 2 September 2011	A Director As at 20 October 2011
Applicable share price	HK$0.95	HK$0.68
Expected volatility	82.11%	80.33%
Expected life	10 years	9.93 years
Expected tenor	5.00 years	6.93 years
Risk-free interest rate	0.74%	1.14%
Dilution factor	0.9874	0.9250
Expected dividend yield	Nil	Nil

The expected volatility percent was determined based on the historical volatility of the share prices of the Company.

The expected life used in the model was the remaining contractual life of the options.

The expected tenor was determined with reference to the exercise behaviour.

The risk-free interest rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the expected life of the options.

Without vesting conditions of share options, the fair value of the share-based payment, amounting to HK$18,070,000, was recognised in profit or loss of the year.

(b) The weighted average remaining contractual life of outstanding share of options is 9.36 years (2010: 9.98 years)

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40. RETIREMENT PLANS

The employees of the Group in Hong Kong participate in the MPF Scheme, a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the scheme at 5% of the employees' earnings with the maximum contribution by each of the group entity and the employees limited to HK$1,000 per month and thereafter contributions are voluntary. During the year, the aggregate contributions made by the Group to the MPF Scheme amounted to approximately HK$88,000 (2010: HK$40,000).

As stipulated by the rules and regulations in Mainland China, the group entities in the PRC contribute to a state sponsored retirement plan for its employees in Mainland China at a rate of 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. For the year ended 31 December 2011, the aggregate amount of the Group's employer contributions was approximately HK$11,649,000 (2010: HK$10,793,000).

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking consideration of future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

42. FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade and note receivables, prepayments, deposits and other receivables, restricted bank deposits, cash and bank balances, trade and note payables, amounts due to directors, amounts due to non-controlling shareholders of subsidiaries, accruals and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

42. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) Financial risk management objectives and policies (continued)

(i) Market risk

– Currency risk

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's monetary assets and liabilities are mainly denominated in Renminbi, Hong Kong dollars, US dollars and Euro. The exchanges rates among these currencies are not pegged except US dollars and HK dollars, and there is fluctuation of exchange rates among these currencies.

The Group currently does not have a foreign currency hedging policy. However, the management will closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

The Group

	Assets		Liabilities	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**5,859**	–	**–**	–
US dollars	**87,941**	74,616	**3,703**	5,656
Euro	**82,959**	34,325	**–**	1,862
	176,759	108,941	**3,703**	7,518

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For the year ended 31 December 2011

42. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) Financial risk management objectives and policies (continued)

(i) Market risk (continued)

– Currency risk (continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of the group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates an increase in profit where the Hong Kong dollars strengthens against the relevant currency. For a weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2011		2010	
	Increase in foreign exchange rate	**Effect on profit or loss after income tax expense**	Increase in foreign exchange rate	Effect on profit or loss after income tax expense
	%	**HK$'000**	%	HK$'000
Euro	**5%**	**3,464**	9%	2,440

– Interest rate risk

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The Group is exposed to interest rate risk as the group entities may borrow funds at both fixed interest rates and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings. Although the board of directors accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The following table details interest rates analysis that the management of the Group evaluates their interest rate risk.

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42. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) Financial risk management objectives and policies (continued)

(i) Market risk (continued)

– Interest rate risk (continued)

The Group

	2011 Effective interest rate %	**2011** Carrying amount HK$'000	2010 Effective interest rate %	2010 Carrying amount HK$'000
Fixed rate borrowing				
– convertible loan notes	**34.66%**	**24,776**	–	–
Floating rate borrowings				
– short-term bank loans	**6.73%**	**121,186**	5.6%	80,287

The Company

	2011 Effective interest rate %	**2011** Carrying amount HK$'000	2010 Effective interest rate %	2010 Carrying amount HK$'000
Fixed rate borrowings				
– convertible loan notes	**34.66%**	**24,776**	–	–

Sensitivity analysis

The following table indicates the approximate change in the profit after income tax expense in response to reasonably possible changes in an interest rate to which the Group has significant exposure at the end of reporting period. In determining the effect on profit after income tax expense on the next accounting period, the management assumes that the change in interest rate had occurred at the end of reporting period and all other variables remain constant. There is no change in the methods and assumptions used in 2011 and 2010.

	2011 Effect on profit after income tax expense HK$'000	2010 Effect on profit after income tax expense HK$'000
Increase by 200 basis points	**(2,024)**	(1,341)
Decrease by 200 basis points	**2,024**	1,341

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For the year ended 31 December 2011

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(ii) Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

None of the Group's financial assets are secured by collateral or other credit enhancements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position of the Group and the Company after deducting any impairment losses.

(iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2011, the Group has available unutilised short-term banking facilities of approximately HK$78,303,000 (2010: HK$22,628,000). In order to mitigate the liquidity risk, the Group has obtained sufficient banking facilities which enable the Group to continue its operations. There was net cash inflow from the operating activities and the liquidity of the Group can be maintained in the coming year taking into consideration of the positive cash flows generated from the Group's businesses.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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For the year ended 31 December 2011

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

The Group

At 31 December 2011	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities					
Trade and note payables	–	230,131	–	230,131	230,131
Accruals and other payables	–	93,777	–	93,777	93,777
Bank overdrafts and short-term bank loans	6.73%	121,186	–	121,186	121,186
Convertible loan notes	34.66%	3,960	55,515	59,475	24,776
Amounts due to directors	–	2,848	–	2,848	2,848
Amounts due to non-controlling shareholders of subsidiaries	–	46,927	–	46,927	46,927
		498,829	55,515	554,344	519,645

At 31 December 2010	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities					
Trade and note payables	–	169,640	–	169,640	169,640
Accruals and other payables	–	88,742	–	88,742	88,742
Bank overdrafts and short-term bank loans	5.6%	82,406	–	82,406	80,287
Amounts due to directors	–	2,110	–	2,110	2,110
Amounts due to non-controlling shareholders of subsidiaries	–	12,346	–	12,346	12,346
		355,244	–	355,244	353,125

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42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

The Company

At 31 December 2011	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities					
Accruals and other payables	–	2,241	–	2,241	2,241
Convertible loan notes	34.66%	3,960	55,515	59,475	24,776
		6,201	55,515	61,716	27,017

At 31 December 2010	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities					
Accruals and other payables	–	1,690	–	1,690	1,690

(b) Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost approximate their fair values due to short-term maturities.

The Group's Unlisted Warrants (Note 33) and embedded derivatives of the Convertible Loan Notes (Note 32) were measured at fair values, which were determined by valuation techniques for which all inputs that have a significant effect on the recorded fair values are observable, either directly or indirectly (i.e. Level 2 fair value hierarchy as defined by HKFRS 7– "Financial Instruments: Disclosure").

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42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting dates are categorised as follow. See Notes 4(j) for explanations about how the categorisation of financial instruments affects their subsequent measurements.

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Non-current assets				
Other financial asset	**3,736**	–	**–**	–
Current assets				
Trade and other receivables	**241,467**	255,683	**–**	–
Amounts due from subsidiaries	**–**	–	**81,712**	41,611
Amounts due from non-controlling shareholders of subsidiaries	**–**	2,934	**–**	–
Restricted and pledged bank deposits	**28,445**	12,000	**–**	–
Cash and cash equivalents	**121,505**	74,788	**469**	23,244
	395,153	345,405	**82,181**	64,855
Financial liabilities				
Non-current liabilities				
Embedded derivatives, convertible loan notes and unlisted warrants	**55,349**	–	**55,349**	–
Current liabilities				
Trade and other payables	**323,908**	258,382	**2,241**	1,690
Amounts due to directors	**2,848**	2,110	**–**	–
Amounts due to non-controlling shareholders of subsidiaries	**46,927**	12,346	**–**	–
Bank borrowings	**121,186**	80,287	**–**	–
	550,218	353,125	**57,590**	1,690

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For the year ended 31 December 2011

43. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the announcement of discloseable transaction on 18 January 2012, the Company has entered into a Loan Agreement (the "Loan Agreement") with an independent third party, Tong Heng Company Limited ("Tong Heng"), where Tong Heng agreed to grant the Company a loan of HK$30,000,000 with tenor of one year commencing from the drawdown date of the loan.

The loan is unsecured and carried an interest rate of 17.6%p.a. which was determined after commercial and arm's length negotiation. Mr Shan Xiaochang, the director and controlling shareholder, the chairman and chief executive officer of the Company, agreed to guarantee the Company's performance and obligation of the Company under the Loan Agreement.

The directors consider that the loan will provide additional working capital to the Company and is beneficial to the Company and the shareholders as a whole. The directors also consider that the terms of the Loan Agreement are on normal commercial terms. The Company intends to use the proceeds of the Loan to finance its daily operation and business development.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2012.