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

Independent Non-executive Directors

Mr. Wang Jialian
Mr. Wang Zhihua
Ms. Chan Sze Man

COMPANY SECRETARY

Mr. Tam Chak Chi

AUDIT COMMITTEE

Ms. Chan Sze Man
(Committee Chairman)
Mr. Wang Jialian
Mr. Wang Zhihua

NOMINATION COMMITTEE

Mr. Shan Xiaochang
(Committee Chairman)
Mr. Wang Jialian
Ms. Chan Sze Man

REMUNERATION COMMITTEE

Ms. Chan Sze Man
(Committee Chairman)
Mr. Shan Xiaochang
Mr. Wang Zhihua

AUTHORISED REPRESENTATIVES

Mr. Shan Xiaochang
Mr. Tam Chak Chi

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

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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

Zenith CPA 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

	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
Turnover	389,131	434,766	653,722	724,008	**875,577**
Cost of sales	(328,764)	(336,876)	(490,797)	(575,540)	**(689,999)**
Gross profit	60,367	97,890	162,925	148,468	**185,578**
Other revenue, gains and losses (net)	10,104	(433)	(63,703)	(18,636)	**41,484**
Selling and marketing costs	(13,721)	(13,051)	(18,185)	(23,475)	**(32,879)**
Administrative expenses	(64,186)	(60,337)	(115,809)	(129,410)	**(156,962)**
Finance costs	(11,808)	(10,178)	(10,182)	(10,428)	**(25,820)**
(Loss)/profit before tax	(19,244)	13,891	(44,954)	(33,481)	**11,401**
Income tax	(1,549)	(947)	(10,207)	(9,162)	**(7,496)**
(Loss)/profit after income tax expense	(20,793)	12,944	(55,161)	(42,643)	**3,905**
Non-controlling interests	6,373	(16,157)	(22,746)	(7,137)	**(6,876)**
Loss attributable to owners of the Company	(14,420)	(3,213)	(77,907)	(49,780)	**(2,971)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
Total assets	421,659	534,066	639,741	844,032	**1,059,978**
Total liabilities	(260,304)	(352,754)	(361,463)	(562,529)	**(758,924)**
Total assets less total liabilities	161,355	181,312	278,278	281,503	**301,054**
Non-controlling interests	(80,769)	(98,817)	(127,108)	(153,397)	**(172,945)**
Equity attributable to owners of the Company	80,586	82,495	151,170	128,106	**128,109**

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 2012.

THE YEAR UNDER REVIEW

In 2012, the Group continued to operate its existing loudspeaker business and seek other environmental protection related investment opportunities under its stated development goals. With heightened environmental concerns among Chinese government and its citizens, the relevant PRC authorities have promulgated several policies with a view to encourage the development of environmental protection related industry. The Group, being provided such valuable opportunities, has been proactively commencing development and reorganization of its subsidiaries engaged in the environmental protection related sector.

During the year, the Group successfully acquired Heilongjiang Province Shengyan New Energy Development Limited ("Shengyan"). Shengyan established in 2010 and is principally engaged in the production and sale of straw fuel briquettes. To support the green development concept promoted by China's 12th Five Year Plan, Shengyan has constructed 1 main plant and around 30 sub-plants in Baiquan County of Heilongjiang Province to recycle local waste straw into biomass product which can be used as a substitute for fossil fuels like coal through treatment process. Such business not only accelerates strategic measures for energy saving and emission reduction, but also protects the ecological environment from being polluted. At the same time, it is profitable to Shengyan and the Group with consideration to its entitlement of project subsidy and other incentive policies offered by the Ministry of Finance. Shengyan's current operating condition is sound. From the date of Shengyan being acquired by the Group to 31 December 2012, Shengyan has recorded a sales revenue of approximately HK$30.1 million, a gross profit of approximately HK$9.4 million and a net profit after tax of approximately HK$10.8 million (excluding the unrecorded project subsidy of approximately RMB18.8 million (equivalent to approximately HK$23.1 million) for 2011 and approximately RMB26.2 million for 2012 (equivalent to approximately HK$32.3 million) which are expected to be granted by Ministry of Finance of the State Council), which provides new opportunity and full confidence for the Group to continuously develop its environmental protection related business in the future.

The Group's another subsidiary, Jiangsu Shengyi Environmental Technology Co., Ltd ("Shengyi") is a renowned environmental technology service company in the PRC. Shengyi is principally engaged in the provision of technological desulphurization service, which can effectively reduce sulfur dioxide and hydrogen sulfide emissions generated from burning of fossil fuels such as coal, natural gas and oil products. Under the influence of macro-economic downturn, the number and aggregate amount of construction contracts newly acquired by Shengyi in 2012 decreased significantly as compared with those of 2011 and there was an increase in administrative expenses, which limited the profitability of Shengyi. For the year ended 31 December 2012, Shengyi recorded a total revenue of approximately HK$20.4 million and a net loss after tax of approximately HK$7.5 million. The Group will continue to closely oversee the development of Shengyi and strengthen its supervision in the future.

In order to streamline the cost structure and business operation, the Group has disposed of TimePro International Co., Ltd ("TimePro"). TimePro was principally engaged in the engineering, procurement and construction of biomass heat generation plants in Thailand. As Flooding hazards occurred in Thailand during 2011 to 2012 had seriously affected the construction progress of existing projects and future development plans of TimePro, and the failure to seek other suitable investment opportunities, the Group decided to carry out the disposal. The Board considered such disposal was to be beneficial to the Group as it could help reducing the management cost, terminate the non-productive operation and concentrate resources on developing other promising businesses.

CHAIRMAN'S STATEMENT

LOOKING AHEAD

In recent years, there have been different levels of environmental issues exposed in various regions of the PRC, continuously boosting public awareness of environmental protection throughout the country and making the Chinese government to strive for integrated management enhancement of pollution prevention, energy conservation and emission reduction at the enterprise level. Benefited from the enormous support given by the government towards environmental protection related industry, the environmental protection sector is filled with promising development opportunities and clear direct guidelines, further fortified the Group's objective to develop the environmental protection related industry.

During 2012, the Group disposed of TimePro and successfully acquired Shengyan. Compared to less-efficient TimePro, the healthy operation and future prospect of Shengyan will provide the Group with better development opportunity. In 2013, the Group will continue to strengthen the existing environmental protection businesses of Shengyan and Shengyi, proactively explore new business scope and continuously seek other suitable investment opportunities. In addition, the Group also plans to gradually open up its international market in coming years with an aim to promote its advanced environmental protection technology and concept worldwide.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better 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 all shareholders and business partners who have supported the Company throughout its ups and downs.

Shan Xiaochang
Chairman

Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Shengyan

To maintain a stable and sustainable growth in the long term, the PRC government has promulgated several supporting policies and measures and formulated directions for the development of seven major strategic emerging industries including energy conservation and new energy which are under strong support.

The PRC is a large agricultural country, with high production capacity, diverse distribution and broad variety of straw. There is a tendency of random disposal and cremation of straw, leading to a number of environmental problems. Straw is one of the major biomass raw materials which could be transformed into solidified fuel after processing. Also, as a kind of clean energy with relatively high thermal value and extremely low sulfur content, straw can be energized to alleviate problems like resources wasting in agricultural areas and environmental pollution, and to reduce the consumption of fossil fuel (e.g. coal) and gradually become its substitute. The State Council of the PRC has promulgated the "12th Five Year Plan – Implementation Plan for Straw Integrated Utilization《「十二五」農作物秸稈綜合利用實施方案》" at the end of 2011 to determine the development directions and security measures for related industries regarding the straw integrated utilization. In view of the above, the straw energy conversion industry is expected to have continuous and outstanding development prospect and huge market demand.

In December 2012, the Group completed the acquisition of 51% equity interest in Shengyan, a limited liability company established in Baiquan County of Heilongjiang Province, at a cash consideration of RMB15.5 million (equivalent to approximately HK$19.1 million) which shall be payable after all approval and transfer procedures have been duly completed by Shengyan. Shengyan is principally engaged in the sale and production of straw fuel briquettes in the Northeast region of the PRC. Since established in 2010, Shengyan has developed into a sizeable corporation with healthy operation and recorded an annual sales of straw briquettes product of approximately 120,000 tonnes in 2012. Shengyan is expected to be entitled to an annual subsidy offered by Ministry of Finance of the State Council in relation to the straw integrated utilization project.

The Group expects the acquisition of Shengyan will not only contribute a satisfactory revenue and profit to the Group, but also expand the Group's business scope in the environmental protection related sector and establish a solid foundation for the Group to further develop related market in the PRC.

Shengyi

Although the development of the desulphurisation industry is supported by the Chinese government, under adverse factors such as weakening of the macro economic situation and rising price in raw materials, the operating conditions of traditional chemical and iron and steel smelting industry are severely affected, resulting in a significant decline in potential customers in the desulphurisation industry. Based on the factors shown above, the Group will lower the growth expectation of the desulphurisation industry and keep monitoring the development and operation.

During the year under review, Shengyi has started to contribute to the Group's sales revenue. Shengyi is principally engaged in the provision of technological desulphurization service, which can effectively reduce sulfur dioxide and hydrogen sulfide emissions generated from burning of fossil fuels such as coal, natural gas and oil products. However, under the influence of macro-economic downturn, the number and aggregate amount of construction contracts newly acquired by Shengyi in 2012 decreased significantly as compared with those of 2011 and there was an increase in administrative expenses, which limited the profitability of Shengyi. The Group will continue to closely oversee the development of Shengyi and strengthen its supervision in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

TimePro

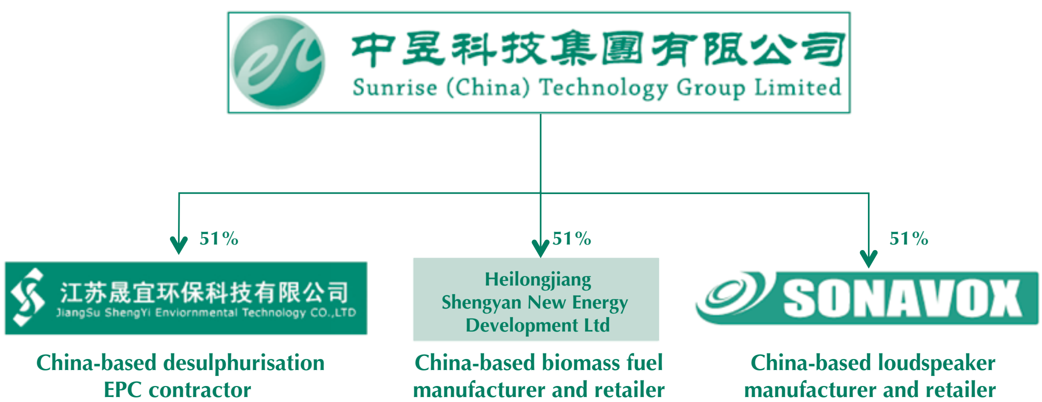
Due to the flooding hazards occurred during 2011 to 2012, Thailand suffered from serious damages in its economic condition. As local enterprises and Thai government have to provide additional and substantial fund for post-disaster reconstruction, it is expected that Thailand will encounter difficulties in resuming its economic growth momentum.

In November 2012, the Group completed the disposal of 100% equity interest in TimePro at a cash consideration of HK$2.0 million. TimePro was principally engaged in the engineering, procurement and construction of biomass heat generation plants in Thailand. No operating income and profit had been attributed to the Group from the company during the recent two years. The Board considered such disposal was to be beneficial to the Group as it can help reducing the management cost, terminate the non-productive operation and concentrate resources on developing other promising businesses.

Sonavox

The sustainable growth in PRC automobile manufacturing industry continues to facilitate the development of loudspeaker-related business. Therefore, the turnover contributed by the Group's manufacturing and sales of loudspeaker business ("Sonavox") is expected to maintain a slight growth. However, under the influence of sluggish technology innovation process, rising raw material price and increasing overhead cost, the Group expects that a lower profit margin will continue to be recorded by such business.

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, on the back of improving economic conditions and global consumer appetite, and the Group recorded an improvement in turnover of 20.9% to approximately HK$875.6 million (2011: HK$724.0 million). For the year ended 31 December 2012, sales of loudspeaker systems increased by 14.0% to approximately HK$825.1 million (2011: HK$724.0 million). The Group has commenced its environmental protection related businesses since 2011. Revenue generated from such businesses amounted to HK$50.5 million for the year ended 31 December 2012. The Group's gross profit ratio slightly increased to 21.2% for the year ended 31 December 2012 (2011: 20.5%).

During the year ended 31 December 2012, the Group recorded net profit of approximately HK$3.9 million (2011: net loss of approximately HK$42.6 million). Such net profit was mainly attributable to (i) the fair value gain of derivative financial instrument of approximately HK$22.5 million (2011: fair value loss of approximately HK$13.2 million) recognized by the Company in respect of the convertible loan notes and the unlisted warrants issued by the Company; and (ii) the profit generated from the principal businesses of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2012, 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 2012, the Group had cash and bank balances together with restricted and pledged bank deposits of approximately HK$142.9 million (2011: HK$150.0 million). The decrease in cash and bank deposits was primarily attributable to the increase in inventories and trade receivables made by newly acquired business during the year. As at 31 December 2012, the Group's total indebtedness comprised liability portion of outstanding convertible loan notes and the bank and other borrowings with aggregate amount of approximately HK$162.6 million (2011: HK$146.0 million). 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 5.4% to 6.9% per annum with repayment within a year.

As at 31 December 2012, the Group's current liabilities exceeded its current assets by approximately HK$119.9 million. The Group's current liabilities included amounts due to non-controlling shareholders of subsidiaries and amounts due to Directors of approximately HK$65.1 million and approximately HK$3.3 million respectively as at 31 December 2012, which, in the Directors' opinion, would not be demanded for repayment until such time when such repayment will not affect the Group's ability to repay other creditors.

As at 31 December 2012, the Group's outstanding number of issued shares of HK$0.01 each was 431,764,974 shares (2011: 431,764,974 shares).

The Group's gearing ratio, as a percentage of total indebtedness over total indebtedness and total equity, as at 31 December 2012 was 34.4% (2011: 34.1%).

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2012, the Group had a capital commitment of approximately HK$35.4 million (2011: HK$81.1 million) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK$1.3 million (2011: HK$3.4 million).

As at 31 December 2012, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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 a foreign currency hedging policy in place 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 2012, the Group's certain leasehold land and buildings and investment properties with aggregate carrying amount of approximately HK$116.3 million (2011: HK$122.7 million), were pledged to secure general banking facilities granted to the Group.

At 31 December 2012, bank deposits denominated in Renminbi of approximately HK$49.1 million (2011: HK$28.4 million) were pledged to secure the banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2012, the Group had about 2,550 (2011: 2,462) employees. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits scheme contribution amounted to approximately HK$170.8 million (2011: HK$133.5 million).

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 48, 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 17 years of experience in corporate finance, operation and cash flow management and research and development. Mr. Shan is mainly responsible for the development of the Company's major business strategy and related financing. He is an uncle of the executive Director Ms. Shan Zhuojun, and is currently a executive director of the Code Agriculture (Holdings) Limited, a company lised on the GEM of the Stock Exchange (stock code: 8153).

Ms. Shan Zhuojun, aged 36, 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 17 years of experience in accounting and financial management. Ms. Shan is responsible for the supervision of the Company's daily working capital, and assisting the management in project financing analysis. 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 44, is the executive Director. He has over 18 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Jialian, aged 61, is the independent non-executive Director. Mr. Wang Jialian has worked in Tiajian Academy of Environmental Sciences for more than 32 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 68, 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.

Ms. Chan Sze Man, aged 32, is the independent non-executive Director. Ms. Chan holds a bachelor degree of business administration (majoring in accountancy) from the University of Science and Technology, Hong Kong. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and has over 9 years of experience in accounting and auditing for Hong Kong listed companies and private companies. She is currently the chief financial officer and the company secretary of a company listed on the Main Board of the Stock Exchange. Ms. Chan is also an independent non-executive director of Seamless Green China (Holding) Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8150).

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Mr. Shao Zhihui, aged 34, general manager of the Shengyi group. Mr. Shao joined Shengyi 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 Shengyi, 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 9 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 55, is the general manager of the Sonavox group. He is responsible for the general administration of the loudspeaker manufacturing business. 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 20 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 57, is the production manager and assistant general manager of the Sonavox group. Mr. Pan joined the Group in 1994 and is responsible for the overall production of loudspeaker systems. He has over 23 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. Tam Chak Chi, aged 36, is the chief financial officer and the company secretory of the Group. Mr. Tam is responsible for the overall financial and accounting management of the Group. He holds a bachelor degree of commerce from the University of Toronto and has more than 10 years of experience in providing accounting, auditing and financial services in his various roles as senior positions for various private and listed companies (on the Main Board and the GEM of the Stock Exchange, and NASDAQ). He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

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 to the Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2012, 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 2012. 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 2012.

BOARD OF DIRECTORS

The Board currently comprises:

Executive Directors:

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

Independent Non-executive Directors:

Mr. Wang Jialian
Mr. Wang Zhihua
Ms. Chan Sze Man

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 delegates 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 2012, the Board held 12 meetings and the attendance of each Director is as follows:

	Number of meetings attended/ eligible to attend
Executive Directors:	
Mr. Shan Xiaochang	12/12
Ms. Shan Zhuojun	12/12
Mr. Ma Arthur On-hing	6/12
Mr. Yang Ching Yau[3]	3/12
Independent non-executive Directors:	
Mr. Wang Jialian	6/12
Mr. Wang Zhihua	6/12
Ms. Chan Sze Man[1]	2/2
Mr. Lee Kam Fan, Andrew[2]	3/10

1 Appointed on 31 October 2012
2 Resigned on 31 October 2012
3 Resigned on 14 December 2012

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

For the year ended 31 December 2012, all Directors have participated in continuous professional development, by attending conferences, seminars and in-house briefing, and giving talks and reading materials relevant to their duties, responsibilities and the Group's business in order to develop, refresh and update their knowledge and skills. Further, the Directors have received in-house trainings which covered corporate governance and listing rules and regulations.

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.

Code Provision A.2.1

The code provision stipulated that the roles of chairman and chief executive officer should be separate and should not be performed 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 auditors and independent professional advisors when considered necessary.

Code Provision E.1.2

The code provision stipulated that the chairman of the Board should attend the annual general meeting of the Company.

Due to urgent business engagement, Mr. Shan Xiaochang, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 15 June 2012 (the "Meeting"). Mr. Ma Arthur On-hing, an executive Director, presided as the chairman at the Meeting in accordance with the articles of association of the Company.

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 Ms. Chan Sze Man and Mr. Wang Zhihua. Ms. Chan Sze Man 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 9 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

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. Wang Jialian and Ms. Chan Sze Man. 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.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the fees paid and payable to auditors in respect of audit services to the Group were approximately HK$1.0 million (2011: HK$1.1 million). 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. Wang Jialian, Mr. Wang Zhihua and Ms. Chan Sze Man with Ms. Chan Sze Man 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 2012, 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. Wang Jialian	4/4
Mr. Wang Zhihua	4/4
Ms. Chan Sze Man[1]	1/1
Mr. Lee Kam Fan, Andrew[2]	3/3

1 Appointed on 31 October 2012
2 Resigned on 31 October 2012

CORPORATE GOVERNANCE REPORT

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 2012.

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 44 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 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income statement on page 26.

The Directors do not recommend the payment of any dividends in respect of the year (2011: 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 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties with carrying values of approximately HK$34.6 million as at 31 December 2012 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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

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 29.

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.

REPORT OF THE DIRECTORS

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[3]

Independent non-executive directors:

Mr. Wang Jialian
Mr. Wang Zhihua
Ms. Chan Sze Man[1]
Mr. Lee Kam Fan, Andrew[2]

[1] Appointed on 31 October 2012
[2] Resigned on 31 October 2012
[3] Resigned on 14 December 2012

In accordance with article 108(A) of the articles of association of the Company, Mr. Wang Jialian, Mr. Wang Zhihua and Ms. Chan Sze Man shall retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 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.

Each of Mr. Wang Jialian, Mr. Wang Zhihua and Ms. Chan Sze Man 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 independence pursuant to rule 5.09 of the GEM Listing Rules. The Company based on such confirmation, considers that 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 40 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.

REPORT OF THE DIRECTORS

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.

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

As at 31 December 2012, 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, 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 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 2012.

REPORT OF THE DIRECTORS

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

As at 31 December 2012, 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	–	146,163,814 *(Note 5)*	146,163,814	33.85%

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, 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 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.

5. The latest disclosure of interest notice filed by Concept Capital Management Limited has not taken into account the reset adjustment to the conversion and exercise prices on 9 May 2012.

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 2012.

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 (the "2002 Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted at the annual general meeting held on 15 June 2012. Shares options granted prior to the expiry of the 2002 Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the 2002 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 2012, the Company had 60,200,000 (31 December 2011: 62,700,000) share options outstanding under the 2002 Share Option Scheme, which represented approximately 13.9% (31 December 2011: 14.5%) of its issued share capital on that date. No share option were granted under the New Share Option Scheme.

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 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2012
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	1,000,000	–	–	(1,000,000)	–
	2 September 2011 to 1 September 2021	0.962	5,500,000	–	–	(1,500,000)	4,000,000
			6,500,000	–	–	(2,500,000)	4,000,000
Others							
In aggregate	25 November 2010 to 24 November 2020	0.666	21,200,000	–	–	–	21,200,000
			62,700,000	–	–	(2,500,000)	60,200,000

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in note 35 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 40 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, the executive Director who resigned on 14 December 2012, was 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 was overlapping with that of the Private Group to the extent that the Private Group was engaged in the manufacturing and sales of loudspeakers for automotive aftermarket, Mr. Yang Ching Yau and the Private Group had entered into the deed of undertaking on 15 July 2002 with the Company pursuant to which Mr. Yang Ching Yau and the Private Group had 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 10 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 35 to the consolidated financial statements.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the five largest customers accounted for approximately 41% (2011: approximately 48%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 25% (2011: approximately 28%) of the Group's total purchases. The largest customer of the Group accounted for approximately 11% (2011: approximately 16%) of the Group's total turnover while the largest supplier accounted for approximately 12% (2011: approximately 12%) 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 12 to 16 of the annual report.

AUDITOR

The financial statements for the year ended 31 December 2011 were audited by BDO Limited ("BDO").

On 4 February 2013, Zenith CPA Limited ("Zenith") was appointed by the Board to fill the casual vacancy following the resignation of BDO. The financial statements for the year ended 31 December 2012 were audited by Zenith.

Zenith 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

28 March 2013

INDEPENDENT AUDITOR'S REPORT

诚丰
Zenith

ZENITH CPA LIMITED
誠豐會計師事務所有限公司
10/F., China Hong Kong Tower,
8-12 Hennessy Road,
Wanchai, Hong Kong

香港灣仔軒尼詩道8-12號
中港大廈10樓

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 26 to 90, which comprise the consolidated statement of financial position as at 31 December 2012, 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for disclaimer of opinion paragraph, 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. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

BASIS FOR DISCLAIMER OF OPINION

Material uncertainty relating to the going concern basis

Notwithstanding that the Group has (i) consolidated net current liabilities of approximately HK$119,881,000; (ii) capital commitment of approximately HK$35,420,000; (iii) convertible loan notes with an aggregate principal amount of approximately HK$40,000,000; (iv) interest bearing bank and other borrowings of approximately HK$134,567,000 and (v) amounts due to non-controlling interests of subsidiaries of approximately HK$65,121,000 as at 31 December 2012, in forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As detailed in note 2 to the consolidated financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the continuous support from the Group's existing bankers and extension of the loans from the potential investor and the attainment of profitable and positive cash flow operation of the Group to meet the Group's future working capital and financial requirements. The consolidated financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the consolidated financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matter described in the basis for disclaimer of opinion section, we do not express an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit 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.

Zenith CPA Limited
Certified Public Accountants
Cheng Po Yuen
Practising Certificate Number: P04887

Hong Kong, 28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	6	**875,577**	724,008
Cost of sales		**(689,999)**	(575,540)
Gross profit		**185,578**	148,468
Other income and gains	6	**33,088**	12,785
Selling and distribution expenses		**(32,879)**	(23,475)
Administrative expenses		**(156,962)**	(129,410)
Other operating expenses		**(14,116)**	(18,242)
Finance costs	7	**(25,820)**	(10,428)
Fair value gains/(losses) on derivative financial instruments		**22,512**	(13,179)
PROFIT/(LOSS) BEFORE TAX	8	**11,401**	(33,481)
Income tax	11	**(7,496)**	(9,162)
PROFIT/(LOSS) FOR THE YEAR		**3,905**	(42,643)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**3,733**	1,797
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**3,733**	1,797
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**7,638**	(40,846)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company	12	**(2,971)**	(49,780)
Non-controlling interests		**6,876**	7,137
		3,905	(42,643)
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Owners of the Company		**3**	(46,865)
Non-controlling interests		**7,635**	6,019
		7,638	(40,846)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (in cents)	13	**(0.69)**	(11.61)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**361,330**	237,746
Investment properties	15	**34,569**	31,340
Prepaid land lease payments	16	**25,600**	19,618
Goodwill	17	**–**	3,204
Intangible assets	18	**8,508**	16,444
Available-for-sale investment	19	**–**	3,736
Prepayment for acquisition of property, plant and equipment		**5,167**	27,708
Deferred tax assets	32	**3,303**	324
Total non-current assets		**438,477**	340,120
CURRENT ASSETS			
Inventories	20	**104,773**	89,537
Construction contracts	21	**9,735**	7,149
Trade receivables	22	**290,464**	228,339
Prepayments, deposits and other receivables	23	**73,590**	28,937
Restricted bank deposits	24	**49,117**	28,445
Cash and cash equivalents	24	**93,822**	121,505
Total current assets		**621,501**	503,912
CURRENT LIABILITIES			
Trade payables	25	**273,547**	230,131
Other payables and accruals	26	**229,131**	93,777
Interest-bearing bank and other borrowings	27	**134,567**	121,186
Convertible loan notes and embedded derivatives	30	**30,926**	–
Amounts due to directors	28	**3,310**	2,848
Amounts due to non-controlling interests of subsidiaries	29	**65,121**	46,927
Tax payable		**4,780**	776
Total current liabilities		**741,382**	495,645
NET CURRENT (LIABILITIES)/ASSETS		**(119,881)**	8,267
TOTAL ASSETS LESS CURRENT LIABILITIES		**318,596**	348,387

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Convertible loan notes and embedded derivatives	30	**–**	40,613
Unlisted warrants	31	**5,151**	14,736
Deferred tax liabilities	32	**12,391**	11,535
Total non-current liabilities		**17,542**	66,884
NET ASSETS		**301,054**	281,503
EQUITY			
Issued capital	33	**4,318**	4,318
Reserves		**123,791**	123,788
Equity attributable to owners of the Company		**128,109**	128,106
Non-controlling interests		**172,945**	153,397
TOTAL EQUITY		**301,054**	281,503

Shan Xiaochang
Chairman

Shan Zhuojun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 *(note (a))*	Share option reserve HK$'000	Merger reserve HK$'000 *(note (b))*	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 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/(loss) for the year: Exchange difference on translation of foreign operations	–	–	–	–	–	–	2,915	–	2,915	(1,118)	1,797
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	2,915	(49,780)	(46,865)	6,019	(40,846)
Transfer from retained earnings	–	–	–	4,315	–	–	–	(5,111)	(796)	(765)	(1,561)
Equity-settled share-based arrangements	–	–	–	–	18,070	–	–	–	18,070	–	18,070
Issurance of shares (note 33)	98	9,854	–	–	(3,425)	–	–	–	6,527	–	6,527
Acquisition of subsidiaries (note 36)	–	–	–	–	–	–	–	–	–	21,035	21,035
At 31 December 2011 and 1 January 2012	4,318	165,417*	11,293*	11,891*	25,830*	2,441*	20,335*	(113,419)*	128,106	153,397	281,503
(Loss)/profit for the year	–	–	–	–	–	–	–	(2,971)	(2,971)	6,876	3,905
Other comprehensive income for the year: Exchange difference on translation of foreign operations	–	–	–	–	–	–	2,974	–	2,974	759	3,733
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	2,974	(2,971)	3	7,635	7,638
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	(10,252)	(10,252)
Transfer from retained earnings	–	–	–	937	–	–	–	(937)	–	–	–
Share option lapsed	–	–	–	–	(1,258)	–	–	1,258	–	–	–
Acquisition of subsidiaries (note 36)	–	–	–	–	–	–	–	–	–	22,165	22,165
At 31 December 2012	4,318	165,417*	11,293*	12,828*	24,572*	2,441*	23,309*	(116,069)*	128,109	172,945	301,054

* These reserve accounts comprise the consolidated reserves of HK$123,791,000 (2011: HK$123,788,000) in the consolidated statement of financial position.

Notes:

(a) Statutory reserve

Pursuant to the articles of association of the group entities in Mainland China 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 Mainland China. 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

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**11,401**	(33,481)
Adjustments for:			
Bank interest income		**(1,262)**	(678)
Finance costs		**25,820**	10,428
Depreciation		**19,951**	19,916
Amortisation of intangible assets		**8,247**	2,071
Amortisation of prepaid land lease payments		**417**	410
Fair value (gains)/losses an derivative financial instruments		**(22,511)**	13,179
Impairment of available-for-sales investment		**–**	1,186
Impairment/(reversal of) impairment of trade receivables		**10,923**	(1,155)
Impairment of property, plant and equipment		**1,761**	–
Impairment of goodwill		**1,417**	–
Loss on disposal of items of property, plant and equipment		**–**	96
Write-down/(write-back) of inventories		**2,552**	(602)
Fair value (gains)/losses of investment properties		**(3,045)**	1,979
Equity-settled share option expenses		**–**	18,070
Gain on disposal of subsidiaries		**(5,715)**	–
Gain on bargain purchase		**(3,942)**	–
		46,014	31,419
Decrease/(increase) in inventories		**1,585**	(27,711)
Increase in construction contracts		**(2,586)**	(554)
(Increase)/decrease in trade receivables		**(31,280)**	30,306
(Increase)/decrease in prepayments, deposits and other receivables		**(12,256)**	11,233
Increase in amounts due to directors		**2,157**	738
(Decrease)/increase in trade payables		**(155)**	56,535
Increase/(decrease) in accruals and other payables		**41,215**	(30,148)
Cash generated from operations		**44,694**	71,818
PRC tax paid		**(7,667)**	(11,057)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**37,027**	60,761
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(63,874)**	(54,963)
Purchases of investment properties		**–**	(2,067)
Proceeds from disposal of items of property, plant and equipment		**49**	442
Acquisition of subsidiaries	36	**880**	(19,096)
Decrease/(increase) in prepayments for acquisition of property, plant and equipment		**14,480**	(27,708)
Payment of acquisition of other financial asset		**–**	(4,922)
Increase in restricted bank deposits		**(20,672)**	(16,445)
Interest received		**1,262**	678
Proceeds from disposal of subsidiaries		**1,765**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(66,110)**	(124,081)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	6,527
Proceeds from issue of unlisted warrants	–	800
Proceeds from issue of convertible notes	–	38,001
Interest paid	(20,879)	(7,470)
New bank loans	–	121,186
New short term loan	30,000	–
Repayment of bank loans	(16,619)	(80,287)
Advance from non-controlling interest of subsidiaries	7,942	37,515
NET CASH FLOWS FROM FINANCING ACTIVITIES	444	116,272
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(28,639)	52,952
Cash and cash equivalents at beginning of year	121,505	74,788
Effect of foreign exchange rate changes, net	956	(6,235)
CASH AND CASH EQUIVALENTS AT END OF YEAR	93,822	121,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

1. GENERAL

Sunrise (China) Technology Group Limited (the "Company") is a limited liability company incorporated in Cayman Islands, and the issued shares of which are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was involved in the following principal activities:

- environmental protection related businesses
- manufacturing and sales of loudspeaker systems
- investment properties for rental income
- investment holding

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Zhongyu Group Holdings Limited, which is incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

The Group reported consolidated net current liabilities of approximately HK$120 million (including interest-bearing bank and other borrowings of approximately HK$135 million and convertible loan notes with an aggregate principal amount of approximately HK$40 million) and capital commitments of approximately HK$35 million as at 31 December 2012. In view of the adverse liquidity position of the Group, the directors have adopted the following measures with a view to maintain a going concern basis and to improve the Group's overall financial and cash flow position:

(a) On 28 March 2013, the Company was granted a loan facility of up to HK$70,000,000 for future utilisation;

(b) the Group continues to explore opportunities for different sources of financing to strengthen the Group's working capital position; and

(c) the Group continues to implement measures to tighten cost controls over various general and administrative expenses and to improve the Group's operating results and cash flow operation.

In the opinion of the directors of the Company, if the measures described above accomplish the expected results, the directors are confident that the Group will be able to have sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future and be able to return to a commercially viable concern. Accordingly, the directors of the Company considered that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group's financial and cash flow position as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.1 *BASIS OF PREPARATION*

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, buildings and certain of derivative financial instruments, which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. These consolidated financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest of subsidiary even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

3.2 *CHANGES IN ACCOUNTING POLICY AND DISCLOSURES*

The Group has adopted the following revised HKFRSs for the first time for the current year's consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKFRS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis.

The presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale has been rebutted by the Group as the Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly deferred tax has been determined on the basis of recovery through use. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liabilities that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirely. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.3 *ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.3 *ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)*

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarified that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 32 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and reporting policies, the Company controls directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December 2012 and 2011. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contracts assets financial assets and investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises (only if there are revalued assets in the consolidated financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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 employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Property, plant and equipment and depreciation (continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives are as follows:

Trademark and patents	10 years
Order backlog	1.5 to 3 years

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliable the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element to reflect the purchase and financing.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sales financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair values plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in the category are these which are intended to be held for an indefinite period of time and which may be sold to rephrase to needs for liquidity or in response to change in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to make such significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired. then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence or impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Impairment of financial assets (continued)

Available-for sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings, convertible loan notes and embedded derivatives and amounts due to directors and non-controlling interest of subsidiaries.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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 selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overhead. Net realisable value is based on estimated selling price less the estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” below;

(c) Service fee income represents income from services rendered for after-sale services of the Group’s Sale;

(d) rental income, on a time proportion basis over the lease terms; and

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate. to the net carrying amount of the financial asset;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation.

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.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statement of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities, Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future eash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available date from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. when the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss.

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.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of each reporting period.

Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors reassess the impairment at the end of each reporting period.

Control in Shengyan

The Group has obtained de facto control over Shengyan in 10 December 2012 since then the Group's 51% interest in Shengyan is accounted for and consolidated into the consolidated financial statements of the Group as a subsidiary. Key judgement adopted in concluding the Group has obtained de facto control in Shengyan are as follows:

– The Group has consistently and regularly held a majority of the voting rights exercised at Shengyan shareholders' meetings and no other single shareholder directly or indirectly controls more voting rights than the Group; and

– The shareholding of other non-controlling interests is dispersed and the chance of all other shareholders getting together to vote against the Group is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

5. *OPERATING SEGMENT INFORMATION*

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the manufacturing and sales of loudspeaker systems segment; and

(b) the environmental protection related business segment;

Management monitors the results of the Group's operating segments separately for the purpose if making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, financial costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2012

	Manufacturing and sales of loudspeaker systems HK$'000	Environmental protection related business HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	825,054	50,523	875,577
Segment results	23,250	28,379	51,629
Reconciliation:			
Interest income			1,262
Finance costs			(25,820)
Corporate and other unallocated expenses			(15,670)
Profit before tax			11,401
Segment assets	766,132	238,220	1,004,352
Reconciliation:			
Corporate and other unallocated assets			55,626
Total assets			1,059,978
Segment liabilities	486,768	236,478	723,246
Reconciliation:			
Corporate and other unallocated liabilities			35,678
Total liabilities			758,924
Other segment information:*			
Write-down of inventories to net realisable value	2,552	–	2,552
Impairment of trade receivables	6,474	4,449	10,923
Fair value gain on embedded derivatives	–	12,927	12,927
Fair value gain on unlisted warrants	–	9,585	9,585
Impairment of goodwill	1,160	257	1,417
Impairment of property, plant and equipment	1,761	–	1,761
Fair value gains on investment properties	3,045	–	3,045
Depreciation and amortisation#	17,045	11,570	28,615
Capital expenditure#	61,317	2,517	63,834

* Included in the "Segment results" disclosed above.

\# Capital expenditure consists additions to property, plant and equipment and excluding assets from the acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011

	Manufacturing and sales of loudspeaker systems HK$'000	Environmental protection related business HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	724,008	–	724,008
Segment results	32,079	(19,374)	12,705
Reconciliation:			
Interest income			678
Finance costs			(10,428)
Corporate and other unallocated expenses			(36,436)
Loss before tax			(33,481)
Segment assets	759,686	81,595	841,281
Reconciliation:			
Corporate and other unallocated assets			2,751
Total assets			844,032
Segment liabilities	475,597	84,398	559,995
Reconciliation:			
Corporate and other unallocated liabilities			2,534
Total liabilities			562,529
Other segment information:*			
Write back of inventories to net realisable value	602	–	602
Reversal of impairment of trade receivables	1,155	–	1,155
Fair value gain on embedded derivatives	–	757	757
Fair value losses on unlisted warrants	–	(13,936)	(13,936)
Impairment of available-for-sale investment	–	1,186	1,186
Fair value losses of investment properties	1,979	–	1,979
Depreciation and amortisation	20,034	2,363	22,397
Capital expenditure#	55,972	998	56,970

* Included in the "Segment results" disclosed above

Capital expenditure consists of addition to property, plant and equipment, investment properties, and excluding assets from the acquisition of subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

5. *OPERATING SEGMENT INFORMATION (continued)*

Geographical information

(a) Revenue from external customers

	2012 HK$'000	2011 HK$'000
Mainland China	**379,705**	285,967
United States of America	**148,781**	121,561
Germany	**209,763**	280,055
Thailand	**2,711**	1,204
Other countries	**134,617**	35,221
	875,577	724,008

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2012 HK$'000	2011 HK$'000
Hong Kong	**385**	638
Mainland China	**421,114**	287,203
Germany	**–**	26
Thailand	**–**	837
	421,499	288,704

The non-current asset information is based on the locations of the assets and excludes goodwill, intangible assets, available-for-sale investment, prepayment for acquisition of property, plant and equipment and deferred tax assets.

Information about a major customer

During the year ended 31 December 2012, the Group had a transaction with a single customer who contributed over 10% of the Group's total revenue of HK$99,542,000 (2011: HK$113,950,000) for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

6. *REVENUE, OTHER INCOME AND GAINS*

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns, trade discounts and sales related taxes; an appropriate proportion of contract revenue of construction contracts; and the value of maintenance services rendered during the year.

	2012 HK$'000	2011 HK$'000
Revenue		
Sales of goods	**807,901**	676,296
Contract revenue of construction contracts	**20,417**	–
Maintenance services income	**47,259**	47,712
	875,577	724,008
Other income		
Bank interest income	**1,262**	678
Mould income	**3,514**	2,981
Gross rental income on investment properties	**4,676**	5,276
Sales of scrap materials	**1,216**	1,012
Service income	**2,619**	444
Others	**1,668**	1,239
	14,955	11,630
Gains		
Foreign exchange differences, net	**5,431**	–
Fair value gain on investment properties	**3,045**	–
Gain on bargain purchase	**3,942**	–
Gain on disposal of subsidiaries	**5,715**	–
Reversal of impairment of trade receivables	**–**	1,155
	18,133	1,155
	33,088	12,785

7. *FINANCE COSTS*

	2012 HK$'000	2011 HK$'000
Interest on bank borrowings wholly repayable within five years	**9,555**	7,226
Interest on loan from an independent third party	**8,020**	–
Interest on convertible loan notes	**7,970**	2,958
Overdue interest on convertible loan notes	**52**	–
Interest on discounted bills	**223**	244
	25,820	10,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

8. *PROFIT/(LOSS) BEFORE TAX*

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2012 HK$'000	2011 HK$'000
Cost of inventories sold	**687,447**	576,142
Write-down/(write-back) of inventories to net realisable value	**2,552**	(602)
Depreciation of property, plant and equipment	**19,951**	19,916
Amortisation of intangible assets*	**8,247**	2,071
Amortisation of prepaid land lease payments*	**417**	410
Auditor's remuneration	**1,016**	1,108
Foreign exchange differences, net	**–**	14,980
Minimum lease payments under operating leases	**1,873**	1,901
Fair value loss on investment properties	**–**	1,979
Loss on disposal of property, plant and equipment#	**–**	96
Impairment of available-for-sale investment	**–**	1,186
Impairment of goodwill#	**1,430**	–
Impairment of trade receivables#	**10,923**	–
Impairment of property, plant and equipment#	**1,761**	–
Rental income in investment properties less direct operating expenses	**(4,489)**	(4,719)
Research and development costs:		
Current year expenditure	**31,518**	23,493
Less: Government grants (note)	**(672)**	(954)
	30,846	22,539
Employee benefit expense (excluding directors' remuneration (note 9)):		
Wages and salaries	**159,018**	118,183
Equity-settled share option expenses	**–**	3,331
Pension scheme contribution	**9,735**	11,725
	168,753	133,239

Note: Government grants have been received for research activities in Mainland China. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

* The amortisation of intangible assets and the amortisation of prepaid land lease payments for the year are included in "Administrative expenses" in the consolidated statement of comprehensive income.

\# The impairment of goodwill, the impairment of trade receivables and the impairment of property, plant and equipment for the year are included in "Other operating expenses" in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

9. DIRECTORS' REMUNERATION

2012	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contribution HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Shan Xiaochang	**–**	**520**	**–**	**4**	**524**
Ms. Shan Zhuojun	**–**	**520**	**–**	**7**	**527**
Mr. Ma Arthur On-hing	**–**	**520**	**–**	**14**	**534**
Mr. Yang Ching Yau *(note i)*	**–**	**1,125**	**–**	**–**	**1,125**
Independent non-executive directors:					
Mr. Lee Kam Fan, Andrew *(note ii)*	**90**	**–**	**–**	**–**	**90**
Mr. Wang Jialian	**108**	**–**	**–**	**–**	**108**
Mr. Wang Zhihua	**108**	**–**	**–**	**–**	**108**
Ms. Chan Sze Man *(note iii)*	**18**	**–**	**–**	**–**	**18**
	324	**2,685**	**–**	**25**	**3,034**

2011	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contribution HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Shan Xiaochang *(note iv)*	–	2,008	14,739	–	16,747
Ms. Shan Zhuojun	–	520	–	–	520
Mr. Ma Arthur On-hing	–	520	–	12	532
Mr. Yang Ching Yau	–	260	–	–	260
Independent non-executive directors:					
Mr. Lee Kam Fan, Andrew	108	–	–	–	108
Mr. Wang Jialian	108	–	–	–	108
Mr. Wang Zhihua	108	–	–	–	108
	324	3,308	14,739	12	18,383

Notes:

(i) Mr. Yang resigned as executive director of the Company on 14 December 2012.

(ii) Mr. Lee resigned as independent non-executive director of the Company on 31 October 2012.

(iii) Ms. Chan appointed as independent non-executive director of the Company on 31 October 2012

(iv) Amount included a bonus of HK$1,500,000 which was discretionary, and the estimated value of share options granted to Mr. Shan was under the Company's share option scheme.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included Two directors (2011: one), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining Three (2011: four) non-director, highest paid employees for the year are as follows:

	2012 HK$'000	2011 HK$'000
Salaries, allowance and other benefits	4,263	6,155
Pension scheme contribution	259	295
Equity-settled share option expense	–	3,331
	4,522	9,781

The number of non-director, highest paid employees who remuneration fell within the following bands is as follows:

	2012 Number of employees	2011 Number of employees
Nil to HK$1,000,000	3	–
HK$1,000,001 to HK$1,500,000	–	–
>HK$1,500,000	1	4
	4	4

During the prior years, share options were granted to a non-director highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 35 to the consolidated financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the prior years is included in the above non-director highest paid employees' remuneration disclosures.

11. INCOME TAX

No provision for Hong Kong profits tax has been made during the year as the Group did not generate any assessable profits arising in Hong Kong (2011: HK$Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in the Group operates.

	2012 HK$'000	2011 HK$'000
Current tax		
– PRC Enterprise Income Tax		
Charge for the year	11,135	5,501
Underprovision in prior years	91	1,098
Deferred tax (note 32)	(3,730)	2,563
Total tax charge for the year	7,496	9,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate of Hong Kong, where the Company is headquartered, to the tax expense at the effective tax rate, is as follows:

	2012 **HK$'000**	2011 HK$'000
Profit/(loss) before tax	**11,401**	(33,481)
Tax calculated at the domestic tax rate of 16.5% (2011: 16.5%)	**1,881**	(5,524)
Effect of different tax rates of subsidiaries in other jurisdictions	**1,318**	2,123
Effect of withholding tax of 10% on the distributable profits of the Group's PRC subsidiaries	**1,063**	–
Expenses not deductible for tax	**11,139**	19,074
Income not subject to tax	**(9,891)**	(5,719)
Tax loss not recognised	**790**	1,495
Effect of tax exemptions granted to PRC subsidiaries	**1,105**	(3,385)
Underprovision in respect of prior years	**91**	1,098
Income tax expense	**7,496**	9,162

One of the Company's subsidiaries in Mainland China was registered as a Hi-New Technology Enterprise by the relevant government authority in the PRC and is subjected to the PRC corporate tax at the rate of 15%.

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 included a loss of HK$573,000 (2011: HK$53,525,000) which has been dealt with in the financial statements of the Company (note 34).

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basis loss per share amounts is based on the loss for the year attribute to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 431,765,000 (2011: 428,587,000) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the unlisted warrants, convertible loan notes and share options outstanding during these years had either no dilutive effect or an anti-dilutive effect on the basic loss per share amounts presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost or valuation	115,582	35,416	140,518	6,021	48,640	346,177
Accumulated depreciation	(4,700)	(21,094)	(80,388)	(2,249)	–	(108,431)
Net carrying amount	110,882	14,322	60,130	3,772	48,640	237,746
At 1 January 2012, net of accumulated depreciation	110,882	14,322	60,130	3,772	48,640	237,746
Additions	368	413	4,382	4,075	54,636	63,874
Acquisition of subsidiaries (note 36)	17,747	–	41,634	2,317	19,319	81,017
Disposals of subsidiaries (note 37)	–	–	(17)	(660)	–	(677)
Disposals	–	–	(48)	–	–	(48)
Depreciation provided during the year (note 8)	(5,306)	(3,101)	(10,113)	(1,431)	–	(19,951)
Transfers	–	808	20,483	–	(21,291)	–
Impairment (note 8)	–	–	(1,761)	–	–	(1,761)
Exchange realignment	585	84	219	29	213	1,130
At 31 December 2012, net of accumulated depreciation	124,276	12,526	114,909	8,102	101,517	361,330
At 31 December 2012:						
Cost or valuation	135,229	36,841	212,335	11,754	101,517	497,676
Accumulated depreciation	(10,953)	(24,315)	(97,426)	(3,652)	–	(136,346)
Net carrying amount	124,276	12,526	114,909	8,102	101,517	361,330
Analysis of cost or valuation:						
At cost	–	36,841	212,335	11,754	101,517	362,447
At valuation	135,229	–	–	–	–	135,229
	135,229	36,841	212,335	11,754	101,517	497,676
31 December 2011						
At 1 January 2011:						
Cost or valuation	97,481	32,005	123,757	2,849	9,743	265,835
Accumulated depreciation	–	(14,304)	(69,805)	(1,989)	–	(86,098)
Net carrying amount	97,481	17,701	53,952	860	9,743	179,737
At 1 January 2011, net of accumulated depreciation	97,481	17,701	53,952	860	9,743	179,737
Additions	4,633	1,893	5,773	1,455	41,209	54,963
Acquisition of subsidiaries (note 36)	9,934	368	4,243	2,119	50	16,714
Disposals	–	–	(433)	(105)	–	(538)
Depreciation provided during the year (note 8)	(4,637)	(6,196)	(8,538)	(545)	–	(19,916)
Transfers	–	–	3,234	–	(3,234)	–
Exchange realignment	3,471	556	1,899	(12)	872	6,786
At 31 December 2011, net of accumulated depreciation	110,882	14,322	60,130	3,772	48,640	237,746
At 31 December 2011:						
Cost or valuation	115,582	35,416	140,518	6,021	48,640	346,177
Accumulated depreciation	(4,700)	(21,094)	(80,388)	(2,249)	–	(108,431)
Net carrying amount	110,882	14,322	60,130	3,772	48,640	237,746
Analysis of cost or valuation:						
At cost	–	35,416	140,518	6,021	48,640	230,595
At valuation	115,582	–	–	–	–	115,582
	115,582	35,416	140,518	6,021	48,640	346,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The revaluation of the Group's buildings situated in the PRC as at 31 December 2012 has been arrived at on the basis of valuations on that date and was carried by Ascent Partners Valuation Service Limited ("Ascent Partners"), an independent professionally qualified valuer having appropriate qualifications and experience.

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.

At 31 December 2012, certain of the Group's buildings with a net carrying amount of approximately HK$97,211,000 (2011: HK$101,034,000) were pledged to secured general banking facilities granted to the Group.

15. INVESTMENT PROPERTIES

	2012 **HK$'000**	2011 HK$'000
Carrying amount at 1 January	**31,340**	30,170
Additions	**–**	2,067
Net fair value gain/(loss)	**3,045**	(1,979)
Exchange realignment	**184**	1,082
Carrying amount at 31 December	**34,569**	31,340

The Group's investment properties were revalued at 31 December 2012 on market value basis by Ascent Partners.

At 31 December 2012, the Group's investment properties with carrying amount of approximately HK$6,400,000 (2011: HK$8,730,000) were pledged to secure general banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

16. PREPAID LAND LEASE PAYMENTS

	2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	20,035	16,583
Acquisition of subsidiaries	6,273	3,280
Amortisation recognised during the year	(417)	(410)
Exchange realignment	126	575
Carrying amount at 31 December	26,017	20,028
Current portion included in prepayments, deposits and other receivables	(417)	(410)
Non-current portion	25,600	19,618

The leasehold lands are situated in Mainland China and are held under medium and long term leases.

17. GOODWILL

	2012 HK$'000	2011 HK$'000
Cost		
At beginning of year	3,204	–
Acquisition of subsidiaries	20	3,204
Disposal of subsidiaries	(1,794)	–
At 31 December	1,430	3,204
Impairment		
At beginning of year	–	–
Impairment during the year	(1,430)	–
At 31 December	(1,430)	–
Carrying value		
At 31 December	–	3,204

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

	2012 HK$'000	2011 HK$'000
Manufacturing and sales of loudspeaker systems	–	1,149
Environmental protection related business	–	2,055
Carrying amount 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

17. GOODWILL (CONTINUED)

Impairment test of goodwill

The Group considered that the carrying amount of the goodwill is in excess of its recoverable amount as a result of the continuing non-performance of the business. Accordingly, impairment of goodwill of HK$1,430,000 has been recognised during the year.

18. INTANGIBLE ASSETS

	Order backlog HK$'000 *(note (a))*	Trademark and patents HK$'000 *(note (b))*	Total HK$'000
Cost			
At 1 January 2011	–	–	–
Acquisition of subsidiaries *(note 36)*	17,173	1,342	18,515
At 31 December 2011	17,173	1,342	18,515
Exchange realignment	**101**	**8**	**109**
At 31 December 2012	**17,274**	**1,350**	**18,624**
Amortisation			
At 1 January 2011	–	–	–
Charge for the year	2,038	33	2,071
At 31 December 2011	2,038	33	2,071
Charge for the year	**8,120**	**127**	**8,247**
Exchange realignment	**(202)**	**–**	**(202)**
At 31 December 2012	**9,956**	**160**	**10,116**
Net book value			
At 31 December 2012	**7,318**	**1,190**	**8,508**
At 31 December 2011	15,135	1,309	16,444

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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

19. AVAILABLE-FOR-SALE INVESTMENT

	2012 HK$'000	2011 HK$'000
Cost		
At 1 January	**3,736**	–
Acquisition of investment in unlisted securities	**–**	4,922
Disposal of subsidiaries	**(3,836)**	–
Exchange realignment	**100**	–
	–	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 2012.

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.

20. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**48,177**	36,523
Work-in-progress	**11,072**	17,895
Finished goods	**45,066**	35,119
Trading stocks	**458**	–
	104,773	89,537

21. CONSTRUCTION CONTRACTS

	2012 HK$'000	2011 HK$'000
Gross amount due from contract customers	**9,735**	7,149
Contract costs incurred plus recognised profits less recognised losses to date	**9,735**	7,149
Less: Progress billings	**–**	–
	9,735	7,149

At 31 December 2012, retentions held by customers for contract works included in trade receivables amount to approximately HK$4,223,000 (2011: HK$3,652,000) included in the Group's trade receivable balance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

22. *TRADE RECEIVABLES*

	2012	2011
	HK$'000	HK$'000
Trade receivables		
– third parties	**308,372**	234,983
– related parties *(note 40(c))*	**212**	452
	308,584	235,435
Less: Impairment	**(18,120)**	(7,096)
	290,464	228,339

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

	2012	2011
	HK$'000	HK$'000
Within 90 days	**228,612**	191,499
91 – 180 days	**23,129**	21,838
181 – 365 days	**38,723**	13,133
More than 365 days	**–**	1,869
	290,464	228,339

Included in trade receivable as at 31 December 2012 is an amount of retention monies receivable from customers, in respect of certain environmental protection related projects of HK$4,223,000 (2011: HK$3,652,000). The amount of those retentions expected to be recovered after more than one year is HK$1,835,000 (2011: HK$3,091,000).

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 of 90 days is granted to customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At 31 December 2012, an aging analysis of the Group's trade receivables, that are past due but not impaired is as follows:

	2012	2011
	HK$'000	HK$'000
Past due:		
91 – 180 days	**23,129**	21,838
181 – 365 days	**38,723**	13,133
More than 365 days	**–**	1,869
	61,852	36,840

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

22. TRADE RECEIVABLES (CONTINUED)

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 of trade receivables for the year:

	2012 HK$'000	2011 HK$'000
At 1 January	7,096	4,729
Impairment recognised/(written back)	10,923	(1,155)
Acquisition of a subsidiary	–	3,402
Exchange realignment	101	120
At 31 December	18,120	7,096

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Other receivables	56,317	8,638
Prepayments	10,532	13,108
Deposits	6,741	7,191
	73,590	28,937

24. CASH AND CASH EQUIVALENTS AND RESTRICTED 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 0.5% (2011: 0.5%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in Renminbi.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

25. TRADE PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables	**273,547**	230,131

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

	2012 HK$'000	2011 HK$'000
Within 30 days	**95,897**	94,462
31 – 90 days	**122,463**	79,195
91 – 180 days	**46,077**	55,912
181 – 365 days	**8,840**	87
More than 365 days	**270**	475
	273,547	230,131

26. OTHER PAYABLES AND ACCRUALS

	2012 HK$'000	2011 HK$'000
Other payables	**130,098**	49,183
Accruals	**62,683**	44,563
Deposits received from customers	**36,350**	31
	229,131	93,777

27. INTEREST-BEARING BANK AND OTHERS BORROWINGS

	2012 HK$'000	2011 HK$'000
Interest bearing short-term bank loans secured	**104,567**	108,236
Discounted bills and factoring loans secured	**–**	12,950
Other loan	**30,000**	–
	134,567	121,186

At 31 December 2012, all (2011: all) of the bank loans are due on demand or within one year.

Bank borrowings of HK$104,567,000 (2011: HK$121,186,000) are secured by buildings of HK$97,211,000 (2011: HK$101,034,000), payments for leasehold land held for own use under operating leases of HK$12,661,000 (2011: HK$12,910,000) and investment properties of HK$6,400,000 (2011: HK$8,730,000) respectively.

Other loan was obtained from an independent third party during the year. It is unsecured, interest bearing at 27.6% per annum and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

28. AMOUNTS DUE TO DIRECTORS

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

29. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

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

30. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES

On 9 August 2011 (the "Issue Date"), the Company issued 12% convertible redeemable notes (the "Convertible Loan Notes") due on 8 August 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 9 May 2012, the Conversion Price has been reset to HK$0.60 and the Convertible Loan Notes can be converted up to an aggregate 79,497,114 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$0.60.

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 at the issue date amounted to approximately HK$21,407,000, net of transaction costs. The carrying value of the liability component, included in current liabilities as at 31 December 2012 (2011: non-current liabilities), amounted to approximately HK$28,016,000 (31 December 2011: HK$24,776,000), 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% (2011: 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

31 December 2012

30. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES (CONTINUED)

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

	Liability component HK$'000	**Embedded derivatives** HK$'000	**Total** HK$'000
At 1 January 2011	–	–	–
Convertible loan notes issued	21,407	16,594	38,001
Interest charge	2,958	–	2,958
Gain arising from fair value change	–	(757)	(757)
Exchange realignment	411	–	411
At 31 December 2011 and 1 January 2012	**24,776**	**15,837**	**40,613**
Imputed interest charged	**7,970**	**–**	**7,970**
Interest paid	**(4,859)**	**–**	**(4,859)**
Gain arising from fair value change	**–**	**(12,927)**	**(12,927)**
Exchange realignment	**129**	**–**	**129**
At 31 December 2012	**28,016**	**2,910**	**30,926**

Both the liability component and embedded derivative were classified as non-current liabilities as at 31 December 2011. However, the first optional redemption day for the noteholder to exercise the option to request for redemption is 8 October 2013. Since the Group was unable to receive consent letter from the noteholder to support the intention not to redeem on this first optional redemption date, both the liability component and embedded derivative are classified as current liabilities as at 31 December 2012.

The fair value of the embedded derivatives at 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:

	2012	2011
Risk-free rate	**0.21%**	0.88%
Expected volatility	**79.27%**	79.39%
Credit spread	**13.12%**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

31. UNLISTED WARRANTS

	2012 HK$'000	2011 HK$'000
At 1 January	**14,736**	–
Proceeds from issue of unlisted warrants	**–**	800
Fair value (gains)/losses	**(9,585)**	13,936
At 31 December	**5,151**	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$0.60 and the unlisted warrants can be converted up to 66,666,700 ordinary shares of the Company, assuming a full conversion of the unlisted warrants as at 31 December 2012. On 9 May 2012, the Conversion Price has been reset to HK$0.60 per share, which is the minimum reset price, and the unlisted warrants can be converted up to 66,666,700 ordinary shares of the Company, there is no further movement of the unlisted warrants up to 31 December 2012.

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:

	2012	2011
Risk-free rate	**0.21%**	0.88%
Expected volatility	**79.27%**	79.39%
Expected life	**3.58 years**	4.58 years
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 contractual tenor of the unlisted warrants.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

32. 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:

	2012 HK$'000	2011 HK$'000
Deferred tax assets	**3,303**	324
Deferred tax liabilities	**(12,391)**	(11,535)
Deferred tax liabilities, net	**(9,088)**	(11,211)

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	Total HK$'000
At 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 36)	–	–	(1,127)	(4,629)	(5,756)
Exchange realignment	81	31	(253)	–	(141)
At 31 December 2011 and 1 January 2012	**2,109**	**(859)**	**(8,350)**	**(4,111)**	**(11,211)**
Credited to profit or loss	**1,668**	**–**	**–**	**2,062**	**3,730**
Acquisition of subsidiaries (note 36)	**–**	**–**	**(1,571)**	**–**	**(1,571)**
Exchange realignment	**12**	**(5)**	**(43)**	**–**	**(36)**
At 31 December 2012	**3,789**	**(864)**	**(9,964)**	**(2,049)**	**(9,088)**

Notes:

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

(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 Mainland China subsidiaries for the year amounting to HK$18,832,000 (2011: HK$14,653,000) 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$16,679,000 (2011: HK$13,145,000) 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$16,679,000 (2011: HK$13,145,000) will expire during 2012 to 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

33. ISSUED CAPITAL

	2012 HK$'000	2011 HK$'000
Authorised		
20,000,000,000 (2011: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid		
431,765,000 (2011: 431,765,000) ordinary shares of HK$0.01 each	**4,318**	4,318

Note: During the year ended 31 December 2011, the subscription rights attaching to 9,800,000 share options were exercised at the subscription price of HK$0.666 per share (note 35), resulting in the issue of 9,800,000 shares of HK$0.666 each for a total cash consideration, before expenses of HK$6,526,800. An amount of HK$3,425,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1**	1
Investment in subsidiaries	**24,150**	24,150
Total non-current assets	**24,151**	24,151
CURRENT ASSETS		
Inventories	**22,909**	–
Prepayments, deposits and other receivables	**30,974**	248
Amounts due from subsidiaries	**40,019**	81,712
Cash and cash equivalents	**392**	469
Total current assets	**94,294**	82,429
CURRENT LIABILITIES		
Other payables and accruals	**4,009**	2,241
Other borrowings	**30,000**	–
Convertible loan notes and embedded derivatives	**30,926**	–
Amount due to a director	**1,200**	–
Total current liabilities	**66,135**	2,241
NET CURRENT ASSETS	**28,159**	80,188
TOTAL ASSETS LESS CURRENT LIABILITIES	**52,310**	104,339
NON-CURRENT LIABILITIES		
Convertible loan notes and embedded derivatives	**–**	40,613
Unlisted warrants	**5,151**	14,736
Total non-current liabilities	**5,151**	55,349
NET ASSETS	**47,159**	48,990
EQUITY		
Issued capital	**4,318**	4,318
Reserves:		
Share premium	**165,417**	165,417
Share option reserve	**24,572**	25,830
Merger reserve	**19,550**	19,550
Accumulated losses	**(166,698)**	(166,125)
TOTAL EQUITY	**47,159**	48,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

35. SHARE OPTION SCHEME

The Group adopted a share option scheme (the "Scheme") which has been renewed and became effective on 15 June 2012. 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.

No share option was issued during the year ended 31 December 2012. 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, representing 14.5% 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.

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

	2012					2011				
	Weighted average exercise price HK$	**Number of option Directors '000**	**Employees '000**	**Others '000**	**Total '000**	Weighted average exercise price HK$	Number of option Directors '000	Employees '000	Others '000	Total '000
Outstanding at the beginning of the year	**0.857**	**35,000**	**6,500**	**21,200**	**62,700**	0.666	–	4,000	28,000	32,000
Granted during the year *(Note (a))*	–	–	–	–	–	0.962	35,000	5,500	–	40,500
Exercised during the year	–	–	–	–	–	0.666	–	(3,000)	(6,800)	(9,800)
Lapsed during the year	**0.857**	–	**(2,500)**	–	**(2,500)**	–	–	–	–	–
Outstanding at the end of the year	**0.857**	**35,000**	**4,000**	**21,200**	**60,200**	0.857	35,000	6,500	21,200	62,700
Exercisable at the end of the year	**0.857**	**35,000**	**4,000**	**21,200**	**60,200**	0.857	35,000	6,500	21,200	62,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

35. SHARE OPTION SCHEME (CONTINUED)

Note:

(a) The validity period of the share options of the Company granted during the year ended 31 December 2011 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 during the year ended 31 December 2011 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 for the year ended 31 December 2011.

(b) The weighted average remaining contractual life of outstanding share of options is 8.36 years (2011: 9.36 years)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

36. BUSINESS COMBINATION

On 5 Jan 2012, the Group acquired 100% interest in Wealth Great Corporation Limited ("Wealth Great") from a related party, at a consideration of HK$10,000. The Company is incorporated in British Virgin Islands and is engaged in investment holding.

On 22 August 2012, the Group acquired 100% interest in Rich Share Global Limited ("Rich Share") from a related party, at a consideration of US$1. The Company is incorporated in British Virgin Islands and is engaged in investment holding.

On 10 December 2012, an indirect wholly-owned subsidiary of the Company, Rise Joy Investment Limited ("Rise Joy"), entered into a sale and purchase agreement (the "Agreement") with Mr. Wu Qin Min ("Vendor"), pursuant to which the Group has agreed to acquire from an independence third party a 51% equity interest in Shengyan, a company incorporated in Mainland China, which engaged the sale and production of straw briquettes in Mainland China. The purchase consideration of HK$19,127,000 for the acquisition would be payable within 60 business days after the relevant Department of Commerce of Mainland China shall have issued the approval for the acquisition of 51% equity interest of Shengyan by Rise Joy.

The acquisition was not completed as at 31 December 2012. However, upon signing the Agreement, Rise Joy and Vendor simultaneously entered into a trust declaration agreement pursuant to which Vendor shall hold the 51% of the issued share upon trust for Rise Joy pending completion of the aforesaid procedures. In other words, upon signing of the Agreement and the trust declaration agreement, the beneficial interest of the 51% of the issued share was simultaneously transferred to and vested in Rise Joy and Shengyan became a non-wholly owned subsidiary of the Company and its financial information will be consolidated into the Group. Accordingly, Shengyan has been accounted for as a subsidiary of the Group since 10 December 2012 as the Group obtained power to govern its financial and operating policies. Fair value of equity interest held in Shengyan as at the date of change in control amounted to HK$23,069,000 and no further consideration was transferred for the change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

36. BUSINESS COMBINATION (CONTINUED)

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition were as follows:

	Fair value recognised on acquisition				
	Wealth Great HK$'000	Rich Share HK$'000	Shengyan HK$'000	2012 HK$'000	2011 HK$'000
Property, plant and equipment	–	–	81,017	81,017	16,714
Prepaid land lease payments	–	–	6,273	6,273	3,280
Prepayment for acquisition of property, plant and equipment	–	–	5,186	5,186	–
Intangible assets	–	–	–	–	18,515
Inventories	–	–	19,372	19,372	10,599
Trade receivables	–	–	41,869	41,869	19,089
Other receivables	–	–	9,607	9,607	12,085
Cash and cash equivalents	–	–	890	890	7,475
Trade payables	(3)	(7)	(43,571)	(43,581)	(3,956)
Other payables	–	–	(73,358)	(73,358)	(25,915)
Tax payable	–	–	(480)	(480)	(21)
Deferred tax liabilities	–	–	(1,571)	(1,571)	(5,756)
Total identifiable net assets at fair value	(3)	(7)	45,234	45,224	52,109
Non-controlling interest	–	–	(22,165)	(22,165)	(21,035)
	(3)	(7)	23,069	23,059	31,074
Goodwill on acquisition	13	7	–	20	3,204
Gain on bargain purchase recognised in other income and gains in the consolidated statement of comprehensive income	–	–	(3,942)	(3,942)	–
	10	–	19,127	19,137	34,278
Satisfied by					
Cash paid and payable	10	–	19,127	19,137	26,571
Included in accruals and other payables	–	–	–	–	7,707
	10	–	19,127	19,137	34,278

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2012 HK$'000	2011 HK$'000
Cash consideration paid	(10)	(26,571)
Cash and cash equivalents acquired	890	7,475
Net inflow/(outflow) of cash and cash equivalents included in cash flows from investing activities	880	(19,096)

As at 31 December 2012, the Group controls 51% interest of Shengyan. Shenyan contributed turnover of HK$15,354,000 and HK$3,493,000 to the consolidated profit for the period from the date of change in control to 31 December 2012. If the assumption of management control had occurred at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$940,916,000 and HK$7,689,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

37. DISPOSAL OF SUBSIDIARIES

	2012 HK$'000
Net assets disposed of:	
Property, plant and equipment	677
Prepayment	13,244
Goodwill	1,792
Available-for-sale investment	3,836
Prepayments, deposits and other receivables	2,763
Cash and cash equivalents	235
Other payables and accruals	(47)
Amount due to directors	(1,694)
Exchange fluctuation reserve	(43)
	20,763
Exchange gain on the amount due balance to be settled	1,077
	21,840
Gain on disposal of subsidiaries	5,715
Satisfied by:	
cash received or receivables	27,555

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	2,000
Cash receivable on settlement of amount due balance	25,555
	27,555
Cash and bank balances disposed of	(235)
Less: cash receivables	(25,555)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	1,765

38. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 27 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

39. COMMITMENTS

(a) Capital commitment

	2012 HK$'000	2011 HK$'000
Contracted, but not provided for:		
Buildings	**35,420**	81,137

(b) Operating leases

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:

	2012 HK$'000	2011 HK$'000
Within the first year	**1,301**	2,049
In the second to the fifth year inclusive	**28**	1,363
	1,329	3,412

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.

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:

	2012 HK$'000	2011 HK$'000
Within the first year	**5,360**	5,480
In the second to the fifth year inclusive	**4,291**	9,859
	9,651	15,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transaction detailed elsewhere in these consolidation financial statements, the Group entered into the following mentioned transactions with related parties during the year:

Sales and purchases

	2012 HK$'000	2011 HK$'000
Sonavox Electronics (Suzhou Industrial Park) Company Limited ("SSIP") (上聲電子(蘇州工業園區)有限公司) – sales of goods [(ii)]	**708**	120

(b) Key management personnel compensation

	2012 HK$'000	2011 HK$'000
Salaries and other short-term benefits	**2,397**	10,014
Equity setting share option	**–**	15,648
Pension scheme contribution	**35**	307
	2,432	25,969

(c) Outstanding balances with related parties

	At 31 December 2012 HK$'000	2011 HK$'000
Amount due to Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, a non-controlling interests of a subsidiary [(i)] (蘇州市相城區元和鎮集體資產經營公司) *(Note 29)*	**(3,143)**	(3,578)
Amount due to Wuxian City Likou Town Collective Assets Operation Company a non-controlling interests of a subsidiary [(i)] (蘇州市相城區無線電元一廠)*(Note 29)*	**(646)**	(544)
Trade receivables from SSIP (上聲電子(蘇州工業園區)有限公司)*(Note 22)*	**212**	452

(i) These balances are unsecured, interest-free and have no fixed terms of repayment.

(ii) The sales to non-controlling interests of subsidiaries were made according to the published prices and conditions offered to the major customers of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

40. *RELATED PARTY TRANSACTIONS (CONTINUED)*

In last 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.

41. *FINANCIAL INSTRUMENTS 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 3.4 for explanations about how the categorisation of financial instruments affects their subsequent measurements.

	2012 **HK$'000**	2011 HK$'000
Financial assets		
Non-current assets		
Available-for-sales investment	**–**	3,736
Current assets		
Trade and other receivables	**300,996**	241,467
Restricted bank deposits	**49,117**	28,445
Cash and cash equivalents	**93,822**	121,505
	443,935	395,153
Financial liabilities		
Non-current liabilities		
Embedded derivatives, convertible loan notes and unlisted warrants	**–**	55,349
Current liabilities		
Trade and other payables	**502,678**	323,908
Amounts due to directors	**3,310**	2,848
Amounts due to non-controlling interest of subsidiaries	**65,121**	46,927
Bank and other borrowings	**134,567**	121,186
Embedded derivatives, convertible loan notes and unlisted warrants	**36,077**	–
	741,753	550,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

42. *FAIR VALUE AND FAIR VALUE HIERARCHY*

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with CCC/C credit ratings. Derivative financial instruments, including convertible notes and unlisted warrants, are measured using valuation techniques similar to Black-Scholes Option Pricing Model. The models incorporate various market observable inputs including the credit spread, volatility and risk-free rate. The carrying amounts of convertible loan notes and unlisted warrants are the same as their fair values.

As at 31 December 2012, the marked to market value of the derivative asset position is net of a credit valuation adjustment attribution to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market date (unobservable inputs)

As at December 2012

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Derivative financial instruments				
Convertible loan notes	**–**	**2,910**	**–**	**2,910**
Unlisted warrants	**–**	**5,151**	**–**	**5,151**
	–	**8,061**	**–**	**8,061**

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at December 2011				
Available-for-sale investment				
Unlisted securities	–	–	3,736	3,736
Derivative financial instruments				
Convertible loan notes	–	15,837	–	15,837
Unlisted warrants	–	14,736	–	14,736
	–	30,573	3,736	34,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

43. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

The Group's major financial instruments include trade receivables, prepayments, deposits and other receivables, restricted bank deposits, cash and cash equivalents, trade payables, amounts due to directors, amounts due to non-controlling interest 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.

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:

	Assets		Liabilities	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**293,889**	5,859	**532,356**	–
US dollars	**63,682**	87,941	**1,828**	3,703
Euro	**105,647**	82,959	**1,501**	–
	463,218	176,759	**535,685**	3,703

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.

	2012		2011	
	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%**	**30**	5%	3,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

43. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)*

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.

The Group

	2012		2011	
	Effective interest rate %	**Carrying amount HK$'000**	Effective interest rate %	Carrying amount HK$'000
Fixed rate borrowing				
– convertible loan notes	**34.66%**	**28,016**	34.66%	24,776
– other borrowings	**27.60%**	**30,000**	–	–
Floating rate borrowings				
– short-term bank loans	**6.45%**	**104,567**	6.73%	121,186

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 2012 and 2011.

	2012	2011
	Effect on profit after income tax expense HK$'000	Effect on profit after income tax expense HK$'000
Increase by 200 basis points	**(2,537)**	(2,024)
Decrease by 200 basis points	**2,537**	2,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

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 2012, the Group has available unutilised short-term banking facilities of approximately HK$137,626,795 (2011: HK$78,303,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The Group

At 31 December 2012	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 payables	–	273,547	–	273,547	273,547
Accruals and other payables	–	229,131	–	229,131	229,131
Short-term bank loans	6.73%	134,567	–	134,567	134,567
Convertible loan notes	34.66%	4,872	63,423	68,295	28,016
Amounts due to directors	–	3,310	–	3,310	3,310
Amounts due to non-controlling interest of subsidiaries	–	65,121	–	65,121	65,121
		710,548	63,423	773,971	733,692

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 payables	–	230,131	–	230,131	230,131
Accruals and other payables	–	93,777	–	93,777	93,777
Short-term bank loans	6.73%	121,186	–	121,186	121,186
Convertible loan notes	34.66%	4,843	67,895	72,738	24,776
Amounts due to directors	–	2,848	–	2,848	2,848
Amounts due to non-controlling interest of subsidiaries	–	46,927	–	46,927	46,927
		499,712	67,895	567,607	519,645

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particular of the principal subsidiaries at as the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Honest Smart Investment Limited	Hong Kong	HK$1	–	100%	Provision of management services to the group companies
Suzhou Shangsheng Electrics Co., Ltd[1] (蘇州上聲電子有限公司)	PRC	USD5,000,000	–	51%	Manufacture and sales of loudspeaker systems for automobiles
Suzhou Sonavox Acoustics Co., Ltd[1] (蘇州上昇音響有限公司)	PRC	USD2,500,000	–	51%	Manufacture and sales of loudspeaker systems for home theatres
Suzhou Shangsheng Technology Co., Ltd[1] (蘇州上聲科技有限公司)	PRC	USD5,130,000	–	51%	Manufacture and sales of loudspeaker systems
Suzhou Hesheng Industrial Co., Ltd[1] (蘇州和盛實業有限公司)	PRC	USD1,120,000	–	51%	Provision of rental services
Detroit Sonavox Inc.	United States of America	USD200,000	–	51%	Provision of after-sales services
Sonavox Europe GmbH	Germany	EUR25,000	–	51%	Provision of after-sales services
TimePro	Thailand	Baht40,000,000	–	100%	Provision of services in environmental protection related business
Shengyi (江蘇晟宜環保科技有限公司)	PRC	RMB16,000,000	–	51%	Provision of services in environmental protection related business
Suzhou Yanlong Electronic Product Co. Ltd.[1] (蘇州延龍電子有限公司)	PRC	USD1,690,000	–	31%	Manufacture and sales of loudspeaker systems
Shengyan[1, 2] (黑龍江省盛炎新能源開發有限公司)	PRC	RMB30,000,000	–	51%	Provision of services in environmental protection related business

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. The entity was acquired during the year.

45. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2013.