TITANS

ANNUAL REPORT 2012

Incorporated in the Cayman Islands with limited liability

Stock Code:2188

China Titans Energy Technology Group Co., Limited
中國泰坦能源技術集團有限公司*

*For identification purpose only

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CORPORATE INFORMATION

Directors	Executive Directors Li Xin Qing *(Chairman of the Board)* An Wei *(Chief Executive Officer)* Independent Non-executive Directors Li Wan Jun Li Xiao Hui Yu Zhuo Ping
Audit Committee	Li Wan Jun *(Chairman)* Li Xiao Hui Yu Zhuo Ping
Remuneration Committee	Li Xiao Hui *(Chairman)* Yu Zhuo Ping Li Wan Jun
Nomination Committee	Li Xin Qing *(Chairman)* Yu Zhuo Ping Li Xiao Hui
Authorised Representatives (for the purpose of the rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited)	Li Xin Qing Room 201, No. 9 Xiang Zhou Hai Cheng Road Xiang Zhou District Zhuhai Guangdong Province the PRC Wong Yiu Hung Flat A, 15/F, Block 2 29 Lyttelton Road Mid-level, Hong Kong
Company Secretary	Wong Yiu Hung *A member of Chartered Institute of Management Accountants of the United Kingdom, and a member of the Hong Kong Institute of Certified Public Accountants*
Auditor	SHINEWING (HK) CPA Limited 43/F., The Lee Gardens 33 Hysan Avenue Causeway Bay, Hong Kong

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Place of Business and Address of Headquarters in the PRC	Titans Science and Technology Park No. 60 Shihua Road West Zhuhai Guangdong Province the PRC
Principal Place of Business in Hong Kong	Room 09-10, 41/F China Resources Building 26 Harbour Road Wanchai Hong Kong
Cayman Islands 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 Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Legal Adviser to the Company	*as to Hong Kong law:* P. C. Woo & Co. 12th Floor, Prince's Building 10 Chater Road Central Hong Kong
Stock Code	2188
Website	www.titans.com.cn
Principal Banker	Bank of Communications Zhuhai Jida sub-branch 1/F, Zhong Dian Tech Building Jida Jiuzhou Road the PRC

FINANCIAL HIGHLIGHTS

OPERATING FIGURES FOR THE PAST FIVE YEARS

For the year ended 31 December	**2012 RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	**238,670**	268,660	287,403*	216,452	175,338
Gross profit	**98,862**	121,953	155,243*	101,627	79,348
Profit for the year attributable to owners of the Company	**11,795**	33,872	60,253	54,106	38,812
Total comprehensive income for the year attributable to owners of the Company	**10,054**	33,872	60,253	54,106	38,812
Earnings per share					
Basic	**RMB0.014**	RMB0.041	RMB0.083	RMB0.093	RMB0.067
Diluted	**RMB0.014**	RMB0.041	RMB0.082	RMB0.090	RMB0.067

* From continuing operations

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PAST FIVE YEARS

As at 31 December	**2012 RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Total assets	**802,769**	714,862	633,280	306,690	227,175
Non-current assets	**93,822**	81,860	44,788	15,437	14,972
Current assets	**708,947**	633,002	588,492	291,253	212,203
Total liabilities	**301,320**	241,161	179,260	160,301	113,248
Current liabilities	**290,308**	229,657	179,260	160,301	113,248
Net current assets	**418,639**	403,343	409,232	130,952	98,955
Net assets	**501,449**	473,701	454,020	146,389	113,927

FINANCIAL HIGHLIGHTS

FINANCIAL INDICATORS FOR THE PAST FIVE YEARS

For the year ended 31 December	2012	2011	2010	2009	2008
Inventory turnover (1) (days)	**144**	120	65	50	73
Trade and bills receivables turnover (2) (days)	**367**	304	258	259	217
Trade and bills payables turnover (3) (days)	**207**	164	143	132	117
Current ratio (4) (times)	**2.44**	2.76	3.28	1.82	1.87
Gearing ratio (5) (%)	**11.21**	7.66	6.32	13.55	13.03
Return on equity (6) (%)	**2.45**	7.19	13.45	37.56	34.68

Notes:

(1) Inventory turnover equals the average of inventories at the beginning and the ending of the year divided by cost of sales, and multiplied by 365.

(2) Trade and bills receivables turnover equals the average of trade and bills receivables at the beginning and the ending of the year divided by turnover and 1+17% value added tax (as trade and bills receivables include the value added tax receivables from customers), and multiplied by 365.

(3) Trade and bills payable turnover equals the average of trade and bills payables at the beginning and ending of the year divided by cost of sales and 1+17% value added tax (as trade and bills payables include the value added tax payable to suppliers), and multiplied by 365.

(4) Current ratio is current assets divided by current liabilities.

(5) Gearing ratio equals sum of the borrowings, amount due to shareholders, amounts due to minority shareholders of a subsidiary, amounts due to directors and convertible loan note divided by total assets, and multiplied by 100%.

(6) Return on equity is profit attributable to owners of the Company divided by equity attributable to owners of the Company, and multiplied by 100%.

CHAIRMAN'S STATEMENT

In 2012, China Titans Energy Technology Group Co., Limited (中國泰坦能源技術集團有限公司*) (the "Company", together with its subsidiaries, the "Group") recorded a total operating revenue of RMB238,670,000, representing a decrease of 11.16% over that of 2011. We recorded a profit and total comprehensive income of RMB11,752,000 and RMB10,011,000, representing a decrease of 64.47% and 69.73% over that of 2011.

In 2012, as the global financial crisis continued and the European debt crisis lingered on, the developed economies sank into economic sluggishness or recession. The overall domestic economic environment was unsatisfactory with decreases in investments in both the central and local governments and monetary effects weakened. The investment in certain industries in the PRC further decreased, which resulted in the market demand for the main products of the Group, especially the charging and discharging equipment for electric vehicles showed a downward trend as compared with 2011. As affected by this, the market competition for the related products of the Group became more and more intense, and the selling prices of certain products dropped. At the same time, as affected by factors such as the increase in labour costs and finance costs, the overall operating costs of the Group increased to a larger extent.

Despite the significant lowering in operating profit in 2012, the Group did not reduce its investments in research and development and market exploitation. Therefore, the Group did not lose its rapid development foundation, which was fully demonstrated by the followings: 1. The Group's traditional electrical DC products continued to maintain a solid market position. In the first tender activity of the agreed inventory of substation secondary equipment (變電二次裝置協議庫存) of the state's grid enterprises in 2013, the Group won the tender successfully with an amount of approximately RMB55 million. This laid a solid foundation for the selling of the Group's electrical DC products this year. Moreover, in order to develop the applications of DC products in telecommunications and data centers, the Group conducted research and development of its specific products – High Voltage Electrical Direct Current Products (高壓電力直流產品) for the aforementioned market in 2012 and achieved success in the same year. The Group will commence the marketing of HVDC products in 2013. 2. Although the charging and discharging equipment for electric vehicles of the Group recorded zero growth in turnover due to domestic investment environment, it did not lose its market competitive strengths. At the same time, the battery formation, capacity grading and testing equipment for product line system of the Group, which was designed for power battery manufacturers, achieved a better result in turnover in 2012.

Looking forward, the global economy is still at its post-financial crisis adjustment stage. The growth in both the aggregate domestic demand and investments are still under downward pressure. However, we also notice that under the Twelfth Five-year Plan, investments in infrastructure such as highway, railway, metro, power and hydraulic projects are still having growing potentials in this year. Meanwhile, China will continue to adopt proactive supporting and encouraging policies in new energy, energy conservation and environment protection sectors. All the above factors indicate that the Group's external market environment is gradually improving and more market opportunities are expected in 2013. In this regard, we will continue to focus on product and market development to maintain and gradually enhance the Group's core competitive strengths, especially in enhancing the marketing of battery formation, capacity grading and testing system equipment and High Voltage Electrical Direct Current Products, to strive for a rapid growth in sales. On the other hand, we will further enhance our internal management level and strictly control all kinds of expenses to improve the Group's profitability. I believe with the joint efforts of our "Titans colleagues", we will be able to achieve a better growth in its forthcoming results in 2013.

On behalf of the Board, I would like to take this opportunity to sincerely thank all our shareholders for their support and all my colleagues for their hard work and commitments to the Group.

Li Xin Qing
Chairman

27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded a turnover of RMB238,670,000, representing a decrease of 11.16% over the same period last year. Turnover was mainly derived from the Group's principal businesses including electrical direct current products, charging equipment for electric vehicles and power grid monitoring and management products business. The table below shows the turnover of different series of products of the Group for the years ended 31 December 2011 and 2012.

	For the year ended 31 December			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Electrical direct current products	**109,629**	**45.94**	114,477	42.61
Charging equipment for electric vehicles	**109,759**	**45.99**	122,101	45.45
Power grid monitoring and management products	**14,890**	**6.23**	28,497	10.61
Wind and solar power generation balancing control systems	**–**	**–**	–	–
Plug and switch system products	**4,392**	**1.84**	3,585	1.33
Total	**238,670**	**100.00**	268,660	100.00

The Group recorded a profit of RMB11,752,000 and a total comprehensive income of RMB10,011,000 in 2012, representing the decreases of 64.47% and 69.73% in comparison with RMB33,072,000 and RMB33,072,000 of the same period last year respectively.

In 2012, the Group recorded a substantial decrease in turnover, profit and total comprehensive income as compared with those of last year. It was mainly due to further decrease or slowdown of investment in certain industries in the People's Republic of China (the "PRC"). As a result, the market demand for the main products of the Group, especially the charging and discharging equipment for electric vehicles has shown a downward trend in 2012 as compared with 2011. As affected by this, the market competition for the related products of the Group became more and more intense, and the selling prices of certain products dropped. At the same time, as affected by factors such as the increase in labour costs, selling and distribution expenses, administrative and other expenses and finance costs, the overall operating costs of the Group increased to a larger extent.

MANAGEMENT DISCUSSION AND ANALYSIS

ELECTRICAL DIRECT CURRENT ("DC") PRODUCTS

During this reporting period, the turnover of the Group's electrical DC products was RMB109,629,000, representing a decrease of approximately 4.23% as compared with that of 2011. The directors of the Company (the "Directors") consider that the sales of electrical DC products were generally stable, and a slight decrease in sales was due to the fluctuation of market demand. The Group still maintained a relatively strong competitiveness in such products.

CHARGING EQUIPMENT FOR ELECTRIC VEHICLES

During this reporting period, turnover of the Group's charging equipment for electric vehicles was RMB109,759,000, representing a decrease of approximately 10.10% when compared with that of 2011. In 2012, although domestic policies in the PRC continued to encourage the development of electric vehicles business, there was no significant increase in the construction projects commenced by the PRC government in the whole year and market demand was not effectively amplified.

During this reporting period, the battery formation, capacity grading and testing equipment for product line system of the Group, which was designed for power battery manufacturers, achieved a better result in turnover, thus providing a good foundation for the rapid growth in results of such products in 2013.

POWER GRID MONITORING AND MANAGEMENT PRODUCTS

During this reporting period, sales of power grid monitoring and management products of the Group were RMB14,890,000, representing a decrease of approximately 47.74% as compared with 2011. The Directors consider that the proportion of sales of such products relative to the total sales of the Group was low, and the decrease of sales was due to the fluctuation of market demand.

WIND AND SOLAR POWER GENERATION BALANCING CONTROL PRODUCTS

During this reporting period, wind and solar power generation balancing control products of the Group did not achieve any sales. The Group mainly emphasised on the further research and development of this product series and deployed fewer resources in its marketing. The Directors consider that in 2012, under the weak sentiment of the overall domestic investment, investing more resources and manpower into other major products of the Group was of better interest to the Group as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

PLUG AND SWITCH SYSTEM ("PASS") PRODUCTS

During this reporting period, sales of the Group's PASS products was RMB4,392,000, representing an increase of approximately 22.51% as compared with 2011. The Directors consider that, although this business segment is not the principal business of the Group, the Group will still adjust appropriately the corresponding market strategies based on market demand and its own resources conditions.

Below are some of major operating activities of the Group in 2012:

In January 2012, the Group implemented a management model of business by segment. The Directors consider that it could better expand sales of products and control costs and expenses through business segment management according to product lines, and at the same time, benefit the optimisation of business control, process construction and talents development of the Group, in eventual enhancement of the profitability of the Group. As at the date of this report, the business divisions of the Group include power business division, charging and discharging equipment for electric vehicles business division and battery formation business division.

In April 2012, the Group with three independent parties jointly contributed capital to establish Henan Hong Zheng Electric Technology Co., Ltd.*（河南弘正電氣科技有限公司）("Henan Hong Zheng"). The Group contributed RMB10,500,000, holding 35% of its equity interest, is the largest shareholder of Henan Hong Zheng and controls its board of directors and is responsible for its specific operation and management. Henan Hong Zheng is a subsidiary and under the control of the Group. The Group established Henan Hong Zheng for the purpose of better conducting the existing power grid monitoring and management products business of the Group. The Directors consider that it will provide strong support for the Group's existing power grid monitoring and management products business and accelerate the development of this business by leveraging on the technologies and market resources from other independent third parties.

In June 2012, the Group entered into a capital contribution agreement with the substantial shareholder of Beijing Hua Shang Clear New Energy Technology Co., Ltd.*（北京華商三優新能源科技有限公司）("Beijing Hua Shang"), by which the contributed capital of Beijing Hua Shang would be increased by RMB26,150,000. According to the agreement, the Group had contributed RMB6,150,000 of the additional contributed capital and the rest of RMB20,000,000 had been contributed by the substantial shareholder of Beijing Hua Shang in October 2012. As a result, the interest of the Group in Beijing Hua Shang was diluted from 45% to 35%. As the number of representatives of the Group in the board of directors of Beijing Hua Shang remained two seats out of total five seats, Beijing Hua Shang is classified as an associate of the Group as it was before.

MANAGEMENT DISCUSSION AND ANALYSIS

In December 2012, Titans Holdings Co. Limited ("Titans HK") and Zhuhai Titans Power Electronics Company Limited*（珠海泰坦電力電子集團有限公司）("Titans Power") (formerly known as Zhuhai Titans Automatic Technology Company Limited*（珠海泰坦自動化技術有限公司）), the two indirect wholly-owned subsidiaries of the Company, signed two equity interest transfer agreements with two independent third parties respectively to transfer the entire 93.55% equity interest of registered capital in Jiangyin Titans High Voltage Electric Co., Ltd.*（江陰泰坦高壓電氣有限公司）("Jiangyin Titans") that was held by the Group to the aforementioned independent third parties. The PASS products business which was originally conducted by Jiangyin Titans had been taken up by other business division of the Group, and it has continued to carry on the related PASS products business. The Directors believe that this transfer can further optimise and rationalise the operation management of the Group, and at the same time, enable the Group to focus its resources on its main operating business. Details of the disposal was set out in the Company's announcement dated 7 December 2012.

In 2012, the Group continued to pay more efforts on the research, development and marketing of products, especially for certain new products, which mainly included:

1. The marketing work of battery formation, capacity grading and testing equipment for the charging equipment for electric vehicles series were completed smoothly, which have established a complete product series according to market demand with further improvement on standard of products technology. During this reporting period, the battery formation, capacity grading and testing equipment for product line system of the Group achieved a better result in turnover. Meanwhile, through the verification of specific projects, the technical indicators for this product in terms of energy-saving and efficiency have more advantageous position over similar domestic products. Through nearly one year of marketing, such products of the Group have established a very strong competitive advantage in the industry with its market share increasing gradually.

2. The work of the National 863 Plan and the strategic emerging industry development projects in the Guangdong Province undertaken by the Group were carried on smoothly. Based on these projects, the Group completed the research and development of new products such as integrated charging and discharging equipment and high power photovoltaic and power storage inverter products and achieved sales during this reporting period.

3. For traditional DC power products, in order to expand new market segments such as communication and data centre, the Group developed new high-voltage DC power system which is applicable to those segments. As at the date of this report, the research and development for such products was completed, and the marketing work for such products will soon commence in 2013.

In 2012, under the management of the Board, the Group performed steadily its internal control works and conducted special internal control audits for procurement, inventory, fixed assets management and research and development projects management. Based on the internal control audits, the Group improved and revised the relevant systems and working procedures. In addition, the Group has completed and commenced the online operation of the Customer Relationship Management System implemented by the Group since 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECT AND PLANNING

In 2013, the operation focus and corresponding planning of the Group are as follows:

According to the deployment of the "Twelfth Five-year Plan" of the PRC, the infrastructural investment such as road, railway, metro, power and water resources still possess certain development potential this year. At the same time, the PRC government continues to implement a proactive supporting and encouraging policy in new energy, energy saving and environmental protection. The Group expects that the external market environment in 2013 will improve gradually, and market opportunities will increase gradually. To grasp the market opportunities, the Group has formulated different work foci and planning according to different products:

Electrical DC products: (1) For its traditional electrical DC power products systems, the Group will focus on marketing effort to increase the volume of clients and retain its existing clients: on the one hand, it will further strengthen its competiveness in power system through technical upgrading and product costs reduction; on the other hand, the Group has had over 10,000 sets of electrical DC products systems that have been put into operation, of which the earliest systems have already operated for over 15 years. These systems have entered gradually the reconstruction stage. The Group will allocate relevant resources to actively replace such systems and provide spare parts. Assuming 5% of the systems that have been put into operation would enter into the reconstruction stage every year, this volume maintaining market will increase part of the Group's profit annually. (2) The traditional un-interrupted power supply ("UPS") system applied in certain sectors such as communication and information data centre will be replaced by high-voltage electrical DC power products. The market capacity of such sectors is tremendous, and this will generate new market opportunities for the Group as it possesses leading technology and design capability. In 2013, the Group will improve its product series to accelerate the marketing pace for such products.

Charging and discharging equipment for electric vehicles: (1) The Group will further improve its products to increase the supply capacity of a complete set of power and electric equipment: through technical upgrading and product costs reduction, consolidating existing channels and ensuring its position as main provider for the power and electric equipment for electric vehicles charging stations. (2) The Group will continue to maintain the leading advantage in technology and product integration and actively participate in the formulation of relevant national and industrial standards. The Group will emphasise the research on technical breakthrough and innovation in operation model and technical route for electric vehicle charging station to grasp opportunities to enter the supplier market of system solution and complete sets of equipment. (3) The merging of electric vehicle charging station and energy storage function will become one of important development trends, and the Group will strive to attain new system breakthrough by combining the advantages of wind and solar power generation balancing control technology and energy storage technology, and launch into the market as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

The battery formation, capacity grading and testing equipment production line system: Under the PRC government's planning, the PRC will gradually become the world's power battery manufacturing centre. Currently, the production and assembly level of domestic power battery manufacturers is still at development stage; in terms of quality and stability of the products, they are unable to participate in global competition. As such, the investment of domestic battery manufactures in the construction of new battery formation, capacity grading and testing equipment and automatic production line will become an inevitable trend. Such products of the Group will generate tremendous market opportunities in the near future. Therefore, the Group will enhance the following works: (1) The marketing work, leverage on the Group's sound market foundation established in 2012 to expand sales rapidly. (2) The Group will integrate the external resources to form a complete battery formation technology for automatic production line, and gradually minimise the product costs and optimise the product quality to enhance the competiveness as and when opportunities arises. At the same time, the Group will also actively take part in the formulation of national standard in full battery formation for automatic production line.

Power grid monitoring and management products: (1) Increase the corporate governance standard of Henan Hong Zheng and enhance the assessment to the operation team of Henan Hong Zheng. (2) Better leverage on the advantages of the co-operating party of Henan Hong Zheng in capital, technology and market to increase the market share of such products rapidly.

The internal management work of the Group: (1) Subject to continuous investment in research and development and marketing, the Group will take stringent control on expenses in other aspects internally, and strive to reduce overall management expenses of the Group while increase sales and hence the profitability of the Group. (2) To Strengthen the management work of accounts receivables with a view to improve the fund utilisation rate of the Group, and to reduce the financial costs of the Group. (3) To further improve the management mechanism of the business divisions, fully leverage on the functionality of the business divisions as "profit centres and cost centres", and thereby providing organisation and system guarantee for the profit growth of the Group in 2013.

The Directors believe that through the above measures, and with joint efforts of all of the staff, the Group will achieve growth in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Our turnover decreased from RMB268,660,000 for the year ended 31 December 2011 to RMB238,670,000 for the year ended 31 December 2012, representing a decrease of 11.16%. As mentioned above, the decrease in turnover of the Group was mainly due to market demand for the Group's major products showed drop tendency as a result of the further decrease or postponement in investment in certain industries in the PRC as compared with the year 2011, which led to intense market competition of the Group's product and in turn resulted in decrease in selling price of certain of its products. As affected by this, the Company's overall operating results were below expected target.

Cost of sales

Our cost of sales, which mainly included raw material costs, direct labour costs and manufacturing expenses, decreased by 4.70% from RMB146,707,000 for the year ended 31 December 2011 to RMB139,808,000 for the year ended 31 December 2012. This was primarily attributable to the decrease in sales with a direct effect on decrease in cost of sales. Raw material costs were the principal component of our cost of sales.

Gross Profit

The table below sets out our gross profit and gross profit margin for the years ended 31 December 2011 and 2012:

	For the year ended 31 December 2012			For the year ended 31 December 2011		
	Gross profit RMB'000	**Percentage of total gross profit %**	**Gross profit margin %**	Gross profit RMB'000	Percentage of total gross profit %	Gross profit margin %
Electrical DC products	**40,238**	**40.70**	**36.70**	47,243	38.74	41.27
Charging equipment for electric vehicles	**49,587**	**50.16**	**45.18**	60,866	49.91	49.85
Power grid monitoring and management products	**7,933**	**8.02**	**53.28**	12,928	10.60	45.37
Wind and solar power generation balancing control systems	**–**	**–**	**–**	–	–	–
PASS products	**1,104**	**1.12**	**25.14**	916	0.75	25.55
Total/Average	**98,862**	**100.00**	**41.42**	121,953	100.00	45.39

MANAGEMENT DISCUSSION AND ANALYSIS

Our gross profit decreased by 18.93% from RMB121,953,000 for the year ended 31 December 2011 to RMB98,862,000 for the year ended 31 December 2012. Our gross profit margin decreased from 45.39% for the year ended 31 December 2011 to 41.42% for the year ended 31 December 2012. The decrease in gross profit margin was mainly due to the reduction of selling price to accommodate market competition and increase in labour costs in the reporting period.

Other revenue

Our other revenue, which mainly included VAT refunds, government subsidies and interest income, decreased by 34.11% from RMB20,869,000 for the year ended 31 December 2011 to RMB13,750,000 for the year ended 31 December 2012.

The decrease in other revenue of the Group was mainly attributable to the government subsidies received from The Ministry of Science and Technology of the People's Republic of China（中華人民共和國科學技術部）, Department of Finance of Guangdong Province（廣東省財政廳）and Zhuhai Finance Bureau（珠海市財政局）respectively during the reporting period. The subsidy income of RMB2,557,000 can be recognised by nature of government subsidies during the reporting period, representing a decrease of RMB9,644,000 when compared to RMB12,201,000 in 2011.

Selling and distribution expenses

Our selling and distribution expenses, which mainly comprised the relevant expenses in sales and after-sales services, salaries of sales personnel, benefits and travelling expenses, and office expenses, entertainment expenses and other expenses, decreased by 3.20% from RMB33,385,000 for the year ended 31 December 2011 to RMB32,318,000 for the year ended 31 December 2012. Our selling and distribution expenses as a percentage of turnover increased from 12.43% for the year ended 31 December 2011 to 13.54% for the year ended 31 December 2012. The decrease in selling and distribution expenses was mainly due to: (1) an increase in sales staff-related expenses such as salaries and wages and benefit expenses of approximately RMB1,053,000; (2) an increase in sales-related expenses such as travelling and transportation expenses of approximately RMB943,000; and (3) a decrease in installation testing, tender service fees, entertainment expenses and other expenses relating to sales of approximately RMB3,063,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other expenses

Our administrative and other expenses, which mainly comprised, inter alia, management and back office staff costs, research and development expenses, travelling expenses and entertainment expenses, allowance for bad debts and foreign exchange gain and loss etc., increased by 8.99% from RMB55,731,000 for the year ended 31 December 2011 to RMB60,739,000 for the year ended 31 December 2012. Our administrative and other expenses as a percentage of turnover increased from 20.74% for the year ended 31 December 2011 to 25.45% for the year ended 31 December 2012. The increase of our administrative and other expenses during the reporting period was mainly due to: (1) an increase in the research and development expenses of approximately RMB4,028,000; (2) an increase in the provision of trade and other receivables of approximately RMB2,909,000; (3) an increase in other expenses such as sundry expenses of approximately RMB4,157,000; (4) a decrease in wages and retirement benefit contributions of approximately RMB2,263,000 due to staff decrease during the period; (5) a decrease in staff-related travelling expenses and entertainment expense of approximately RMB1,188,000; (6) a decrease in equity settled share-based payments of approximately RMB2,635,000 in respect of the share options granted pursuant to the pre-IPO share option scheme and the share option scheme of the Company respectively. Details of the pre-IPO share option scheme and share option scheme of the Company are set out on pages 43 to 47 of this annual report.

Share of results of associates

During the year ended 31 December 2011, the Group owned two associates in Beijing, namely Beijing Hua Shang and Beijing New Clear Energy Equipment Co., Ltd.*（北京優科利爾能源設備有限公司）(“Beijing New Clear”), and one associate in Henan, namely Henan Longyuan New Energy Equipment Co., Ltd.*（河南龍源新能源裝備有限公司）(“Henan Longyuan”), which engage in marketing and sales of charging equipment for electric vehicles and power grid monitoring and management products. On 22 December 2011 and 5 May 2011, the Group’s equity interests in Beijing New Clear and Henan Longyuan were diluted from 20% to 12% and from 26% to 10.4% respectively as a result of a capital expansion and injection of new capital by other investors in the registered capital of Beijing New Clear and Henan Longyuan. As at 31 December 2011, the Group still owned a 45% interest in Beijing Hua Shang. The three above-mentioned companies were accounted as the Group’s associates, and the Group’s share of profit and loss from those companies according to the equity interest in them was a gain of RMB1,740,000 for the year ended 31 December 2011.

During the year ended 31 December 2012, the Group owned 35% equity interest in Beijing Hua Shang. This company was accounted for as the Group’s associate, and the Group’s share of profit from this company according to the equity interest in it was RMB6,368,000 for the year ended 31 December 2012.

Finance costs

Our finance costs increased by 148.77% from RMB3,783,000 for the year ended 31 December 2011 to RMB9,411,000 for the year ended 31 December 2012. Our finance costs as a percentage of turnover increased from 1.41% for the year ended 31 December 2011 to 3.94% for the year ended 31 December 2012. The increase in our finance costs was mainly due to an increase in our average bank borrowings during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense

Our income tax expense decreased by 74.40% from RMB18,591,000 for the year ended 31 December 2011 to RMB4,760,000 for the year ended 31 December 2012. The effective tax rates (being the ratio of our tax expenses to our profit before tax) for the year ended 31 December 2011 and 2012 were 35.99% and 28.83% respectively. The decrease in effective tax rate was due to the effect of the following factors: (1) as compared with that of 2011, a one-off provision of deferred tax liability was made in 2011 for the dividend tax from 2008 to 2011 pursuant to the new tax regulation introduced in 2008, whilst in 2012 provision was made only in respect of that year. (2) selling and distribution expenses, administrative and other expenses and finance costs in 2012 increased as compared with that of 2011.

Loss attributable to non-controlling interests

For the year ended 31 December 2012, loss attributable to non-controlling interests of our non-wholly owned subsidiaries was RMB43,000, as compared with a loss of RMB800,000 for the year ended 31 December 2011. This amount represents their share of loss in our non-wholly owned subsidiaries.

Profit and total comprehensive income attributable to owners of the Company

Our profit for the year attributable to owners of the Company decreased by 65.18% from RMB33,872,000 for the year ended 31 December 2011 to RMB11,795,000 for the year ended 31 December 2012. Net profit margin with respect to profit for the year attributable to owners of the Company decreased from 12.60% for the year ended 31 December 2011 to 4.94% for the year ended 31 December 2012.

Our total comprehensive income for the year attributable to owners of the Company decreased by 70.31% from RMB33,872,000 for the year ended 31 December 2011 to RMB10,054,000 for the year ended 31 December 2012. Net profit margin with respect to total comprehensive income for the year attributable to owners of the Company decreased from 12.60% for the year ended 31 December 2011 to 4.21% for the year ended 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

INVENTORY ANALYSIS

The table below sets out information on our inventory for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Materials	**24,072**	**49.51**	25,355	41.25
Work-in-progress	**4,222**	**8.69**	2,563	4.17
Finished goods	**20,323**	**41.80**	33,553	54.58
	48,617	**100.00**	61,471	100.00

Our Group's inventory balances decreased from RMB61,471,000 as at 31 December 2011 to RMB48,617,000 as at 31 December 2012.

Our average inventory turnover days increased from approximately 121 days for the year ended 31 December 2011 to approximately 144 days for the year ended 31 December 2012 because the Group increased a greater amount of its inventory in terms of materials and finished goods in 2011.

We have not made any general or special provision for the inventory as at 31 December 2012.

ANALYSIS ON TRADE AND BILLS RECEIVABLES

As at 31 December 2011 and 2012, our trade and bills receivables (net of allowance) amounted to RMB268,089,000 (comprising trade receivables of RMB266,339,000 and bills receivables of RMB1,750,000) and RMB292,980,000 (comprising trade receivables of RMB288,672,000 and bills receivables of RMB4,308,000) respectively. The increase in trade and bills receivables was mainly because certain projects requires life run adjustment and testing after delivery and the conditions for collection have not been met.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the ageing analysis of our trade receivables as of 31 December 2011 and 2012:

	Year ended 31 December 2012				Year ended 31 December 2011			
	Gross amount RMB'000	Allowance for bad debt RMB'000	Net amount RMB'000	%	Gross amount RMB'000	Allowance for bad debt RMB'000	Net amount RMB'000	%
Within 90 days	103,671	–	103,671	35.91	101,099	–	101,099	37.96
91 days to 180 days	6,578	–	6,578	2.28	20,145	–	20,145	7.56
181 days to 365 days	48,443	–	48,443	16.78	53,795	8	53,787	20.19
Over 1 year to 2 years	114,071	9,740	104,331	36.14	81,513	5,087	76,426	28.70
Over 2 years to 3 years	24,604	5,020	19,584	6.78	15,211	3,479	11,732	4.40
Over 3 years	8,083	2,018	6,065	2.10	8,007	4,857	3,150	1.18
Total	305,450	16,778	288,672	100.00	279,770	13,431	266,339	100.00

Our trade and bills receivables' turnover days for the years ended 31 December 2011 and 2012 were approximately 304 days and approximately 367 days respectively.

Our key products namely electrical DC product series, are supplied to, among others, power generation plants and power grid companies. Sales are recognised upon product delivery which may be before the date when the trade receivables are due for payment. Our customers are only required to pay us the purchase prices pursuant to the terms of the sales contracts. In respect of the sale of our electrical DC products, we may require the payment of a deposit of approximately 10% of the total contract sum to be paid after signing of the contract, and 80% of the contract sum by the customer after our products have been delivered and satisfactorily installed and tested. It is normally stipulated that the balance of 10% will be withheld, being retention money as a form of product performance surety, and be paid by the customer to us 12 to 18 months after the on-site installation and testing.

We may grant a credit period in the range of 30 days to 90 days from the above installment payment due dates (including the payments of deposit, the payments due after testing and the payments of retention money). We consider that the time lag between the payment terms under our sales contracts and our accounting revenue recognition policy is a major reason for our relatively long trade and bills receivables turnover days.

We consider that the long trade receivables turnover days are also partly due to delays in the timetable of some of the customers' projects and/or that there are occasions where the products of the Group may be considered to have been tested by the customers only upon the completion of the whole project by the customers or their contractors.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year end 31 December 2012, we made a specific provision for trade receivables as allowance for doubtful trade receivables of RMB3,347,000 (2011: Nil). Up to 22 March 2013, about 10.51% of the trade and bill receivables outstanding as at 31 December 2012 have been settled.

ANALYSIS ON TRADE AND BILLS PAYABLES

As at 31 December 2011 and 2012, our trade and bills payables amounted to RMB90,941,000 (comprising trade payables of RMB70,226,000 and bills payables of RMB20,715,000) and RMB94,646,000 (comprising trade payables of RMB88,795,000 and bills payables of RMB5,851,000) respectively. The increase in trade and bills payables was mainly due to increase in raw materials purchase during the reporting period. For the two years ended 31 December 2011 and 2012, our trade and bills payable turnover days were approximately 164 days and approximately 207 days respectively.

The table below sets forth ageing analysis of our trade payables as of 31 December 2011 and 2012:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	**50,529**	57,043
91 days to 180 days	**6,807**	4,511
181 days to 365 days	**27,961**	7,022
Over 1 year to 2 years	**2,267**	952
Over 2 years to 3 years	**1,231**	698
	88,795	70,226

MANAGEMENT DISCUSSION AND ANALYSIS

DEBTS

All our debts were classified as short-term liabilities payable within 12 months from the respective balance sheet dates. The following table sets out our indebtedness as at 31 December 2011 and 2012. All our indebtedness were denominated in Renminbi.

	Year ended 31 December 2012		Year ended 31 December 2011	
	RMB'000	**Applicable/ effective interest rates**	RMB'000	Applicable/ effective interest rates
Bank and other borrowings	**90,001**	**5.60% to 7.87%**	54,773	4.86% to 7.87%
	90,001		54,773	

As at 31 December 2012, total bank and other borrowings amounted to approximately RMB90,001,000 (as at 31 December 2011: approximately RMB54,773,000), of which secured loans amounted to RMB13,000,000 (as at 31 December 2011: approximately RMB19,773,000), and unsecured borrowings amounted to RMB77,001,000 (as at 31 December 2011: approximately RMB35,000,000). Bank loans as at 31 December 2012 were subject to variable interest rates ranging from 5.60% to 7.87% per annum (as at 31 December 2011: ranging from 4.86% to 7.87% per annum).

As at 31 December 2012, the Group's gearing ratio (total indebtedness divided by total assets) was 11.21% (as at 31 December 2011: 7.66%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the total equity of the Group amounted to RMB501,449,000 (as at 31 December 2011: RMB473,701,000), the Group's current assets were RMB708,947,000 (as at 31 December 2011: RMB633,002,000) and current liabilities were RMB290,308,000 (as at 31 December 2011: RMB229,659,000). As at 31 December 2012, the Group had short-term bank deposits, bank balances and cash of RMB184,331,000 (as at 31 December 2011: RMB163,761,000), excluding restricted bank balances of RMB4,263,000 (as at 31 December 2011: RMB10,081,000). Our total assets less our total liabilities equals to our net assets, which was RMB501,449,000 as at 31 December 2012 (as at 31 December 2011: RMB473,701,000).

The Group finances its operations with internally generated cash flows and bank loans. As at 31 December 2012, the Group had outstanding bank borrowings of RMB90,001,000 (as at 31 December 2011: RMB54,773,000).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

In April 2012, the Group with three independent third parties jointly contributed capital to establish Henan Hong Zheng. The Group contributed RMB10,500,000, holding 35% of its equity interest, is the largest shareholder of Henan Hong Zheng and controls its board of directors and is responsible for its specific operation and management. Henan Hong Zheng is a subsidiary and under the control of the Group. The Group established Henan Hong Zheng for the purpose of better conducting the existing power grid monitoring and management products business of the Group. The Directors consider that it will provide strong support for the Group's existing power grid monitoring and management products business and accelerate the development of this business by leveraging on technologies and market resources from other independent third parties.

In June 2012, the Group entered into a capital contribution agreement with the substantial shareholder of Beijing Hua Shang, by which the contributed capital of Beijing Hua Shang would be increased by RMB26,150,000. According to the agreement, the Group had contributed RMB6,150,000 of the additional contributed capital and the rest of RMB20,000,000 had been contributed by the substantial shareholder of Beijing Hua Shang in October 2012. As a result, the interest of the Group in Beijing Hua Shang was diluted from 45% to 35%. As the number of representative of the Group in the board of directors of Beijing Hua Shang remained two seats out of total five seats, Beijing Hua Shang is classified as an associate of the Group as it was before.

In December 2012, Titans HK and Titans Power, the two indirect wholly-owned subsidiaries of the Company, signed two equity interest transfer agreements with two independent third parties respectively to transfer the entire 93.55% equity interest of registered capital in Jiangyin Titans that was held by the Group to the aforementioned independent third parties. The PASS products business which was originally conducted by Jiangyin Titans had been taken up by other business division of the Group, and it has continued to carry on the related PASS products business. The Directors believe that this transfer can further optimise and rationalise the operation management of the Group, and at the same time, enable the Group to focus its resources on its main operating business. Details of the disposal was set out in the Company's announcement dated 7 December 2012.

Save for the above, as at 31 December 2012, the Group had no other material acquisition or disposal of its subsidiaries and associates.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2012, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment of RMB11,863,000 (as at 31 December 2011: approximately RMB27,406,000). The Group had no capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment as at 31 December 2012.

PLEDGE OF ASSETS

The Group's leasehold land and buildings of carrying values of approximately RMB6,049,000 as at 31 December 2012 (as at 31 December 2011: RMB6,863,000) were pledged to secure bank borrowings and facilities.

As at 31 December 2012, Zhuhai Titans Technology Co., Ltd.* (珠海泰坦科技股份有限公司) ("Titans Technology") has not pledged any trade receivables (as at 31 December 2011: pledge of trade receivable RMB50,000,000) for credit facilities (as at 31 December 2011: RMB50,000,000) granted to Titans Technology from bank.

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group had about 460 employees. The remuneration paid to our employees and Directors is based on experience, responsibility, workload and the time devoted to the Group.

The Group participates in various employees' benefit plans such as a retirement benefit scheme and medical insurance. The Group also makes contributions to the retirement fund in compliance in all material respects with the requirements of the laws and regulations of the jurisdictions where it operates.

All PRC-based employees are entitled to participate in the social insurance operated by the Ministry of Labour and Social Security, the premium in respect of which is undertaken between the Group and the employees based on percentages fixed by relevant PRC laws.

The Group and its employee(s) in Hong Kong contribute to the mandatory provident fund in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and relevant requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

The Group conducts its business primarily in the PRC with substantially all of its transactions denominated and settled in Renminbi. The Group's results are expressed in Renminbi, whereas the dividends on the shares of the Company, if any, will be paid in Hong Kong dollars. Thus, any fluctuation of Renminbi could affect the value of the Shares.

During the reporting period, the Group recorded an exchange loss of approximately RMB102,000 (2011: RMB157,000). Such foreign exchange loss arose as a result of the difference between the exchange rate on the date of transaction and the exchange rate as at 31 December 2012. As at 31 December 2012, the Group did not have significant foreign exchange hedges.

The Group adopted a conservative approach towards its treasury policies. Our treasury function mainly involves the management of our cash flow. Cash is mainly deposited in banks in Renminbi for our working capital purposes. We did not have any material holding in financial securities or foreign exchange (except for business purposes) during the year ended 31 December 2012.

Our accounts department projects monthly cash receipts and plans for cash payments based on the information provided by our marketing management and support team regarding the progress on the customers' projects and relevant payment plans. Subsequently, our accounts department then plans for cash payments based on the projections.

The Group endeavours to reduce exposure to credit risk by performing on-going credit evaluations of the financial condition of its customers. Our sales representatives and other sales staff, together with our sales partners monitor the development of our customers' projects and communicate with our customers regarding the settlement of our trade and bills receivables on a timely basis.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no major litigation or arbitration during the year ended 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds raised from the listing of the shares of the Company (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 May 2010 (the "Listing") were approximately HK$243,600,000 (equivalent to approximately RMB214,588,000).

We set out below the status of the usage of the net proceeds from the issue of Shares in connection with the Listing.

Proposed use of proceeds	**Proposed amount to be used**	**Actual amount used up to 31 December 2012**
	RMB'000	RMB'000
Support and enhance manufacturing capacity and acquire new production facility	66,737	30,696
Further establish and consolidate the Group's position in the market	80,470	59,186
Support and strengthen the Group's product research and development capability	19,742	29,859
Support and enhance the Group's marketing ability	28,755	11,370
Working capital	18,884	21,000
	214,588	152,111

The unused balance of approximately RMB62,477,000 was kept as bank deposits in the PRC.

As set out in the prospectus of the Company dated 18 May 2010, we propose to spend part of our proceeds on acquiring a piece of land in the Hengqin Economic Development Zone, Zhuhai and building a new factory thereon. The parcel of land has still not been acquired. The Group is actively evaluating such factors such as price and formalities, etc of the parcel of land. The Group will not rule out the possibility of seeking new lands in other regions of Zhuhai City.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

We are committed to ensuring high standards of corporate governance at all times and in all areas of its operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. The Board will strive to adhere to the principles of corporate governance and adopt sound corporate governance code provisions and practices to meet the statutory and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "Code Provisions") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board regularly reviews the Group's corporate governance guidelines and developments. Save as disclosed in the paragraph below, the Company has complied with the Code Provisions throughout the year ended 31 December 2012 in the opinion of the Directors.

Under the code provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. As this code provision took effect on 1 April 2012, two independent non-executive Directors were unable to arrange their work itineraries to attend the annual general meeting of the Company held on 25 May 2012, a date shortly after the effective date of this new code provision. The Company will strengthen its planning process, by giving all Directors sufficient time to arrange their work in advance and providing any necessary support for their presence and participation in the meeting, so as to facilitate all Directors attending the Company's future general meetings.

THE BOARD

As of the date of this report, the Board comprises two executive Directors and three independent non-executive Directors. Detailed biographies outlining each Director's scope of specialist experience are set out on pages 36 to 38 of this annual report.

CORPORATE GOVERNANCE REPORT

The composition of the Board and members' attendance of the Board and committees meetings for the year 2012 are as follows:

	Number of meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Li Xin Qing *(Chairman)*	6/6	N/A	N/A	1/1
Mr. An Wei *(Chief Executive Officer)*	6/6	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Li Wan Jun	6/6	3/3	2/2	N/A
Ms. Li Xiao Hui	6/6	3/3	2/2	1/1
Mr. Yu Zhuo Ping	4/6	1/3	1/2	–/1

In addition, the chairman of the Board ("Chairman") held another meeting with the independent non-executive Directors without the other executive Director present.

During the reporting period, the Directors had devoted sufficient time to perform their duties on relevant matters under each of his/her respective responsibilities.

During the reporting period, Mr. Li Xin Qing, an executive Director, and Mr. An Wei, another executive Director, respectively continues to be the Chairman and the Chief Executive Officer of the Company. The roles and duties of the Chairman and Chief Executive Officer of the Company have been separately undertaken by different officers.

Mr. Li Xin Qing acted as the Chairman during the year ended 31 December 2012. He is responsible for the leadership of the Board, assignment of responsibilities among members of the Board, and maintaining the proper conduct and proceedings of meetings of the Board and shareholders of the Company, and overseeing the Group's overall direction and strategic planning. In addition, the Chairman also plays a key role in promoting all Directors to actively contribute to the Board affairs and establishing good corporate governance practices and procedures.

Mr. An Wei, the Chief Executive Officer, is responsible for managing the business and affairs of the Company, recommending and implementing strategic, business and operating plans, directing and overseeing the activities of the Company, developing and implementing operational policies under the strategic directions adopted by the Board, developing and recommending organizational structure, and ensuring that the Board has the required information to fulfill its duties.

CORPORATE GOVERNANCE REPORT

The day-to-day operations of the Company are delegated to the management with department heads being responsible for different aspects of the business and functions. The independent non-executive Directors serve the relevant function of making independent judgment on the development, performance and risk management of the Group through their contributions in Board meetings. In particular, the independent non-executive Directors bring an impartial view on issues related to the Company's strategy and internal control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. All of the independent non-executive Directors are appointed for a term of three years and are subject to retirement by rotation and re-election in accordance with the Company's articles of association.

The Board considers that each of independent non-executive Director of the Company is independent in his role and judgment, and has no financial or other interest in the businesses of the Group or connection with its connected persons (as defined in the Listing Rules). The Company has received from each of independent non-executive Director a written confirmation in which each of them had confirmed to be in compliance with the independence requirements as set out under the Rule 3.13 of the Listing Rules.

The Board is responsible for the corporation governance function as a whole, and establishes an internal control group to be responsible for the specific operation. During the reporting period and up to the date of this report, the Board had performed the following duties:–

1. Developing and reviewing relevant corporate governance policy and practice of the Company.

2. Reviewing and inspecting continuous professional development and training of Directors and senior management.

3. Reviewing and monitoring the policies and practices of the Company being in compliance with the statutory and other regulatory provisions.

4. Developing, reviewing and checking code and provision of conducts applicable to the Directors and employees.

5. Reviewing that the Company being in compliance with the code and corporate governance reporting requirements.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

Six Board meetings were held during the year 2012. Attendance of the Board members in the meetings is listed out on page 27. Regular Board meetings were held about once every quarter.

The Board ensures that its members are supplied, in a timely manner, with all necessary information in a form and of a quality appropriate to enable the Board to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision.

The minutes of Board meetings recorded all the details of the matters considered by the Board and the decisions reached, including any concerns raised by Directors or dissenting views expressed. Minutes of Board meetings are kept and available for inspection by all Directors at the Group's office.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The shareholders of the Company in general meeting, or the Board upon recommendation of the nomination committee (the "Nomination Committee") of the Company, can appoint any person as a Director of the Company anytime. Directors who are appointed to fill a casual vacancy, if any, are subject to election by shareholders at the first general meeting after their appointment and such election is separate from the normal retirement of Directors by rotation. In accordance with the Company's articles of association, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not 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 shall be subject to retirement at an annual general meeting at least once every three years. Mr. Li Wan Jun and Mr. Yu Zhuo Ping were re-elected to be the independent non-executive Directors of the Company in the annual general meeting held on 25 May 2012.

ROLES OF THE BOARD

The Board decides on corporate strategies, approves overall business plans, and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include preparing annual and interim financial statements for the Board's approval, implementing strategies approved by the Board, monitoring the operating budgets, implementing internal controls procedures, and ensuring compliance with relevant statutory requirements and other rules and regulations.

In the Board meeting held on 30 June 2011, a resolution was passed to allow the Directors who were performing their duties to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors are encouraged to discuss with the Chairman regarding any additional information or training they may require to discharge their duties more effectively.

CORPORATE GOVERNANCE REPORT

TRAINING AND SUPPORT FOR DIRECTORS

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills.

During the reporting period, Directors had participated in continuous professional development and refreshed their knowledge and skills in the following manner.

	Update on corporate governance, ordinance, regulation and provision	Accounting, finance, management and other professional technique	
	Reading publications	**Reading publications**	**Attending seminar and/or briefing section**
Executive Directors			
Mr. Li Xin Qing	✓	✓	✓
Mr. An Wei	✓	✓	✓
Independent Non-executive Directors			
Mr. Li Wan Jun	✓	✓	✓
Ms. Li Xiao Hui	✓	✓	✓
Mr. Yu Zhuo Ping	✓	✓	✓

BOARD COMMITTEES

The Board has established three committees to oversee particular aspects of the Group's affairs. The views of different committees and their recommendation not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

Audit Committee

The primary duties of the audit committee of the Company (the "Audit Committee") are to review and supervise the preparation of annual reports, the interim reports and financial statements of the Company and to provide advice and comments to the Board. In doing so, members of the Audit Committee will communicate with the Board, the senior management, the reporting accountants and/or the auditors of our Company. The Audit Committee will also consider whether there are any material or general matters which are, or may be, necessary to be reflected in such reports and financial statements, and will consider matters raised by our auditors. Members of the Audit Committee are also responsible for reviewing the financial reporting process and internal control systems of our Company. The Audit Committee comprises our three independent non-executive Directors, namely Ms. Li Xiao Hui, Mr. Yu Zhuo Ping and Mr. Li Wan Jun and is chaired by Mr. Li Wan Jun. The main roles and responsibilities of the Audit Committee are set out by the Board with clearly defined written terms of reference which are available on the website of the Stock Exchange and the Company. The Audit Committee held three meetings in 2012 to review the 2011 annual results of the Group for the twelve months ended 31 December 2011 and the 2012 interim results of the Group for the six months ended 30 June 2012, and to conduct other affairs. The Audit Committee has reviewed with the management and the Group's external auditors, SHINEWING (HK) CPA Limited ("SHINEWING"), the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters. Apart from considering the issues arisen from the audit process, the Audit Committee also discussed matters raised by the external auditors. The Audit Committee reviewed with the management on the Group's financial controls, internal control systems, risk management system, and the accounting principles and practices adopted by the Group. All issues reported by the external auditors are monitored closely by the Group's senior management. During the year under review, the fees paid to the Group's external auditor, SHINEWING, were as follows:

	2012 HK$'000
Audit fees	**840**
Non-audit service fees (service fee for reviewing the Group's financial statements for the six months ended 30 June 2012)	**200**

The Audit Committee has concluded that it is satisfied with the findings of its review of the audit and non-audit service fees, process and effectiveness, and independence and objectivity of SHINEWING. The Audit Committee will therefore recommend to the Board that SHINEWING be re-appointed as the Group's external auditor at the annual general meeting in 2013.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

We have established a remuneration committee (the "Remuneration Committee") which is responsible for, among other, considering and making recommendations to our Board on the remuneration packages of individual Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate. The Remuneration Committee is also responsible to approve the grant of share options under the share option scheme of the Company. Such share options are granted based on individual employee's performance and the achievement of certain goals that are consistent with the Group's objective of maximising long-term value for its shareholders.

The Remuneration Committee comprises three independent non-executive Directors, namely Ms. Li Xiao Hui, Mr. Yu Zhuo Ping and Mr. Li Wan Jun, and is chaired by Ms. Li Xiao Hui. The main roles and responsibilities of the Remuneration Committee are set out by the Board with clearly defined written terms of reference which are available on the website of the Stock Exchange and the Company.

Two Remuneration Committee meetings were held in 2012.

Details of each Director's emoluments are set out in note 14 of the "Notes to the Consolidated Financial Statements". The primary objective of the Group's remuneration policy is to retain and motivate executive Directors by linking their compensation to the Group's performance and evaluating their compensation against corporate goals, so that the interests of the executive Directors and the senior management team are aligned with those of our shareholders. No Director can, however, approve his or her own remuneration.

For the year ended 31 December 2012, the annual salary of the senior management of the Company ranges from RMB120,000 to RMB300,000.

During the reporting period and up to the date of this report, the Remuneration Committee had performed duties generally as follows:

1. Reviewing and making recommendation to the Board on the remuneration policy and structure of the Company for the Directors.

2. Reviewing and making recommendation to the Board on the prevailing remuneration packages of Directors.

3. Reviewing and making recommendation to the Board to approve changes in scope and authority of the Remuneration Committee.

CORPORATE GOVERNANCE REPORT

Nomination Committee

We have established a nomination committee (the "Nomination Committee") which is responsible for considering and recommending to the Board on appointment of Directors and management of the succession of the Board. The Nomination Committee comprises three members, namely Mr. Li Xin Qing, Mr. Yu Zhuo Ping and Ms. Li Xiao Hui, and is chaired by Mr. Li Xin Qing. The main roles and responsibilities of the Nomination Committee are set out by the Board with clearly defined written terms of reference which are available on the website of the Stock Exchange and the Company. The Nomination Committee reports to the Board and makes recommendations regarding the appointment of Directors, its evaluation of the Board's composition, and the management of Board succession with references endorsed by the Board itself.

One Nomination Committee meeting was held in 2012.

During the reporting period and up to the date of this report, the Nomination Committee had performed duties generally as follows:-

1. Reviewing the structure, size and composition of the Board (including technique, knowledge, experience and year of service of Directors) and making recommendation on changes of the Board to accomodate with the corporate strategy.

2. Reviewing and making recommendation to the Board to approve changes in scope and authority of the Nomination Committee.

INTERNAL CONTROL, INTERNAL AUDIT AND FINANCIAL REPORTING

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness. The Company had established the Internal Audit Department in 2011, in which its responsibility is to review the internal control system of the Group under the leadership of the Board and the Audit Committee. The Directors have approved the review results of the internal control system. It is the responsibility of the management of the Group to implement all the policies of the Board on risks and regulations and control. The Group's internal control systems are designed to provide reasonable protection of the Group's assets, and to safe guard these assets against unauthorised use or disposition by ensuring that all such transactions are executed in accordance with management's authorisation. The systems also ensure that accounting records are sufficiently accurate for the preparation of financial information used for operational and reporting purposes. The Group has adopted comprehensive procedures with duly assigned levels of authority in areas of financial, operational and compliance controls, and risk management to ensure that its assets and resources remain secure at all times. The role of the Audit Committee is, through discussion with management and other consultants, and the use of the internal audit function, to review the effectiveness of the internal control systems, including financial, operational and compliance controls, and risk management functions, and to report to the Board any significant risks and issues. The Audit Committee raised their advices and suggestions to the Board regarding the further improvement of risk management and control and public relations in the meeting that was held on 29 June 2012. It also suggested the Company to learn from the experiences of other listed companies in risk management and control. The Directors acknowledged their responsibility for preparation of financial statements which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The external auditor of the Company, SHINEWING, have the responsibility to express an opinion on the Group's consolidated financial statements based on its audit and to report its opinion solely to the Company. SHINEWING conducted its audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that SHINEWING comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Group's consolidated financial statements are free from material misstatement. The Independent Auditor's Report on pages 56 and 57 of this annual report also sets out the responsibilities of SHINEWING.

CORPORATE GOVERNANCE REPORT

CODE OF CONDUCT AND BUSINESS ETHICS

Each Director has a duty and responsibility to act honestly and with due diligence and care when carrying out his/her duties on behalf of the Company. All Directors have attended a training session organized by the Company's legal advisers in Hong Kong regarding the various requirements in the Listing Rules and other usual laws and requirements applicable to companies listed in Hong Kong in year 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors. Specific enquiries have been made with all Directors and all Directors confirm that they have complied with the provisions of the Model Code for the year ended 31 December 2012.

DIRECTORS' INTERESTS

Full details of individual Director's interests in the shares and share options of the Company are set out on pages 50 to 52 of the "Directors' Report".

OPEN COMMUNICATION

The Company is committed to acting in good faith and in the best interests of its shareholders at all times and in all areas of its operations. The Company actively promotes open communication and full disclosure of all information needed to protect and maximise returns for its shareholders.

COMMUNICATION WITH SHAREHOLDERS

Effective communication with shareholders has always been one of the Company's priorities. The various channels by which the Company communicates with its shareholders include interim and annual reports, the Company's websites, and general investor meetings held either face-to-face or via telephone conference calls. The Company reports to its shareholders twice a year and maintains a regular dialogue with investors. Interim and annual results are announced as early as possible to keep shareholders informed of the Company performance and operations in a timely manner. The publication of the Group's financial results on a half-yearly basis enhances transparency regarding its performance and ensures that details of new developments affecting the Group are made available in a timely manner. An annual general meeting will be held in each year, and all shareholders are encouraged to attend the annual general meeting to discuss the progress of the Group's businesses.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

The Company's articles of association state that shareholders holding not less than one-tenth of the Group's paid-up capital carrying voting rights shall at all times have the right to requisition an extraordinary general meeting to discuss specified business transactions. To request the convening of a meeting, individuals must send a written notice to the Group's principal place of business in the PRC at least 21 days before the proposed date of the meeting. This procedure also applies to any proposals to be tabled at shareholders' meetings for adoption.

VOTING RIGHTS

All Shares in the Company are ordinary shares. The total number of outstanding Shares issued at the date of this report is 830,000,000. In accordance with the Listing Rules, any votes of shareholders at the Company's general meetings must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural of administrative matter to be voted on by a show of hands. The results of shareholders' meetings are reported to the public via announcements submitted to the Stock Exchange's website and the Company's website. Shareholders who wish to exercise their rights to vote by proxy may do so upon presentation of a written and dated instrument appointing their proxy. The notice convening each shareholders' meeting includes a proxy form which appoints the Board as proxy for each specific proposal. All shareholders are welcome to ask questions or present proposals for discussion at these meetings.

INVESTOR RELATIONS

The Group regards open communication with both existing and potential investors as being vital to its sustained success. To this end, the Group insists on full, honest, equal and timely disclosure of all essential information regarding its business to the investment community. The Group is committed to transparent communication and is determined to maintain close ties with the investment community. The Group's corporate website also provides an effective communication platform where the public and investor community have fast and easy access to up-to-date information regarding the Group. Enquiries, comments and suggestions are welcome and can be addressed to Investor Relations Department of the Company by mail to the Group's principal place of business in the PRC or by email to the Company at IR@titans.com.cn. Enquiries, comments and suggestions raised in either or both of these manners are then subject to the attention, review and/or reply by the Board or the relevant department(s), wherever such a need is felt.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Li Xin Qing, aged 55, is the Chairman, an executive Director and the chairman of the Nomination Committee of our Company and he is one of the largest shareholders of the Company. Mr. Li is responsible for the corporate strategies. Mr. Li obtained a bachelor of engineering degree from Tong Ji University (同濟大學) in January 1982, majoring in mechanical engineering. He also obtained a second bachelor degree in industrial management and engineering from Tong Ji University in June 1992, majoring in industrial management and engineering. He joined our Group in September 1992. He has worked in Titans Technology where he served as vice chairman, general manager and chairman. Mr. Li received the Guangdong Province Scientific and Technological Progress Award (Class 1) for Electric Power Industry (廣東省電子工業科學技術進步一等獎) from Guangdong Province Electric Engineering Industry Department (廣東省電子機械工業廳), a department established by the local government of Guangdong Province and Zhuhai Municipality Scientific and Technological Progress Award (Class 1) (珠海市科學技術進步獎一等獎) from Zhuhai Municipality Scientific and Technological Progress Qualification Committee (珠海市科學技術進步獎評審委員會) established by the local government of Zhuhai Municipality (珠海市政府) for his participation in the research and development of the "high frequency switch power source for communications SMP-R1022FC" (通訊用高頻開關電源項目SMP-R1022FC) project in 1998. The Scientific and Technological Award was awarded on the basis that the invention or development in science and technology was considered creative and contributing to the development and improvement of the current science and technology and thus generating economic and social value. Since the Group's establishment, Mr. Li has played an active role in the Group's development, including research and development of our products and formulating the business strategies of our Group and has accumulated his knowledge and experience with the development of our Group. Mr. Li was appointed an executive Director on 16 November 2007. At present, Mr. Li is also a director of Titans BVI Limited, Grace Technology Development Limited and Titans Holdings Co., Limited and is an executive director and the legal representative of Zhuhai Titans Technology Co., Ltd* (珠海泰坦科技股份有限公司), Zhuhai Titans Power Electronics Company Limited* (珠海泰坦電子電力集團有限公司) (formerly known as Zhuhai Titans Automatic Technology Limited* (珠海泰坦自動化技術有限公司)) and Zhuhai Titans New Energy System Co., Ltd.* (珠海泰坦新能源系統有限公司). Mr. Li and Mr. An Wei, another executive Director of the Company, each holds 50% shareholding in Rich Talent Management Limited, which in turn holds 7,985,418 Shares. Save as disclosed, he has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company. Mr. Li does not hold any directorships in any public listed companies, the securities of which are listed on any securities market in Hong Kong or overseas in the past three years preceding the date of this report. Please refer to the section headed "Directors' Report" in this report for details of Mr. Li's shareholding interests in the Company. Mr. Li has entered into a service contract with the Company for an initial term of three years commencing on 28 May 2010, the date on which the shares were listed in the Stock Exchange (the "Listing Date").

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. An Wei, aged 56, is an executive Director and the Chief Executive Officer of our Company and he is one of the largest shareholders of the Company. Mr. An is responsible for the overall operation and management of our Group. Mr. An graduated from the post-graduate class of management engineering department in Tong Ji University (同濟大學) in July 1986 and obtained his doctorate degree in science management and engineering from Tong Ji University in November 2005. Mr. An was also accredited as a senior economist (高級經濟師) by the Title Reform Leading Group Office of Hebei Province in China in August 1997. With his doctorate degree majoring in management and over 10 years experience in the Group, Mr. An has acquired a variety of skills and extensive experience in management. Mr. An joined the Group in September 1992, being a director of Titans Technology. He has been the general manager of Titans Technology since July 1998. He is the current vice chairman of Private Enterprises Association Guangdong Province (廣東省私營企業協會副會長). Mr. An was appointed an executive Director on 16 November 2007. At present, Mr. An is also a director of Titans BVI Limited, Grace Technology Development Limited, Titans Holdings Co., Limited, Zhuhai Titans Power Electronics Company Limited* (珠海泰坦電子電力集團有限公司) (formerly known as Zhuhai Titans Automatic Electronics Company Limited* (珠海泰坦自動化技術有限公司)) and Zhuhai Titans Technology Co., Ltd.* (珠海泰坦科技股份有限公司) and a director and legal representative of Auhui Titans Liancheng Energy Technology Co., Ltd.* (安徽泰坦聯成能源技術有限公司). Mr. An and Mr. Li Xin Qing, another executive Director of the Company, each holds 50% shareholding in Rich Talent Management Limited, which in turn holds 7,985,418 Shares. Save as disclosed, he has no relationship with any Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company. Mr. An does not hold any directorships in any public listed companies, the securities of which are listed on any securities market in Hong Kong or overseas in the past three years preceding the date of this report. Please refer to the section headed "Directors' Report" in this report for details of Mr. An's shareholding interests in the Company. Mr. An has entered into a service contract with the Company for an initial term of three years commencing on the Listing Date.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Wan Jun, aged 44, is an independent non-executive Director, a member of the Remuneration Committee and the chairman of the Audit Committee. Mr. Li was appointed an independent non-executive Director on 17 December 2007. Mr. Li has over 10 years of experience in accounting and auditing. He obtained a bachelor degree of economics from the University of Wuhan (武漢大學) in 1990. Mr. Li is a non-practising member of the Zhuhai Institute of Certified Public Accountants (珠海市註冊會計師協會) and was admitted as a member of the Association of Chartered Certified Accountants in June 2007. Mr. Li has not held any other positions with any member of our Group. From 1996 to 2000, Mr. Li worked in the finance department of 澳門珠光集團有限公司 (Zhu Kuan Group Co. Ltd. of Macau). From 2001 to 2007, Mr. Li worked as vice manager in the finance department and audit department of Zhu Kuan Group Holdings Co. Ltd. of Zhuhai City* (珠海市珠光集團控股有限公司) ("Zhu Kuan Group"). Since 2008, Mr. Li has been a financial controller of subsidiaries of the same company. Zhu Kuan Group through its subsidiaries, was the parent company of Zhu Kuan Development Co. Ltd. ("ZKD") (stock code 908) (currently known as Jiuzhou Development Company Limited) when the shares of ZKD were listed on the main board of the Stock Exchange in 1999 and ceased to be the parent company of ZKD in December 2004. During such period, Mr. Li was involved in, among other things, internal control and internal audit of Zhu Kuan Group and its subsidiaries (including ZKD and its subsidiaries prior to Zhu Kuan Group). Mr. Li has not been a director of any public companies, the securities of which are listed on any securities market in Hong Kong and overseas during the last three years preceding the date of this report. Mr. Li has entered into an appointment letter with the Company for an initial term of three years commencing on the Listing Date. Save as disclosed, he has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Li Xiao Hui, aged 45, was appointed as an independent non-executive Director on 20 November 2009. She is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Ms. Li has not held any other positions with any member of our Group. Ms. Li graduated from Yangzhou Normal University (揚州師範大學) now known as Yangzhou University (揚州大學) with a bachelor degree of economics in 1989. Ms. Li then obtained a master degree in economics in 1993 from the Renmin University of China (中國人民大學). In 2001, Ms. Li obtained a doctoral degree in economics from Central University of Finance and Economics (中央財經大學). From 2003 to present, Ms. Li has been teaching in and is appointed as the deputy dean of the faculty of accounting in Central University of Finance and Economics, primarily responsible for managing the teaching of the faculty and participating in research and development in corporate internal control, risk management and auditing of risk management. From 1995 to 2008, Ms. Li wrote books and other publications in relation to auditing, accounting and risk management. Ms. Li has not been a director of any public listed companies, the securities of which are listed on any securities market in Hong Kong and overseas during the past three years preceding the date of this report. Ms. Li has entered into an appointment letter with the Company for an initial term of three years commencing on the Listing Date. Save as disclosed, she has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

Mr. Yu Zhuo Ping, aged 53, was appointed an independent non-executive Director on 20 November 2009. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Yu has not held any other positions with any member of our Group. Mr. Yu graduated from Tong Ji University (同濟大學) with a bachelor degree specialised in machinery in 1982 and a master degree specialised in construction machinery in 1985. In 1996, Mr. Yu obtained a doctoral degree specialised in motor vehicle design and manufacturing industrial science from Tsing Hua University (清華大學). Prior to joining our Group, Mr. Yu joined Braunschweig Automotive Research Institute in Germany, the automotive institute of Technical University Darmstadt, and the research and development department of Volkswagen Automotive Company engaging in research duties. Since 2002, Mr. Yu has been the dean of the Faculty of Automotive in Tong Ji University and the assistant to the president of Tong Ji University primarily responsible for the teaching in and management of the Faculty of Automotive. In 2002, Mr. Yu was awarded with the Shanghai Municipality Scientific and Technological Progress Award (class 2) (上海市科學技術二等獎) from the Shanghai Municipality Government (上海市人民政府) for his research in "Construction and testing analysis of wind tunnel for automotive". In 2007, Mr. Yu was awarded with the Shanghai Municipality Scientific and Technological Progress Award (class 1) (上海市科學技術進步一等獎) from the Shanghai Municipality Government. In 2008, Mr. Yu was further awarded with the National Scientific and Technological Progress Award (class 2) (國家科學技術進步二等獎) by the Ministry of Science and Technology of the PRC (中國科技部). Mr. Yu is also the independent non-executive director of 上海航天汽車機電股份有限公司(Shanghai Aerospace Automobile Electromechanical Co., Ltd) (stock code: 600151), a company listed on the Shanghai Stock Exchange. Save as disclosed, Mr. Yu has not been a director of any public companies, the securities of which are listed on any securities market in Hong Kong or overseas during the last three years preceding the date of this report. Mr. Yu has entered into an appointment letter with the Company for an initial term of three years commencing on the Listing Date. Save as disclosed, he has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Li Xiao Bin, aged 51, is a senior engineer. He obtained a bachelor degree from Hefei United University (合肥聯合大學) in 1984 and a master degree from Institute of Plasma Physics of Chinese Academy of Sciences in 1990. Mr. Li Xiao Bin worked as an engineer for three years with the Plasma Physics Laboratory of the Chinese Academy of Sciences from 1990 to 1993. Mr. Li Xiao Bin joined our Group in 1993, he is currently the general manager of the electric power source department and the general manager of the research and development centre of our Group and is responsible for the sales and development of our principal product, electrical DC product series. Mr. Li Xiao Bin is also a director of Titans Holdings Co., Limited, Zhuhai Titans Power Electronics Company Limited* (珠海泰坦電子電力集團有限公司) (formerly known as Zhuhai Titans Automatic Electronics Company Limited* (珠海泰坦自動化技術有限公司)) and Zhuhai Titans Technology Co., Ltd.. Mr. Li Xiao Bin received the "Certificate for Outstanding Technology Improvement (科學技術進步獎)" from the Chinese Academy of Sciences (中國科學院). Mr. Li Xiao Bin, one of the substantial shareholders of our Group, is interested in the 40% issued share capital of Honor Boom Investments Limited, a company which holds approximately 9.93% of the issued share capital of our Company. Save as disclosed, he has no other relationship with the Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

Ms. Ou Yang Fen, aged 48, is an accountant, certified tax agent and deputy general manager. Ms. Ou Yang Fen is responsible for the management affairs of the financial centre of our Group. Ms. Ou Yang Fen graduated from Guangdong Radio & TV University (廣東廣播電視大學) in 1998 majored in finance. Ms. Ou Yang obtained the accounting qualification from the Ministry of Finance (財政部) in 1997. She has been working in the field of accounting and held positions as accountant in various companies. Since the establishment of Zhuhai Titans Technology Co., Ltd.* (珠海泰坦科技股份有限公司) in September 1992, she served as our Company accountant, finance manager, deputy general manager successively. She is currently general manager of the financial centre of the Group. Ms. Ou is interested in the 30% issued share capital of Honor Boom Investments Limited, a company which holds approximately 9.93% of the issued share capital of our Company. Save as disclosed, she has no other relationship with the Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

Mr. Chen Xiang Jun, aged 45, holds a master degree in business administration. He obtained a bachelor degree of Mathematics from Nankai University (南開大學) in 1990. Mr. Chen Xiang Jun obtained a master degree of Business Administration in Executive Management from Royal Roads University in 2007. Mr. Chen Xiang Jun joined Zhuhai Titans Technology Co., Ltd.* (珠海泰坦科技股份有限公司) in March 2001. Mr. Chen is currently general manager of the corporate development centre of the Group and the secretary to the board of directors of Zhuhai Titans Technology Co., Ltd.. Mr. Chen is mainly responsible for the operation management and capital operation related matters. Save as disclosed, Mr. Chen Xiang Jun has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Fu Yulong, aged 49, holds a master degree in business administration. Mr. Fu Yulong graduated from Zhengzhou University（鄭州大學）in 1994 and obtained a Master Degree of Business Administration from Hong Kong Polytechnic University in 2007. Previously, he worked with a steel company in Wu Yang for more than 10 years. He joined our Group in May 2003. He is currently general manager of the marketing center of our Group, and is fully responsible for the sales of the Group's products. Save as disclosed, he has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

Mr. Li Zhen Hua, aged 55, obtained a bachelor degree in Economics from Xiamen University in 1983 and registered as an accountant in the PRC in 1992. Mr. Li Zhen Hua joined our Group in September 2009 as our Financial Controller. Mr. Li is experienced in financial and organisation management. Before he joined our Group, Mr. Li Zhen Hua was the finance manager of Hua Fu Hong Kong Company（華福香港公司）, a subsidiary of Fujian Investment & Enterprise Holdings Corporation（福建投資企業集團公司）in Hong Kong from 1983 to 1996, and was the general manager of 雲南隴川縣閩宏水電有限責任公司 (Yunnan Long Chuan Xian Hong Shui Dian Company Limited) from 2005 to 2008. Save as disclosed, he has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

Mr. Pan Jingyi, aged 62, is a senior engineer. He graduated from Radio and TV University, Shaanxi（陝西省廣播電視大學）in the automation of the electric power system speciality in 1987. Mr. Pan has been working in the field of electrical engineering from 1985 to 2005, Mr. Pan worked in a power plant in Xian and was head of electric station and chief engineer of an electric company, a subsidiary Company of the said power plant. Mr. Pan joined Zhuhai Titans Technology Co., Ltd.*（珠海泰坦科技股份有限公司）in February 2005 and is currently a chief engineer of the Group, committee member of the SAC/TC60 National Committee on Power Electronics of Standardisation Administration of China and secretary-general and committee member of the GD/TC60 Guangdong Technical Committee on Equipment and System of Power Electronics of Standardisation Administration of China. Save as disclosed, he has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of our Company.

DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is principally engaged in the supply of power electronic product and equipment. The principal activities of each of the subsidiaries of the Company are set out in note 46 to the accompanying financial statements.

Business segments

The Group is engaged in the supply of power electronic product and equipment. Business analysis of sales, segment results, total assets and capital expenditures are set out in note 8 to the accompanying financial statements.

Geographical segments

The Group operates in the People's Republic of China.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 58 of this annual report.

The Board does not recommend the payment of any dividend for the year ended 31 December 2012.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlement to attend and vote at the annual general meeting of the Company (the "Annual General Meeting"), which is proposed to be held on Wednesday, 22 May 2013, the register of members of the Company will be closed from Monday, 20 May 2013 to Wednesday, 22 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 May 2013.

DIRECTORS' REPORT

RESERVES

Details of movements in the reserves of the Group and of the Company during the year ended 31 December 2012 are set out in note 45 to the accompanying financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year ended 31 December 2012 are set out in note 18 to the accompanying financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 32 to the accompanying financial statements.

DISTRIBUTABLE RESERVES

Details of the Company's distributable reserves as at 31 December 2012 is set out in note 45 to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 and 6 of this annual report.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the year ended 31 December 2012.

PRE-IPO SHARE OPTION SCHEME

A Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a written resolution of the shareholders of the Company on 8 May 2010. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of, and to provide an incentive to, the employees, officers, agents, consultants, representatives and sales partners of the Group who has contributed or will contribute to the Group. The principal terms of the Pre-IPO Share Option Scheme are basically the same as the terms of the Share Option Scheme (as described below) except , among other terms, that:

(a) the Pre-IPO Share Option Scheme expired on the date immediately prior to 28 May 2010 (the "Listing Date") and save for the options which have been conditionally granted, no further options will be offered or granted or accepted under the Pre-IPO Share Option Scheme after the Listing Date;

(b) the subscription price HK$0.59 per Share has been determined by the Board at 50% discount to the final offer price of the listing of the Shares on the Stock Exchange on the Listing Date;

(c) the option period of each option granted is: (a) in relation to 25% of the Shares comprised in the option, the period commencing on the expiration of 12 months after the Listing Date and ending on the expiration of 24 months after the Listing Date; (b) in relation to another 25% of the Shares comprised in the option, the period commencing on the expiration of 24 months after the Listing Date and ending on the expiration of 36 months after the Listing Date; (c) in relation to another 25% of the Shares comprised in the option, the period commencing on the expiration of 36 months after the Listing Date and ending on the expiration of 48 months after the Listing Date; and (d) in relation to the remaining 25% of the Shares comprised in the option, the period commencing on the expiration of 48 months after the Listing Date and ending on the expiration of 60 months after the Listing Date; and

(d) if any of the grantees fails to exercise all or part of the 25% of the total number of options vested to him/her in each period, such 25% or remaining part of the 25% of the total number of options vested and exercisable during that period (as the case may be) shall lapse.

Options carrying rights to subscribe for a total of 23,920,000 Shares were granted to certain employees of the Group, including the two executive Directors on 8 May 2010. All options were conditionally granted to the grantees.

DIRECTORS' REPORT

During the year ended 31 December 2012, share options carrying rights to subscribe for a total of 6,530,000 Shares have lapsed in accordance with the terms of the Pre-IPO Share Option Scheme. As at 31 December 2012, share options carrying rights to subscribe for 17,190,000 Shares in aggregate (representing about approximately 2.06% of the issued share capital of the Company) remained outstanding. Set out below is further information on the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2012:

		Number of share options					
Name of participant	**Date of share options granted**	**Outstanding as at 1 January 2012**	**Exercised during the period**	**Lapsed during the period**	**Cancelled during the period**	**Outstanding as at 31 December 2012**	**Approximate percentage of issued share capital of the Company**
Li Xin Qing *(Note 1)*	8 May 2010	800,000	–	200,000	–	600,000	0.07%
An Wei *(Note 1)*	8 May 2010	800,000	–	200,000	–	600,000	0.07%
Li Xiao Bin *(Note 2)*	8 May 2010	800,000	–	200,000	–	600,000	0.07%
Other employees of the Group	8 May 2010	21,320,000	–	5,930,000	–	15,390,000	1.85%
Total for scheme		23,720,000	–	6,530,000	–	17,190,000	2.06%

Note: 1. Li Xin Qin and An Wei are the executive Directors of the Company.

2. Li Xiao Bin is a substantial shareholder and senior management of the Company.

Subsequent to the year ended 31 December 2012 and up to the date of this report, no further share options have lapsed. As at the date of this report, share options carrying rights to subscribe for a total of 17,190,000 Shares under the Pre-IPO Share Option Scheme remained outstanding.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution of the shareholders of the Company passed on 8 May 2010 ("Adoption Date").

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. All officers, employees, agents, consultants or representatives of any member of the Group, (including any executive or non-executive Director) who the Board may determine in an absolute discretion, has made valuable contribution to the business of the Group based on his performance and/or years of service, or is regarded to be valuable human resource of the Group are eligible to participate in the Share Option Scheme subject to such conditions as the Board may think fit.

The Share Option Scheme will remain in force for a period of 10 years after the Adoption Date.

DIRECTORS' REPORT

When the Share Option Scheme has approved by the shareholders, it was also approved that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares of the Company in issue on the date of listing of shares of the Company on the Stock Exchange, i.e. 80,000,000 Shares ("Scheme Mandate Limit") which represented approximately 9.64% of the Shares in issue as at the date of annual report. The Company may renew the Scheme Mandate Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in the Company in issue as at the date of the shareholders' approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-months period shall not exceed 1% of the issued share capital of the Company for the time being.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee, which period must expire no later than 10 years from the date of the grant (subject to acceptance) of the option.

The right to exercise an option is not subject to or conditional upon the achievement of any performance target unless otherwise stated in the grant letter which is to be made by the Company to the participant of the Share Option Scheme upon granting of option.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

DIRECTORS' REPORT

On 17 February 2011, the Company granted 19,430,000 share options to certain employees and a substantial shareholder (who is also an employee) of the Company.

Date of grant	:	17 February 2011
Exercise price of Share Options granted	:	HK$1.10 per Share
Number of Share Options granted	:	19,430,000 share options (each share option shall entitle the holder of the share option to subscribe for one Share)
Closing price of the Share on the Date of Grant	:	HK$1.10 per Share
Validity period of the Share Options	:	4 years commencing from 17 February 2011 and expiring on 16 February 2015 (both days inclusive), to be exercised in the following manner:

Portions of the Share Options exercisable	**Period for exercise of the relevant portions of the Share Options**
One-third of the total number of Share Options granted to any grantee	During the period commencing on 17 February 2012 and up to 16 February 2013
One-third of the total number of Share Options granted to any grantee	During the period commencing on 17 February 2013 and up to 16 February 2014
One-third of the total number of Share Options granted to any grantee	During the period commencing on 17 February 2014 and up to 16 February 2015

If any of the grantees fails to exercise all or part of the one-third of the total number of share options vested to him/her in each period, such one-third or remaining part of the one-third of the total number of share options vested during each period (as the case may be) shall lapse.

DIRECTORS' REPORT

The closing price of the Shares immediately before 17 February 2011, the date of grant, was HK$1.07. Among all the share options granted, 600,000 share options were granted to Mr. Li Xiao Bin who is a substantial shareholder and senior management of the Company. Pursuant to Rule 17.04(1) of the Listing Rules and the terms of the Share Option Scheme, the grant of the 600,000 share options to Mr. Li Xiao Bin has been approved by the independent non-executive Directors of the Company.

During the year ended 31 December 2012, share options carrying rights to subscribe for a total of 960,000 Shares have lapsed due to the departure of certain employees in accordance with the terms of the Share Option Scheme. As at 31 December 2012, share options carrying rights to subscribe for 18,290,000 Shares in aggregate (representing about approximately 2.20% of the issued share capital of the Company) remained outstanding. Set out below is further information on the outstanding share options granted under the Share Option Scheme as at 31 December 2012:

		Number of share options						
Name of participant	Date of share options granted	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 31 December 2012	Approximate percentage of issued share capital of the Company
Li Xiao Bin *(Note)*	17 February 2011	600,000	–	–	–	–	600,000	0.07%
Other employees of the Group	17 February 2011	18,650,000	–	–	960,000	–	17,690,000	2.13%
Total for scheme		19,250,000	–	–	960,000	–	18,290,000	2.20%

Note: Li Xiao Bin is a substantial shareholder and senior management of the Company.

Subsequent to the year ended 31 December 2012 and up to the date of this report, 6,096,000 share options have lapsed. As at the date of this report, share options carrying rights to subscribe for a total of 12,193,334 Shares remained outstanding under the Share Option Scheme.

DIRECTORS

The Directors during the year were:

Mr. Li Xin Qing
Mr. An Wei
Mr. Li Wan Jun*
Ms. Li Xiao Hui*
Mr. Yu Zhuo Ping*

* *Independent non-executive Directors*

In accordance with article 84(1) of the Company's articles of association, Ms. Li Xiao Hui and Mr. Li Xin Qing shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service agreement with our Company on 8 May 2010. These agreements, except as indicated, are in all material respects identical and are summarised below:

(i) Each service agreement is for an initial term of three years commencing on the Listing Date and shall continue thereafter until terminated in accordance with the terms of the agreement. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than three months' prior written notice, provided that such notice is not to be given at any time within 9 months of the date of signing of the agreement.

(ii) For the first year from the Listing Date, the monthly salary for each of Mr. Li Xin Qing and Mr. An Wei shall be HK$50,000 and HK$50,000 respectively and shall accrue on a day to day basis. As from the second year from the Listing Date, the annual basic salary of each executive Director shall be as determined by the remuneration committee of the Board, provided that any increment shall not be more than 10% of the annual basic salary received by the executive Directors for the immediate preceding year.

(iii) Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year may not exceed 3% of the audited consolidated net profit of our Group (after taxation and minority interest but before extraordinary or exceptional items) in respect of that financial year of our Company.

(iv) Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary or discretionary bonus payable to him.

Each of Mr. Li Wan Jun, Mr. Yu Zhuo Ping and Ms. Li Xiao Hui signed a letter of appointment dated 8 May 2010 with our Company under which they agreed to act as independent non-executive Director for a period of three years commencing on the Listing Date unless terminated in accordance with the terms of the appointment letters. Under the appointment letter, either party may terminate the agreement at any time by giving to the other not less than three months' prior written notice. The monthly director's fee for an independent non-executive Director is HK$10,000.

None of our Directors, including those proposed for re-election at the forthcoming annual general meeting, has entered or has proposed to enter into any service agreement with us or any other members of our Group, which is not determinable by us or any member of our Group within one year without payment of compensation (other than statutory compensation).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his/her independence and the Company considers that each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the reporting year.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors on a named basis during the year under review are set out in note 14 to the accompanying financial statements.

Details of the five highest paid individuals during the year under review are set out in note 15 to the accompanying financial statements.

REMUNERATION POLICY

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the Directors). The remuneration policy and remuneration packages of the executive Directors and member of the senior management of the Group are reviewed by the Remuneration Committee, which are detailed in the paragraph headed "Remuneration Committee" under the section headed "Corporate Governance Report" of this report.

RETIREMENT BENEFIT SCHEMES

Particulars of the Group's retirement benefit schemes are set out in note 41 to the accompanying financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management as at the date of this annual report are set out on pages 36 to 40 of this annual report.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:–

Name of Director	Nature of interest	Number of Shares or underlying Shares of the Company	Approximate percentage of existing issued share capital of the Company
Li Xin Qing	Interest of controlled corporations	205,709,875 (L) *(Note 2)*	24.78%
	Beneficial owner	600,000 (L) *(Note 3)*	0.07%
An Wei	Interest of controlled corporations	205,869,875 (L) *(Note 4)*	24.80%
	Beneficial owner	600,000 (L) *(Note 5)*	0.07%

Notes:

1. The letter "L" stands for long position and the letter "S" stands for short position (both within the meaning stated in the form for notification specified pursuant to the SFO).

2. The entire issued share capital of Genius Mind Enterprises Limited ("Genius Mind") is beneficially owned by Li Xin Qing who is deemed to be interested in 197,724,457 Shares held by Genius Mind by virtue of the SFO. In addition, Li Xin Qing is also deemed to be interested in 7,985,418 Shares held by Rich Talent Management Limited ("Rich Talent"), a company which shareholding is owned as to 50% by him, by virtue of the SFO.

DIRECTORS' REPORT

3. The interest in 600,000 Shares represents the share options granted to Li Xin Qing pursuant to the Pre-IPO Share Option Scheme.

4. The entire issued share capital of Great Passion International Limited ("Great Passion") is beneficially owned by An Wei who is deemed to be interested in 197,884,457 Shares held by Great Passion by virtue of the SFO. In addition, An Wei is also deemed to be interested in 7,985,418 Shares held by Rich Talent, a company, which shareholding is owned as to 50% by him, by virtue of the SFO.

5. The interest in 600,000 Shares represents the share options granted to An Wei pursuant to the Pre-IPO Share Option Scheme of the Company.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2012, as far as known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:–

Name of shareholder	Nature of interest	Number of Shares or underlying Shares of the Company	Approximate percentage of existing issued share capital of the Company
Zeng Zhen *(Note 2)*	Interests of spouse	206,309,875 (L)	24.86%
Genius Mind *(Note 3)*	Beneficial owner	197,724,457 (L)	23.82%
Yan Kai *(Note 4)*	Interests of spouse	206,469,875 (L)	24.88%
Great Passion *(Note 5)*	Beneficial owner	197,884,457 (L)	23.84%
Honor Boom Investments Limited *(Note 6)*	Beneficial owner	82,458,117 (L)	9.93%

DIRECTORS' REPORT

Name of shareholder	Nature of interest	Number of Shares or underlying Shares of the Company	Approximate percentage of existing issued share capital of the Company
Li Xiao Bin *(Note 6)*	Interest of controlled corporations	82,458,117 (L)	9.93%
	Beneficial owner	1,200,000 (L)	0.14%
Zhang Lina *(Note 7)*	Interests of spouse	83,658,117 (L)	10.07%
Thomas Pilscheur	Beneficial owner	66,244,818 (L)	7.98%
Feng Yanlin *(Note 8)*	Interests of spouse	66,244,818 (L)	7.98%

Notes:

1. The letter "L" stands for long position and the letter "S" stands for short position (both within the meaning stated in the form for notification specified pursuant to the SFO).

2. Zeng Zhen is the spouse of Li Xin Qing. Therefore, Zeng Zhen is deemed to be interested in the Shares in which Li Xin Qing is interested for the purposes of the SFO.

3. The entire issued share capital of Genius Mind is beneficially owned by Li Xin Qing who is deemed to be interested in the Shares held by Genius Mind by virtue of the SFO. Li Xin Qing is the sole director of Genius Mind.

4. Yan Kai is the spouse of An Wei. Therefore, Yan Kai is deemed to be interested in the Shares in which An Wei is interested for the purposes of the SFO.

5. The entire issued share capital of Great Passion is beneficially owned by An Wei who is deemed to be interested in the Shares held by Great Passion by virtue of the SFO. An Wei is the sole director of Great Passion.

6. The issued share capital of Honor Boom Investments Limited ("Honor Boom") is owned as to 40% by Li Xiao Bin, 30% by Ou Yang Fen and 30% by Cui Jian respectively. Li Xiao Bin is deemed to be interested in the 82,458,117 Shares held by Honor Boom by virtue of the SFO. The interest in 1,200,000 Shares represents the share options granted to Li Xiao Bin under the Pre-IPO Share Option Scheme and the Share Option Scheme.

7. Zhang Lina is the spouse of Li Xiao Bin. Therefore. Zhang Lina is deemed to be interested in the Shares in which Li Xiao Bin is interested by virtue of the SFO.

8. Feng Yanlin is the spouse of Thomas Pilscheur. Therefore, Feng Yanlin is deemed to be interested in the Shares in which Thomas Pilscheur is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2012, the Company has not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' REPORT

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" above, at no time during or at the end of the year was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in, debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year under review.

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

The percentage of purchases for the year attributable to the five largest suppliers combined is less than 30%.

Sales

– the largest customer	15.61%
– five largest customers combined	44.50%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 42 to the financial statements did not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the latest practicable date prior to the issue of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules at any time during the financial year ended 31 December 2012.

DIRECTORS' REPORT

AUDIT COMMITTEE

The Company has established the Audit Committee which comprises three independent non-executive Directors, namely Mr. Li Wan Jun, Ms. Li Xiao Hui and Mr. Yu Zhuo Ping. Mr. Li Wan Jun is the chairman of the Audit Committee. The rights and duties of the Audit Committee have complied with the Code. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The Audit Committee had reviewed the audited results of the Group for the financial year ended 31 December 2012.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive Directors, namely Ms. Li Xiao Hui, Mr. Yu Zhuo Ping and Mr. Li Wan Jun. Ms. Li Xiao Hui is the chairperson of the remuneration committee. The Remuneration Committee has rights and duties consistent with those set out in the Code. The Remuneration Committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board of Directors.

LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries during the year under review.

AUDITOR

The financial statements have been audited by SHINEWING (HK) CPA Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

DIRECTORS' REPORT

ANNUAL GENERAL MEETING

The Company proposed that the Annual General Meeting will be held on 22 May 2013. This annual report is published on the Company's website (http://www.titans.com.cn) and the Stock Exchange's website (http://www.hkexnews.hk). The notice of the Annual General Meeting will be despatched to shareholders of the Company and will be made available on the websites of the Company and the Stock Exchange in due course.

On behalf of the Board

Li Xin Qing
Chairman

Hong Kong, 27 March 2013

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF CHINA TITANS ENERGY TECHNOLOGY GROUP CO., LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Titans Energy Technology Group Co., Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 132, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 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 and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong
27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	(7)	**238,670**	268,660
Cost of sales		**(139,808)**	(146,707)
Gross profit		**98,862**	121,953
Other revenue	(9)	**13,750**	20,869
Selling and distribution expenses		**(32,318)**	(33,385)
Administrative and other expenses		**(60,739)**	(55,731)
Share of result of an associate		**6,368**	1,740
Finance costs	(10)	**(9,411)**	(3,783)
Profit before taxation		**16,512**	51,663
Income tax expense	(11)	**(4,760)**	(18,591)
Profit for the year	(13)	**11,752**	33,072
Other comprehensive expenses			
Fair value loss on available-for-sale financial assets		**(2,080)**	–
Income tax relating to the component of other comprehensive expenses		**339**	–
Other comprehensive expenses for the year, net of income tax		**(1,741)**	–
Total comprehensive income for the year		**10,011**	33,072
Profit for the year attributable to:			
Owners of the Company		**11,795**	33,872
Non-controlling interests		**(43)**	(800)
		11,752	33,072
Total comprehensive income attributable to:			
Owners of the Company		**10,054**	33,872
Non-controlling interests		**(43)**	(800)
		10,011	33,072
Earnings per share	(17)		
Basic (RMB)		**1.42 cents**	4.08 cents
Diluted (RMB)		**1.42 cents**	4.06 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	(18)	**32,085**	21,681
Deposits for acquisition of plant and equipment		**28,377**	23,216
Prepaid lease payments	(19)	**–**	12,817
Intangible assets	(20)	**947**	1,324
Interest in an associate	(21)	**26,053**	14,624
Available-for-sale financial assets	(22)	**6,021**	8,198
Deferred tax assets	(37)	**339**	–
		93,822	81,860
Current assets			
Inventories	(23)	**48,617**	61,471
Trade and bills receivables	(24)	**292,980**	268,089
Prepayments, deposits and other receivables	(25)	**69,927**	37,439
Prepaid lease payments	(19)	**–**	288
Amount due from an associate	(26)	**80,120**	91,873
Amount due from a non-controlling shareholder of a subsidiary	(27)	**89**	–
Restricted bank balances	(28)	**4,263**	10,081
Short-term bank deposits	(28)	**126,000**	101,000
Bank balances and cash	(28)	**58,331**	62,761
		680,327	633,002
Assets classified as held for sale	(29)	**28,620**	–
		708,947	633,002
Current liabilities			
Trade and bills payables	(30)	**94,646**	90,941
Receipts in advance		**11,464**	6,990
Accruals and other payables		**70,599**	56,478
Tax payable		**17,372**	20,477
Bank borrowings	(31)	**90,001**	54,773
		284,082	229,659
Liabilities classified as held for sale	(29)	**6,226**	–
		290,308	229,659
Net current assets		**418,639**	403,343
Total assets less current liabilities		**512,461**	485,203

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Deferred income	(43)	**1,037**	1,308
Deferred tax liabilities	(37)	**9,975**	10,194
		11,012	11,502
Net assets		**501,449**	473,701
Capital and reserves			
Share capital	(32)	**7,311**	7,311
Reserves		**472,366**	464,075
Equity attributable to owners of the Company		**479,677**	471,386
Non-controlling interests		**21,772**	2,315
Total equity		**501,449**	473,701

The consolidated financial statements on pages 58 to 132 were approved and authorised for issue by the board of directors on 27 March 2013 and are signed on its behalf by:

An Wei
Director

Li Xin Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Merger reserve RMB'000	Exchange translation reserve RMB'000	Available-for-sale financial assets revaluation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	7,311	232,139	4,244	8,640	504	–	(1,539)	31,202	–	165,470	447,971	6,049	454,020
Profit and total comprehensive income (expenses) for the year	–	–	–	–	–	–	–	–	–	33,872	33,872	(800)	33,072
Contribution of additional interest in a subsidiary *(note 33)*	–	–	–	–	–	–	–	–	(530)	–	(530)	530	–
Recognition of share-based payments *(note 44)*	–	–	7,634	–	–	–	–	–	–	–	7,634	–	7,634
Appropriation to reserves	–	–	–	–	–	–	–	7,554	–	(7,554)	–	–	–
Release on deregistration of a subsidiary *(note 35)*	–	–	–	–	–	–	–	(39)	–	39	–	–	–
Dividends recognised as distribution *(note 16)*	–	–	–	–	–	–	–	–	–	(20,425)	(20,425)	–	(20,425)
Forfeiture of share options	–	–	(38)	–	–	–	–	–	–	38	–	–	–
Acquisition of additional equity interest in a subsidiary from non-controlling shareholder *(note 33)*	–	–	–	–	–	–	–	–	2,864	–	2,864	(3,464)	(600)
At 31 December 2011	7,311	232,139	11,840	8,640	504	–	(1,539)	38,717	2,334	171,440	471,386	2,315	473,701
Profit for the year	–	–	–	–	–	–	–	–	–	11,795	11,795	(43)	11,752
Other comprehensive expenses for the year:													
Change in fair value of available-for-sale financial assets, net of tax	–	–	–	–	–	(1,741)	–	–	–	–	(1,741)	–	(1,741)
Total comprehensive (expenses) income for the year	–	–	–	–	–	(1,741)	–	–	–	11,795	10,054	(43)	10,011
Appropriation to reserves	–	–	–	–	–	–	–	23	–	(23)	–	–	–
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	19,500	19,500
Recognition of share-based payments *(note 44)*	–	–	5,000	–	–	–	–	–	–	–	5,000	–	5,000
Lapse of share options	–	–	(2,897)	–	–	–	–	–	–	2,897	–	–	–
Forfeiture of share options	–	–	(529)	–	–	–	–	–	–	529	–	–	–
Dividends recognised as distribution *(note 16)*	–	–	–	–	–	–	–	–	–	(6,763)	(6,763)	–	(6,763)
At 31 December 2012	7,311	232,139	13,414	8,640	504	(1,741)	(1,539)	38,740	2,334	179,875	479,677	21,772	501,449

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before taxation:	**16,512**	51,663
Adjustments for:		
Allowance for trade receivables	**3,347**	–
Amortisation of intangible assets	**377**	378
Amortisation of prepaid lease payments	**291**	194
Deemed gain on deregistration of a subsidiary *(note 35)*	**–**	(78)
Depreciation of property, plant and equipment	**5,128**	4,212
Finance costs	**9,411**	3,783
Gain on disposal of available-for-sale financial assets	**(3)**	–
(Gain) loss on disposal of property, plant and equipment	**(42)**	284
Government grants income	**(2,557)**	(12,201)
Interest income	**(657)**	(1,974)
Gain on deemed disposal of partial interests in associates *(note 36)*	**–**	(114)
Loss on deemed disposal of partial interests in associates *(note 36)*	**1,089**	15
Share-based payments	**5,000**	7,634
Share of result of an associate	**(6,368)**	(1,740)
Operating cash flows before movements in working capital	**31,528**	52,056
Decrease (increase) in inventories	**11,449**	(26,117)
Increase in trade and bills receivables	**(40,170)**	(13,143)
Increase in prepayments, deposits and other receivables	**(33,918)**	(16,129)
Decrease (increase) in amount due from an associate	**11,753**	(43,047)
Increase in amount due from a non-controlling shareholder of a subsidiary	**(89)**	–
Increase in trade and bills payables	**3,904**	27,671
Increase in receipts in advance	**5,026**	2,390
Increase in accruals and other payables	**19,596**	5,362
Cash from (used in) operations	**9,079**	(10,957)
PRC income tax paid	**(8,084)**	(7,973)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**995**	(18,930)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES		
Placement of short-term bank deposits	**(35,000)**	(36,000)
Purchase of property, plant and equipment	**(15,949)**	(11,914)
Addition investment in an associate	**(6,150)**	–
Deposits paid for acquisition of plant and equipment	**(5,161)**	(16,373)
Placement of restricted bank balances	**(4,263)**	–
Withdrawal of restricted bank balances	**10,081**	1,360
Withdrawal of short-term bank deposits	**10,000**	–
Interest received	**657**	1,974
Proceeds on disposal of property, plant and equipment	**246**	997
Proceeds on disposal of available-for-sale financial assets	**100**	–
Purchase of prepaid lease payments	**–**	(13,299)
Net cash outflow on deregistration of a subsidiary *(note 35)*	**–**	(1)
NET CASH USED IN INVESTING ACTIVITIES	**(45,439)**	(73,256)
FINANCING ACTIVITIES		
New bank borrowings raised	**120,000**	71,573
Capital contribution from non-controlling interests of a subsidiary	**19,500**	–
Net cash inflow from government grants	**2,286**	13,509
Repayment of bank borrowings	**(84,772)**	(56,800)
Interest paid	**(9,411)**	(3,783)
Dividend paid	**(6,763)**	(20,567)
Net cash outflow on acquisition of additional interest in a subsidiary *(note 34)*	**–**	(600)
NET CASH FROM FINANCING ACTIVITIES	**40,840**	3,332
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,604)**	(88,854)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**62,761**	151,615
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**59,157**	62,761
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Bank balances and cash	**58,331**	62,761
Bank balances and cash classified as assets held for sale	**826**	–
	59,157	62,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

China Titans Energy Technology Group Co., Limited (the "Company") was incorporated and registered as an exempted company in the Cayman Islands with limited liability. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the section "Corporate Information" of the annual report.

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

The Company's principal activity is investment holding. The principal activities of the subsidiaries are set out in note 46.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to Hong Kong Accounting Standards ("HKAS") 12	Deferred Tax: Recovery of Underlying Asset
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs in current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 1 Presentation of Financial Statements, the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (continued)

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

– All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to change in the financial liabilities's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 9 Financial Instruments (continued)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the Group's financial assets and financial liabilities as at 31 December 2012, the directors of the Company anticipate that the adoption of HKFRS 9 in the future will affect the classification of the Group's available-for-sale financial assets and is not likely to have significant impact on the amounts of the Group's other financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK(SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (continued)

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards will have no significant impact on amounts reported in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

– obtain funds from one or more investors for the purpose of providing them with professional investment management services;

– commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

– measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in a subsidiary

Investment in a subsidiary is carried on the statement of financial position of the Company at cost less impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is any entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of loss of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible and intangible assets (continued)

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from an associate and a non-controlling shareholder of a subsidiary, restricted bank balances, short-term bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loan and receivables or held-to-maturity investments.

Equity securities held by the Group that are classified as available-for-sale financial assets and are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale financial assets revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale financial assets revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment loss on financial assets (continued)

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment loss on financial assets (continued)

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in available-for-sale financial assets revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognisation.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and bills payables, accruals and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continue to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the fair value of money is material).

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term bank deposits as defined above.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of returns and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the cost incurred or to be incurred in respect of the transaction can be measured reliably.

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

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Commission income is recognised in the accounting period in which the services are rendered and the Group's entitlement to commission income becomes unconditional or irrevocable.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the profit or loss on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange translation reserve (attributed to non-controlling interest as appropriate).

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values, and related depreciation charges for the property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Periodic review could result in a change in depreciable lives and residual lives and therefore depreciation expenses in the future periods. As at 31 December 2012, the carrying amount of property, plant and equipment is approximately RMB32,085,000 (2011: RMB21,681,000).

Amortisation on intangible assets

The determination of the estimated useful lives involves management's estimation. Management will re-assess the estimated useful lives of intangible assets regularly which may result in a change in useful lives and therefore amortisation in the future periods should the expectation differs from the original estimates. As at 31 December 2012, the carrying amount of intangible assets is approximately RMB947,000 (2011: RMB1,324,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise. The cash flows used are consistent with the most up-to-date budgets and plans formally approved by management and are based on reasonable and supportable assumptions. Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment of intangible assets has been recognised for each of the reporting periods. As at 31 December 2012, the carrying amount of intangible assets is approximately RMB947,000 (2011: RMB1,324,000).

Allowance for trade and other receivables

The Group performs ongoing credit evaluation of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. As at 31 December 2012, the carrying amount of trade receivables is approximately RMB288,672,000 (net of allowance for doubtful debts of approximately RMB16,778,000) (2011: carrying amount of approximately RMB266,339,000, net of allowance for doubtful debts of approximately RMB13,431,000), and the carrying amount of other receivables is approximately RMB11,647,000 (net of allowance for doubtful debts of approximately RMB169,000) (2011: carrying amount of approximately RMB14,942,000, net of allowance for doubtful debts of approximately RMB169,000).

Allowance for inventories

The Group does not have a general allowance policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. The Group's sales and marketing managers review the inventory aged listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories is carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal. As at 31 December 2012, the carrying amount of inventories is approximately RMB48,617,000 (2011: RMB61,471,000). No impairment loss was recognised during the year ended 31 December 2012 (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Share-based payment

The Group granted shares options to the employees as a common feature of employee remuneration. HKFRS 2 requires recognition of an expense for those share options at the fair value on the grant date (equity-settled plans). For share options granted to the employees, in case market prices are not available because the options granted are subject to terms and conditions that do not apply to traded options. If this is the case, the Group estimates the fair value of the equity instruments granted using a valuation technique, which is consistent with generally accepted valuation methodologies. For the year ended 31 December 2012, share-based payment expenses amount to approximately RMB5,000,000 (2011: RMB7,634,000).

5. 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 net debt, which includes bank borrowings disclosed in note 31, net of restricted bank balances, short-term bank deposits and bank balances and cash disclosed in note 28 and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends and the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**586,250**	548,756
Available-for-sale financial assets	**6,021**	8,198
	592,271	556,954
Financial liabilities		
Amortised cost	**217,365**	167,266

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, amounts due from an associate and a non-controlling shareholder of subsidiary, restricted bank balances, short-term bank deposits, bank balances and cash, trade and bills payables, accruals and other payables and bank borrowings. Details of the 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.

Market risk

(i) Currency risk

The Group mainly operates in the PRC. A significant portion of the Group's sales and purchases is denominated in the functional currency of the Group (i.e. RMB).

Certain cash on hand are denominated in Hong Kong Dollars ("HK$") and US Dollars ("US$"), which expose the Group to foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i) Currency risk (continued)

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

	Assets	
	2012	2011
	RMB'000	RMB'000
HK$	**156**	302
US$	**1**	71

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

Sensitivity analysis

The Group is mainly exposed to foreign currency risk of US$ and HK$.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase or decrease in RMB against the relevant foreign currencies. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2011: 5%) change in foreign currency rates. A negative number below indicates a decrease in post-tax profit where RMB strengthen 5% (2011: 5%) against the relevant currencies. For a 5% (2011: 5%) weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit and the balances below would be negative.

	US$ impact		HK$ impact	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**–**	(3)	**(7)**	(13)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i) Currency risk (continued)

The analysis is prepared by using certain assumptions on a hypothetical situation. In reality, market exchange rates would not change in isolation. In management's opinion, the analysis is used for reference purpose and should not be considered a projection of the future profit or loss.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings disclosed in note 31, restricted bank balances, short-term bank deposits and bank balances as detailed in note 28. It is the Group's policy to keep its bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB Base Lending Rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable rate bank borrowings, restricted bank balances, short-term bank deposits and bank balances. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. At the end of the reporting period, a 50 (2011: 50) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been 50 (2011: 50) basis points higher or lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase by approximately RMB153,000 (2011: RMB136,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (continued)

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

Credit risk

As at 31 December 2012, 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 credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all of the trade receivables as at the end of the reporting period.

The Group has concentration of credit risk as 26.17% and 52.57% (2011: 33.97% and 71.11%) of the trade receivables was due from the Group's largest and top five customers respectively as at 31 December 2012.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring and maintains a level of cash and cash equivalents deemed adequate by the management to finance operations and litigate the effects of fluctuations in cash flows. As at 31 December 2012, the Group has available unutilised overdraft and short-term bank loan facilities of approximately RMB17,149,000 (2011: RMB21,513,000).

The following table details the Group's remaining contractual maturity for its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity table

2012	**Within 1 year or on demand RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
Financial liabilities			
Trade and bills payables	**94,646**	**94,646**	**94,646**
Accruals and other payables	**32,718**	**32,718**	**32,718**
Bank borrowings			
– variable rate	**92,792**	**92,792**	**90,001**
	220,156	**220,156**	**217,365**

2011	Within 1 year or on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Financial liabilities			
Trade and bills payables	90,941	90,941	90,941
Accruals and other payables	21,552	21,552	21,552
Bank borrowings			
– variable rate	58,137	58,137	54,773
	170,630	170,630	167,266

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (continued)

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

Fair value

The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the Group's other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The follow table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012 **Level 3** **RMB'000**	2011 Level 3 RMB'000
Asset		
Available-for-sale financial assets	**6,021**	8,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (continued)

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

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted entity securities RMB'000
At 1 January 2011	–
Reclassified from investment in associates	8,198
At 31 December 2011	8,198
Disposal	(97)
Fair value loss on available-for-sale financial assets recognised in the other comprehensive expenses	(2,080)
At 31 December 2012	6,021

Included in other comprehensive expenses is an amount of approximately RMB2,080,000 loss relate to unlisted equity securities held at the end of the reporting period and is reported as changes of "available-for-sale financial assets revaluation reserve" (2011: nil).

7. TURNOVER

Turnover represents the amounts received and receivable for goods sold and services provided to external customers, net of returns and sales related taxes.

8. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker (i.e. executive directors of the Company) that are used to make strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (continued)

The Group currently organises its operations into five operating and reportable segments, namely direct current power system ("DC Power System"), plug and switch system products ("PASS Products"), power monitoring and management equipment ("Power Monitoring"), charging equipment for electric vehicles ("Charging Equipment") and wind and solar power generating balancing control products ("Wind and Solar Power"). They represent five major lines of products sold by the Group. The principal activities of the operating and reportable segments are as follows:

DC Power System	–	Sale of DC Power System products
PASS Products	–	Distribution of PASS products
Power Monitoring	–	Sale of power monitoring and management equipment
Charging Equipment	–	Sale of charging equipment for electric vehicles
Wind and Solar Power	–	Sale of wind and solar power generating balancing control products

The operation of high power light-emitting diode ("LED") lighting products segment of the Group was discontinued with effect from 1 November 2011 (see Note 12 for details). No segment revenue and segment results were reported for the year ended 31 December 2011.

The following is an analysis of the Group's revenue and the results by reportable and operating segments for the reporting period:

Year ended 31 December 2012

	DC Power System RMB'000	PASS products RMB'000	Power Monitoring RMB'000	Charging Equipment RMB'000	Wind and Solar Power RMB'000	Total RMB'000
Segment revenue	109,629	4,392	14,890	109,759	–	238,670
Segment results	33,752	458	5,877	37,358	(58)	77,387
Unallocated other revenue						5,503
Share of result of an associate						6,368
Loss on deemed disposal of partial interests in associates						(1,089)
Gain on disposal of available-for-sale financial assets						3
Unallocated head office and corporate expenses						(62,249)
Finance costs						(9,411)
Profit before taxation						16,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (continued)

Year ended 31 December 2011

	DC Power System RMB'000	PASS products RMB'000	Power Monitoring RMB'000	Charging Equipment RMB'000	Wind and Solar Power RMB'000	Total RMB'000
Segment revenue	114,477	3,585	28,497	122,101	–	268,660
Segment results	38,229	470	9,387	45,692	–	93,778
Unallocated other revenue						15,545
Share of result of an associate						1,740
Loss on disposal of property, plant and equipment						(284)
Loss on deemed disposal of partial interests in associates						(15)
Gain on deemed disposal of partial interests in associates						114
Unallocated head office and corporate expenses						(55,432)
Finance costs						(3,783)
Profit before taxation						51,663

Note: all of the segment revenue reported above is from external customers.

Segment results represent the profit earned or loss incurred by each segment without allocation of central administrative cost, directors' emoluments, share of result of an associate, gain or loss on deemed disposal of partial interests in associates, certain other revenue, interest income and finance costs. This is the measure reported to the chief executive officer for the purpose of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

Segment assets	2012 RMB'000	2011 RMB'000
DC Power System	**216,278**	173,929
PASS Products	**31,719**	33,830
Power Monitoring	**47,633**	33,034
Charging Equipment	**246,108**	146,059
Wind and Solar Power	**–**	–
Total segment assets	**541,738**	386,852
Assets relating to discontinued operation		
– LED lighting products	**–**	1,306
Unallocated	**261,031**	326,704
Consolidated assets	**802,769**	714,862

Segment liabilities	2012 RMB'000	2011 RMB'000
DC Power System	**48,739**	41,729
PASS Products	**8,179**	1,306
Power Monitoring	**6,620**	10,388
Charging Equipment	**49,835**	45,816
Wind and Solar Power	**–**	–
Total segment liabilities	**113,373**	99,239
Liabilities relating to discontinued operation		
– LED lighting products	**–**	–
Unallocated	**187,947**	141,922
Consolidated liabilities	**301,320**	241,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than deposits for acquisition of plant and equipment, interest in an associate, available-for-sale financial assets, deferred tax assets, other receivables, restricted bank balances, short-term bank deposits and bank balances and cash.

- all liabilities are allocated to reportable segments other than accruals and other payables, tax payable, bank borrowings and deferred tax liabilities.

Other segment information

The following is an analysis of the Group's other segment information by reportable and operating segments.

For the year ended 31 December 2012

	DC Power System RMB'000	PASS products RMB'000	Power Monitoring RMB'000	Charging Equipment RMB'000	Wind and Solar Power RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets *(Note)*	7,326	293	995	7,335	–	–	15,949
Allowance for trade receivables	952	–	770	1,625	–	–	3,347
Gain on disposal of property, plant and equipment	42	–	–	–	–	–	42
Depreciation and amortisation	2,662	107	362	2,665	–	–	5,796
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Interest in an associate	–	–	–	–	–	26,053	26,053
Share of result of an associate	–	–	–	–	–	6,368	6,368
Interest income	–	–	–	–	–	657	657
Finance costs	–	–	–	–	–	9,411	9,411
Income tax expense	–	–	–	–	–	4,760	4,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (continued)

Other segment information (continued)

For the year ended 31 December 2011

	DC Power System RMB'000	PASS products RMB'000	Power Monitoring RMB'000	Charging Equipment RMB'000	Wind and Solar Power RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets *(Note)*	5,077	13,458	1,264	5,414	–	–	25,213
Loss on disposal of property, plant and equipment	–	–	–	–	–	284	284
Depreciation and amortisation	1,951	360	610	1,863	–	–	4,784
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Interest in an associate	–	–	–	–	–	14,624	14,624
Share of result of an associate	–	–	–	–	–	1,740	1,740
Interest income	–	–	–	–	–	1,974	1,974
Finance costs	–	–	–	–	–	3,783	3,783
Income tax expense	–	–	–	–	–	18,591	18,591

Note:

Non-current assets excluded deposits for acquisition of plant and equipment, interest in an associate, available-for-sale financial assets and deferred tax assets.

Geographical information

All revenues from external customers and non-current assets are derived from the PRC.

Major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012 RMB'000	2011 RMB'000
Customer A[1]	**32,025**	39,268
Customer B[1]	**N/A**[2]	57,462

[1] *Revenue mainly from Charging Equipment*

[2] *The corresponding revenue did not contribute over 10% of the total sales of the Group in the respective year*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. OTHER REVENUE

	2012 RMB'000	2011 RMB'000
Value added tax ("VAT") refunds *(Note a)*	**8,244**	5,210
Interest income	**657**	1,974
Deemed gain on deregistration of a subsidiary	**–**	78
Gain on deemed disposal of partial interests in associates	**–**	114
Consultancy service income	**1,765**	688
Government grants *(Note b)*	**2,557**	12,201
Gain on disposal of property, plant and equipment	**42**	–
Gain on disposal of available-for-sale financial assets	**3**	–
Rental income *(Note c)*	**27**	47
Repairs and maintenance services provided	**44**	307
Commission income	**168**	–
Other income	**243**	250
	13,750	20,869

Notes:

(a) VAT refunds represent the refund of VAT charged on qualified sales of software products by the PRC tax bureau.

(b) Government grants represent the subsidies received from Zhuhai Finance Bureau ("珠海市財政局"), Department of Finance of Guangdong Province ("廣東省財政廳") and The Ministry of Science and Technology of the People's Republic of China ("中華人民共和國科學技術部") regarding the research and development on technology innovation of which there are no unfulfilled conditions or contingencies relating to those subsidies during the years ended 31 December 2011 and 2012.

(c) There was no outgoings for rental income in 2012 and 2011.

10. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**3,991**	1,465
Factoring cost on trade receivables	**5,420**	2,318
	9,411	3,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax:		
– PRC Corporate Income Tax	3,829	8,397
– Withholding tax for dividend from PRC subsidiaries	1,150	–
	4,979	8,397
Deferred tax:		
– Provision on withholding tax from undistributed profit from PRC subsidiaries	931	10,194
– Reversal on withholding tax from distribution on dividend from PRC subsidiaries	(1,150)	–
	(219)	10,194
	4,760	18,591

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both years.

Zhuhai Titans Technology Co., Ltd. ("Titans Technology") was established in Zhuhai, the special economic zone, and the income tax rates applicable to them was 15% pursuant to the relevant PRC laws in 2007, Titans Technology and Zhuhai Titans New Energy Systems Co., Ltd. ("Titans New Energy") were recognised as High and New Technology Enterprises by Department of Science and Technology of Guangdong Province in 2008 and the income tax rate applicable to them is 15% for the year ended 31 December 2012.

Zhuhai Titans Power Electronics Company Limited (formerly known as Zhuhai Titans Automatic Technology Company Limited) ("Titans Power"), Titans Technology and Titans New Energy were established in Zhuhai, the special economic zone, and the income tax rate applicable to them was 15% pursuant to the relevant PRC laws in 2007, Titans Technology and Titans New Energy were recognised as High and New Technology Enterprises by Department of Science and Technology of Guangdong Province in 2008 and the income tax rate applicable to them is 15% for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX EXPENSE (continued)

Starting from May 2008, Titans Power in the PRC is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. Provision for PRC income tax has been made based on 50% reduction in Titans Power for the years ended 31 December 2012 and 2011.

The relevant tax rate for the Group's subsidiaries in the PRC other than Titans Technology and Titans Power was 25% for the year ended 31 December 2012.

The income tax expense for the years can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2012	2011
	RMB'000	RMB'000
Profit before taxation	**16,512**	51,663
Tax at the applicable income tax rate of 15%	**2,477**	7,749
Tax effect of expenses not deductible for tax purpose	**3,254**	2,397
Tax effect of income not taxable for tax purpose	**(2,098)**	(1,818)
Tax effect of share of result of an associate	**(1,592)**	(261)
Tax effect of tax losses not recognised	**2,494**	1,411
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiaries	**931**	10,194
Tax effect of temporary difference not recognised	**837**	–
Utilisation of tax losses previously not recognised	**(182)**	–
Effect of difference tax rates of subsidiaries	**(1,361)**	(1,081)
Income tax expense	**4,760**	18,591

Details of deferred taxation are set out in note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DISCONTINUED OPERATION

Pursuant to a resolution passed on 1 November 2011, the directors decided to cease the operation of LED lighting products with immediate effect.

During the year ended 31 December 2011, the discontinued operation did not affect the Group's turnover, profit for that year and net operating cash flows.

13. PROFIT FOR THE YEAR

	2012 **RMB'000**	2011 RMB'000
Profit for the year have been arrived at after charging:		
Staff costs		
Directors' emoluments *(Note 14)*	**1,526**	1,983
Other staff		
– share-based payments for other staff	**4,716**	6,922
– salaries and other allowances	**23,279**	24,130
– retirement benefits scheme contributions (excluding directors)	**4,759**	3,822
Total staff costs	**34,280**	36,857
Allowance for trade receivables	**3,347**	–
Amortisation of intangible assets	**377**	378
Amortisation of prepaid lease payments	**291**	194
Auditor's remuneration	**704**	705
Cost of inventories recognised as an expense	**139,808**	146,707
Depreciation of property, plant and equipment	**5,128**	4,212
Exchange loss	**102**	157
Loss on deemed disposal of partial interests in associates	**1,089**	15
Loss on disposal of property, plant and equipment	**–**	284
Operating lease rentals in respect of rented premises	**1,955**	1,070
Research and development costs (included in administrative and other expenses) *(Note)*	**20,397**	16,369

Note:

Research and development costs included staff costs of employees and depreciation of property, plant and equipment for the purpose of research and development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the five (2011: five) directors and the chief executive were as follows:

For the year ended 31 December 2012

		Other emoluments			
	Fees RMB'000	Salaries and other benefits RMB'000	Share-based payments RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000
Executive directors:					
Li Xin Qing	–	463	142	14	619
An Wei	–	463	142	14	619
Independent non-executive directors:					
Li Wan Jun	96	–	–	–	96
Li Xiao Hui	96	–	–	–	96
Yu Zhou Ping	96	–	–	–	96
Total	288	926	284	28	1,526

For the year ended 31 December 2011

		Other emoluments			
	Fees RMB'000	Salaries and other benefits RMB'000	Share-based payments RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000
Executive directors:					
Li Xin Qing	–	474	356	13	843
An Wei	–	474	356	13	843
Independent non-executive directors:					
Li Wan Jun	99	–	–	–	99
Li Xiao Hui	99	–	–	–	99
Yu Zhou Ping	99	–	–	–	99
Total	297	948	712	26	1,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

Mr. An Wei is the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

During the year, no emoluments were paid by the Group to the directors or any of the 5 highest paid individuals set out in note 15 as an inducement to join or upon joining the Group or as compensation for loss of office.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 31December 2012 and 2011.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining individual are as follows:

	2012	2011
	RMB'000	RMB'000
Salaries and other benefits	**639**	653
Share-based payments	**274**	386
Retirement benefits scheme contributions	**12**	17
	925	1,056

The emoluments of the remaining three individual is within the band of nil to HK$1,000,000 (equivalent to RMB802,246) (2011: nil to HK$1,000,000 (equivalent to RMB828,000)).

16. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Dividends recognised as distribution during the year		
– Interim dividend paid for 2012 – nil (2011: HK3 cents per share)	**–**	20,425
– Final dividend in respect of the previous financial year, approved and paid of HK1 cent per share (2011: nil)	**6,763**	–
	6,763	20,425

No dividend has been declared by the Company for the year ended 31 December 2012 nor has any dividend been proposed since the end of the reporting period (2011: HK1 cent per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. EARNINGS PER SHARE

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

	2012 **RMB'000**	2011 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**11,795**	33,872
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**830,000,000**	830,000,000
Effect of dilutive potential ordinary shares:		
Share options	**–**	3,497,673
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**830,000,000**	833,497,673

During the year ended 31 December 2011, the discontinued operation did not affect the Group's profit for the year attributable to owners of the Company.

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2011	16,171	499	3,407	4,823	3,221	28,121
Additions	–	707	7,316	133	3,758	11,914
Disposals	–	–	(811)	(708)	(987)	(2,506)
At 31 December 2011	16,171	1,206	9,912	4,248	5,992	37,529
Additions	–	5,090	3,951	552	6,356	15,949
Disposals	–	–	(706)	(95)	(270)	(1,071)
Transfer to assets held for sale	(27)	–	(145)	(332)	(174)	(678)
At 31 December 2012	16,144	6,296	13,012	4,373	11,904	51,729
ACCUMULATED DEPRECIATION						
At 1 January 2011	8,214	156	2,097	960	1,434	12,861
Provided for the year	857	529	1,284	659	883	4,212
Eliminated on disposals	–	–	(527)	(115)	(583)	(1,225)
At 31 December 2011	9,071	685	2,854	1,504	1,734	15,848
Provided for the year	856	778	1,651	766	1,077	5,128
Eliminated on disposals	–	–	(538)	(78)	(251)	(867)
Transfer to assets held for sale	(4)	–	(106)	(276)	(79)	(465)
At 31 December 2012	**9,923**	**1,463**	**3,861**	**1,916**	**2,481**	**19,644**
CARRYING VALUES						
31 December 2012	**6,221**	**4,833**	**9,151**	**2,457**	**9,423**	**32,085**
31 December 2011	7,100	521	7,058	2,744	4,258	21,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings are located in the PRC and under medium-term leases.

The above items of property, plant and equipment are depreciated on a straight-line basis, after taking into account of their estimated residual value, at the following rates per annum:

Leasehold land and buildings	4.5%
Leasehold improvements	over the shorter of the term of the lease, or 5 years
Furniture, fixtures and equipment	18%
Motor vehicles	18%
Plant and machinery	18%

As at 31 December 2012, the Group has pledged its leasehold land and buildings with carrying values of approximately RMB6,049,000 (2011: RMB6,863,000) to secure banking facilities granted to the Group.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprised land use rights in the PRC which were held under medium-term leases. The prepaid lease payments were amortised over a period of 45.5 years on a straight-line basis.

	2012 **RMB'000**	2011 RMB'000
Analysed for reporting purposes as		
Non-current asset	–	12,817
Current asset	–	288
	–	13,105

During the year ended 31 December 2012, the Group's prepaid lease payment with a carrying amount of approximately HK$12,814,000 has been transferred to assets classified as held for sale as set out in note 29 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. INTANGIBLE ASSETS

	Technical know-how RMB'000
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	3,000
AMORTISATION	
At 1 January 2011	1,298
Charge for the year	378
At 31 December 2011	1,676
Charge for the year	377
At 31 December 2012	2,053
CARRYING VALUES	
At 31 December 2012	**947**
At 31 December 2011	1,324

The technical know-how has definite useful life. It is amortised on the straight-line basis over the estimated useful lives of the relevant assets of 7 or 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTEREST IN AN ASSOCIATE

	2012 RMB'000	2011 RMB'000
Cost of investment in an unlisted associate	19,650	13,500
Loss on deemed disposal of partial interests in associates *(note 36)*	(1,089)	–
Share of post acquisition results	7,492	1,124
	26,053	14,624

	2012 RMB'000	2011 RMB'000
Total assets	217,702	92,932
Total liabilities	(143,266)	(60,434)
Net assets	74,436	32,498
Group's share of net assets of an associate	26,053	14,624
Revenue	132,063	100,493
Profit for the year	15,789	3,879
Group's share of result of an associate for the year	6,368	1,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTEREST IN AN ASSOCIATE (continued)

Name of entity	Form of business Structure	Place of Incorporation/ operation	Class of share held	Proportion of nominal value of registered capital directly held by the Group		Proportion of voting power held		Principal activities
				2012	2011	**2012**	2011	
Beijing Hua Shang Clear New Energy Technology Co., Ltd* (北京華商三優新能源科技有限公司) ("Beijing Hua Shang")	Registered	The PRC	Capital contribution	**35%**	45%	**35%**	45%	Promotion and sales of charging equipment for electric vehicles

* *For identification purpose only*

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 RMB'000	2011 RMB'000
Available-for-sale financial assets comprise:		
Unlisted investments:		
– equity securities	**6,021**	8,198

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at fair value.

In the current year, the Group disposed of certain unlisted equity securities with carrying amount of approximately RMB97,000, which had been carried at fair value. A gain on disposal of approximately RMB3,000 has been recognised in profit or loss for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. INVENTORIES

	2012	2011
	RMB'000	RMB'000
At cost		
Raw materials	**24,072**	25,355
Work-in-progress	**4,222**	2,563
Finished goods	**20,323**	33,553
	48,617	61,471

24. TRADE AND BILLS RECEIVABLES

	2012	2011
	RMB'000	RMB'000
Trade receivables	**305,450**	279,770
Less: allowance for trade receivables	**(16,778)**	(13,431)
	288,672	266,339
Bills receivables	**4,308**	1,750
Total trade and bills receivables	**292,980**	268,089

Included in the balances of trade receivables as at 31 December 2012 were retention receivables of approximately RMB47,130,000 (2011: RMB36,538,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. TRADE AND BILLS RECEIVABLES (continued)

The following is an aged analysis of trade receivables based on the dates of recognition of the sales and net of allowance for trade receivables at the end of the reporting period:

	2012	2011
	RMB'000	RMB'000
0 – 90 days	**103,671**	101,099
91 – 180 days	**6,578**	20,145
181 – 365 days	**48,443**	53,787
1 – 2 years	**104,331**	76,426
2 – 3 years	**19,584**	11,732
Over 3 years	**6,065**	3,150
	288,672	266,339

The Group allows an average credit period of 90 days to its trade customers counted from the due date of each of their installment payments pursuant to the sales contracts. Installment payments are separated into initial deposit payment which is due upon signing of sales contracts, the payment after installation and testing and retention money which is due from the end of the product quality assurance period which is twelve to eighteen months after the installation and testing.

Before accepting any new customer, the Group assesses the credit quality of the potential customers and determines the credit terms and limits for them. Credit quality of the existing customers and recoverability of the trade receivables is monitored by the Group regularly.

The Group's trade receivables neither past due nor impaired mainly represent sales made to recognised and creditworthy customers. These customers, who trade on credit terms, are subject to credit verification procedures. The Group does not hold any collateral over these balances.

At the end of the reporting period, the Group's trade receivables are individually assessed for impairment. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. In view of the good repayment history from those major debtors of the Group, the directors of the Company consider that there is no further allowance for doubtful debts required in excess of the impairment loss recognised for each of the reporting period.

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For the year ended 31 December 2012

24. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2012, included in the Group's trade receivable balances were receivables with aggregate carrying amounts of approximately RMB185,001,000 (2011: RMB165,240,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing of trade receivables which are past due but not impaired:

	2012	2011
	RMB'000	RMB'000
Duration of past due		
0 – 90 days	**6,578**	20,146
91 – 180 days	**12,111**	13,447
181 – 365 days	**62,415**	59,447
1 – 2 years	**83,144**	60,252
2 – 3 years	**16,204**	9,586
Over 3 years	**4,549**	2,362
	185,001	165,240
Neither past due nor impaired	**103,671**	101,099
	288,672	266,339

Movement in the allowance for trade receivables:

	2012	2011
	RMB'000	RMB'000
Balance at beginning of the year	**13,431**	13,431
Allowance for trade receivables	**3,347**	–
Balance at end of the year	**16,778**	13,431

As at 31 December 2012, included in the allowance for trade receivables are individually impaired trade receivables with aggregate balances of approximately RMB16,778,000 (2011: RMB13,431,000) which have been placed in severe financial difficulties.

As at 31 December 2011, Titans Technology pledged trade receivables of approximately RMB50,000,000 for credit facilities of RMB50,000,000 granted to Titans Technology by a bank. The pledge of trade receivables has been released during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Other receivables	**11,816**	15,111
Less: allowance for other receivables	**(169)**	(169)
	11,647	14,942
Prepayments to suppliers	**58,093**	22,353
Prepayments	**187**	144
	69,927	37,439

Movement in the allowance for other receivables:

	2012 RMB'000	2011 RMB'000
At 1 January and 31 December	**169**	169

As at 31 December 2012, included in the allowance for other receivables were individually impaired trade receivables with aggregate balances of approximately RMB169,000 (2011: RMB169,000) which had been assessed as highly probable from non-repayment.

26. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest-free and trading in nature.

The following is an aged analysis of amount due from an associate based on the dates of recognition of the sales at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
0 – 90 days	**19,301**	58,005
91 – 180 days	**34**	115
181 – 365 days	**–**	1,279
1 – 2 years	**52,747**	32,474
Over 2 years	**8,038**	–
	80,120	91,873

The Group allows an average credit period of 90 days counted from the due date of each of its installment payments pursuant to the sales contracts.

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26. AMOUNT DUE FROM AN ASSOCIATE (continued)

In determining the recoverability of amount due from an associate, the Group considers any change in credit quality of amount due from an associate from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history from the associate of the Group, the directors of the Company consider that there is no credit provision required for the year.

27. AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest free and trading in nature.

The Group allows an average credit period of 90 days counted from the due date of each of its installment payments pursuant to the sales contracts.

The age of amount due from a non-controlling shareholder of a subsidiary at the end of the reporting period is less than 90 days and it is neither past due nor impaired. The directors of the Company are of the opinion that the credit quality of the amount due is of good quality.

28. RESTRICTED BANK BALANCES/SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain customers and suppliers and therefore are classified as current assets. For the year ended 31 December 2012, the balances carried interest at average market rates of 0.35% (2011: 0.36%) per annum and will be released upon the completion of the respective transactions.

Short-term bank deposits represent the fixed bank deposits at rates ranged from 2.60% to 4.75% (2011: 3.10% to 5.50%) of which the days of maturity are over 3 months.

Bank balances carried interest at market rates ranged from 0.001% to 0.50% (2011: 0.001% to 0.50%) per annum for the year ended 31 December 2012.

At 31 December 2012, bank balances of approximately RMB1,000 (2011: RMB71,000) and RMB156,000 (2011: RMB302,000) were denominated in US$ and HK$ respectively.

29. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

On 7 December 2012, the Group entered into disposal agreements with Best Able Limited and Jiangyin City Siteersi Trading Co., Ltd., independent third parties, in respect of the disposal of 90.04% equity interests in Jiangyin Titans High Voltage Electric Co., Ltd. at a consideration of approximately RMB21,573,000. The principal activity of the Jiangyin Titans High Voltage Electric Co., Ltd. is marketing and sale of PASS products and the provision of engineering services. The assets and liabilities attributable to those businesses, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

The major classes of assets and liabilities classified as held for sale at 31 December 2012, which have been presented separately in the consolidated statement of financial position, are as follows:

	RMB'000
Property, plant and equipment	213
Prepaid lease payments	12,814
Inventories	1,405
Trade and bills receivables	11,932
Prepayments, deposits and other receivables	1,430
Bank balances and cash	826
Assets classified as held for sale	28,620
Trade payables	199
Receipts in advance	552
Accruals and other payables	5,475
Liabilities classified as held for sale	6,226

The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

30. TRADE AND BILLS PAYABLES

	2012	2011
	RMB'000	RMB'000
Trade payables	**88,795**	70,226
Bills payables	**5,851**	20,715
Total trade and bills payables	**94,646**	90,941

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For the year ended 31 December 2012

30. TRADE AND BILLS PAYABLES (continued)

The following is an aged analysis of trade payables based on the dates of receipt of goods purchased at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
0 – 90 days	**50,529**	57,043
91 – 180 days	**6,807**	4,511
181 – 365 days	**27,961**	7,022
1 – 2 years	**2,267**	952
Over 2 years	**1,231**	698
	88,795	70,226

The average credit period on purchases of goods is 90 days. The Group has financial risk management policy in place to ensure that all payables are within the credit timeframe.

31. BANK BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank borrowings, secured	**50,000**	19,773
Bank borrowings, unsecured	**40,001**	35,000
	90,001	54,773
Carrying amounts repayable:		
Within one year, shown under current liabilities	**90,001**	54,773

All bank borrowings are arranged at floating rates. The effective interest rates (which also equal to contracted interest rates) on the Group's bank borrowings ranges from 5.60% to 7.87% (2011: 4.86% to 7.87%) per annum for the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. BANK BORROWINGS (continued)

During the year, the Group obtained new loans in the amount of RMB120,000,000 (2011: RMB71,573,000). The proceeds were used as the Group's working capital. The above bank and other borrowings are all denominated in RMB and hence no foreign currency risk exposure.

As at 31 December 2012 and 2011, certain of the borrowings were guaranteed by the directors of the Group, detail of the guarantees are set out at note 42.

As set out in note 40, the Group's leasehold land and buildings of carrying values of approximately RMB6,049,000 (2011: RMB6,863,000) as at 31 December 2012 were pledged to secure bank borrowings and facilities.

At 31 December 2011, the Group's trade receivables of approximately RMB50,000,000 were pledged to some bank borrowings and facilities. The pledge of trade receivables has been released during the year ended 31 December 2012.

32. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	10,000,000,000	100,000
		RMB'000
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and 31 December 2012	830,000,000	7,311

33. CONTRIBUTION OF ADDITIONAL INTEREST IN A SUBSIDIARY

During the year ended 31 December 2011, Jiangyin Titans High Voltage Electric Co., Ltd. ("Jiangyin Titans") increased the registered share capital from the contribution of the Group by approximately RMB19,573,000. The Group's equity interest in Jiangyin Titans increased from 51.00% to 90.04%. The difference on additional interest with a carrying amount of approximately RMB530,000 has been recognised in other reserves within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 21 November 2011, Titans Power has acquired the remaining 20% equity interest in Zhuhai Titans New Energy Systems Co., from a third party, with a capital injection of RMB600,000. The carrying value of the additional equity interests acquired was approximately RMB3,464,000. The difference of approximately RMB2,864,000 between the consideration and the carrying value of the equity interests acquired has been recognised in other reserves within equity.

35. DEREGISTRATION OF A SUBSIDIARY

On 29 December 2011, the Group's subsidiary, Shijiazhuang Guofu Titans New Energy Co., Ltd. was deregistered. The net assets of Shijiazhuang Guofu Titans New Energy Co., Ltd as at the date of deregistration were as follows:

Analysis of assets and liabilities at the date of deregistration:

	At 29/12/2011 RMB'000
Bank balances and cash	1
Other payables	(79)
Net liabilities	(78)
Deemed gain on deregistration	
Net liabilities	78
Deemed gain on deregistration of a subsidiary	78
Net cash outflow on deregistration of a subsidiary	
Bank balances and cash	(1)

The deregistration of Shijiazhuang Guofu Titans New Energy Co., Ltd has no material effect on the Group's results and cash flows for the year ended 31 December 2011.

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36. DEEMED DISPOSAL OF PARTIAL INTERESTS IN ASSOCIATES

On 19 October 2012, the Group had entered into a capital contribution agreement with the substantial shareholder of Beijing Hua Shang according to which the contributed capital of Beijing Hua Shang would be increased by approximately RMB26,150,000. According to the agreement, the Group had contributed approximately RMB6,150,000 of the additional contributed capital and the rest of approximately RMB20,000,000 had been contributed by the substantial shareholder of Beijing Hua Shang. As a result, the interest in this associate of the Group was diluted from 45% to 35%. As the number of representative in the board of directors remained 2 seats out of total 5 seats, Beijing Hua Shang, is classified as an associate of the Group as before. The loss arising from the deemed disposal of the interest in Beijing Hua Shang amounted to approximately RMB1,089,000.

On 4 May 2011, an independent third party had injected RMB15 million into the Group's associate, Henan Longyuan New Energy Equipment Co. Ltd.*（河南龍源新能源裝備有限公司）("Henan Longyuan"), as equity investment. On 22 December 2011, an independent third party had injected RMB20 million into the Group's associate, Beijing New Clear Energy Equipment Co., Ltd.*（北京優科利爾能源設備有限公司）("Beijing New Clear"), as equity investment. As a result, the Group's equity interests in Henan Longyuan and Beijing New Clear, were diluted from 26.00% to 10.40% and from 20.00% to 12.00% respectively. Henan Longyuan and Beijing New Clear became available-for-sale financial assets of the Group. Gain arising from the deemed disposal of interest in Henan Longyuan amounted to approximately RMB114,000. The loss arising from the deemed disposal of interest in Beijing New Clear amounted to approximately RMB15,000.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. DEFERRED TAXATION

The followings are the major deferred tax asset (liability) recognised and movement thereon for the current and prior years:

	Available-for-sale financial assets RMB'000	**Undistributable profits of subsidiaries** RMB'000
At 1 January 2011	–	–
Charged to profit or loss *(note 1)*	–	(10,194)
At 31 December 2011	–	(10,194)
Charged to profit or loss *(note 1)*	–	(931)
Credit to profit or loss *(note 2)*	–	1,150
Credit to available-for-sale financial assets revaluation reserve	339	–
At 31 December 2012	339	(9,975)

Note 1: The amount represents deferred tax liability arising from withholding tax charged on PRC's subsidiaries at the amount of approximately RMB931,000 (2011: RMB10,194,000).

Note 2: The amount from withholding tax credit of approximately RMB1,150,000 (2011: nil) represents deferred tax liability reversed on withholding tax charged on PRC's subsidiaries.

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2012 **RMB'000**	2011 RMB'000
Deferred tax assets	**339**	–
Deferred tax liabilities	**(9,975)**	(10,194)
	9,636	(10,194)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements for the year ended 31 December 2012 in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB199,499,000 (2011: RMB203,872,000) as the Group considered the temporary differences will reverse during the year and in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. DEFERRED TAXATION (continued)

The Group had unused tax losses of approximately RMB13,938,000 (2011: RMB7,313,000) as at 31 December 2012, available for offsetting against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All of the tax losses will expire five years from the year of origination. The tax losses of approximately RMB615,000, RMB5,021,000 and RMB9,977,000 as at 31 December 2012 will expire in 2015, 2016 and 2017 respectively (2011: RMB615,000 and RMB5,021,000 will expire in 2015 and 2016 respectively). Other losses may be carried forward indefinitely.

The Group had deductible temporary differences of approximately RMB16,946,000 (2011: RMB10,603,000) in respect of allowance for trade and other receivables as at 31 December 2012. No deferred tax asset has been recognised due to the unpredictability of future profit streams will be available against which the deductible temporary differences can be utilised.

38. OPERATING LEASE COMMITMENTS

The Group as a lessor

Property rental income earned during the year ended 31 December 2012 was RMB27,000 (2011: RMB47,000).

At 31 December 2011, all of the properties held have committed tenants for the next year.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease receipts:

	2012	2011
	RMB'000	RMB'000
Within one year	–	27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. OPERATING LEASE COMMITMENTS (continued)

The Group as a lessee

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

	2012	2011
	RMB'000	RMB'000
Within one year	**1,053**	996
In the second to fifth year inclusive	**538**	1,177
	1,591	2,173

Operating lease payments represent rentals payable by the Group for certain of its offices and workshops. Leases are negotiated for an average of two (2011: two) years and rentals are fixed for one (2011: one) year for the year ended 31 December 2012.

39. CAPITAL COMMITMENTS

	2012	2011
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**11,863**	27,406

40. PLEDGE OF ASSETS

At 31 December 2012, the Group's leasehold land and buildings of carrying values of approximately RMB6,049,000 (2011: RMB6,863,000) were pledged to secure bank borrowings and facilities.

At 31 December 2011, the Group's trade receivables of approximately RMB50,000,000 were pledged to some bank borrowings and facilities. The pledge of trade receivables has been released during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. RETIREMENT BENEFITS SCHEMES

The Group participates in a retirement benefits scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The employer's contributions vested fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits schemes (the "Schemes") operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the Schemes to fund the benefits. The only obligation of the Group with respect to the Schemes is to make the required contributions under the Schemes.

The amount of contributions made by the Group in respect of the retirement benefits schemes during the years are set in notes 13 and 14 respectively.

42. RELATED PARTY TRANSACTIONS

a) During the year ended 31 December 2012, the Group had entered into the following transactions with related parties.

	Notes	**2012 RMB'000**	2011 RMB'000
Rental income	*(i)*	**27**	47
Sales to a non-controlling shareholder of a subsidiary	*(ii)*	**89**	–
Sales to an associate	*(iii)*	**29,474**	51,621

Notes:

(i) Pursuant to the lease agreements entered into between Titans Technology and Zhuhai Growth Technology Company Limited* 珠海成長科技有限公司 ("Zhuhai Growth"), in which a director of Titans Technology has a beneficial interest, on 28 April 2006 and 6 November 2006 respectively, Titans Technology leased certain areas of its leasehold buildings to Zhuhai Growth for a period of one year. On 1 August 2011, the lease agreement was renewed for another one year and expired on 31 July 2012.

In the opinion of the directors of the Company, the above lease agreement was referenced to the then prevailing market price.

(ii) Sales of power equipment to Henan Zhongfen Instrument Co., Ltd on terms mutually agreed with the parties, which were reference to prevailing market prices under the sales agreement.

(iii) Sales of charging equipment for electric vehicles to Beijing Hua Shang (2011: Sales of charging equipment for electric vehicles to Beijing Hua Shang) on terms mutually agreed with the parties, which were reference to prevailing market prices under the sales agreement.

* *For identification purpose only*

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42. RELATED PARTY TRANSACTIONS (continued)

b) Compensation to key management personnel

The directors of the Company consider that the executive directors are the only key management personnel of the Company. The remuneration of directors during the year was as follows:

	2012	2011
	RMB'000	RMB'000
Short-term benefits	**926**	948
Share-based payments	**284**	712
Post-employment benefits	**28**	26
	1,238	1,686

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

c) Guarantees from directors

At 31 December 2012 and 2011, certain banking facilities of the Group were guaranteed by Mr. Li Xin Qing and Mr. An Wei, directors of the Company:

	2012	2011
	RMB'000	RMB'000
To the extent of	**130,000**	30,000

Details of the borrowings of the Group are set out in note 31.

43. DEFERRED INCOME

During the year ended 31 December 2012, the Group received government grants of RMB2,100,000 (2011: RMB13,509,000) related to research and development on technology innovation on charging equipment for motor vehicles. The amounts are recognised as income according to the research and development expenses incurred and recognised in the profit and loss during the year over the forecasted research and development cost. This policy has resulted in a credit to income in the current year of RMB2,371,000 (2011: RMB12,201,000). As at 31 December 2012, an amount of RMB1,037,000 (2011: RMB1,308,000) remains to be amortised.

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44. SHARE-BASED PAYMENTS

Pre-IPO share option scheme

Pursuant to a written resolution approved by the Company's shareholders on 8 May 2010, the pre-IPO share option scheme of the Company ("Pre-IPO Share Option Scheme") became effective. Certain executive directors, senior managerial staff and employees of the Group were granted options to recognise their contribution to the Group. Under the Pre-IPO Share Option Scheme, 53 participants (the "Grantees") have been conditionally granted options by the Company. The exercise of the options would entitle the Grantees to purchase aggregate of 23,920,000 shares of the Company immediately following completion of the placing and public offer and the capitalisation issue at 50% of the final offer price. The options are exercisable by installments twelve months after 28 May 2010, the date on which the shares of the Company were listed on the Stock Exchange, (the "Listing Date") and up to 5 years since the Listing Date.

The Group will receive HK$1 for each grant under the Pre-IPO Share Option Scheme.

Share option scheme

Pursuant to the resolution in writing of shareholders of the Company on 8 May 2010, the Company has adopted a new share option scheme (the "Share Option Scheme") for a period of 10 years commencing on 8 May 2010, the board of directors of the Company may, at its discretion, grant share options to any individual being an employee, officer, agent, consultant or representative of any member of the Group (including any executive or non-executive director of any member of the Group) for at a consideration of HK$1 on acceptance of the option offer. The subscription of shares in the Company is subject to the terms and conditions as stipulated in the Share Option Scheme. 19,430,000 share options were first granted during the year ended 31 December 2011 since adoption. No share options are granted during the year ended 31 December 2012.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme, together with all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme, must not exceed 30% of the number of the issued shares from time to time.

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44. SHARE-BASED PAYMENTS (continued)

Share option scheme (continued)

Details of the Pre-IPO share option are as follows:

Date of grant	Vesting proportion	Exercisable period	Exercise price	Fair value at grant date
			HK$	HK$
8 May 2010	25%	28.5.2011-27.5.2012	0.59	0.61
	25%	28.5.2012-27.5.2013	0.59	0.65
	25%	28.5.2013-27.5.2014	0.59	0.68
	25%	28.5.2014-27.5.2015	0.59	0.69

Detail of the new share options granted on 17 February 2011 is as follows:

Date of grant	Vesting proportion	Exercisable period	Exercise price	Fair value at grant date
			HK$	HK$
17 February 2011	33%	17.2.2012-16.2.2013	1.10	0.29
	33%	17.2.2013-16.2.2014	1.10	0.39
	33%	17.2.2014-16.2.2015	1.10	0.46

The Company has share option schemes for directors and eligible employees. Details of the Pre-IPO and new share options outstanding during the current period are as follows:

	2012 Number ('000)	2011 Number ('000)
Outstanding at 1 January 2012	**42,970**	23,920
Lapsed during the year	**(5,830)**	19,430
Forfeited during the year	**(1,000)**	(380)
Outstanding at 31 December 2012	**36,140**	42,970

Share options were granted on 8 May 2010 and 17 February 2011. The aggregate fair value of the options determined at the date of grant using the Binomial model was approximately HK$15,741,000 and HK$7,365,000 (equivalent to approximately RMB13,760,000 and RMB6,178,000) respectively based on the valuation report issued by an independence valuer, Avista Valuation Advisory.

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44. SHARE-BASED PAYMENTS (continued)

Equity-settled share-based payment of approximately RMB5,000,000 (2011: RMB7,634,000) was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2012.

The following assumptions were used to calculate the fair values of share options:

	Pre-IPO share option granted on 8 May 2010	**Share options granted on 17 February 2011**
Grant date share price (HK$)	1.05 – 1.2	1.06 – 1.12
Exercise price (HK$)	0.525 – 0.6	1.1
Expected life (years)	2.058 – 5.058	4
Expected volatility	54.59% – 57.84%	46.50% – 52.70%
Dividend yield	1.17%	0%
Risk-free interest rate	0.58% – 1.82%	0.72% – 1.63%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

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45. STATEMENT OF FINANCIAL POSITION FOR COMPANY LEVEL

	2012	2011
	RMB'000	RMB'000
Non-current asset		
Investment in a subsidiary	**1**	1
Current assets		
Dividend receivable	**25,665**	25,665
Amount due from a subsidiary *(note a)*	**202,656**	212,168
Bank balances and cash	**112**	117
	228,433	237,950
Current liability		
Accruals and other payable	**715**	1,376
Net current assets	**227,718**	236,574
	227,719	236,575
Capital and reserves		
Share capital *(note 32)*	**7,311**	7,311
Reserves *(note b)*	**220,408**	229,264
	227,719	236,575

Notes:

(a) The amount is unsecured, interest-free and repayable on demand.

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45. STATEMENT OF FINANCIAL POSITION FOR COMPANY LEVEL (continued)

Notes: (continued)

(b) Reserves

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	232,139	4,244	(27,755)	208,628
Profit for the year and total comprehensive income for the year	–	–	33,427	33,427
Dividends paid	–	–	(20,425)	(20,425)
Recognition of share-based payments *(note 44)*	–	7,634	–	7,634
Forfeiture of share options	–	(38)	38	–
At 31 December 2011	232,139	11,840	(14,715)	229,264
Loss for the year and total comprehensive expense for the year	–	–	(7,093)	(7,093)
Dividends paid	–	–	(6,763)	(6,763)
Recognition of share-based payments *(note 44)*	–	5,000	–	5,000
Lapsed of share options	–	(2,897)	2,897	–
Forfeiture of share options	–	(529)	529	–
At 31 December 2012	232,139	13,414	(25,145)	220,408

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46. SUBSIDIARIES OF THE COMPANY

At the end of the reporting period, the Company has the following subsidiaries, all of which adopted a financial year end date of 31 December 2012 and 2011:

Name of subsidiary	Place of incorporation/ establishment and operation	Class of shares held	Issued and fully paid share capital/registered capital		Attributable equity interest held by the Company		Principal activities
			2012	2011	**2012**	2011	
Titans (BVI) Limited#	British Virgin Islands	Ordinary	**US$200**	US$200	**100.00%**	100.00%	Investment holding
Titans Holdings Co., Limited 泰坦控股有限公司	Hong Kong	Ordinary	**HK$10,000**	HK$10,000	**100.00%**	100.00%	Investment holding
Grace Technology Development Limited 嘉能科技發展有限公司	Hong Kong	Ordinary	**HK$1**	HK$1	**100.00%**	100.00%	Investment holding
Zhuhai Titans Power Electronics Co., Ltd.* 珠海泰坦電力電子集團有限公司 (Formerly known as Zhuhai Titans Automatic Technology Company Limited* 珠海泰坦自動化技術有限公司)	The PRC	Contributed capital	**RMB232,000,000**	RMB232,000,000	**100.00%**	100.00%	Research, development, manufacture and sales of wind and solar power generation balancing control products, charging equipment for electrical vehicles and power grid monitoring and management products
Zhuhai Titans Technology Co., Ltd.* 珠海泰坦科技股份有限公司	The PRC	Contributed capital	**RMB200,000,000**	RMB200,000,000	**100.00%**	100.00%	Research, development, manufacture and sales of electrical direct current products
Zhuhai Titans New Energy Systems Co., Ltd.* 珠海泰坦新能源系統有限公司	The PRC	Contributed capital	**RMB3,000,000**	RMB3,000,000	**100.00%**	100.00%	Research, development, manufacture and sales of electrical power generation balancing control and other products
Jiangyin Titans High Voltage Electric Co., Ltd.* 江陰泰坦高壓電氣有限公司	The PRC	Contributed capital	**RMB24,573,400**	RMB24,573,400	**90.04%**	90.04%	Marketing and sales of plug and switch system products
Anhui Titans Liancheng Energy Technology Co., Ltd.* 安徽泰坦聯成能源技術有限公司	The PRC	Contributed capital	**RMB30,000,000**	RMB30,000,000	**100.00%**	100.00%	Research, development, manufacture and sales of electrical direct current products
Henan Hong Zheng Electric Technology Co., Ltd.* *(Note 1)* 河南弘正電氣科技有限公司	The PRC	Contributed capital	**RMB30,000,000**	–	**35%^**	–	Research, development, manufacture and sales of electrical direct current products

* *For identification purpose only*

\# *Directly held by the Company*

^ *Incorporated on 14 March 2012*

Note 1: The Group has consolidated the results of Henan Hong Zheng Electric Technology Co., Ltd. as the Group can control the financial and operating policies of Henan Hong Zheng Electric Technology Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

47. EVENT AFTER THE REPORTING PERIOD

The disposal of 90.04% equity interests in Jiangyin Titans High Voltage Electric Co., Ltd. as set out in note 29 has been completed on 5 January 2013.

48. COMPARATIVE FIGURES

Reclassification of comparative figures has been made in respect of other expenses to be included in administrative and other expenses to conform to current year's presentation. The new classification has no impact on the comparative figures as at 1 January 2011. Accordingly, no consolidated statement of financial position as at 1 January 2011 has been presented.