China Ruifeng Galaxy Renewable Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00527)

Annual Report
2010

CONTENT

Company Information

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 00527

EXECUTIVE DIRECTORS

Mr. Li Baosheng *(Chairman)*
Mr. Zhang Zhixiang *(Chief Executive Officer)*
Mr. Xu Xiaoping

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling
Mr. Qu Weidong
Mr. Su Xiucheng

AUDIT COMMITTEE

Ms. Wong Wai Ling *(Chairman)*
Mr. Qu Weidong
Mr. Su Xiucheng

REMUNERATION COMMITTEE

Mr. Zhang Zhixiang *(Chairman)*
Ms. Wong Wai Ling
Mr. Qu Weidong
Mr. Su Xiucheng

COMPANY SECRETARY

Mr. Cheng Koon Kau Alfred

AUTHORISED REPRESENTATIVES

Mr. Zhang Zhixiang
Mr. Cheng Koon Kau Alfred

PRINCIPAL BANKERS

In Hong Kong:

Oversea-Chinese Banking Corporation Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited

In the Peoples' Republic of China (the "PRC"):

Bank of China Limited
Agricultural Bank of China
The Credit Cooperatives Union of the Xinbei District,
Changzhou Sanjing Credit Cooperative
Industrial and Commercial Bank of China
Bank of Chengde

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1012, 10th Floor, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

COMPANY WEBSITE

www.galaxycn.com

LEGAL ADVISERS

Loong & Yeung
Suites 2001-2005
20th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

DATES OF TEMPORARY SUSPENSION OF REGISTRATION OF SHAREHOLDERS

The transfer books and register of members of the Company will be closed on 9 May 2011 (Monday), when no transfer of shares will be effected. The board ("Board") of directors ("Directors") of the Company has resolved not to recommend the payment of final dividends for the year ended 31 December 2010.

In order to be eligible to attend and vote at the 2010 Annual General Meeting to be held on 9 May 2011 (Monday), all share transfer together with the share certificates and transfer forms must reach the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 6 May 2011 (Friday).

ANNUAL GENERAL MEETING

The 2010 Annual General Meeting will be held on 9 May 2011. The Notice for the 2010 Annual General Meeting has been included in a circular distributed to the Shareholders together with this report.

China Ruifeng Galaxy Renewable Energy Holdings Limited ("China Ruifeng" or the "Company") together with its subsidiaries (collectively, the "Group"), formerly known as Galaxy Semi-Conductor Holdings Limited, was principally engaged in three main businesses: (1) constructions of power grid and transformer projects; (2) manufacturing, processing and sale of wind power equipment; and (3) manufacturing and trading of diodes.

In 2010, the Group has undergone a period of transition in its business strategy that focuses on the provision of the wind power business through the acquisition of Power Full Group Holdings Limited ("Power Full") in July 2010. Following the completion of the said acquisition, Chengde Ruifeng Renewable Energy Windpower Company Limited（承德瑞風新能源風電設備有限公司）("Ruifeng Windpower"), wholly-owned by Power Full, became a subsidiary of the Group. Ruifeng Windpower mainly focuses on manufacturing and processing of wind turbine blades and components, with clients such as Hebei-based Zhonghang Huiteng Windpower Equipment Co., Ltd, one of the largest wind turbine blades manufacturers in China. Ruifeng Windpower has accumulated the experience of constructing large wind turbine blades and it strives to extend its roles in the wind turbine blades manufacturing industry by providing sophisticated services and products to other wind turbine manufacturers, with an aim to broaden its client base.

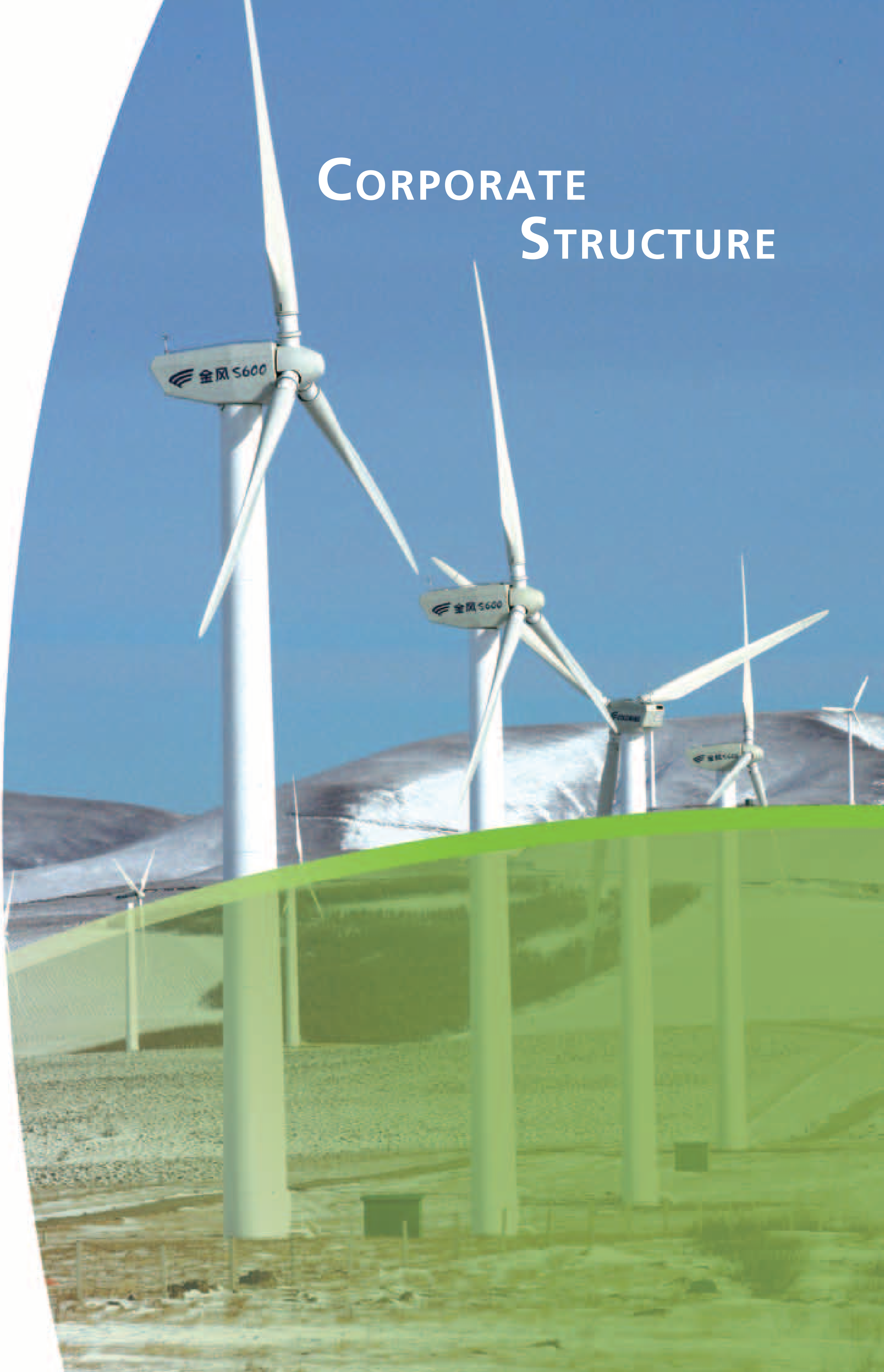
In addition, Ruifeng Windpower also manages and controls the business of Hebei Beichen Power Grid Construction Co., Ltd.（河北北辰電網建設股份有限公司）("Beichen Power Grid"), which is licenced to contract constructions regarding transmission and transformation of electricity (issued by the Ministry of Housing and Urban-Rural Development) and to construct and install (repair and test) power facilities (issued by the State Electricity Regulatory Commission). Having both first grade licences, Beichen Power Grid is allowed to carry out contracting works of high power transmission lines above 220 kilovolt ("KV") and works of those projects for regional subsidiaries of the State Grid Corporation of PRC. Beichen Power Grid also possesses international standard certifications such as GB/T19001:2000 idt ISO9001:2000, GB/T24001-2004 idt ISO14001:2004 and GB/T28001-2001.

Beichen Power Grid has brought significant contribution to the Group as it generated for approximately one third of the Group's total turnover for the year 2010. In addition, Beichen Power Grid is equipped with various site equipment including decompression traction machine, hydraulic traction and tension machines for construction projects. Thus, the production cost of each constructing project will be minimized by Beichen Power Grid developing its own construction team for processing projects of construction.

Apart from the business generated by Beichen Power Grid, Ruifeng Windpower holds 30% equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd.（克什克騰旗朗誠瑞風電力發展有限公司）("Langcheng"). Langcheng is principally engaged in the operation of wind farm engaging in the production of renewable energy based in Hexigten Qi of Inner Mongolia Autonomous Region, which is a desirable location for wind farm operation due to its huge wind resources.

The Group believes that the development of renewable energy will become the next industrial revolution in light of the emerging energy crisis faced by the world nowadays. The Group intends to focus its resources on renewable energy industry which can lay down a strong foundation for the sustainable development of the Group, while at the same time, the Group continues to maintain its existing business of diodes manufacturing for various electronic applications to leverage for a greater opportunity for the Group's development.

Corporate Structure



Set out below is the structure of the Group as at 31 December 2010:

- **CHINA RUIFENG GALAXY RENEWABLE ENERGY HOLDINGS LIMITED** (Incorporated in the Cayman Islands)
  - 100% **SUN LIGHT PLANET LIMITED**[1] (Incorporated in BVI)
    - 100% **SEVEN RAINBOWS LIMITED**[1] (Incorporated in BVI)
      - 100% **CHANGZHOU GALAXY HI-NEW ELECTRIC PARTS CO., LTD**[3] (Established in PRC)
    - 100% **GOLD AND GOAL LIMITED**[1] (Incorporated in BVI)
      - 100% **CHANGZHOU GALAXY ELECTRICAL CO., LTD**[4] (Established in PRC)
    - 100% **PROFIT CHAMP LIMITED**[1] (Incorporated in BVI)
      - 100% **CHANGZHOU GALAXY SEMI-CONDUCTOR CO., LTD**[5] (Established in PRC)
      - 100% **TAIZHOU GALAXY HUANYU SEMI-CONDUCTOR CO., LTD**[6] (Established in PRC)
    - 100% **DAI TAK TRADING COMPANY LIMITED**[2] (Incorporated in BVI)
    - 100% **GALAXY ELECTRIC (CHINA) COMPANY LIMITED**[2] (Incorporated in Hong Kong)
  - 100% **CITY ALLIANCE LIMITED**[1] (Incorporated in BVI)
    - **FERSON LIMITED**[2] (Incorporated in Hong Kong)
  - 100% **POWER FULL GROUP HOLDINGS LIMITED**[1] (Incorporated in BVI)
    - 100% **CONWAY HOLDINGS LIMITED**[1] (Incorporated in Hong Kong)
      - 100% **BEIJING CHENGRUI XIANGHAI RENEWABLE ENERGY COMPANY LIMITED**[1] (Established in PRC)
        - 100% **CHENGDE RUIFENG RENEWABLE ENERGY WINDPOWER COMPANY LIMITED**[7] (Established in PRC)
          - Through the "SPE Contracts" **HEBEI BEICHEN POWER GRID CONSTRUCTION CO., LTD.**[8] (Established In PRC)

Definitions:

"BVI"	—	The British Virgin Islands
"SPE Contracts"	—	The Exclusive Technical Consultation Agreement, the Floating Charge Agreement, the Share Charge Agreements, the Exclusive Option Agreements and the Beichen Powers of Attorney, details of which are set out in the circular of the Company dated 21 June 2010

Notes:

1. These companies are investment holding companies.

2. These companies did not have any substantial businesses as at the date of this Report.

3. Changzhou Galaxy Hi-New Electric Parts Co., Ltd.（常州銀河高新電裝有限公司）("Galaxy Hi-New") is principally engaged in the production and sales of plastic-packaged diodes. Meanwhile, Galaxy Hi-New makes use of its available land use rights and buildings for the testing and packaging of diodes of Galaxy Electrical.

4. Changzhou Galaxy Electrical Co., Ltd.（常州銀河電器有限公司）("Galaxy Electrical") is principally engaged in the design, development, production and sales of diodes.

5. Changzhou Galaxy Semi-Conductor Co., Ltd.（常州銀河半導體有限公司）("Galaxy Semiconductor") is principally engaged in the design, development, production and sales of 3-inch wafers which are mainly for use by Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu.

6. Taizhou Galaxy Huanyu Semi-Conductor Co., Ltd.（泰州銀河寰宇半導體有限公司）("Galaxy Huanyu") possesses land use rights and buildings and is principally engaged in the production of plastic-packaged diodes.

7. Ruifeng Windpower is principally engaged in manufacturing and processing of wind turbine blades and components.

8. Beichen Power Grid is a first grade licensed transmit and transform electricity contractor and is principally engaged in the construction, installation, repairing and testing of power facilities.

Dear Shareholders:

On behalf of the Board of China Ruifeng Galaxy Renewable Energy Holdings Limited ("China Ruifeng" or the "Company", together with its subsidiaries referred to as the "Group"), I am pleased to present the audited annual results of the Group for the year ended 31 December 2010.

TOWARDS A SUSTAINABLE DEVELOPMENT/BUSINESS TRANSFORMATION

The year 2010 was a major milestone for China Ruifeng's corporate development as the Group has undergone a period of transition in its business strategy, transforming from a model that focuses on diodes manufacturing to the wind power business. To better reflect this shift in business strategy, the Company was renamed China Ruifeng Galaxy Renewable Energy Holdings Limited in August 2010.

Chairman's Statement

For the year ended 31 December 2010, the Group's turnover was approximately RMB804 million, representing an increase of approximately 89% over that of last year. The Company suffered from a net loss amounting to approximately RMB574 million due to the impairment of goodwill for acquisition of Power Full Group Holdings Limited ("Power Full"). This impairment is an one-off and non-cash expense, and will not affect the Group's cash flow or operations. Excluding the said impairment, the net profit of the Group surged by approximately 5 times to approximately RMB73 million over last year. Following the completion of the acquisition of Power Full in July 2010, which focuses primarily on manufacturing, processing and sales of wind turbine blades, and construction of power grid and transformer projects, turnover generated from the wind power business accounted for nearly 33.2% of the total turnover for the year ended 31 December 2010. This reflects the enormous growth potential of the wind power industry, and supports the strategy of redirecting our business focus towards the clean and renewable energy sector in light of the emerging energy crisis around the globe.

During the year under review, the demand for semi-conductor diodes remained strong. While the diodes manufacturing business continues to be a stable source of income, the Group has relocated more of its resources to the development of the high-growth wind power business. The Group integrated its production facilities, especially those related to axial plastic-packaged diodes, and fine-tuned its product categories with the aim of reducing operational cost and strengthening competitive power. With efforts in streamlining and the acumen to capture opportunities in the renewable energy industry, the Group has strived to lay a solid foundation for sustainable future development.

FUTURE OUTLOOK

The global demand for electricity has increased substantially on the back of global economic growth. With rising concern over energy shortages, and the growing environmental threat posed by global warming and the emission of greenhouse gases, there has been growing pressure on the power generation industry for improving energy savings and emission reductions. The wind power industry in PRC has grown more rapidly than industries of most other forms of renewable energy in recent years, and China has overtaken the United States in becoming the world's largest wind power market in terms of newly installed wind power capacity.

Looking to the future, prospects for the clean energy sector continues to be promising as the PRC government has included the industry's development in its 12th Five-Year Plan. According to the plan, the proportion of renewable energy power to the country's overall electricity consumption is expected to grow from 5% to 30% between 2011 and 2015. Other favourable wind power policies implemented by the central government include preferential tax rates, facilitating bank loans and investments in research and development. The Group is thus confident about the prospect of the wind power industry as these measures will attract investors to the development of wind farms which could generate attractive returns. The Group will expedite the development of the wind power business in an effort to establish a sound foothold in the industry.

In January 2011, the Company has entered into an agreement to acquire Chengde Beichen High New Technology Co., Ltd.(承德北辰高新技術有限公司), which owns wind farm assets in Hebei and surrounding provinces via its investment in Hebei Hongsong Wind Power Co., Ltd.(河北紅松風力發電股份有限公司)("Hongsong"). The Group also entered into an agreement to increase its equity interest from 30% to 100% in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd.(克什克騰旗朗誠瑞風電力發展有限公司)("Langcheng"), a company based in the Inner Mongolia Autonomous Region where huge wind resources are available. Since Hongsong and Langcheng have a good relationship and their wind farms are nearby to each other, the two acquisitions, if materialised which will see Langcheng and Hongsong co-operate and leverage upon each other's capabilities, will significantly strengthen the Group's market position in Hebei province. China Ruifeng will continue to invest in such similar ventures in a bid to extend its reach in the renewable energy sector, and enhance its position in the market.

SINCERE GRATITUDE

Last but not least, on behalf of the Board, I would like to express our sincere gratitude to our shareholders and business partners for their continual support, and to our staff for their contribution and dedication to the Group throughout the year.

Li Baosheng
Chairman

Hong Kong, 25 March 2011

Management Discussion And Analysis On Financial Conditions And Operating Results

Management Discussion and Analysis on Financial Conditions and Operating Results

BUSINESS REVIEW

Business Transition

During the financial year ended 31 December 2010, the Group underwent a period of transition, transforming from its core business of diodes manufacturing to wind power and power grid construction businesses. Though the wind power and power grid construction businesses started in July 2010, it has already generated a turnover of approximately RMB266.71 million, accounting for approximately 33.17% of the total turnover during the year under review. The wind power business of the Group is expected to constitute a larger portion of the Group's business following the completion of the acquisition of Chengde Beichen High New Technology Co., Ltd.（承德北辰高新技術有限公司）("Beichen Hightech") in January 2011, and the contemplated completion of the proposed acquisition of the remaining 70% of the equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd.（克什克騰旗朗誠瑞風電力發展有限公司）("Langcheng") in 2011. While the business of diodes manufacturing is expected to provide a stable income source for the Group's future business development, the Board will continue to strengthen its business focus on the renewable energy industry. To better reflect the new business strategy and to signify the commencement of a new chapter to the Group's corporate development, the Company changed its name to China Ruifeng Galaxy Renewable Energy Holdings Limited in August 2010.

New business — Wind Power and Power Grid Construction Business

Market Review

As a relatively sophisticated and reliable form of technology, and considered one of the most price-competitive forms of renewable energy, wind power is generally regarded as the choice of renewable energy with the greatest commercial value with support from governments around the globe. According to statistics on the wind power industry released by the PRC government, China's capacity for wind power reached 41.83 gigawatts ("GW") in 2010, surpassing the United States to become the world's largest wind power market in terms of total installed wind power capacity. The newly installed wind power capacity in China increased by more than 100% per year from 2003 to 2009 except in 2008 when the global economy suffered a downturn; China aims to increase its installed wind power capacity to 100 million kilowatts ("kW") in 2020. According to The Chinese Wind Energy Association, the PRC government has created eight wind power bases, with capacity of 10 million GW each, in areas including Jiuquan of Gansu, Hami of Xinjiang, Hebei, Jilin, eastern and western Inner Mongolia, Jiangsu and Shandong.

Business Development and Projects

In response to the emphasis placed on renewable energy by the global business sector and the PRC Government, the Group has strived to capture opportunities in renewable energy and energy saving, as signified in particular, by the Group's acquisition of Power Full Group Holdings Limited ("Power Full") which completed in July 2010.

On 1 April 2010, the Company entered into a conditional agreement with Brown Beauty Business Limited ("Brown Beauty", as vendor) and Mr. Riley M Chung (as guarantor), pursuant to which the Company agreed to acquire the entire issued share capital of Power Full for a total consideration of HK$830 million. The said consideration of HK$830 million was satisfied by a combination of (a) issue of convertible note in the principal amount of HK$155 million; (b) allotment and issue of 195 million consideration shares at the issue price of HK$1.00 per share amounting to HK$195 million; (c) issue of promissory note in the principal amount of HK$330 million; and (d) payment of HK$150 million in cash, upon the completion of the acquisition on 7 July 2010.

Power Full is, indirectly, interested in the entire equity interest in Chengde Ruifeng Renewable Energy Windpower Company Limited ("Ruifeng Windpower").

Ruifeng Windpower was established in May 2008 which principally engages in the manufacturing and processing of wind turbine blades and components. Ruifeng Windpower is a wind turbine blades manufacturer and processor, enjoying location advantage to serve the wind farms in Hebei and Inner Mongolia region, where approximately 25% of wind turbines installed in China are concentrated. Ruifeng Windpower owns two sites for manufacturing and processing wind power blades. One of the production bases which is located in the Shuangluan District has a capacity to manufacture a maximum of 60 sets of 1,500kW wind turbine blades per month, covering an aggregate area of approximately 100,000 square meters. The other site is located in Shuangqiao District, which covers an aggregate area of approximately 78,000 square meters with a capacity to manufacture up to 100 sets of 750kW wind turbine blades per month. In addition, Ruifeng Windpower owns 30% equity interest in Langcheng and controlled Hebei Beichen Power Grid Construction Co., Ltd.（河北北辰電網建設股份有限公司）("Beichen Power Grid").

Langcheng was established in 2005 and is principally engaged in the operation of wind farm engaging in the production of renewable energy in Hexigten Qi, Inner Mongolia. The construction of the wind farm by Langcheng is in progress and Langcheng intends to use wind turbine blades manufactured by Ruifeng Windpower for its wind turbines. Also, upon Langcheng commencing its operation, the electricity power generated by Langcheng is expected to be on-grid to North China Grid.

Beichen Power Grid was established in 2001, which is principally engaged in the construction, installation, repairing and testing of power facilities and is a first grade licensed contractor. By holding various licences and international standard certifications, Beichen Power Grid fulfilled certain pre-requisites in the PRC required for the tender of the first grade grid contracting projects, which allow Beichen Power Grid to carry out the contracting works of maximum power transmission lines of 220kV as well as first grade projects of the State Grid Corporation of China. The turnover generated from the power grid construction business from Beichen Power Grid accounted for approximately 33.17% of the Group's total turnover during the year under review, showing a remarkable achievement for the Group's business development.

Diodes Manufacturing Business

Aside from integrating its production facilities in an effort to streamline production cost, the Group has fine-tuned the product categories to cater the market demand. During the year under review, the Group continued to adjust its sales strategies, impose stringent cost control and diversify its client base.

PROSPECTS

According to the 2010 International Energy Outlook from the Energy Information Administration (EIA) report, there will be a continual growth in both nuclear and renewable energy source in the long-run given the growing concerns about the environmental consequences of greenhouse gas emissions. Wind power is believed to be one of the most valuable new energy source. The EIA expects China, which has already emerged as a leader in wind power, to be the fastest growing Non Organization for Economic Cooperation and Development (Non-OECD) regional market for the renewable energy source. Wind power generation in China is expected to increase from 6 billion kWh in 2007 to 374 billion kWh in 2035. Wind power accounts for the majority of the increase in the world's renewable electricity supply over the projected period, contributing to 26% of the 4.5 trillion kWh of the increase in renewable power generation.

In 2010, figures from the American Wind Energy Association showed China's total capacity to generate electricity from its wind turbine installations climbed 62% from the beginning of 2010 to 41,800 megawatt ("MW") in early 2011, while the output of American-based turbines rose 15% to 40,180 MW during the period. Global demand for electricity has increased substantially in respond to rapid economic growth. In particular, the economic growth of developing countries has contributed to the increase in energy consumption levels. The International Energy Agency (IEA), an intergovernmental organization acting as an energy policy advisor, expects renewable energy will play a major role in making the world a more secure and reliable environment with a sustainable energy source. The 2010 World Energy Outlook from the IEA recognized China as a leader in wind power as the remarkable growth rate of its wind power plants.

2011 is the first year of the 12th Five-Year Plan in China. The Company is dedicated to being a leading provider of comprehensive services in wind power which invests and develops the renewable energy business. The development covers seven areas: (1) manufacturing and processing wind turbine blades; (2) wind farm construction project contracts; (3) transportation, installation and testing of wind turbine primary generator and parts; (4) supplying and repairing wind turbine's parts and spares; (5) providing maintenance services for wind farms and repair services for wind farm infrastructures; (6) expanding sales channels in wind power related businesses; and (7) investment, development and collaboration in the renewable energy industry. As a comprehensive wind farm service provider, the Group will further upgrade and enhance the wind farm operation efficiency and power generation capacity. Furthermore, given the relatively less competitive landscape on repair and maintenance service market for the wind power facilities, the Group intends to expand into high-end repair and maintenance consultancy service to serve the wind farm infrastructures when they are turning mature. In addition, the Group will diversify the sales channel of wind turbine blades and explore new opportunities with other providers of complete wind power solutions such as Xinjiang Goldwind Science & Technology Co., Ltd. to maximize its growth.

To further explore the wind farm business model which the Group has its footprints in Hebei and Inner Mongolia, the Company intends to place relatively more resources in this area and has planned the acquisition of two companies as announced in January 2011. These include (1) the acquisition of the entire equity interest of Hebei-based Beichen Hightech for a total consideration of RMB50,802,400 (equivalent to HK$59,770,000) and (2) the acquisition of the remaining 70% equity interest in Inner-Mongolia-based Langcheng for a total consideration of RMB31,500,000 (equivalent to HK$37,060,000).

Beichen Hightech owned 5.77% equity interest in Hebei Hongsong Wind Power Co., Ltd. ("Hongsong"), a company established to develop wind farms in Hebei province and its surrounding provinces. Established in 2001, Hongsong is one of the pioneers in wind farm operations in Changde, Hebei. The wind farm operated by Hongsong has a maximum development capacity of 600MW, and has been developed as a Gold Standard Clean Development Mechanism (CDM) Project that qualifies for carbon credits in China. Hongsong's revenue mainly comes from sale of electricity to the national power grid. Its broad existing power grid connection is poised to further strengthen the Group's business development plan.

Langcheng plans to use the wind turbine blades manufactured by the Group for its wind turbines, and to build and operate a wind farm with the theoretical capacity of 500MW in 2011. Upon completion of the acquisition of the remaining interest in Langcheng, the Group will hold the entire equity interest in Langcheng. This acquisition will give Hongsong and Langcheng the opportunity to leverage upon each other's strengths so as to achieve promising growth for the Group's renewable energy business in Hebei and Inner Mongolia where become the emerging domestic markets for the wind power industry in China. As the renewable energy sector is growing rapidly in China, the Group strives to capture opportunities to expand its renewable energy and energy saving business as well as to seek development in other areas of the industry as part of the Group's strategy in diversifying the renewable energy business. The Company has taken different important roles in the renewable energy, especially on the wind power energy business, with an aim to become one of the leading players in the renewable energy industry, while its existing diodes manufacturing business is scheduled to expand in a symmetric way. Looking forward to 2011, the Group will continue to optimize upon the enormous business opportunities arising from the renewable energy industry while maintaining a strong foothold in the diodes manufacturing business. The aim is to maximize returns to investors, and lay down a strong foundation for the sustainable development of the Group.

FINANCIAL REVIEW

The Group recorded sustainable growth and notable new business development (or expansion) during 2010. For the year ended 31 December 2010, the Group's turnover amounted to approximately RMB804.18 million (2009: RMB425.74 million), representing an increase of approximately 89.89% over that of 2009.

Gross profit hiked 156% to RMB192.48 million (2009: RMB75.27 million) and gross profit margin increased to 24%. The net loss amounted to RMB574.11 million (net profit 2009: RMB12.58 million) because an impairment of goodwill of RMB647 million following the acquisition of Power Full. The impairment was considered as an one-off and non-cash expense. There will be no impact on the cash flow or operations of the Group. Excluding the said impairment of RMB647 million, there would be a net profit of RMB73.25 million and represented an increase of net profit by approximately 5 times, compared to the net profit for the year ended 31 December 2009 amounting to RMB12.58 million.

Operating results for the year ended 31 December 2010 were as follows:

	Year ended 31 December		**Increase/**	**Change in**
	2010	2009	**(Decrease)**	**percentage**
	RMB '000	*RMB '000*	*RMB '000*	*%*
Turnover	**804,183**	425,742	378,441	88.89
Gross profit	**192,479**	75,266	117,213	155.73
Operating (loss)/profit	**(532,765)**	16,527	(549,292)	(3,323.61)
(Loss)/profit before taxation	**(558,124)**	11,314	(569,438)	(5,033.04)
(Loss)/profit for the year	**(573,750)**	12,577	(586,327)	(4,661.90)
Items attributable to:				
Equity holders of the Company	**(573,750)**	12,577	(586,327)	(4,661.90)

		Year ended 31 December	
	Note	**2010**	2009
Net cash (RMB '000)	*1*	**(243,016)**	11,200
Net assets (RMB '000)	*2*	**255,733**	312,151
Liquidity ratio	*3*	**185%**	155.64%
Inventory turnover (number of days)	*4*	**31 days**	85 days
Trade receivable turnover (number of days)	*5*	**119 days**	139 days
Trade payable turnover (number of days)	*6*	**70 days**	83 days
Earning interest multiple	*7*	**(21.19) times**	3.17 times
Net debt to capital ratio	*8*	**146%**	30%

Notes:

1. Cash at bank and cash in hand – interest bearing borrowings
2. Total Assets – Total Liabilities
3. Current Assets/Current Liabilities x 100%
4. Inventories/Cost of Sales x 365 days
5. Trade Receivable/Turnover x 365 days
6. Trade Payable/Cost of Sales x 365 days
7. Profit before interest and tax/Net interest expense
8. Net debt/Capital x 100%

As a result of the acquisition of Power Full in July 2010, the incomes and expenses of the Group increased significantly as described in the below paragraphs.

TURNOVER

During the year under review, due to the newly acquired power-related business, the Group's turnover of approximately RMB804.18 million was derived from two business divisions — the power-related business and diodes manufacturing business. The power-related business recorded a turnover of approximately RMB266.71 million, of which approximately RMB262.13 million was mainly attributed by the power grid construction business. The power-related business accounted for approximately 33.17% of the turnover. Following the completion of the acquisition of Power Full in July 2010, Ruifeng Windpower and Beichen Power Grid became the Group's subsidiaries in the provision of power grid construction and wind turbine blade businesses.

The diodes manufacturing business recorded a turnover of approximately RMB537.47 million, accounting for approximately 66.83% of the turnover. The Group's production base for the existing diodes manufacturing business is mainly located in Changzhou, Jiangsu province.

Turnover by business

	Year ended 31 December 2010 RMB million	2009 RMB million	Increase/ (Decrease) RMB million	Change in percentage (%)
(i) Power-related business				
Power grid construction and consultancy	**262.13**	—	**262.13**	100
Sales of wind turbine blades	**4.58**	—	**4.58**	100
	266.71	—	**266.71**	100
(ii) Diodes manufacturing business				
Plastic packaged diodes	**285.40**	237.24	**48.16**	20.30
Glass packaged diodes	**28.37**	26.88	**1.49**	5.54
Bridge rectifiers	**7.55**	5.80	**1.75**	30.17
Surface mount device packaged diodes	**214.73**	155.27	**59.46**	38.29
Others	**1.42**	0.55	**0.87**	158.18
	537.47	425.74	**111.73**	26.24
Total	**804.18**	425.74	**378.44**	88.89

Cost of Sales

Cost of sales mainly includes the cost of raw materials, subcontracting costs, wages, water, electricity, gas and other ancillary materials. Cost of sales accounted approximately RMB611.70 million for the year ended 31 December 2010, represented approximately 76% of the turnover, showing a decrease when compared with approximately 82% for the year ended 31 December 2009.

Gross Profit

Gross profit increased by approximately 156% to approximately RMB192.48 million (2009: approximately RMB75.27 million), while the gross profit margin has increased from approximately 18% to approximately 24% for the year ended 31 December 2010.

Other Revenue and Net Income

Other revenue and net income mainly comprised of income generated by the sale of scrap materials and sub-products, net gains on trading securities, interest income from bank deposits and gain on early redemption of promissory note. The increase in other revenue and net income is mainly attributable by the net gains on trading securities and gain on early redemption of promissory note.

Distribution Costs

Distribution costs mainly include commission expenses for sales and distribution activities, wages and salaries of sales personnel and transportation costs.

Administrative Expenses

Administrative expenses mainly include wages and salaries, travel, professional fees or consulting fees and provisions for bad debt.

Other Operating Expenses

Other operating expenses for the year ended 31 December 2010 amounting to RMB647,000,000 refer to impairment of goodwill relating to the acquisition of Power Full.

Finance Costs

Finance costs refer to interest expenses and bank charges for bank loans obtained, promissory note and convertible bonds/note issued by the Group. It was recorded as approximately RMB25,150,000, when compared with that of approximately RMB5,210,000 in the previous year. The higher finance costs were derived from the newly acquired power-related business and the issuance of the convertible bonds, convertible note and promissory note during 2010.

Taxation

The taxation increased from a tax credit amounting to approximately RMB1,260,000 for the year ended 31 December 2009 to a tax expense amounting to approximately RMB15,630,000 for 2010. The increase in the tax expenses were due to the newly acquired power-related business and that some group companies which were tax exempted in 2009 were subject to tax payment exposure in 2010.

Net (Loss)/Profit

The Group suffered from a net loss of approximately RMB573,750,000 because of an impairment of goodwill for acquisition of Power Full amounting to RMB647,000,000. Excluding the impairment of goodwill for acquisition of Power Full of RMB647,000,000, there would be a net profit of approximately RMB73,250,000 and represented an increase in net profit by approximately RMB60,670,000 by approximately 5 times, compared to the net profit for the year ended 31 December 2009 amounting to approximately RMB12,580,000.

Net Current Assets

The net current assets were recorded at approximately RMB341,650,000, an increase of approximately 2 times when compared with that of approximately RMB132,670,000 in 2009.

Liquidity and Financing

As at 31 December 2010, the cash and bank balances amounted to approximately RMB208,890,000, which comprise RMB79,990,000, USD18,790,000 and HK$4,940,000, when compared with that of approximately RMB118,700,000 in the previous year. Total borrowings by the Group as at 31 December 2010 amounted to approximately RMB451,900,000, representing an increase of approximately 3 times when compared with approximately RMB107,500,000 in the previous year.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio increased to approximately 73.73% as at 31 December 2010 from approximately 43.31% as at 31 December 2009. That ratio was calculated by dividing the Group's total liabilities by its total assets. During 2010, all of the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 90% of the Group's income was denominated in Renminbi and the remaining was denominated in Hong Kong dollars and United States dollars. All borrowings of the Group were fixed-rate loans. The Group had not engaged in any currency hedging facility for the year ended 31 December 2010 and up to the date of this report, as the Board considered that the cost of any hedging facility would be higher than the potential risk of the costs incurred from currency fluctuations and interest rate fluctuations in individual transactions.

Convertible Bonds

Placing of Convertible Bonds

On 16 April 2010, the Company entered into a placing agreement with China Merchants Securities (HK) Co., Ltd. (the "Placing Agent"), pursuant to which the Company has agreed to issue and the Placing Agent has agreed to procure not less than 6 independent placees to subscribe for, in cash at 100% of their principal amount, convertible bonds up to an aggregate principal amount of HK$143,040,000, on a best effort basis. The placing was completed on 27 May 2010 and convertible bonds in an aggregate principal amount of HK$143,040,000 were issued. Based on the initial conversion price of HK$1.49 per share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 96,000,000 shares may be allotted and issued.

As at the date of this report, conversion rights attached to all the aforesaid convertible bonds have been exercised. Accordingly, 96,000,000 shares were issued under the said convertible bonds during the year. Details of the placing are set out in the announcements of the Company dated 26 April 2010, 17 May 2010 and 27 May 2010, respectively.

Subscription of Convertible Bonds

On 19 December 2010, the Company entered into a subscription agreement with Advance Gain Enterprises Limited, a wholly-owned subsidiary of CCB International (Holdings) Ltd., pursuant to which Advance Gain Enterprises Limited agreed to subscribe for convertible bonds of the Company in the principal amount of US$18,580,000 in cash at 100% of their principal amount. Based on the initial conversion price of HK$1.50 per share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 95,996,666 shares may be allotted and issued.

As at the date of this report, no conversion rights attached to said convertible bonds have been exercised. Details of the subscription are set out in the announcement of the Company dated 20 December 2010.

Acquisition & Disposal

Acquisition of Power Full Group Holdings Limited

On 1 April 2010, the Company (as purchaser) entered into a conditional agreement with Brown Beauty (as vendor) and Mr. Riley M Chung (as guarantor), pursuant to which the Company agreed to acquire, and Brown Beauty agreed to dispose of, the entire issued share capital of Power Full for a total consideration of HK$830 million (the "Acquisition"). The consideration for the Acquisition was satisfied by a combination of (a) issue of convertible note in the principal amount of HK$155 million; (b) allotment and issue of 195 million consideration shares at the issue price of HK$1.00 per share amounting to HK$195 million; (c) issue of promissory note in the principal amount of HK$330 million; and (d) payment of HK$150 million in cash upon the completion of the Acquisition on 7 July 2010.

The Acquisition constitutes a very substantial acquisition for the Group pursuant to Chapter 14 of the Listing Rules. Among other terms to the aforesaid agreement, Brown Beauty and Mr. Riley M Chung jointly and severally guaranteed to the Company that the consolidated net profit after tax of Power Full and its subsidiaries for the two financial years ending 31 December 2010 and 31 December 2011 shall be not less then RMB50,000,000 and RMB60,000,000, respectively. The consolidated net profit after tax of Power Full and its subsidiaries for the financial year ended 31 December 2010 was approximately RMB57,600,000, and the said profit guarantee has been met in respect of the year 2010.

Details of the Acquisition are set out in the announcements of the Company dated 26 April 2010 and 7 July 2010, respectively, and the circular of the Company dated 21 June 2010.

Disposal of Action Star International Limited

On 14 September 2010, the Company (as guarantor) entered into a conditional agreement with Profit Champ Limited ("Profit Champ", as vendor), a wholly-owned subsidiary of the Company and Opulent Field Limited ("Opulent Field", as purchaser), a company wholly-owned by Mr. Yang Senmao, then an executive Director, pursuant to which Profit Champ agreed to dispose of the entire issued share capital of Action Star International Limited ("Action Star") for a total consideration of HK$130 million in cash. Action Star owns 100% equity interest in Changzhou Galaxy Micro-Electronics Co., Ltd.（常州銀河世紀微電子有限公司）and 100% equity interest in Changzhou Galaxy Technology Developing Co., Ltd.（常州銀河科技開發有限公司）. The said disposal was completed on 3 November 2010.

The said disposal constitutes a major transaction of the Company pursuant to Chapter 14 of the Listing Rules. As the purchaser of the disposal is wholly-owned by Mr. Yang Senmao, then an executive Director, the disposal also constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. Details of the said disposal are set out in the announcements of the Company dated 14 September 2010, 16 September 2010 and 3 November 2010, respectively, and the circular of the Company dated 11 October 2010.

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

Pledge of Assets

As at 31 December 2010, the Group had pledged land and buildings with net book values of approximately RMB10,620,000 (31 December 2009: approximately RMB30,520,000) as security for the bank loans obtained by the Group.

Upon the completion of the Acquisition on 7 July 2010, the entire issued share capital of Sun Light Planet Limited, a direct wholly-owned holding subsidiary of the Company, was pledged to the holder of the promissory note to secure the Company's obligation under the promissory note which was issued by the Company to satisfy part of the consideration in the amount of HK$330 million.

Upon the issuance of convertible bonds in the principal amount of US$18,580,000 to Advance Gain Enterprises Limited, the entire issued share capital of Power Full was pledged to Advance Gain Enterprises Limited to secure the Company's obligation under the said convertible bonds.

Contingent Liabilities

For the year ended 31 December 2010, the Group had no material contingent liabilities.

Employees

As at 31 December 2010, the Group had approximately 2,800 full-time employees (31 December 2009: 2,100) in Hong Kong and the PRC, comprising 2,000 employees from the business of diodes manufacturing and 800 employees from the power-related business. For the year ended 31 December 2010, the relevant employee costs (including the Directors' remuneration) were approximately RMB92,700,000 (2009: approximately RMB58,540,000). The Group's remuneration and bonus packages were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

DIRECTORS

The Board comprises seven Directors, among whom three are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Li Baosheng (李保勝), aged 46, is the chairman of the Company and an executive Director. He joined Hebei Beichen Power Grid Constructions Co., Ltd. (河北北辰電網建設股份有限公司) ("Beichen Power Grid") (then known as Chengde Beichen Electricity Transmission and Transformation Co., Ltd. (承德北辰送變電工程有限公司)), a wholly-owned subsidiary of the Company, as the chairman of the board of directors since 2001. He was appointed as an executive Director on 7 July 2010.

He has been an executive director, the general manager and the legal representative of Beijing Chengrui Xianghai Renewable Energy Co., Ltd (北京承瑞翔海新能源科技有限公司) since 2009. He has been appointed an executive director and the legal representative of Chengde Ruifeng Renewable Energy Windpower Company Limited (承德瑞風新能源風電設備有限公司) in December 2009, and is the chairman of the board of directors and the legal representative of Beichen Power Grid. Each of Beijing Chengrui Xianghai Renewable Energy Co., Ltd. (北京承瑞翔海新能源科技有限公司), Chengde Ruifeng Renewable Energy Windpower Company Limited (承德瑞風新能源風電設備有限公司 and Beichen Power Grid is a wholly-owned subsidiary of the Company. He is also the chairman of the board of directors and the legal representative of Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. (克什克騰旗朗誠瑞風電力發展有限公司) ("Langcheng"), an associate of the Company.

Mr. Li was a director of, and a beneficial owner of 77.78% of the share capital in, Diamond Era Holdings Limited, a substantial shareholder of the Company interested in 243,000,000 Shares, representing approximately 29.67% of the issued share capital of the Company, and 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HK$107,000,000 attached to the convertible note in the principal amount of HK$155,000,000 issued by the Company on 7 July 2010 as at the date of this report. Mr. Li owned 62.41% of the equity interest in Langcheng as at the date of this report.

Mr. Li is a cousin of Mr. Li Baomin, senior management of the Group whose details are set out below.

Mr. Zhang Zhixiang (張志祥), aged 43, is the chief executive officer of the Company and an executive Director. He is also the authorised representative of the Company and the chairman of the remuneration committee of the Company. He was appointed as an executive Director on 7 July 2010.

He graduated from the School of Taxation of the Central Institute of Finance (中央財政金融學院) (now known as the Central University of Finance and Economics (中央財經大學)) in 1991 and received a bachelor in economics. He joined Langcheng as the vice general manager in December 2005. He is a director of Beichen Power Grid and the vice general manager of Langcheng.

He has been a non-employee independent director of Orsus Xelent Technologies Inc., the shares of which are listed on the NYSE Amex Equities, since February 2007.

Mr. Zhang was a director of, and a beneficial owner of 22.22% of the share capital in, Diamond Era Holdings Limited, a substantial shareholder of the Company interested in 243,000,000 Shares, representing approximately 29.67% of the issued share capital of the Company, and 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HK$107,000,000 attached to the convertible note in the principal amount of HK$155,000,000 issued by the Company on 7 July 2010 as at the date of this report.

Mr. Xu Xiaoping(許小平), aged 44, is an executive Director, Mr. Xu is the deputy sales general manager of Changzhou Galaxy Electrical Company Limited(常州銀河電器有限公司), a subsidiary of the Company. He is also a director, legal representative and general manager of Changzhou Galaxy Hi-New Electric Parts Co., Ltd.(常州銀河高新電裝有限公司), Changzhou Galaxy Electrical Co., Ltd.(常州銀河電器有限公司), Taizhou Galaxy Huanyu Semi-Conductor Co., Ltd.(泰州銀河寰宇半導體有限公司) and Changzhou Galaxy Semiconductor Co., Ltd.(常州銀河半導體有限公司), each a subsidiary of the Company. Mr. Xu was appointed as a Director on 23 June 2005, and subsequently re-designated as an executive Director on 16 May 2006.

Mr. Xu responsible for the sales and marketing activities of the Group. Prior to joining the Group in September 2000, Mr. Xu has served as the vice supervisor and department head of the operation liaison office of the Electronic Bureau of Changzhou City, the PRC(中國常州市電子工業局). Mr. Xu graduated from Electronics Industrial School of Huai Yin(淮陰電子工業學校) in July 1988, majoring in electronic component profession and subsequently joined Changzhou Radio Components 7th Factory(常州市無線電元件七廠). Mr. Xu has over 19 years of experience in the electronics field.

Mr. Xu was a director of, and a beneficial owner of 18% of the issued shares in, Rapid Jump Limited, a substantial shareholder of the Company interested in 120,000,000 Shares, representing approximately 14.65% of the issued share capital of the Company as at the date of this report.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yong(張勇), aged 45, is a deputy general manager of Beichen Power Grid. Mr. Zhang was appointed as a non-executive Director on 4 January 2011. He graduated from Hebei Radio and TV University(河北廣播電視大學) in July 1989, majoring in finance and accounting. He obtained the Qualification Certificate of Speciality and Technology in Finance (intermediate level) awarded by the Ministry of Personnel of the People's Republic of China on 10 April 1994. He completed the Bachelor Program in Accounting jointly organised by Beijing T&B University(北京工商大學)and The Open University of China(中央廣播電視大學), and obtained a bachelor degree in management in July 2003.

He worked at the Chengde Branch of Agricultural Bank of China Limited(中國農業銀行股份有限公司承德分行) from 1992 to 2003. He has been serving as the deputy general manager of Beichen Power Grid since 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling(黃慧玲), aged 49, is an independent non-executive Director, the chairman to the audit committee of the Company and a member of the remuneration committee of the Company. Ms. Wong was appointed as an independent non-executive Director on 16 May 2006.

Ms. Wong obtained a Bachelor of Arts degree from the University of Hong Kong and a diploma in Accounting and Finance from the London School of Economics and Political Science, the United Kingdom. Ms. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants. She has 19 years of extensive experience in accounting, taxation and auditing. She had worked for more than 7 years in international accounting firms and local accounting firms before she set up her own accounting firm W.L. Wong & Co. in Hong Kong in 1994. Since then, she has been practising as a Certified Public Accountant. Ms. Wong is also an independent non-executive director of two Hong Kong listed companies, namely, Overseas Chinese Town (Asia) Holdings Limited and CATIC Shenzhen Holdings Limited.

Mr. Qu Weidong (屈衛東), aged 44, is an independent non-executive Director and a member of each of the audit committee and the remuneration committee of the Company. Mr. Qu was appointed as an independent non-executive Director on 11 December 2010.

He graduated from the Tsing Hua University (清華大學) in the People's Republic of China in 1990 with a bachelor degree in engineering. He obtained a master degree in international business at the University of Auckland in 1999. Mr. Qu is now a managing director of Beijing Zero2IPO Venture Investment Management Centre (北京清科創業投資管理中心). Mr. Qu has over 7 years experience in the field of investment. He was the investment director of Bluerun Investment Consulting (Beijing) Co., Ltd from June 2007 to September 2010, and of Capinfo Company Limited (首都信息發展股份有限公司) from April 2005 to July 2007. He worked at the headquarters of the investment bank of China Galaxy Securities Co., Limited (中國銀河證券股份有限公司投資銀行總部) from March 2003 to July 2005.

Mr. Su Xiucheng (蘇秀成), aged 50, is an independent non-executive Director and a member of each of the audit committee and the remuneration committee of the Company. Mr. Su was appointed as an independent non-executive Director on 31 March 2010.

He graduated at the Correspondence Institute of the Party School of the Central Committee of C.P.C (中共中央黨校函授學院) in 2006, majoring in economic management and obtained a master degree at North China Electric Power University (華北電力大學) in 2007. Mr. Su was awarded a certificate of senior engineer by the Ministry of Power Industry-Huabei Electric Power Management Bureau (電力工業部華北電業管理局) in 1999. Mr. Su had joined Beijing Electric Power Transmission and Transformation Company (北京送變電公司) ("Beijing Electric Power Company") from July 1981 to June 2007 and his last position was the vice general manager and chief engineer in 2007. He had also been employed as a specialist in design and infrastructure technology by State Grid Corporation of China (國家電網公司交流建設分公司) ("State Grid Corporation") from 2007 to 2009 and has been the officer of the management department of State Grid Corporation. Mr. Su has been a committee member of the Standardisation of UHV AC Transmission Working Committee (特高壓交流輸電標準化技術工作委員會) since 2007.

SENIOR MANAGEMENT

Mr. Cheng Koon Kau Alfred (鄭冠球), aged 36, is an authorised representative and the company secretary of the Company, and has over 13 years of experience in the fields of auditing and accounting. Mr. Cheng joined the Group on 22 January 2008. He is a full-time financial controller of the Company. He graduated from the Hong Kong University of Science and Technology with a bachelor degree of Business Administration (Financial Accounting) degree in 1997 and a master degree in financial analysis in 2010. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He is responsible for the financial strategy, accounting and financial reporting of the Group. Prior to joining the Group, he had served in an international accounting firm and a number of multi-national corporations.

Ms. Li Juan (李娟), aged 46, is the deputy finance general manager of Power Full Group Holdings Limited and Heibei Power Grid Constructions Co., Ltd, responsible for accounting and financial management. Ms. Li was graduated in 1989 from Chengde Broadcast and Television University ("承德廣播電視大學") majoring in diploma of Business Management. Ms. Li obtained title of Senior in 2009 from International Profession Certification Association ("IPA") and obtained the title of top ten best chief accountants from Finance Ministry of Chengde City. Ms. Li has joined the Group since 1997 and has over 14 years working experience in the industry of power grid.

Mr. Li Baomin (李寶民), aged 41, is a general manager of Beichen Power Grid, responsible for power grid construction. He was graduated from Beijing Liangxiang Electricity Institute majoring at electricity transmission and distribution engineering. He obtained a bachelor degree of business administration at the University of Nan Kai in 1996. He also obtained a master degree of industrial engineering at the University of Hua Bei Electricity. He had worked in Chengde Electricity Transmission and Distribution Engineering Company and Chengde General Electricity Company Limited. He has 15 years of experience in the industry of electricity transmission and distribution. He joined the Group in 2000. Mr. Li is a cousin of Mr. Li Baosheng, an executive Director, the Chairman and a substantial shareholder of the Company.

Mr. Qu Shaofeng (屈少峰), aged 34, is a chief engineer of Beichen Power Grid. He graduated in 1998 from Beijing Electricity Power Higher Professional Institute (北京電力高等專科學校) majoring in circuit of electricity transmission engineering. At 2006, he obtained the title of electricity engineer and blasting engineer. In 2008, he obtained practicing qualification of Class 1 constructor of electricity engineering, good at technical study, solution design, tools renovation and organization and management of construction over electricity transmission construction of high voltage and supreme high voltage. He worked in the engineering department as a specialist engineer. He was awarded for several technical renovations.

At the journal of Power Construction (電力建設), he released articles with contents of various models of electricity transmission construction. Mr. Qu joined the Group in 2009.

Mr. Cui Yi (崔毅), aged 44, is a general manager of the Shuangluan branch of Chengde Ruifeng Renewable Energy Windpower Company Limited, responsible for design and sales of wind turbine blade operation. He graduated from University of South-west Technology (西南科技大學) with a bachelor degree of mechanical art and design. He had been an engineering manager and a project manager of Chengde Xiangye Automatic Automobile Parking Company Limited (承德祥業自動化停車設備有限公司) and Jiangsu Shuangliang Automatic Automobile Parking Company Limited (江蘇雙良停車設備有限公司) respectively. He joined the Group in 2007.

Mr. Zhang Pengfei (張鵬飛), aged 44, is the general manager of Langcheng responsible for the operation of windfarm of Shangtoudi. He was graduated from Beijing Forestry Management Government Officer Institute majoring at enterprise management. He had been township secretary and chairman. He joined the Group in 2006.

COMPANY SECRETARY

Mr. Cheng Koon Kau Alfred, is the full-time financial controller, authorised representative and company secretary of the Company. Personal details of Mr. Cheng are included in the paragraph headed "Senior Management" above.

The Directors present this report and the audited consolidated financial statements for the year ended 31 December 2010.

CHANGE OF COMPANY NAME

With effect from 24 August 2010, the English name of the Company has been changed from "Galaxy Semi-Conductor Holdings Limited" to "China Ruifeng Galaxy Renewable Energy Holdings Limited", and the Chinese name of the Company from "銀河半導體控股有限公司" to "中國瑞風銀河新能源控股有限公司". The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 24 August 2010 and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 4 October 2010.

Following the change of the Company's names, the English stock short name for trading in the shares of the Company on the Stock Exchange was changed from "GSC HOLDINGS" to "CHINA RUIFENG" and the Chinese stock short name from "銀河半導體" to "中國瑞風" with effect from 14 October 2010. The stock code of the Company remains as "00527".

Details of the change of company name are set out in the announcements of the Company dated 21 July 2010, 24 August 2010 and 8 October 2010, respectively, and the circular of the Company dated 30 July 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2010 are set out in the consolidated income statement on page 51 of this report.

PROPOSED FINAL DIVIDEND

The Directors did not recommend the payment of dividends for the year ended 31 December 2010.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 142 of this report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the consolidated financial statements.

CONVERTIBLE BONDS

Placing of Convertible Bonds

On 16 April 2010, the Company entered into a placing agreement with China Merchants Securities (HK) Co., Ltd. (the "Placing Agent"), pursuant to which the Company has agreed to issue and the Placing Agent has agreed to procure not less than 6 independent placees to subscribe for, in cash at 100% of their principal amount, convertible bonds up to an aggregate principal amount of HK$143,040,000, on a best effort basis. The placing was completed on 27 May 2010 and convertible bonds in an aggregate principal amount of HK$143,040,000 were issued. Based on the initial conversion price of HK$1.49 per Share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 96,000,000 Shares may be allotted and issued.

The net proceeds of approximately HK$139,500,000 from the placing was utilised for payment of part of the cash consideration of HK$150,000,000 for the Acquisition.

As at the date of this report, conversion rights attached to all the aforesaid convertible bonds have been exercised. Accordingly, 96,000,000 Shares were issued under the said convertible bonds during the year. Details of the placing are set out in the announcements of the Company dated 26 April 2010, 17 May 2010 and 27 May 2010, respectively.

Subscription of Convertible Bonds

On 19 December 2010, the Company entered into a subscription agreement with Advance Gain Enterprises Limited, a wholly-owned subsidiary of CCB International (Holdings) Ltd., pursuant to which Advance Gain Enterprises Limited agreed to subscribe for convertible bonds of the Company in the principal amount of US$18,580,000 in cash at 100% of their principal amount. Based on the initial conversion price of HK$1.50 per Share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 95,996,666 Shares may be allotted and issued.

The net proceeds of approximately US$18,360,000 form the subscription has partially utilised for repayment of part of the consideration in respect of the acquisition of Beichan Hightech, for loan repayment, and the remaining balance is held a bank deposit for future opportunities.

As at the date of this report, no conversion rights attached to said convertible bonds have been exercised. Details of the subscription are set out in the announcement of the Company dated 20 December 2010.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

DONATIONS

No charitable or other donations were made by the Group during the year.

RESERVES

Movements in the reserves of the Company during the year are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of the Cayman Islands, the Company's reserves available for distribution to Shareholders as at 31 December 2010 amounted to approximately RMB87,481,000.

DIRECTORS

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

Executive Directors

Mr. Li Baosheng (appointed on 7 July 2010)
Mr. Zhang Zhixiang (appointed on 7 July 2010)
Mr. Yang Senmao (resigned on 14 February 2011)
Mr. Yue Lian (resigned on 16 January 2011)
Mr. Xu Xiaoping

Non-executive Directors

Mr. Zhang Yong (appointed on 4 January 2011)
Mr. Meng Quanda (resigned on 12 December 2010)
Mr. Shiu Kit (resigned on 12 December 2010)
Mr. Dong Renhan (resigned on 12 December 2010)

Independent non-executive Directors

Ms. Wong Wai Ling
Mr. Ni Tongmu (resigned on 31 March 2010)
Mr. Shu Mingding (resigned on 12 December 2010)
Mr. Su Xiucheng (appointed on 31 March 2010)
Mr. Qu Weidong (appointed on 11 December 2010)

In accordance with Article 112 of the Company's Articles of Association, Mr. Li Baosheng, Mr. Zhang Zhixiang, Mr. Zhang Yong and Mr. Qu Weidong shall retire at the forthcoming annual general meeting of the Company.

In accordance with Article 108(a) of the Company's Articles of Association, Mr. Xu Xiaoping shall retire by rotation at the forthcoming annual general meeting of the Company.

All the retiring Directors, being eligible, offer themselves for re-election at the said annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service agreement with Mr. Xu Xiaoping, an executive Director, for a term of three years from May 2009 and, with each of Mr. Li Baosheng and Mr. Zhang Zhixiang, both an executive Director, for a term of three years from July 2010, subject to the termination provisions therein.

Each of the non-executive Directors (including the independent non-executive Directors) has entered into a service agreement with the Company for a term of two years from March 2010, May 2010, December 2010 and January 2011 for Mr. Su Xiucheng (appointed on 31 March 2010), Ms. Wong Wai Ling, Mr. Qu Weidong (appointed on 11 December 2010) and Mr. Zhang Yong (appointed on 4 January 2011) respectively, which is determinable by either party by giving one month's written notice.

None of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors, namely, Ms. Wong Wai Ling, Mr. Shu Minding, Mr. Su Xiucheng (appointed on 31 March 2010) and Mr. Qu Weidong (appointed on 11 December 2010) an annual confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules, and as at the date of this report, the Company still considers all the independent non-executive Directors to be independent.

SHARE OPTIONS

Particulars of the Company's share option scheme ("Share Option Scheme") are set out in note 29 to the consolidated financial statements.

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 in issue at the date of approval of the share option scheme ("General Scheme Limit"), i.e. 40,000,000 Shares, which represented approximately 4.9% of the issued share capital of the Company as at the date of this report. The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the shareholders' approval.

The maximum numbers 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, 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-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 7 days inclusive of the day on which such offer was made. 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 as the Directors may determine which shall not exceed 10 years from the date of grant subject to the provision of early termination thereof.

The subscription price of a share under the Share Option Scheme will be a price solely determined by the Board and shall be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option.

No option has been granted under the Share Option Scheme from the date of adoption of the Share Option Scheme up to 31 December 2010.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Company's share option scheme as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MATERIAL CONTRACTS

Save as disclosed in this report, no contract of significance has been entered into during the reporting period between the Company or any of its subsidiaries and the controlling shareholder (if any) or any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" in this report, no contract of significance in relation to the Group's business to which the Company, any of its subsidiaries, holding companies or its fellow 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 year.

DISCLOSURE OF INTEREST

(a) Interests of Directors and chief executives of the Company

Save as disclosed below, as at 31 December 2010, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Directors or chief executives is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules:

Name of Director	Number of Shares held/ interested	Nature of interest	Approximate percentage of shareholdings
Li Baosheng *(Note 1)*	350,000,000	Interest of controlled corporation	42.74%
Yang Senmao *(Note 2)* *(resigned on 14 February 2011)*	129,600,000	Interest of controlled corporations	15.82%
Zhang Zhixiang *(Note 1)*	77,777,000	Interest of controlled corporation	9.50%

Notes:

1. Mr. Li Baosheng and Mr. Zhang Zhixiang are the beneficial owners of 77.78% and 22.22%, respectively, of the issued shares of Diamond Era Holdings Limited. As at 31 December 2010, Diamond Era Holdings Limited was interested in (i) 243,000,000 Shares, and (ii) 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HK$107,000,000 attached to the convertible note in the principal amount of HK$155,000,000 issued by the Company on 7 July 2010.

   Mr. Li Baosheng is deemed, or taken to be, interested in the Shares in which Diamond Era Holdings Limited is interested for the purpose of the SFO.

2. Mr. Yang Senmao is the beneficial owner of 60% of the issued shares in Rapid Jump Limited and his wholly-owned company, namely Color Vision Limited, owns 89.1% of the issued shares in Kalo Hugh Limited. Therefore, Mr. Yang is deemed, or taken to be, interested in the 120,000,000 Shares owned by Rapid Jump Limited and the 9,600,000 Shares owned by Kalo Hugh Limited for the purpose of the SFO. Mr. Yang resigned on 14 February 2011.

Long position in the equity interest in associated corporation

Name of Director	Nature of interest	Name of associated corporation	Approximately percentage of shareholding in associated corporation
Li Baosheng	Beneficial interest	Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. ("Langcheng")	62.41%

Note: As at 31 December 2010, Langcheng is owned as to 30% by the Group. On 18 January 2011, Ruifeng Windpower (as purchaser) entered into an acquisition agreement with Mr. Li Baosheng and Mr. Li Baojun (as vendors) and Mr. Li Baosheng (as guarantor) to acquire, the said 62.41% of the equity interest in Langcheng held by Mr. Li Baosheng, and 7.59% of the equity interest in Langcheng held by Mr. Li Baojun, respectively. Please refer to the paragraph headed "Acquisition of Langcheng" in this report below for details of the said acquisition.

(b) Interests of substantial Shareholders and other persons

Save as disclosed below, as at 31 December 2010, the Directors were not aware of any person (other than the Directors or chief executives of the Company) who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Number of Shares held/ interested	Nature of interest	Approximate percentage of shareholdings
Advance Gain Enterprises Limited *(Note 1)*	378,996,666	Nominee for another person (other than a bare trustee)	46.28%
CCB Financial Holdings Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
CCB International (Holdings) Limited *(Note 1)*	378,996,666	Beneficial owner	46.28%
CCB International Asset Management Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
CCB International Assets Management (Cayman) Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
CCB International Group Holdings Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%

Name	Number of Shares held/ interested	Nature of interest	Approximate percentage of shareholdings
Central Huijin Investment Ltd. *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
China Construction Bank Corporation *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
Diamond Era Holdings Limited *(Note 2)*	350,000,000	Beneficial owner	42.74%
Zhang Jingru *(Note 4)*	129,600,000	Interest of spouse	15.82%
Rapid Jump Limited *(Note 3)*	120,000,000	Beneficial owner	14.65%

Notes:

1. As at 31 December 2010, Advance Gain Enterprises Limited was interested in 378,996,666 Shares, comprising (i) its interest in 95,996,666 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of US$18,580,000 attached to the 8.0% per annum coupon rate secured convertible bonds in the principal amount of US$18,580,000 issued by the Company on 31 December 2010 (the "Convertible Bonds") and held by it; and (ii) its interest in 283,000,000 Shares held by or to be issued to Diamond Era Holdings Limited by virtue of a share charge executed by Diamond Era Holdings Limited in favour of Advance Gain Enterprises Limited dated 21 December 2010; pursuant to the said share charge, Diamond Era Holdings Limited has pledged 243,000,000 Shares held by Diamond Era Holdings Limited, and 40,000,000 Shares to be issued upon exercise of the conversion rights in respect of HK$40,000,000 out of the entire outstanding principal amount HK$107,000,000 attached to the convertible note in the principal amount of HK$155,000,000 issued by the Company on 7 July 2010 and held by Diamond Era Holdings Limited in favour of Advance Gain Enterprises Limited to secure the Company's obligations under the Convertible Bonds.

   Advance Gain Enterprises Limited is wholly-owned by CCB International Asset Management Limited, which in turn is wholly-owned by CCB International Assets Management (Cayman) Limited, which in turn is wholly-owned by CCB International (Holdings) Limited, which in turn is wholly-owned by CCB Financial Holdings Limited, which in turn is wholly-owned by CCB International Group Holdings Limited, which in turn is wholly-owned by China Construction Bank Corporation. Central Huijin Investment Ltd. is a controlling shareholder of China Construction Bank Corporation having 57.09% interest in China Construction Bank Corporation. The interest in 378,996,666 Shares by these companies relates to the same block of Shares.

2. As at 31 December 2010, Diamond Era Holdings Limited was interested in (i) 243,000,000 Shares, and (ii) 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HK$107,000,000 attached to the convertible note in the principal amount of HK$155,000,000 issued by the Company on 7 July 2010.

   Diamond Era Holdings Limited is owned as to 77.78% by Mr. Li Baosheng and 22.22% by Mr. Zhang Zhixiang, each an executive Director.

3. Mr. Yang Senmao and Mr. Xu Xiaoping held 60% and 18% equity interest, respectively, in Rapid Jump Limited. Mr. Xu Xiaoping is an executive Director. Mr. Yang Senmao was an executive Director prior to his resignation on 14 February 2011.

4. Ms. Zhang Jingru is the spouse of Mr. Yang Senmao. Ms. Zhang Jingru is deemed, or taken to be, interested in all the Shares in which Mr. Yang Senmao is interested.

CONNECTED TRANSACTIONS

Continuing connected transactions

During the year, the following continuing connected transactions have been entered into by the Group which the Company has to comply with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 30 December 2008, Galaxy Electrical, a wholly-owned subsidiary of the Company, renewed the agreement with Changzhou Lucky Star Electronic Equipment Co., Ltd. ("Lucky Star Electronic") under which Lucky Star Electronic agrees to supply to the Group copper wires with the aggregate annual amount not exceeding HK$9,500,000 for each of the three financial years ending 31 December 2011. Details of the said agreement are set out in the announcement of the Company dated 31 December 2008. During 2010, Lucky Star Electronic sold copper wires to the Group with an aggregate amount of approximately RMB1,939,000 (equivalent to approximately HK$2,228,000).

Mr. Shiu Kit, a former non-executive Director, owns 55% equity interest in Lucky Spark Development Limited, the sole investor of Lucky Star Electronic. Accordingly, the aforesaid purchase arrangements constitute continuing connected transactions under the Listing Rules.

Details of the aforesaid transactions are set out in the announcement of the Company dated 31 December 2008.

On 23 December 2010, Galaxy Electrical, an indirect wholly-owned subsidiary of the Company and Galaxy Micro-Electronics entered into the Supply Agreement pursuant to which Galaxy Micro-Electronics shall supply the diodes manufactured by Galaxy Micro-Electronics (the "Products") to Galaxy Electrical with the aggregate amount not exceeding for HK$9,500,000 for the period from 3 November 2010 to 31 December 2010 and HK$22,000,000 for the year ending 31 December 2011, respectively. During the period from 3 November 2010 to 31 December 2010, Galaxy Micro-Electronics sold the Products to the Group amounting to RMB7,755,000 (equivalent to approximately HK$9,066,000).

As Galaxy Micro-Electronics is indirectly wholly-owned by Mr. Yang, a former executive Director, the transactions contemplated under the Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Details of the aforesaid transactions are set out in the announcement of the Company dated 23 December 2010.

In respect of the continuing connected transactions, the Directors confirmed that the Company has compiled with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Directors have requested the auditors of the Company to perform certain agreed upon procedures on the above continuing connected transactions and have received a letter from the auditors as required under Rule 14A.38 of the Listing Rules.

The independent non-executive Directors have reviewed the continuing connected transactions and have confirmed that the transactions have been entered into by the Group in the ordinary and usual course of its business, the above transactions are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of these transactions are on normal commercial terms, as far as the Group is concerned, the terms of the above transactions are no less favourable than that available from or provided by independent third parties (as the case may be) and in accordance with the terms of the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Connected transactions

Construction Agreement

On 3 August 2010, Beichen Power Grid, an indirect wholly-owned subsidiary of the Company, entered into the construction agreement with Langcheng pursuant to which Beichen Power Grid was engaged by Langcheng to carry out construction works in relation to the distribution of electricity and turbine foundation for a consideration of RMB20 million (approximately HK$22.99 million).

Langcheng was owned as to 30% by the Company indirectly, as to 62.41% by Mr. Li Baosheng, an executive Director and as to 7.59% by Mr. Li Baojun, a cousin and thus an associate of Mr. Li Baosheng. As the equity interest in Langcheng is owned as to 70%, in aggregate, by Mr. Li Baosheng and his associate, Langcheng is a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules. Accordingly, the entering into of the construction agreement by Beichen Power Grid constitutes a connected transaction of the Company under the Listing Rules.

Details of the construction agreement are set out in the announcement of the Company dated 3 August 2010.

Disposal of Action Star International Limited

On 14 September 2010, the Company, a vendor (Profit Champ Limited) and a purchaser (Opulent Field Limited) entered into a disposal agreement, pursuant to which, the vendor has conditionally agreed to dispose of and the purchaser has conditionally agreed to acquire the shares of the entire issued share capital of Action Star International Limited for a total consideration of HK$130 million.

Action Star owns 100% equity interest in Changzhou Galaxy Micro-Electronics Co., Ltd.（常州銀河世紀微電子有限公司）and 100% equity interest in Changzhou Galaxy Technology Developing Co., Ltd.（常州銀河科技開發有限公司）.

The said disposal constitutes a major transaction of the Company pursuant to Chapter 14 of the Listing Rules. As the purchaser of the disposal is wholly-owned by Mr. Yang Senmao, then an executive Director, the disposal also constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

The said disposal was completed on 3 November 2010. Upon completion of the disposal, shares of Action Star International Limited, an indirect wholly-owned subsidiary, were transferred to the purchaser and the sales proceeds were wholly applied to repay face value of HK$130 million of a portion of the Company's outstanding indebtedness under the Promissory Note.

Details of the said disposal are set out in the announcements of the Company dated 14 September 2010, 16 September 2010 and 3 November 2010 respectively, and the circular of the Company dated 11 October 2010..

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 35 to the consolidated financial statements did not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's largest and five largest customers and suppliers, respectively, were as follow:

— the largest customer	4.01%
— five largest customers	17.81%
— the largest supplier	4.74%
— five largest suppliers	14.21%

To the knowledge of the Directors, none of the Directors, their associates or any Shareholders owning more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

BANK LOANS

Particulars of bank loans are set out in note 26 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merit, qualifications and level of competence of the employees.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, their individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the Share Option Scheme are set out in note 29 to the consolidated financial statements and the paragraph headed "Share Options" in this Directors' Report.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there was a sufficient public float of the Shares as prescribed under the Listing Rules.

ACQUISITIONS AND DISPOSALS

Acquisition of Power Full Group Holdings Limited

On 1 April 2010, the Company (as purchaser) entered into a conditional agreement with Brown Beauty Business Limited (as vendor) and Mr. Riley M Chung (as guarantor), pursuant to which the Company agreed to acquire, and Brown Beauty Business Limited agreed to dispose of, the entire issued share capital of Power Full Group Holdings Limited for a total consideration of HK$830 million (the "Acquisition"). The consideration for the Acquisition was satisfied by a combination of (a) issue of convertible note in the principal amount of HK$155 million; (b) allotment and issue of 195 million consideration shares at the issue price of HK$1.00 per share amounting to HK$195 million; (c) issue of promissory note in the principal amount of HK$330 million; and (d) payment of HK$150 million in cash upon completion of the Acquisition on 7 July 2010. The Acquisition constitutes a very substantial acquisition of the Company pursuant to Chapter 14 of the Listing Rules.

Of the total consideration of the Acquisition, a convertible note in the principal amount of HK$155 million was issued to Diamond Era Holdings Limited, as designated by Brown Beauty upon completion of the Acquisition on 7 July 2010. Based on the initial conversion price of HK$1 per Share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 155,000,000 Shares may be allotted and issued. As at the date of this report, conversion rights attached to the convertible note in an aggregate principal amount of HK$48,000,000 have been exercised. Accordingly, 48,000,000 shares have been issued under the said convertible note as at the date of this report.

Among other terms to the aforesaid agreement, Brown Beauty and Mr. Riley M Chung jointly and severally guaranteed to the Company that the consolidated net profit after tax of Power Full and its subsidiaries for the two financial years ending 31 December 2010 and 31 December 2011 shall be not less then RMB50,000,000 and RMB60,000,000, respectively. The consolidated net profit after tax of Power Full and its subsidiaries for the financial year ended 31 December 2010 was approximately RMB57,600,000, and the said profit guarantee has been met in respect of the year 2010.

Details of the Acquisition are set out in the announcements of the Company dated 26 April 2010 and 7 July 2010 respectively, and the circular of the Company dated 21 June 2010.

Apart from the transactions disclosed above and as set out in the paragraph headed "Connected Transactions" in this Directors' Report, there was no other material acquisition and disposal of subsidiaries and associated companies by the Group from 2010 to the date of this report.

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 existed during the year.

AUDITORS

At the 2007 annual general meeting, KPMG was re-appointed as the auditors of the Company. KPMG resigned as auditors of the Group with effect from 10 November 2008 and CCIF CPA Limited ("CCIF") was appointed as the auditors of the Company with effect from 10 November 2008. Details of such change of auditors were disclosed in the announcement issued by the Company on 10 November 2008.

At the 2008 annual general meeting, CCIF was re-appointed as the auditors of the Company. CCIF resigned as auditors of the Group with effect from 30 September 2009 and HLB Hodgson Impey Cheng ("HLB") were appointed as the new auditors of the Company with effect from 5 October 2009. Details of such change of auditors were disclosed in the announcement issued by the Company on 5 October 2009.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint HLB as the auditors of the Company.

EVENTS AFTER THE REPORTING PERIOD

1. Acquisition of Beichen Hightech

On 12 January 2011, Ruifeng Windpower (as purchaser) entered into an acquisition agreement with Mr. Li Baosheng, Mr. Li Baojun, Ms. Li Juan, Ms. Meng Yanrong and Mr. Li Baomin (as vendors) and Mr. Li Baosheng (as guarantee), pursuant to which the vendors have, respectively, agreed to dispose of and the purchaser has agreed to acquire the entire equity interest in Beichen Hightech for a total consideration of RMB50,802,400.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the acquisition are higher than 5% but below 25%, the acquisition constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules.

Mr. Li Baosheng, one of the vendors and the guarantor, is an executive Director, the chairman and a substantial shareholder of the Company. Each of Mr. Li Baojun (a cousin of Mr. Li Baosheng), Ms. Meng Yanrong (the spouse of Mr. Li Baosheng) and Mr. Li Baomin (a cousin of Mr. Li Baosheng), each being a vendor, is an associate of Mr. Li Baosheng. Mr. Li Baomin is also a general manager of Beichen Power Grid. Ms. Li Juan, also a vendor, is a director of Beichen Power Grid (an indirect wholly-owned subsidiary of the Company). Accordingly, the vendors and the guarantor are connected persons of the Company under the Listing Rules. The acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to, among other things, independent shareholders' approval, reporting and announcement requirements under Chapter 14A of the Listing Rules.

The aforesaid acquisition was completed as at the date of this report.

Details of the aforesaid acquisition are set out in the announcements of the Company dated 12 January 2011 and 1 March 2011, respectively, and the circular of the Company dated 14 February 2011.

2. Acquisition of Langcheng

On 18 January 2011, Ruifeng Windpower (as purchaser) entered into an acquisition agreement with Mr. Li Baosheng and Mr. Li Baojun (as vendors) and Mr. Li Baosheng (as guarantor), pursuant to which the vendors have, respectively, agreed to dispose of and the purchaser has agreed to acquire, in aggregate, 70% equity interest in Langcheng for a total consideration of RMB31,500,000. Immediately before the entering into of the said acquisition agreement and as at the date of this announcement, Langcheng is a 30% owned associate of the Group.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the said acquisition are higher than 5% but below 25%, the said acquisition constitutes a disclosable transaction of the Company pursuant to Chapter 14 of the Listing Rules.

Mr. Li Baosheng, one of the vendors and the guarantor, is an executive Director, the chairman and a substantial shareholder of the Company. Mr. Li Baojun, one of the vendors, is a cousin, and thus an associate, of Mr. Li Baosheng. Accordingly, each of the vendors and the guarantor is a connected person of the Company under the Listing Rules. The said acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to, among other things, independent shareholders' approval, reporting and announcement requirements under Chapter 14A of the Listing Rules.

Details of the aforesaid acquisition are set out in the announcements of the Company dated 25 January 2011, 11 February 2011 and 15 March 2011, respectively.

3. Refreshment of general mandates

At the extraordinary general meeting of the Company held on 1 March 2011, resolutions were passed by the Shareholders to refresh the mandates granted to the Directors to allot, issue and dealt with Shares of up to 20% of the then issued share capital of the Company, and to repurchase Shares of up to 10% of the then issued share capital of the Company on the Stock Exchange. Details of the aforesaid refreshment of general mandates to issue and repurchase shares are set out in the circular of the Company dated 14 February 2011, and the announcement of the Company dated 1 March 2011.

On behalf of the Board

Li Baosheng
Chairman

The PRC

25 March 2011

The Group is committed to maintaining high standards of corporate governance in order to raise the quality of management and protect the interests of Shareholders of the Company as a whole. To honor these commitments, the Group believes that good corporate governance reflects that a responsible enterprise must be credit worthy and transparent and abide by a high level of code of practice.

CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code") for the financial year ended 31 December 2010.

MODEL CODE

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 as the code of practice for securities transactions by the Directors. The Company had made specific enquiries with all the Directors and all the Directors confirmed that they had complied with the practice as contained in the Model Code for the year ended 31 December 2010.

THE BOARD OF DIRECTORS

The Board is responsible for the formulation of all commercial policies and strategies in relation to the business operation of the Group to ensure that there are ample resources and effective internal controls (including financial controls) are in place. The Board has the responsibility to establish the enterprise's policies and overall strategy of the Group, and provides effective supervision for the management of the Group's affairs. The Board also supervises the financial performance of the Group's business operations and internal controls. All the Directors are able to obtain information on the Group's businesses on a timely basis and to make further inquires if needed.

The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group. The Board supervises the management of the business and affairs of the Group. The management of the Group carries out the policies set by the Board and supervises the day-to-day management of the Group.

COMPOSITION AND APPOINTMENT

As at 31 December 2010, the Board comprised eight Directors, of whom five were executive Directors and three were independent non-executive Directors. Details of the names and biographies of the existing Directors are set out on page 23 to page 25 of this report.

During the year ended 31 December 2010, the executive Directors were Mr. Li Baosheng, Mr. Zhang Zhixiang (both appointed on 7 July 2010), Mr. Yang Senmao, Mr. Yue Lian and Mr. Xu Xiaoping. Mr. Li Baosheng is the chairman and Mr. Zhang Zhixiang is the chief executive officer of the Company. Mr. Zhang Zhixiang is responsible for the daily operations of the Group and reports to the chairman of the Company.

The Company has complied with Rule 3.10(2) of the Listing Rules, which stipulate that one of the independent non-executive Directors must possess appropriate professional qualification. The Board considers that the independent non-executive Directors are all independent persons with appropriate qualifications and the Company has complied with the relevant requirements of the Listing Rules.

Mr. Yang Sanmeo (resigned on 14 February 2011) holds 60% and 100% equity interest, respectively, in Rapid Jump Limited, a substantial shareholder of the Company with a 14.65% shareholding in the Company, and Color Vision Limited, which is a substantial shareholder of Kalo Hugh Limited with a 89.1% shareholding in Kalo Hugh Limited as at the date of this report, and Kalo Hugh Limited in turn is a shareholder of the Company with a 1.17% shareholding in the Company as at the date of this report. Mr. Yue Lian (resigned on 16 January 2011) holds 10.9% equity interest in Kalo Hugh Limited. Mr. Xu Xiaoping and Mr. Meng Quanda (resigned on 12 December 2010) hold 18% and 22% equity interest, respectively, in Rapid Jump Limited.

Mr. Li Baosheng and Mr. Zhang Zhixiang holds 77.78% and 22.22% respectively, of the issued share capital of Diamond Era Holdings Limited which is a substantial shareholder of the Company, holding approximately 29.67% of the issued share capital of the Company, Diamond Era Holdings Limited is also interested in 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HK$107,000,000 attached to the convertible note in the principal amount of HK$155,000,000 issued by the Company on 7 July 2010.

Save as disclosed above, the Directors confirmed that there was no relationship (including financial, business, family or other material/relevant relationship) among the Board members or other major events or relevant matters that were required to be disclosed.

The Board has supervised and controlled the Company's affairs effectively, and relevant decisions were made in the Company's best interests. For the year ended 31 December 2010, the Board had held 33 board meetings to consider (of which included) the Company's transactions, financial affairs and other matters under the articles of associations to carry out its duties. The Board has adopted a telephone-conference system to raise the attendance rates, the average rate of attendance was between 75% and 100%.

For the year ended 31 December 2010, the Board has compiled the following statistics:

Director's name	Attendance Rate for Board meeting Number	Percentage (%)*	Title
Li Baosheng (appointed on 7 July 2010)	15	75%	Chairman, Executive Director
Zhang Zhixiang (appointed on 7 July 2010)	19	95%	Executive Director, Chief Executive Officer
Yang Senmao (resigned on 14 February 2011)	28	85%	Executive Director
Yue Lian (resigned on 16 January 2011)	31	94%	Executive Director
Xu Xiaoping	31	94%	Executive Director
Meng Quanda (resigned on 12 December 2010)	26	90%	Non-executive Director
Shiu Kit (resigned on 12 December 2010)	29	100%	Non-executive Director
Dong Renhan (resigned on 12 December 2010)	28	97%	Non-executive Director
Wong Wai Ling	32	97%	Independent non-executive Director
Ni Tongmu (resigned on 31 March 2010)	3	75%	Independent non-executive Director
Shu Mingding (resigned on 12 December 2010)	29	94%	Independent non-executive Director
Su Xiucheng (appointed on 31 March 2010)	25	83%	Independent non-executive Director
Qu Weidong (appointed on 11 December 2010)	3	100%	Independent non-executive Director

During the relevant period, the term of appointment of the non-executive Directors and the independent non-executive Directors is 2 years.

* The said attendance rate in percentage is calculated by dividing the number of board meeting to which the relevant Director attended during the reporting period by the number of board meeting held during the reporting period (and for those Directors resigned during the reporting period, such number of board meeting held prior to such resignation).

THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not established a nomination committee. All members of the Board are responsible for formulating the procedures for appointing Directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of Directors or appoint additional Directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the post of Directors.

The Board held 1 meeting in 2010 to review the policy for the nomination of Directors.

PROCEDURES OF BOARD MEETINGS

The Board has established meeting procedures and has complied with the code provisions of the Code.

The procedures of board meetings provide that the Board shall meet at least four times each year and can convene additional meeting when necessary. Directors can express different opinions at board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transactions will not be counted in the quorum of the meeting and shall abstain from voting on the relevant resolutions. Minutes of board meetings and other committee meeting will be drafted by the company secretary and will be sent to all members for their comment and record respectively. Directors are entitled to inspect the minutes at any time.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Li Baosheng is the chairman of the Company and the executive Director. Mr. Zhang Zhixiang is the chief executive officer of the Company and an executive Director. Mr. Zhang Zhixiang is responsible for the daily operations of the Group and reports to chairman of the Company.

Mr. Li Baosheng and Mr. Zhang Zhixiang are, respectively, beneficial owner of 77.78% and 22.22% of the issued shares of Diamond Era Holdings Limited, a substantial shareholder of the Company.

AUDITORS' REMUNERATION

During the year under review, the amount of fee paid or payable to the auditors of the Group was as follows:

Type of service	Auditors HLB Hodgson Impey Cheng
Annual audit	HK$1,200,000

No non-audit service has been provided by the auditors to the Group.

ACCOUNTABILITY AND AUDIT

The Directors understand their responsibility to prepare the Group's financial statements according to relevant legal provisions and the Hong Kong GAAP to ensure that the financial reports present a true and fair view of the Group's financial conditions. In the preparation of the Group's financial reports for the year ended 31 December 2010, the Directors had adopted and implemented the appropriate accounting policies, made prudent and reasonable judgments and projections and prepared the financial statements on a going concern basis.

The Board had presented information on the Group's developments and various corporate information which aimed to be comprehensive, balanced and easily understood, including but not limited to the interim and year end financial reports as stipulated in the Listing Rules, disclosure of and public announcement of information which influence the shares and submitted reports to the regulatory authorities and made other disclosures pursuant to regulatory provisions.

The auditors' responsibilities are set out in the Independent Auditors' Report on pages 49 to 50.

Through the audit committee, the Board has reviewed the internal control system in respect of finance, operations and compliance of the Company and its subsidiaries. The audit committee considers that the Group has established all necessary mechanisms. The above control mechanism has ensured compliance in respect of the Group's operations. The Board considers that the Company has complied with the code provisions on internal control of the Code.

AUDIT COMMITTEE

During the year under review, the audit committee comprised Ms. Wong Wai Ling, Mr. Ni Tongmu (resigned on 31 March 2010), Mr. Shu Mingding (resigned on 12 December 2010), Mr. Su Xiucheng (appointed on 31 March 2010) and Mr. Qu Weidong (appointed on 11 December 2010), and Ms. Wong Wai Ling is the chairman of the audit committee.

For the year ended 31 December 2010, 2 meetings were held. The attendance rates of every member of the audit committee were as follows:

	Attendance Rate		
Name of member	**Number**	**Percentage *(%)***	**Title**
Wong Wai Ling	2	100	Independent non-executive Director
Ni Tongmu (resigned on 31 March 2010)	N/A	N/A	Independent non-executive Director
Shu Mingding (resigned on 12 December 2010)	2	100	Independent non-executive Director
Su Xiucheng (appointed on 31 March 2010)	2	100	Independent non-executive Director
Qu Weidong (appointed on 11 December 2010)	N/A	N/A	Independent non-executive Director

Duties of the audit committee include:

(1) review the Company's financial reporting procedure, internal control systems and the completeness of the financial reports;

(2) appoint external auditors and matters such as audit fees, the retirement or dismissal of external auditors;

(3) discuss with the external auditors the nature and scope of audits before commencement of audit work; and

(4) review interim and year end accounts.

The audit committee has reviewed the audit performance, internal controls and audited accounts for the year ended 31 December 2010. The audit committee has also reviewed this report and confirmed that it is complete and accurate and complies with the Listing Rules.

REMUNERATION COMMITTEE

The remuneration committee shall meet at least once a year to decide on the Directors' emoluments. During the year under review, members of the remuneration committee included:

Mr. Yang Senmao (Chairman) (resigned on 14 February 2011), Ms. Wong Wai Ling, Mr. Ni Tongmu (resigned on 31 March 2010), and Mr. Shu Mingding (resigned on 12 December 2010), Mr. Su Xiucheng (appointed on 31 March 2010) and Mr. Qu Weidong (appointed on 11 December 2010).

Following the resignation of Mr. Yang Senmao as executive Director on 14 February 2011, Mr. Zhang Zhixiang, as executive Director and the chief executive officer of the Company become the Chairman of the remuneration committee.

The remuneration committee is responsible for the following functions: to determine the remuneration packages for the Directors and the senior management, to assess the performance of the Directors, and to decide on the Company's remuneration policies and long term bonus scheme.

The Remuneration Committee held 5 meetings for the year ended 31 December 2010, at which the Remuneration Committee reviewed, discussed and determined the remuneration policy and the remuneration of the Directors and the senior management in the year. The attendances of the meetings of the remuneration committee are as follows:

	Attendance rate		
Name of member	**Number**	**Percentage *(%)***	**Title**
Yang Senmao (resigned on 14 February 2011)	3	75	Executive Director
Wong Wai Ling	5	100	Independent non-executive Director
Ni Tongmu (resigned on 31 March 2010)	1	50	Independent non-executive Director
Shu Mingding (resigned on 12 December 2010)	5	100	Independent non-executive Director
Su Xiucheng (appointed on 31 March 2010)	3	100	Independent non-executive Director
Qu Weidong (appointed on 11 December 2010)	N/A	N/A	Independent non-executive Director

DIRECTORS' REMUNERATION

The Group paid or accrued total Directors' remuneration amounts of approximately RMB686,000, RMB663,000, RMB1,537,000, RMB1,037,000, RMB1,037,000, RMB50,000, RMB82,000, RMB50,000, RMB87,000, RMB13,000, RMB50,000, RMB38,000, and RMB3,000 to Mr. Li Baosheng, Mr. Zhang Zhixiang, Mr. Yang Senmao, Mr. Yue Lian, Mr. Xu Xiaoping, Mr. Meng Quanda, Mr. Shiu Kit, Mr. Dong Renhan, Ms. Wong Wai Ling, Mr. Ni Tongmu, Mr. Shu Mingding, Mr. Su Xiucheng and Mr. Qu Weidong, respectively, for the year ended 31 December 2010.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2010, there was no arrangement in which the Directors waived their remuneration.

SECURITIES TRANSACTIONS BY SENIOR MANAGEMENT AND STAFF

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code. These senior management and staff have been individually notified and advised about the Model Code by the Company.

FINANCIAL OFFICER

The Financial Officer of the Company is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Officer will review the control of financial risks of the Group and provide advices thereon to the Board.

COMPANY SECRETARY

The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and price-sensitive information.

The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for supervising and managing the Group's investors relationship.

INVESTORS RELATIONSHIP

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels such as seminars with the media, analysts and fund managers. Designated senior management holds regular dialogue with institutional investors and analysts which enables them to keep abreast of the Group's latest developments. In addition, the Group's website presents the most updated information and the status of the business development of the Group.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of Shareholders. The Company reports its financial and operating performance to Shareholders through annual reports and interim reports. Shareholders can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Group's company website. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA RUIFENG GALAXY RENEWABLE ENERGY HOLDINGS LIMITED
(FORMERLY KNOWN AS GALAXY SEMI-CONDUCTOR HOLDINGS LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Ruifeng Galaxy Renewable Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 141, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

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

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Turnover	4	**804,183**	425,742
Cost of sales		**(611,704)**	(350,476)
Gross profit		**192,479**	75,266
Other revenue and net income	5	**4,433**	693
Distribution costs		**(23,393)**	(16,646)
Administrative expenses		**(59,284)**	(42,786)
Other operating expenses		**(647,000)**	—
(Loss)/Profit from operations		**(532,765)**	16,527
Finance costs	6(a)	**(25,154)**	(5,213)
Share of loss of an associate		**(205)**	—
(Loss)/Profit before taxation	6	**(558,124)**	11,314
Income tax	7	**(15,626)**	1,263
(Loss)/Profit for the year		**(573,750)**	12,577
Attributable to:			
Equity shareholders of the Company	10	**(573,750)**	12,577
Non-controlling interests		**—**	—
(Loss)/Profit for the year		**(573,750)**	12,577
(Loss)/Earnings per share			
Basic and diluted (RMB)	11	**(0.915)**	0.031

The notes on pages 58 to 141 form part of these financial statements.

For the year ended 31 December 2010

	2010	2009
	RMB'000	*RMB'000*
(Loss)/Profit for the year	**(573,750)**	12,577
Other comprehensive income		
Exchange differences on translation of financial statements of operations outside the PRC	**(1,201)**	288
Other comprehensive income for the year (net of tax)	**(1,201)**	288
Total comprehensive income for the year	**(574,951)**	12,865
Total comprehensive income attributable to:		
Equity shareholders of the Company	**(574,951)**	12,865

The notes on pages 58 to 141 form part of these financial statements.

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**123,746**	157,175
Lease prepayments	16	**12,989**	20,128
Goodwill	15	**78,946**	—
Investment in an associate	18	**9,740**	—
Deferred tax assets	30(b)	**2,480**	2,182
		227,901	179,485
Current assets			
Inventories	19	**47,003**	56,725
Trade and other receivables	20	**489,345**	195,237
Lease prepayments	16	**297**	445
Pledged bank deposits	22	**26,897**	21,134
Cash and cash equivalents	23	**181,990**	97,566
		745,532	371,107
Current liabilities			
Trade and other payables	25	**217,806**	129,402
Derivative financial instruments	24	**38,830**	—
Interest-bearing borrowings	26	**145,000**	107,500
Current taxation	30(a)	**2,250**	1,539
		403,886	238,441
Net current assets		**341,646**	132,666
Total assets less current liabilities		**569,547**	312,151
Non-current liabilities			
Interest-bearing borrowings	26	**306,903**	—
Deferred tax liabilities	30(b)	**6,911**	—
		313,814	—
Net assets		**255,733**	312,151
Capital and reserves	31(a)		
Share capital		**7,740**	4,785
Reserves		**247,993**	307,366
Total equity		**255,733**	312,151

Approved and authorised for issue by the board of directors on 25 March 2011.

Li Baosheng
Director

Zhang Zhixiang
Director

The notes on pages 58 to 141 form part of these financial statements.

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investment in subsidiaries	17	**415,289**	114,614
Current assets			
Amounts due from subsidiaries	17	**5,445**	159,767
Cash and cash equivalents	23	**125,958**	31,142
		131,403	190,909
Current liabilities			
Other payables	25	**1,229**	223
Amounts due to subsidiaries	17	**112,280**	121,792
Derivative financial instruments	24	**38,830**	—
		152,339	122,015
Net current (liabilities)/assets		**(20,936)**	68,894
Total assets less current liabilities		**394,353**	183,508
Non-current liabilities			
Interest-bearing borrowings	26	**301,903**	—
Deferred tax liabilities	30(b)	**6,911**	—
		308,814	—
Net assets		**85,539**	183,508
Capital and reserves	31(a)		
Share capital		**7,740**	4,785
Reserves		**77,799**	178,723
Total equity		**85,539**	183,508

Approved and authorised for issue by the board of directors on 25 March 2011.

Li Baosheng
Director

Zhang Zhixiang
Director

The notes on pages 58 to 141 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Note	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory reserves RMB'000	Other reserve RMB'000	Translation reserve RMB'000	Convertible bonds/note reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2009		4,080	192,197	(82,562)	9,534	31,477	1,527	—	112,092	268,345
Changes in equity for 2009:										
Issue of shares	31	705	30,236	—	—	—	—	—	—	30,941
Transfer to statutory reserves		—	—	—	745	—	—	—	(745)	—
Total comprehensive income for the year		—	—	—	—	—	288	—	12,577	12,865
Balance at 31 December 2009 and 1 January 2010		4,785	222,433	(82,562)	10,279	31,477	1,815	—	123,924	312,151
Changes in equity for 2010:										
Acquisition of subsidiaries	31	1,701	313,003	—	—	—	—	—	—	314,704
Issue of convertible bonds	26	—	—	—	—	—	—	58,180	—	58,180
Issue of convertible note	26	—	—	—	—	—	—	65,431	—	65,431
Conversion of convertible bonds	26	840	123,072	—	—	—	—	(57,985)	—	65,927
Conversion of convertible note	26	414	41,820	—	—	—	—	(20,191)	—	22,043
Deferred tax relating to convertible bonds/note	30	—	—	—	—	—	—	(7,752)	—	(7,752)
Disposal of subsidiaries	33	—	—	(8,722)	—	—	8	—	8,714	—
Total comprehensive income for the year		—	—	—	—	—	(1,201)	—	(573,750)	(574,951)
Balance at 31 December 2010		**7,740**	**700,328**	**(91,284)**	**10,279**	**31,477**	**622**	**37,683**	**(441,112)**	**255,733**

The notes on pages 58 to 141 form part of these financial statements.

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
(Loss)/Profit before taxation		**(558,124)**	11,314
Adjustments for:			
Depreciation		**25,663**	20,090
Loss on disposal of subsidiaries		**105**	—
Loss on disposal of property, plant and equipment		**860**	786
Impairment loss on property, plant and equipment		**—**	6,505
Impairment loss on trade and other receivables		**3,007**	6,687
Impairment of goodwill		**647,000**	—
Amortisation of lease prepayments		**420**	445
Interest income		**(571)**	(718)
Share of loss of an associate		**205**	—
Interest expenses		**25,154**	5,153
Net gains on trading securities		**(819)**	—
Gain on early redemption of promissory note		**(2,251)**	—
Operating profit before changes in working capital		**140,649**	50,262
Decrease in inventories		**10,510**	49,442
Decrease in amount due from a director		**—**	503
Increase in trade and other receivables		**(27,158)**	(56,413)
Increase in amounts due from related companies		**(458)**	—
Increase in amount due from an associate		**(9,620)**	—
(Decrease)/Increase in trade and other payables		**(12,756)**	48,589
Increase in amounts due to directors		**455**	1,145
Increase/(Decrease) in amounts due to related companies		**18,052**	(6)
Cash generated from operations		**119,674**	93,522
PRC Enterprise Income Tax paid		**(15,629)**	(1,330)
Interest paid		**(10,921)**	(5,017)
Net cash generated from operating activities		**93,124**	87,175
Investing activities			
Payments for the purchase of property, plant and equipment		**(69,913)**	(24,595)
Payments for acquisition of subsidiaries		**(108,858)**	—
Payments for purchase of trading securities		**(3,315)**	—
Proceeds from disposal of trading securities		**3,994**	—
Interest received		**571**	718
Proceeds from sale of property, plant and equipment		**31**	—
Proceeds from disposal of subsidiaries		**68,045**	—
Decrease in time deposits		**—**	5,600
Net cash used in investing activities		**(109,445)**	(18,277)

	Note	2010 RMB'000	2009 RMB'000
Financing activities			
Payment of issuing costs of convertible bonds		**(2,462)**	—
Proceeds from new bank and other loans		**155,000**	107,500
Proceeds from issue of convertible bonds		**203,161**	—
Repayment of promissory note		**(111,774)**	—
Proceeds from issue of shares		**—**	30,941
Proceeds from issue of derivative financial instruments		**38,830**	—
Repayment of bank and other loans		**(166,600)**	(136,453)
Increase in pledged bank deposits		**(5,763)**	(17,354)
Net cash generated from/(used in) financing activities		**110,392**	(15,366)
Net increase in cash and cash equivalents		**94,071**	53,532
Cash and cash equivalents at 1 January		**97,566**	43,746
Effect of foreign exchange rate changes		**(9,647)**	288
Cash and cash equivalents at 31 December	23	**181,990**	97,566

The notes on pages 58 to 141 form part of these financial statements.

1 GENERAL INFORMATION

China Ruifeng Galaxy Renewable Energy Holdings Limited ("the Company") (formerly known as Galaxy Semi-Conductor Holdings Limited) was incorporated in the Cayman Islands on 23 June 2005 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 June 2006. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Company information" in the annual report.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 17.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of its major subsidiaries are Renminbi ("RMB"). The consolidated financial statements are presented in RMB.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

The Company changed its name from Galaxy Semi-Conductor Holdings Limited（銀河半導體控股有限公司）to China Ruifeng Galaxy Renewable Energy Holdings Limited（中國瑞風銀河新能源控股有限公司）on 24 August 2010. The consolidated financial statements for the year ended 31 December 2010 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and non-controlling interests *(continued)*

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(n), (o), or (p) depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 2(d)).

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(e) and (j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(d)).

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

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

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)(ii)).

— buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 2(i)); and

— other items of plant and equipment.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(w)).

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Useful lives	Residual value
— Buildings	20-30 years	5% to 10%
— Leasehold improvement	5 years	—
— Plant and machinery	5-10 years	5% to 10%
— Equipment, furniture and fixtures	3-5 years	5% to 10%
— Motor vehicles	3-5 years	5% to 10%

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

(h) Lease prepayments

Lease prepayments represent cost of land use rights paid to the People's Republic of China (the "PRC") Land Bureau. Land use rights are carried at cost less amortisation and impairment losses (see note 2(j)(ii)). Amortisation is charged to profit or loss on a straight line basis over the term of the respective leases.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

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

(j) Impairment of assets

(i) Impairment of trade and other receivables

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

— significant financial difficulty of the debtor;

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

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

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(i) Impairment of trade and other receivables *(continued)*

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

— lease prepayments;

— investments in subsidiaries; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, "Interim financial reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(j)(i) and (ii)).

(k) Inventories

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(u)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed are presented as "Advances received" under "Trade and other payables".

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(j)(i)).

(n) Convertible notes

(i) Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Convertible notes *(continued)*

(i) Convertible notes that contain an equity component (continued)

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible bonds reserve is released directly to retained profits.

(ii) Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 2(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Convertible notes *(continued)*

(ii) Other convertible notes (continued)

The derivative component is subsequently remeasured in accordance with note 2(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

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

(q) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits

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

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

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised in profit or loss as incurred. Employees of the subsidiaries established in the PRC participate in defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the plans at fixed rates of the relevant employees' salary costs.

The Group's contributions to these plans are charged to profit or loss when incurred. The Group has no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(ii) Termination benefits

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

(s) Income tax

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

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

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

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

  — the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Revenue recognition

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

(i) Sale of goods and processing income

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

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Interest income

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

(iv) Government grants

Subsidies from the relevant PRC government authorities, in the form of return of income tax, value added tax not associating with the purchase of property, plant and equipment and various taxes, as an incentive for the investments in various cities in the PRC are recognised in the consolidated income statement when relevant approval has been obtained.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Translation of foreign currencies

The functional currency of the Company and its subsidiaries outside the PRC is Hong Kong dollars and the functional currency of the subsidiaries in the PRC is RMB. For the purpose of presenting the consolidated financial statement, the Group adopts RMB as its presentation currency.

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

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

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

(y) Segment reporting

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

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

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary
- Amendment to HKAS 39, Financial instruments: Recognition and measurement — eligible hedged items
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, Distributions of non-cash assets to owners
- HK (Int) 5, Presentation of Financial Statements — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment to HKAS 39 and the issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  — In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  — If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  — If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1 January 2010:

  — If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1 January 2010: *(continued)*

  — If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

  Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- As a result of the amendment to HKAS 17, Leases, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

4 TURNOVER

The principal activities of the Group are design, development, manufacturing and sales of diodes, power grid construction and processing of wind turbine blades.

Turnover represents the sales value of goods supplied to customers (net of value added tax and is after deduction of any sales discounts and returns), revenue from construction contracts and processing income charged to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2010	2009
	RMB'000	*RMB'000*
Sales of goods	**537,473**	425,742
Revenue from construction contracts	**262,135**	—
Processing income	**4,575**	—
	804,183	425,742

For the year ended 31 December 2010, there was no customer with whom transactions have exceeded 10% of the Group's turnover (2009: Nil).

5 OTHER REVENUE AND NET INCOME

	2010	2009
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**571**	718
Government subsidy income	**153**	505
Sales of scrap	**1,187**	1,451
Reinstatement of trade and other payables	**—**	(1,420)
Gain on early redemption of promissory note	**2,251**	—
Net gains on trading securities	**819**	—
Loss on disposal of subsidiaries	**(105)**	—
Others	**(443)**	(561)
	4,433	693

6 (LOSS)/PROFIT BEFORE TAXATION

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

		2010	2009
		RMB'000	*RMB'000*
(a)	**Finance costs:**		
	Interest on bank and other loans wholly repayable within five years	**10,869**	5,153
	Interest expenses on convertible bonds *(note 26)*	**1,181**	—
	Interest expenses on convertible note *(note 26)*	**2,640**	—
	Interest expenses on promissory note *(note 26)*	**10,464**	—
	Others	**—**	60
	Interest expense on financial liabilities not at fair value through profit or loss	**25,154**	5,213
(b)	**Staff costs (including directors' remuneration)#:**		
	Contributions to defined contribution retirement plans	**4,393**	2,919
	Salaries, wages and other benefits	**88,302**	55,620
		92,695	58,539
(c)	**Other items:**		
	Amortisation of lease prepayments	**420**	445
	Impairment losses:		
	— trade and other receivables *(note 20)* (included in administrative expenses)	**3,007**	6,687
	— property, plant and equipment *(note 14)* (included in cost of sales)	**—**	6,505
	— goodwill *(note 15)* (included in other operating expenses)	**647,000**	—
	Depreciation for property, plant and equipment#	**25,663**	20,090
	Net foreign exchange (gain)/loss	**(6,651)**	740
	Auditors' remuneration — audit services	**1,047**	561
	Operating lease charges — minimum lease payments in respect of property rentals#	**786**	203
	Cost of inventories# *(note 19)*	**420,797**	350,476
	Loss on disposal of subsidiaries *(note 33)*	**105**	—
	Loss on disposal of property, plant and equipment	**860**	786

Cost of inventories includes approximately RMB77,776,000 (2009: RMB53,247,000) relating to staff costs, depreciation and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2010	2009
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	**17,333**	2,345
Over-provision in respect of prior years	**(779)**	(444)
Deferred tax		
Origination and reversal of temporary differences	**(928)**	(3,164)
	15,626	(1,263)

No provision of Hong Kong Profits Tax had been made as the Group's profit neither arises in, nor is derived from Hong Kong during the year (2009:Nil).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Except for Galaxy Electrical and Galaxy Semiconductor, the applicable income tax rate to the Group's PRC subsidiaries will gradually be adjusted to 25% in the following five years.

Changzhou Galaxy Electrical Co., Ltd. ("Galaxy Electrical") and Changzhou Galaxy Semiconductor Co., Ltd. ("Galaxy Semiconductor") are recognised as high-technology enterprises. According to the PRC tax regulations, Galaxy Electrical and Galaxy Semiconductor are entitled to a preferential tax rate of 15% in both years.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

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

Pursuant to the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises ("FEIT"), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. ("Galaxy Hi-New"), Changzhou Galaxy Technology Developing Co., Ltd. ("Galaxy Technology") and Changzhou Galaxy Century Micro-Electronics Co., Ltd. ("Galaxy Micro-Electronics") are located in the coastal economic open zone and are recognised as Production Foreign Invested Enterprises. According to the PRC tax regulations, Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are entitled to a tax concession period in which they are fully exempted from PRC income tax for the first two years commencing from their first profit making year (after the offset of tax losses brought forward), followed by a 50% reduction in the PRC income tax for the next three years.

Years 2009 and 2010 are the first year of 50% reduction on the income tax for Galaxy Hi-New and Galaxy Micro-Electronics respectively. The tax-free years for Galaxy Technology was applicable for 2009 and 2010 and therefore no income taxes were provided for in both periods. The applicable income tax rate of other PRC subsidiaries is 25% in 2009 and 2010.

The New Tax Law and the Implementation Regulations also impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Under the arrangement between the PRC and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax under CaiShui 2008 No. 1 Notice on Certain Preferential Corporate Income Tax Policies issued jointly by the Ministry of Finance and the State Administration of Taxation on 22 February 2008.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(b) Reconciliation between tax expense/(credit) and accounting (loss)/profit at applicable tax rates:

	2010	2009
	RMB'000	*RMB'000*
(Loss)/Profit before taxation	**(558,124)**	11,314
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in PRC of 25%	**(139,531)**	2,828
Tax effect of non-deductible expenses	**175,162**	6,591
Tax effect of non-taxable income	**(36,750)**	(4,398)
Tax loss not recognised	**24,400**	3,030
Tax effect of tax concessions in the PRC	**(5,668)**	(5,477)
Over-provision in prior years	**(779)**	(444)
Others	**(1,208)**	(3,393)
Actual tax expense/(credit)	**15,626**	(1,263)

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2010

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	2010 Total *RMB'000*
Executive directors					
Li Baosheng (appointed on 7 July 2010)	—	638	47	1	686
Zhang Zhixiang (appointed on 7 July 2010)	—	661	—	2	663
Xu Xiaoping	—	1,000	13	24	1,037
Yue Lian (resigned on 16 January 2011)	—	1,000	13	24	1,037
Yang Senmao (resigned on 14 February 2011)	—	1,500	13	24	1,537
Non-executive directors					
Meng Quanda (resigned on 12 December 2010)	—	50	—	—	50
Shiu Kit (resigned on 12 December 2010)	—	82	—	—	82
Dong Renhan (resigned on 12 December 2010)	—	50	—	—	50
Independent non-executive directors					
Wong Wai Ling	87	—	—	—	87
Su Xiucheng (appointed on 31 March 2010)	38	—	—	—	38
Ni Tongmu (resigned on 31 March 2010)	13	—	—	—	13
Shu Mingding (resigned on 12 December 2010)	50	—	—	—	50
Qu Weidong (appointed on 11 December 2010)	3	—	—	—	3
	191	4,981	86	75	5,333

8 DIRECTORS' REMUNERATION *(continued)*

Year ended 31 December 2009

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	2009 Total *RMB'000*
Executive directors					
Yang Senmao	—	704	200	31	935
Xu Xiaoping	—	440	200	31	671
Yue Lian	—	440	200	31	671
Non-executive directors					
Meng Quanda	—	50	—	—	50
Shiu Kit	—	88	—	—	88
Dong Renhan	—	50	—	—	50
Independent non-executive directors					
Wong Wai Ling	88	—	—	—	88
Ni Tongmu	50	—	—	—	50
Shu Mingding	50	—	—	—	50
	188	1,772	600	93	2,653

Note: The Company did not grant any share options during the current and the previous year. As at the end of the reporting period, no share options were held by directors of the Company. The details of the share option scheme are set out in note 29 to the consolidated financial statements.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: three) were directors of the Company whose emoluments are disclosed in note 8 above. The aggregate of the emolument in respect of the remaining one (2009: two) individual are as follows:

	2010	2009
	RMB'000	*RMB'000*
Salaries and other benefits	**691**	961
Retirement scheme contributions	**10**	42
	701	1,003

The above individuals' emoluments are within the band of Nil to HKD1,000,000.

During the year, no emolument or incentive payments were paid to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of approximately RMB615,221,000 (2009: RMB2,475,000) which has been dealt with in the financial statements of the Company.

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB573,750,000 (2009: profit of RMB12,577,000) and the weighted average number of 626,899,000 ordinary shares (2009: 400,876,000 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2010	2009
	'000	*'000*
Issued ordinary shares at 1 January	**480,000**	400,000
Effect of shares issue	**95,096**	876
Effect of conversion of convertible note	**13,414**	—
Effect of conversion of convertible bonds	**38,389**	—
Weighted average number of ordinary shares at 31 December	**626,899**	400,876

(b) Diluted (loss)/earnings per share

Diluted loss per share for the year ended 31 December 2010 is not presented because the existence of outstanding conversion options for the convertible note and convertible bonds during the year have anti-dilutive effect on the basic loss per share.

12 DIVIDENDS

No dividend has been declared or paid by the Company for the year ended 31 December 2010 (2009: Nil).

13 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's chief executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Production of diodes: this segment designs, develops, manufactures and sells diodes and related products in the PRC.

— Construction contracts: this segment constructs power grid and wind farm for external customers and for Group companies in the PRC.

— Processing of wind turbine blades: this segment primarily derives its revenue from the processing work of wind turbine blades. These products are processed in the Group's manufacturing facilities located primarily in the PRC.

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates and other corporate assets. Segment liabilities include provision for trade and other payables attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

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

13 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

The measure used for reporting segment profit is "adjusted EBIT" i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as including investment income. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

For the year ended 31 December 2009, the Board considered that the business of the Group is organized in one operating segment which is the designs, develops, manufactures and sells of diodes and related products in the PRC. Additional disclosure in relation to segment information is not presented as the Board assesses the performance of the only operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

Information regarding the Group's reportable segments as provided to the Group's chief executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2010 is set out below.

	Production of diodes	Construction contracts	Processing of wind turbine blades	Sub-total	Un-allocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue	537,473	262,135	4,575	804,183	—	804,183
Reportable segment profit/(loss)	54,402	54,133	(1,392)	107,143	(205)	106,938
Impairment loss on goodwill	—	—	—	—	(647,000)	(647,000)
Central administrative costs	—	—	—	—	(3,777)	(3,777)
Finance costs	—	—	—	—	(14,285)	(14,285)
Loss before tax						(558,124)
Income tax						(15,626)
Loss for the year						(573,750)

13 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Other segment items included in the statement of comprehensive income are as follows:

	Production of diodes *RMB'000*	Construction contracts *RMB'000*	Processing of wind turbine blades *RMB'000*	Sub-total *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Depreciation and Amortisation for the year	23,230	2,393	435	26,058	25	26,083
Interest income	571	—	—	571	—	571
Share of loss of associate	—	—	—	—	(205)	(205)

	Production of diodes *RMB'000*	Construction contracts *RMB'000*	Processing of wind turbine blades *RMB'000*	Sub-total *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Assets	374,319	368,415	13,916	756,650	207,043	963,693
Associate	—	—	—	—	9,740	9,740
Reportable segment assets	374,319	368,415	13,916	756,650	216,783	973,433
Reportable segment liabilities	(160,895)	(203,905)	(3,899)	(368,699)	(349,001)	(717,700)

(b) Geographic information

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's major operations and markets are located in the PRC, no further geographic segment information is provided.

14 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construct-ion in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2009	29,765	—	129,449	29,481	4,558	5,631	198,884
Reclassification	(2,510)	—	2,407	103	—	—	—
Additions	3,996	—	20,092	2,430	661	1,399	28,578
Transfer	2,750	—	1,058	(118)	—	(3,690)	—
Disposals	(401)	—	—	(37)	—	(356)	(794)
At 31 December 2009 and 1 January 2010	33,600	—	153,006	31,859	5,219	2,984	226,668
Acquisition of subsidiaries	1,901	—	22,096	1,979	7,370	—	33,346
Reclassification	—	—	(10,387)	10,387	—	—	—
Additions	20	399	29,833	12,405	1,303	25,953	69,913
Transfer	1,175	—	1,837	154	—	(3,166)	—
Disposals	—	—	(1,006)	(5,184)	—	(114)	(6,304)
Derecognised on disposal of subsidiaries	—	—	(83,026)	(21,272)	(1,325)	(25,118)	(130,741)
At 31 December 2010	36,696	399	112,353	30,328	12,567	539	192,882
Accumulated depreciation:							
At 1 January 2009	3,868	—	24,118	12,692	2,228	—	42,906
Charge for the year	1,450	—	12,587	5,283	770	—	20,090
Impairment loss	—	—	6,347	158	—	—	6,505
Written back on disposal	—	—	—	(8)	—	—	(8)
At 31 December 2009 and 1 January 2010	5,318	—	43,052	18,125	2,998	—	69,493
Charge for the year	1,528	20	12,865	9,601	1,649	—	25,663
Reclassification	—	—	(1,896)	1,896	—	—	—
Written back on disposal	—	—	(747)	(4,666)	—	—	(5,413)
Derecognised on disposal of subsidiaries	—	—	(11,504)	(8,246)	(857)	—	(20,607)
At 31 December 2010	6,846	20	41,770	16,710	3,790	—	69,136
Net book value:							
At 31 December 2010	**29,850**	**379**	**70,583**	**13,618**	**8,777**	**539**	**123,746**
At 31 December 2009	28,282	—	109,954	13,734	2,221	2,984	157,175

14 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2010, the Group has pledged its buildings with carrying values of approximately RMB8,487,000 (2009: RMB13,878,000) to secure its bank loans (note 27).

Building held for own use are located on land with medium term lease.

Impairment loss

A production line of the Group was ceased to operate during 2009. The Group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down by approximately RMB6,505,000 (included in "Cost of sales") at 31 December 2009. The estimates of recoverable amount were based on the machines' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

15 GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2009, 31 December 2009	—
Addition	725,946
At 31 December 2010	725,946
Accumulated impairment losses:	
At 1 January 2009, 31 December 2009	—
Impairment loss	647,000
At 31 December 2010	647,000
Carrying amount:	
At 31 December 2010	**78,946**
At 31 December 2009	—

15 GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rate used do not exceed the long-term average growth rates for the business in which the cash-generating unit operates. The cash flows are discounted using a discount rate of 29.27%. The discount rate used is pre-tax and reflect specific risks relating to the industry.

The impairment loss recognised during the year solely relates to the Group's construction and processing services in the PRC. As the cash generating unit has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

16 LEASE PREPAYMENTS

The Group's lease prepayments comprise:

	2010	2009
	RMB'000	*RMB'000*
Land in PRC:		
Medium term lease	**13,286**	20,573
Analysed for reporting purpose as:		
Current assets	**297**	445
Non-current assets	**12,989**	20,128
	13,286	20,573

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

As at 31 December 2010, the Group has pledged its lease prepayments with carrying value of approximately RMB2,132,000 (2009: RMB16,637,000) to secure its bank loans (note 27).

17 INTEREST IN SUBSIDIARIES

	2010 RMB'000	2009 RMB'000
Unlisted shares at cost	**1,018,289**	114,614
Less: Impairment loss	**(603,000)**	—
	415,289	114,614
Amounts due from subsidiaries	**5,445**	159,767
Amounts due to subsidiaries	**(112,280)**	(121,792)
	308,454	152,589

Note:

(a) The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group reorganisation in 2006.

(b) Amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

(c) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the company: Directly	Attributable equity interest held by the company: Indirectly	Principal activities
Changzhou Galaxy Semiconductor Co., Ltd* 常州銀河半導體有限公司	PRC	PRC	Registered capital USD1,500,000	—	100%	Manufacturing and trading of electrical parts and spares
Changzhou Galaxy Hi-New Electric Parts Co., Ltd* 常州銀河高新電裝有限公司	PRC	PRC	Registered capital USD1,204,819	—	100%	Manufacturing and trading of diodes and semi-conductor products
Taizhou Galaxy Huanyu Semi-conductor Co., Ltd* 泰州銀河寰宇半導體有限公司	PRC	PRC	Registered capital USD5,000,000	—	100%	Manufacturing and trading of diodes and semi-conductor products
Seven Rainbows Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary shares USD2	—	100%	Investment holding
Gold And Goal Limited 金機有限公司	BVI	Hong Kong	Ordinary shares USD2	—	100%	Investment holding

17 INTEREST IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the company		Principal activities
				Directly	Indirectly	
Profit Champ Limited 盈冠有限公司	BVI	Hong Kong	Ordinary shares USD1	—	100%	Investment holding
Sun Light Planet Limited	BVI	Hong Kong	Ordinary shares USD5,516,952	100%	—	Investment holding
Galaxy Electric (China) Company Limited 銀河電子（中國）有限公司	Hong Kong	Hong Kong	Ordinary shares HKD10,000	—	100%	Inactive
Dai Tak Trading Company Limited 大得貿易有限公司	Hong Kong	Hong Kong	Ordinary shares HKD1	—	100%	Inactive
Changzhou Galaxy Electrical Co., Ltd* 常州銀河電器有限公司	PRC	PRC	Registered capital USD11,263,000	—	100%	Manufacturing and trading of diodes and semi-conductor Products
City Alliance Limited	BVI	Hong Kong	Ordinary shares USD1	100%	—	Investment holding
Power Full Group Holdings Limited 富力集團控股有限公司	BVI	Hong Kong	Ordinary shares USD2	100%	—	Investment holding
Ferson Limited 緯建有限公司	Hong Kong	Hong Kong	Ordinary shares HKD1	—	100%	Inactive
Conway Holdings Limited 康威集團有限公司	Hong Kong	Hong Kong	Ordinary shares HKD1	—	100%	Investment holding
Beijing Chengrui Xianghai Renewable Energy Co., Limited* 北京承瑞翔海新能源科技有限公司	PRC	PRC	Registered capital RMB100,000	—	100%	Investment holding
Chengde Ruifeng Renewable Energy Windpower Company Limited* 承德瑞風新能源風電設備有限公司	PRC	PRC	Registered capital RMB30,000,000	—	100%	Manufacturing and processing of wind turbine blades and components
Hebei Beicheng Power Grid Construction Co., Ltd.** 河北北辰電網建設股份有限公司	PRC	PRC	Registered capital RMB67,500,000	—	100%	Construction, installation repairing and testing of power facilities

* wholly-owned foreign enterprise

** company limited by shares, special purpose entity ("SPE") controlled by SPE agreement

18 INTEREST IN AN ASSOCIATE

The Group

	2010	2009
	RMB'000	*RMB'000*
Share of net assets	**9,740**	—
Amount due from an associate *(note 20)*	**9,620**	—
	19,360	—

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

Details of the associate as at 31 December 2010 are as follow:

			Proportion of ownership interest			
Name of associate	Place of establishment and operation	Particulars of issued and paid registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd.* 克什克騰旗朗誠瑞風電力發展有限公司	PRC	Registered capital RMB39,500,000	30%	—	30%	Wind farm operation (under construction)

* private limited liability company

Summary of financial information on the associate

	Assets	**Liabilities**	**Equity**	**Revenue**	**Loss**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2010					
100 per cent	103,899	71,433	32,466	—	933
The Group's effective interest	31,170	21,430	9,740	—	280

19 INVENTORIES

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Raw material	**8,971**	11,086
Work in progress	**23,121**	34,253
Finished goods	**14,911**	11,386
	47,003	56,725

(a) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010	2009
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**420,797**	350,476
	420,797	350,476

20 TRADE AND OTHER RECEIVABLES

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**215,264**	149,337
Less: allowance for doubtful debts	**(15,198)**	(12,244)
	200,066	137,093
Other receivables	**82,058**	2,518
Note receivables	**33,498**	49,987
Amounts due from related companies *(note i)*	**458**	—
Amount due from an associate *(note 18)*	**9,620**	—
Loans and receivables	**325,700**	189,598
Prepayments and deposits	**58,758**	5,639
Gross amount due from customers for contract work *(note 21)*	**104,887**	—
	489,345	195,237

All of the trade and other receivables (including note receivables, amounts due from related companies and amount due from an associate) are expected to be recovered or recognised as expense within one year.

Note:

(i) **Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:**

Name of Company	**Changzhou Galaxy Technology Developing Company Limited**	**Changzhou Galaxy Century Micro-Electronic Company Limited**
Terms of the amount due		
— duration and repayment terms	Repayable on demand	Repayable on demand
— interest rate	Interest-free	Interest-free
— security	None	None
Balance of the amount due		
— at 1 January 2009	Nil	Nil
— at 31 December 2009 and 1 January 2010	Nil	Nil
— at 31 December 2010	Approximately RMB66,000	Approximately RMB392,000
Maximum balance outstanding		
— during 2010	Approximately RMB66,000	Approximately RMB1,187,000
— during 2009	Nil	Nil

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on these outstanding balance at 31 December 2010.

20 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts of approximately RMB15,198,000 (2009: RMB12,244,000) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Within three months	**182,614**	135,544
More than three months but within one year	**14,730**	1,346
More than one year	**2,722**	203
At 31 December	**200,066**	137,093

Trade receivables are due within 60–180 days from the date of billing.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(j)(i)).

The movement in the allowance for doubtful debts during the year is as follow:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**12,244**	7,808
Impairment loss recognised	**3,007**	6,687
Uncollectible amounts written off	**(53)**	(2,251)
At 31 December	**15,198**	12,244

As at 31 December 2010, trade receivables of the Group amounting to approximately RMB15,198,000 (2009: RMB12,244,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 180 days as at the end of the reporting period or related to customers that were in financial difficulties. The Group does not hold any collateral over these balances.

20 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**170,392**	117,639
Past due but not impaired		
— Less than three months past due	**24,936**	18,975
— More than three months but within one year past due	**4,436**	276
— More than one year past due	**302**	203
	200,066	137,093

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

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

21 CONSTRUCTION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2010 is approximately RMB1,127,183,000 (2009: Nil).

In respect of construction contracts in progress at the end of the reporting period, the amount of retentions receivable from customers, recorded within "Trade receivables" at 31 December 2010 is approximately RMB7,959,000 (2009: Nil).

22 PLEDGED BANK DEPOSITS

The amounts are pledged to banks as securities for certain bank loans granted to an independent third party and for the Group to issue bank acceptance bills and other banking facilities (see note 25).

23 CASH AND CASH EQUIVALENTS

An analysis of the balance of cash and cash equivalents is set out below:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**173,990**	85,566	**125,958**	31,142
Time deposits	**8,000**	12,000	**—**	—
Cash and cash equivalents in the statements of financial position and the consolidated statement of cash flows	**181,990**	97,566	**125,958**	31,142

24 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group and the Company	
	2010	2009
	RMB'000	*RMB'000*
Derivative financial liabilities:		
Derivative component of convertible bonds *(note 26(b)(iii))*	**38,830**	—

All the amounts of derivative financial instruments are stated at fair value.

The fair value of derivative component of convertible bonds are determined by an independent valuer, RHL Appraisal Limited, using the binomial option pricing model.

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**88,467**	69,767	**—**	—
Note payables	**40,889**	34,783	**—**	—
Other payables	**32,745**	19,269	**1,229**	223
Advance from customers	**23,284**	4,155	**—**	—
Amounts due to related companies	**18,334**	283	**—**	—
Amounts due to directors	**1,600**	1,145	**—**	—
Financial liabilities measured at amortised cost	**205,319**	129,402	**1,229**	223
Gross amount due to customers for contract work *(note 21)*	**12,487**	—	**—**	—
	217,806	129,402	**1,229**	223

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Within three months	**65,031**	56,782
More than three months but within one year	**18,928**	10,234
More than one year	**4,508**	2,751
	88,467	69,767

All of the trade and other payables (including amounts due to related companies and directors) are expected to be settled or recognised as income within one year.

The note payables of the Group are secured by pledged bank deposits (see note 22).

26 INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans *(note 27)*	**133,000**	107,500	**—**	—
Convertible bonds *(note 26(b)(iii))*	**77,774**	—	**77,774**	—
Convertible note *(note 26(b)(ii))*	**48,112**	—	**48,112**	—
Promissory note *(note 26(b)(iv))*	**176,017**	—	**176,017**	—
Loan from an executive director *(note 26(b)(v))*	**10,000**	—	**—**	—
Other loan *(note 26(b)(vi))*	**7,000**	—	**—**	—
	451,903	107,500	**301,903**	—
Analysed as:				
Current	**145,000**	107,500	**—**	—
Non-current	**306,903**	—	**301,903**	—
	451,903	107,500	**301,903**	—

All of the non-current interest-bearing borrowings, except for the non-current bank loan of RMB5,000,000, are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

(b) Significant terms and repayment schedule of non-bank borrowings:

(i) Convertible bonds issued in May 2010

On 27 May 2010, the Company issued zero coupon convertible bonds with principal amount of HKD143,040,000 and a maturity date of 26 May 2013. The convertible bonds are unsecured.

The holders of the convertible bonds have right to convert the convertible bonds in whole or in part (in an integral multiple of HKD1,490,000) of the outstanding principal amount of the convertible bonds into new ordinary shares of the Company on or before 26 May 2013 at HKD1.49 per share. If the conversion right is not exercised by the bondholder, the bonds not converted will be redeemed on 26 May 2013 at 100% of the principal amount of the bonds.

26 INTEREST-BEARING BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(i) Convertible bonds issued in May 2010 *(continued)*

The fair value of the liability portion of the convertible bonds was estimated at the issuance date using the Group's prevailing borrowing rate and an equivalent market interest rate for similar bonds without a conversion option, and has been ascertained by RHL Appraisal Limited. The residual amount was assigned as the equity component and included in shareholders' equity.

In July and August 2010, convertible bonds in aggregate principal amounts of HKD143,040,000 were converted into ordinary shares of the Company at a conversion price of HKD1.49 per share.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 8.78%.

The net proceeds received from the issuance of the convertible bonds have been split between the liability and equity components, as follows:

	The Group and the Company		
	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	—	—	—
Issued during the year	67,207	58,180	125,387
Recognition of deferred tax liabilities in respect of issurance of convertible bonds	—	(9,600)	(9,600)
Issuing cost	(2,432)	—	(2,432)
Interest expenses *(note 6(a))*	1,181	—	1,181
Recognition of deferred tax liabilities in respect of conversion of convertible bonds	—	9,405	9,405
Conversion of convertible bonds	(65,956)	(57,985)	(123,941)
At 31 December 2010	**—**	**—**	**—**

26 INTEREST-BEARING BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(ii) Convertible note issued in July 2010 in respect of acquisition of equity interest in Power Full Group Holdings Limited ("Power Full") and its subsidiaries (the "Acquisition")

In 7 July 2010, the Company issued a zero coupon convertible note with a principal amount of HKD155,000,000 to Diamond Era Holdings Limited as part of the consideration for the Acquisition of the entire equity interest in Power Full as detailed in note 33. The note is convertible at the option of the note holder into ordinary shares of the Company on or before 6 July 2013 at a price of HKD1.00 per share. If the conversion right is not exercised by the note holder, the note not converted will be redeemed on 6 July 2013 at 100% of the principal amount of the note. The note is unsecured.

The fair value of the liability portion of the convertible note was estimated at the issuance date using the Group's prevailing borrowing rate and an equivalent market interest rate for a similar note without a conversion option, and has been ascertained by RHL Appraisal Limited. The residual amount was assigned as the equity component and included in shareholders' equity.

In September 2010, convertible note in aggregate amounts of HKD48,000,000 was converted into ordinary shares, creating a total of 48,000,000 new ordinary shares of the Company at a conversion price of HKD1.00 per share.

Interest expense on the convertible note is calculated using the effective interest method by applying the effective interest rate of 9.49% to the liability component.

26 INTEREST-BEARING BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(ii) ***Convertible note issued in July 2010 in respect of acquisition of equity interest in Power Full Group Holdings Limited ("Power Full") and its subsidiaries (the "Acquisition")*** *(continued)*

The net proceeds received from the issuance of the convertible note have been split between the liability and equity components, as follows:

	The Group and the Company		
	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	—	—	—
Issued during the year	69,785	65,431	135,216
Recognition of deferred tax liabilities in respect of insurance of convertible note	—	(10,796)	(10,796)
Interest expenses *(note 6(a))*	2,640	—	2,640
Conversion of convertible note	(22,043)	(20,191)	(42,234)
Realisation of deferred tax liabilities in respect of conversion of convertible note	—	3,239	3,239
Exchange adjustment	(2,270)	—	(2,270)
At 31 December 2010	**48,112**	**37,683**	**85,795**

	At 31 December 2010
	RMB'000
Liabilities component analysed for reporting purposes:	
Non-current liabilities	
— convertible note	**48,112**
	48,112

26 INTEREST-BEARING BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(iii) Convertible bonds issued in December 2010

On 31 December 2010, the Company issued convertible bonds with principal amount of USD18,580,000 and a maturity date of 30 June 2013.

The convertible bonds bear an interest at a rate of 8% per annum, payable annually commencing from the issue date. The convertible bonds are secured by a share charge ("the Share Charge") dated 21 December 2010 and executed by Diamond Era Holdings Limited ("Diamond Era") over certain number of shares of the Company, a share charge (the "Power Full Share Charge") dated 21 December 2010 and executed by the Company over the entire issued shares of Power Full Group Holdings Limited, a deed of charge (the "CN Charge") dated 21 December 2010 and executed by Diamond Era in respect of charge of the convertible bonds due 6 July 2013 in the principal amount of HKD40,000,000 issued by the Company and a deed of guarantee (the "Deed of Guarantee") dated 21 December 2010 and executive by Mr. Zhang Zhixiang and Mr. Li Baosheng and constitute direct, unsubordinated, unconditional and secured obligations of the Company and shall at times rank pari passu and without any preference or priority among themselves.

The convertible bonds can be redeemed when the following situations are met:

— At anytime after the 12 months of the issue date and having given not less than 7 days' notice to the bondholders. Redeem an amount equivalent to 50% of the subscription amount together with a premium interest of 3% per annum calculated and based on the redemption amount of the bonds from the issue date up to the date fixed for redemption, a gross yield to maturity of 18% per annum, all interest paid thereon on or prior to such date of determination, services fees and all prepaid interest payment made by the Company.

— At anytime after one month of the date of release of audited consolidated financial statements of the Group for the year ending 31 December 2011, having given not less than seven days' notice to the bondholders. Redeem an amount equivalent to 50% of the subscription amount together with a premium interest of 2% per annum calculated and based on the redemption amount of the bonds from the issue date up to the date fixed for redemption, a gross yield to maturity of 18% per annum, all interest paid thereon on or prior to such date of determination, services fees and all prepaid interest payment made by the Company.

— Following the occurrence of a change of control or senior management, each bondholder will have the right to require the Company to redeem all or some only of the bond held by it plus any accrued but unpaid interest thereon.

26 INTEREST-BEARING BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(iii) Convertible bonds issued in December 2010 (continued)

The convertible bonds are convertible into the Company's ordinary shares, in an integral multiple of USD1,000,000, at any time after the issue date up to the ten business days prior to the maturity date at a conversion price of HKD1.50 per share (subject to reset, adjustment and a maximum cap of 96,000,000 shares). The convertible bonds contain liability component stated at amortised cost and conversion option, and holders' redemption option and issuer's redemption option (collectively the "derivative component") stated at fair value. The derivative component is presented on a net basis as the terms and conditions of options under the derivative component are inter-related. Issue costs of approximately HKD11,049,000 are apportioned between the liability component and derivative component based on their relative fair values at the date of issue. An issue cost of approximately HKD7,562,000 relating to liability component is included into the fair value of liability component at the date of issue. The effective interest rate of the liability component is 50.53%.

No convertible bonds were converted into ordinary shares during the year.

The net proceeds received from the issuance of the convertible bonds have been split between the liability and equity components, as follows:

	The Group and the Company		
	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 31 December 2010	**77,774**	**38,830**	**116,604**

	At 31 December 2010 *RMB'000*
Liabilities component analysed for reporting purposes:	
Non-current liabilities	
— convertible bonds	**77,774**
	77,774

26 INTEREST-BEARING BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(iv) Promissory note issued in July 2010 in respect of the Acquisition

On 7 July 2010, the Company issued promissory note with a principal amount of HKD330,000,000 to Cheerful Heart Holdings Limited as part of the consideration for the Acquisition of the entire equity interests in Power Full as detailed in note 33.

Under the terms of the promissory note, the promissory note with principal amount of HKD330,000,000 is secured by a charge on all the issued shares of Sun Light Planet Limited dated 7 July 2010, interest bearing at 10% per annum and have a maturity period of 3 years from the date of issue. The promissory note was issued as part of the consideration in connection with the acquisition, as detailed in note 33 and were fair valued at initial recognition with an effective interest rate of 8.49% per annum.

During the year ended 31 December 2010, the Company early redeemed part of the promissory note with a principal amount of HKD130,000,000 (equivalent to approximately RMB111,774,000) and incurred an early redemption gains of approximately HKD2,618,000 (equivalent to approximately RMB2,251,000).

Interest expenses on the promissory note are calculated using the effective interest method by applying the effective interest rate of 8.49% to the liability component.

	The Group and the Company *RMB'000*
At 1 January 2010	—
Issued during the year	285,597
Interest expenses *(note 6(a))*	10,464
Cash settled	(115,678)
Exchange adjustment	(4,366)
At 31 December 2010	**176,017**

(v) Loan from an executive director

At 31 December 2010, the loan of RMB10,000,000 was from Li Baosheng and was unsecured, bearing interest at 10.098% per annum and repayable on 25 August 2011 (note 35(c)).

(vi) Other loan

At 31 December 2010, the other loan of RMB7,000,000 was secured by Li Baosheng's personal properties, bearing interest at 7% per annum and was repayable on 30 June 2011.

27 BANK LOANS

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

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Within 1 year or on demand	**128,000**	107,500
After 1 year but within 2 years	**5,000**	—
	133,000	107,500

As 31 December 2010, the bank loans were secured and guaranteed as follows:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Bank loans		
— secured *(note a)*	**83,000**	107,500
— guaranteed *(note b)*	**50,000**	—
	133,000	107,500

Notes:

(a) The secured bank loans of RMB83,000,000 as at 31 December 2010 were secured by the Group's buildings with a carrying value of approximately RMB8,487,000 (2009: RMB13,878,000) and lease prepayments with a carrying value of approximately RMB2,132,000 (2009: RMB16,637,000). At 31 December 2010, certain properties of Li Baosheng (李保勝), being one of the executive directors and key management of the Group, were also pledged to the bank for the loans granted to the Group.

The average effective interest rate on secured bank loans approximated 7.21% (2009: 5.25%) per annum.

(b) As at 31 December 2010, the unsecured bank loans of RMB10,000,000 and RMB40,000,000, were guaranteed by a related company Chengde Beichen High New Technology Co., Ltd. (承德北辰高新技術有限公司), in which Li Baosheng has beneficial interests, and by a wholly-owned subsidiary Chengde Ruifeng Renewable Energy Windpower Company Limited, respectively.

The average effective interest rate on unsecured, guaranteed bank loans approximated 10.66% (2009: Nil) per annum.

28 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD20,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

The total expenses recognised in the consolidated income statement for the year of approximately RMB4,393,000 (2009: RMB2,919,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

29 SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution of all the shareholders of the Company passed on 17 May 2006.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participant as incentives or rewards for their contributions to the Group. All full time or part time employees, directors, consultants, advisers, substantial shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of any member of the Group, to be determined absolutely by the Board are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years after the date on which Share Option Scheme is adopted.

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 at the date of approval of the Share Option Scheme ("General Scheme Limit"). The Company may renew the General Scheme 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.

29 SHARE OPTION SCHEME *(continued)*

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-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 7 days inclusive of the day on which such offer was made. A nominal consideration of HKD1 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 as the directors may determine which shall not exceed ten years from the date of grant subject to the provision of early termination thereof.

The subscription price of a Share under the Share Option Scheme will be a price solely determined by the Board and shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

No option has been granted under the Share Option Scheme from the date of adoption of the scheme up to 31 December 2010.

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**1,539**	968
Provision for PRC Enterprise Income Tax for the year	**17,333**	2,345
Over provision in respect of prior years	**(779)**	(444)
Disposal of subsidiaries	**(214)**	—
PRC Enterprise Income Tax paid	**(15,629)**	(1,330)
At 31 December	**2,250**	1,539

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Allowance for doubtful debts *RMB'000*	Unused tax losses *RMB'000*	Provision for unrealised profits *RMB'000*	Convertible note *RMB'000*	Total *RMB'000*
Deferred tax arising from:					
At 1 January 2009	1,133	500	(2,615)	—	(982)
Credited/(Charged) to income statement	704	(500)	2,960	—	3,164
At 31 December 2009	1,837	—	345	—	2,182
Charged to reserves	—	—	—	(7,752)	(7,752)
Credited/(Charged) to income statement	443	—	(145)	630	928
Exchange adjustment	—	—	—	211	211
At 31 December 2010	**2,280**	**—**	**200**	**(6,911)**	**(4,431)**

(ii) The Company

The components of deferred tax liabilities recognised in the company's statement of financial position and the movements during the year are as follows:

	Convertible note *RMB'000*
Deferred tax arising from:	
At 31 December 2009 and at 1 January 2010	—
Charged to reserves	7,752
Credited to income statement	(630)
Exchange adjustment	(211)
At 31 December 2010	**6,911**

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised: *(continued)*

(iii) Reconciliation to the statements of financial position

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Net deferred tax assets recognised on the consolidated statement of financial position	**2,480**	2,182
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(6,911)**	—
	(4,431)	2,182

	The Company	
	2010	2009
	RMB'000	*RMB'000*
Net deferred tax liabilities recognised on the statement of financial position	**6,911**	—
	6,911	—

(c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,911,000 (2009: RMB15,409,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profits streams.

(d) Deferred tax liabilities not recognised

Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of approximately RMB9,970,000 (2009: RMB5,426,000) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

31 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	Translation reserve	Share premium	Convertible bonds/note reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	4,080	(8,310)	192,197	—	(32,834)	155,133
Issue of shares *(note 31(b))*	705	—	30,236	—	—	30,941
Total comprehensive income for the year	—	(91)	—	—	(2,475)	(2,566)
At 31 December 2009 and at 1 January 2010	4,785	(8,401)	222,433	—	(35,309)	183,508
Acquisition of subsidiaries *(note 31(b))*	1,701	—	313,003	—	—	314,704
Issue of convertible bonds in May 2010	—	—	—	58,180	—	58,180
Issue of convertible note in July 2010	—	—	—	65,431	—	65,431
Conversion of the convertible bonds *(note 31(b))*	840	—	123,072	(57,985)	—	65,927
Conversion of the convertible note *(note 31(b))*	414	—	41,820	(20,191)	—	22,043
Deferred tax relating to convertible bonds/note *(note 30)*	—	—	—	(7,752)	—	(7,752)
Total comprehensive income for the year	—	(1,281)	—	—	(615,221)	(616,502)
At 31 December 2010	**7,740**	**(9,682)**	**700,328**	**37,683**	**(650,530)**	**85,539**

31 CAPITAL AND RESERVES *(continued)*

(b) Share capital

	2010		2009	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Authorised:				
Ordinary shares of HKD0.01 each	**2,000,000**	**20,400**	2,000,000	20,400
Ordinary shares, issued and fully paid:				
At 1 January	**480,000**	**4,785**	400,000	4,080
Issue of shares	**—**	**—**	80,000	705
Acquisition of subsidiaries *(note i)*	**195,000**	**1,701**	—	—
Conversion of the convertible bonds in July 2010 *(note ii)*	**34,000**	**297**	—	—
Conversion of the convertible bonds in August 2010 *(note iii)*	**62,000**	**543**	—	—
Conversion of the convertible note in September 2010 *(note iv)*	**48,000**	**414**	—	—
At 31 December	**819,000**	**7,740**	480,000	4,785

Note:

(i) Pursuant to the conditional agreement dated 1 April 2010, the Company allotted and issued a total of 195,000,000 consideration shares to Diamond Era Holdings Limited at the issue price of HKD1.00 per consideration share on 7 July 2010 as payment of part of the consideration for the subscription of interest in Power Full Group Holdings Limited.

(ii) In July 2010, the convertible bonds with aggregate principal amount of HKD50,660,000 were converted at the conversion price of HKD1.49 per share, resulting in the issue of 34,000,000 ordinary shares of HKD0.01 each.

(iii) In August 2010, the convertible bonds with aggregate principal amount of HKD92,380,000 were converted at the conversion price of HKD1.49 per share, resulting in the issue of 62,000,000 ordinary shares of HKD0.01 each.

(iv) On 21 September 2010, the convertible note with aggregate principal amount of HKD48,000,000 was converted at the conversion price of HKD1.00 per share, resulting in the issue of 48,000,000 ordinary shares of HKD0.01 each.

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

31 CAPITAL AND RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. The Companies Law of the Cayman Islands, permits, subject to a solvency test and the provision, if any, of the Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

(ii) Special reserve

The special reserve represented:

— The differences between the aggregate nominal value of the registered capital of Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology, other than those contributed by minority shareholders prior to the Group reorganisation, and the aggregate nominal value of the shares of the three existing immediate holding companies of Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology issued in 2005.

— The difference between the net assets value of the acquired subsidiaries and the nominal value of the shares issued by the Company at the time of Group reorganisation.

(iii) Statutory reserves

As stipulated by the relevant PRC laws and regulations, the PRC subsidiaries shall set aside 10% of their net profit after taxation for the PRC statutory reserves (except where the reserve balance has reached 50% of the paid-up capital of the respective enterprises). The reserve can only be utilised, upon approval by the board of directors of respective enterprises and by relevant authority, to offset accumulated losses or increase registered capital, provide that the balance after such issue is not less than 25% of its registered capital.

(iv) Other reserve

Other reserve represents the net assets contributed by the then shareholders upon the acquisition of the entire interest in two subsidiaries of the Company on 19 April 2003.

(v) Translation reserve

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

31 CAPITAL AND RESERVES *(continued)*

(c) Nature and purpose of reserves *(continued)*

(vi) Convertible bonds/note reserve

The convertible bonds/note reserve comprises the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds/note in note 2(n).

(d) Distributability of reserves

As at 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB87,481,000 (2009: RMB187,124,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into account its future financial obligations and commitments. The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010	2009
	RMB'000	*RMB'000*
Interest-bearing borrowings:		
Current portion	**145,000**	107,500
Non-current portion	**306,903**	—
Total interest-bearing borrowings *(note 26)*	**451,903**	107,500
Less: Cash and cash equivalents *(note 23)*	**(181,990)**	(97,566)
Net debt	**269,913**	9,934
Total equity	**255,733**	312,151
Gearing ratio	**106%**	3%

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, derivative financial instruments trade receivables, pledged bank deposits, cash and cash equivalents and trade payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and other price 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.

(a) Credit risk

(i) As at 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

(ii) In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 60 to 180 days from the date of billing.

(iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at the end of the reporting period.

(iv) The credit risk on liquid funds is limited because the counter parties are financial institutions with established high credit ratings.

(v) Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity.

The following liquidity table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company required to pay:

The Group

2010

	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	Contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Convertible bonds	—	—	122,338	122,338	77,774
Convertible note	—	—	107,000	107,000	48,112
Promissory note	—	—	200,000	200,000	176,017
Bank loans	134,446	5,776	—	140,222	133,000
Loan from an executive director	10,657	—	—	10,657	10,000
Other loan	7,245	—	—	7,245	7,000
Trade and other payables (excluding advance from customers)	194,522	—	—	194,522	194,522
	346,870	5,776	429,338	781,984	646,425

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Liquidity risk *(continued)*

The Group *(continued)*

2009

	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	Contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Bank loans	111,159	—	—	111,159	107,500
Trade and other payables (excluding advance from customers)	125,247	—	—	125,247	125,247
	236,406	—	—	236,406	232,747

The Company

2010

	Within 1 year or on demand ***RMB'000***	**More than 1 year but less than 2 years** ***RMB'000***	**More than 2 years but less than 5 years** ***RMB'000***	**Contractual undiscounted cash flow** ***RMB'000***	**Carrying amount** ***RMB'000***
Convertible bonds	**—**	**—**	**122,338**	**122,338**	**77,774**
Convertible note	**—**	**—**	**107,000**	**107,000**	**48,112**
Promissory note	**—**	**—**	**200,000**	**200,000**	**176,017**
Other payables	**1,229**	**—**	**—**	**1,229**	**1,229**
Amounts due to subsidiaries	**112,280**	**—**	**—**	**112,280**	**112,280**
	113,509	**—**	**429,338**	**542,847**	**415,412**

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Liquidity risk *(continued)*

The Company *(continued)*

2009

	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	Contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Other payables	223	—	—	223	223
Amounts due to subsidiaries	121,792	—	—	121,792	121,792
	122,015	—	—	122,015	122,015

(c) Interest rate risk

The Group is exposed to interest rate risk as its bank deposits are all interest-bearing. Management does not anticipate any significant impact resulting from the change in interest rates because the Group's bank balances are carried at low interest rates and the interest income thereon is not significant.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings at the end of the reporting period:

	The Group				The Company			
	2010		2009		**2010**		2009	
	Effective Interest rates %	***RMB'000***	Effective interest rates %	*RMB'000*	**Effective interest rates %**	***RMB'000***	Effective interest rates %	*RMB'000*
Fixed rate borrowings:								
Convertible bonds	**50.53**	**77,774**	—	—	**50.53**	**77,774**	—	—
Convertible note	**9.49**	**48,112**	—	—	**9.49**	**48,112**	—	—
Promissory note	**8.49**	**176,017**	—	—	**8.49**	**176,017**	—	—
Loan from an executive director	**10.098**	**10,000**	—	—	**—**	**—**	—	—
Other loan	**7.00**	**7,000**	—	—	**—**	**—**	—	—
Bank loans								
Long term loan	**9.68**	**5,000**	—	—	**—**	**—**	—	—
Short term loan	**8.46**	**128,000**	5.25	107,500	**—**	**—**	—	—
		451,903		107,500		**301,903**		—

(ii) Sensitivity analysis

For 2010 and 2009, all the borrowings are at fixed rates and management considers they do not expose the Group to a significant fair value interest rate risk as they are not re-priced. Therefore, sensitivity analysis is not prepared for both years.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currency is RMB as substantially all the turnover are in RMB. The Group's transactional foreign exchange exposure was insignificant.

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through sales which give rise to receivable and bank balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with governmental approval.

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

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Currency risk *(continued)*

(i) Exposure to currency risk (continued)

	2010	2009	**2010**	2009
	USD'000	*USD'000*	***HKD'000***	*HKD'000*
The Group				
Trade and other receivables	**2,691**	4,202	**121**	3,197
Cash and cash equivalents	**18,794**	549	**4,939**	39,441
Trade and other payables	**(166)**	(201)	**(247)**	(6,647)
Convertible bonds	**—**	—	**(137,030)**	—
Convertible note	**—**	—	**(57,777)**	—
Promissory note	**—**	—	**(206,853)**	—
Overall exposure arising from recognised assets and liabilities	**21,319**	4,550	**(396,847)**	35,991
The Company				
Amounts due from subsidiaries	**—**	—	**5,852**	—
Cash and cash equivalents	**18,580**	—	**3,454**	35,370
Trade and other payables	**—**	—	**(48)**	(253)
Convertible bonds	**—**	—	**(137,030)**	—
Convertible note	**—**	—	**(57,777)**	—
Promissory note	**—**	—	**(206,853)**	—
Overall exposure arising from recognised assets and liabilities	**18,580**	—	**(392,402)**	35,117

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's (loss)/profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *RMB'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *RMB'000*
UNITED STATES DOLLARS	5%/(5%)	7,026/(7,026)	5%/(5%)	1,555/(1,555)
HONG KONG DOLLARS	5%/(5%)	16,816/(16,816)	5%/(5%)	1,587/(1,587)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2009.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(e) Price risk

The major raw material used in the production of the Group's products included copper. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes. To protect the Group's business from the impact of copper price fluctuation, the Group closely monitors the net exposure and ensures that is kept to an acceptable level.

(f) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

— Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

— Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

— Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(f) Fair values *(continued)*

(i) ***Financial instruments carried at fair value*** *(continued)*

2010

	The Group and the Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Liabilities				
— Derivative option embedded in convertible note	—	**38,830**	—	**38,830**

During the year there were no significant transfer between instruments in Level 1 and Level 2.

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(g) Estimation of fair values

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

(i) Derivative financial instruments

The estimate of the fair value of the conversion option and redemption option embedded in the convertible note are measured using a binomial option pricing model.

	2010	2009
Fair value of conversion options and assumptions		
Share price	**HKD1.73**	—
Initial conversion price	**HKD1.50**	—
Expected volatility	**39.07%**	—
Option life	**2.5 yrs**	—
Risk-free interest rate	**0.81%**	—

	2010	2009
Fair value of redemption options and assumptions		
	Early redemption price	
Exercise price	**HKD1.50**	—
Option life	**2.5 yrs**	—
Risk-free interest rate	**0.81%**	—

(ii) Interest-bearing loans and borrowings

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

33 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of subsidiaries

Pre-acquisition carrying amounts were determined based on applicable HKFRS immediately before the acquisition. The value of assets and liabilities recognised on acquisition are their fair values measured as follows: for the identifiable assets with an active market, the fair value was measured according to its market price; for the identifiable assets without an active market, the fair value was measured based on the market price of the same or similar kind of assets; if no active market exists for the same or similar assets, the fair value was measured by appraisal technique.

The fair value was valued by RHL Appraisal Limited ("RHL"), an independent professional qualified valuer.

Goodwill is generated as a result of difference between the fair value of the net assets acquired and consideration.

The acquisition-date fair value of the total consideration transferred was approximately HKD993,134,000 (equivalent to approximately RMB866,371,000), which compromised HKD155,000,000 (equivalent to approximately RMB135,216,000) convertible note, which are convertible to 96,000,000 ordinary shares, approximately HKD360,750,000 (equivalent to approximately RMB314,704,000) consideration shares and approximately HKD327,384,000 (equivalent to approximately RMB285,597,000) promissory note of the Company, issued to the vendor and cash of HKD150,000,000 (equivalent to approximately RMB130,854,000).

Identifiable assets acquired and liabilities assumed:

	Recognised values on acquisition ***RMB'000***
Fixed assets	33,346
Inventories	2,313
Trade and other receivables	308,759
Interest in an associate	9,945
Cash and cash equivalents	21,996
Trade and other payables	(121,834)
Interest-bearing borrowings	(114,100)
Total identifiable net assets	140,425
Add: Goodwill	725,946
Consideration	866,371
— Settled by cash	130,854
— Settled by convertible bonds issued to the vendor	135,216
— Settled by consideration shares	314,704
— Settled by promissory note	285,597
Cash consideration	130,854
Cash and cash equivalents acquired	(21,996)
Net cash outflow for the year	**108,858**

33 ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(continued)*

(b) Disposal of subsidiaries

Details of the subsidiaries disposed of during the year ended 31 December 2010 are set out below:

	The Group 2010 *RMB'000*
Fixed assets	110,134
Lease payments	6,867
Inventories	1,525
Trade and other receivables	20,727
Pledged bank deposits over three months disposed of	23,573
Cash and cash equivalents	20,156
Short-term investment	140
Amounts due from related companies	28,153
Trade and other payables	(34,589)
Tax payable	(214)
Amounts due to related companies	(4,593)
Interest-bearing borrowings	(60,000)
Net loss on disposal of a subsidiary	(105)
Total consideration received	111,774
Net cash inflow arising on disposal:	
Cash consideration received	111,774
Pledged bank deposits over three months disposed of	(23,573)
Cash and cash equivalents disposed of	(20,156)
	68,045

The consideration of HKD130,000,000 (equivalent to approximately RMB111,774,000) was satisfied in full by the purchaser in cash upon completion. The entire proceeds from the disposal was applied to repay a portion of the Company's outstanding indebtedness under the promissory note *(note 26(b)(iv))*.

(c) Significant non-cash transactions

Other than the consideration shares issued by the Group for the acquisition of Power Full Group, the Group issued promissory note of HKD330,000,000 and convertible note of HKD155,000,000 for acquisition Power Full Group during the year ended 31 December 2010.

34 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

The Group

	2010 RMB'000	2009 RMB'000
Acquisition of property, plant and equipment		
— Contracted for	**839**	1,996

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2010 RMB'000	2009 RMB'000
Within 1 year	**2,538**	32
After 1 year but within 5 years	**1,573**	—
More than 5 years	**907**	—
	5,018	32

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

35 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	**Relationship**
Changzhou Lucky Star Electronic Equipment Co., Ltd. 常州吉星電子器材有限公司 ("Lucky Star Electronic")	Controlled by Mr Shiu Kit, a former non-executive director
Changzhou Galaxy Century Micro-Electronics Co., Ltd. 常州銀河世紀微電子有限公司 ("Micro-Electronics")	Controlled by Mr. Yang Senmao, an executive director
Zhong Shan Company Limited 鍾山有限公司 ("Zhong Shan")	Interest of a controlled corporation
Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. 克什克騰旗朗誠瑞風電力發展有限公司 ("Langcheng")	Interest of an associate
Mr. Li Baosheng 李保勝 ("Mr. Li")	An executive director

(a) Transactions with related parties

In addition to the transactions disclosed elsewhere in the financial statements, the Group also entered into the following related party transactions:

		2010	2009
		RMB'000	*RMB'000*
Lucky Star Electronic	Purchase of goods	**1,657**	297
Micro-Electronics	Purchase of goods	**7,755**	—
Zhong Shan	Office rentals paid	**53**	127
Langcheng	Contract revenue	**20,000**	—
Mr. Li	Interest expenses	**513**	—

35 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid to employees as disclosed in note 9, is as follows:

	2010	2009
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**5,949**	3,521
Post-employment benefits	**85**	135
Salaries and other emoluments	**6,034**	3,656

Total remuneration is included in "staff costs" (see note 6(b)).

(c) Balance with related parties

As at 31 December 2010, the Group had the following balances with related parties:

	2010	2009
Name of party	***RMB'000***	*RMB'000*
Amounts due from related companies** *(note 20)*	**458**	—
Amount due form an associate** *(note 20)*	**9,620**	—
	10,078	—
Loan from an executive director* *(note 26)*	**10,000**	—
Amounts due to directors** *(note 25)*	**1,600**	1,145
Amounts due to related companies** *(note 25)*	**18,334**	283
	29,934	1,428

* Loan from an executive director is unsecured, bearing interest at 10.098% per annum and was repayable on 25 August 2011.

** Amounts due from/to related parties are unsecured, interest-free and repayable on demand.

36 NON-ADJUSTING POST BALANCE SHEET EVENTS

Acquisition of interest in Beichen Hightech

On 12 January 2011, the Group entered into a acquisition agreement to acquire the entire equity interest in Chengde Beichen High New Technology Company Limited ("Beichen Hightech"), which in turn, directly holds 5.77% equity interests of Hebei Hongsong Wind Power Company Limited ("Hongsong") from Mr. Li Baosheng and his associates, the chairman and a substantial shareholder of the Company for a total consideration of RMB50,802,400 ("Beichen Hightech Acquisition"). The Beichen Hightech Acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to independent shareholders' approval at an extraordinary general meeting to be held. Hongsong is principally engaged in operating and developing of wind farms in Hebei. As of the date of approval of these financial statements, the management of the Group was still in the midst of determining the financial effect of the aforesaid acquisition. Further details are disclosed in the Company's circular dated 14 February 2011.

Acquisition of interest in Langcheng

On 18 January 2011, the Group entered into a acquisition agreement to acquire a 70% equity interest in Langcheng, from Mr. Li Baosheng and his associates, the chairman and a substantial shareholder of the Company for a total consideration of RMB31,500,000 ("Langcheng Acquisition"). The Langcheng Acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to independent shareholders' approval at an extraordinary general meeting to be held. As of the date of approval of these financial statements, the Langcheng Acquisition has not been completed.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Impairment of property, plant and equipment and lease prepayments

The recoverable amount of an asset is the greater of its net selling price 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 risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables, where applicable, at the end of each reporting period. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(iii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Key sources of estimation uncertainty *(continued)*

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. These could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management reassesses the estimations at the end of each reporting period.

(v) Construction contracts

As explained in policy notes 2(l) and (u)(ii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 21 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(vi) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in notes 2(e) and 2(j)(ii). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(vii) Fair value of derivative financial instruments

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Key sources of estimation uncertainty *(continued)*

(viii) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(ix) Recognition of deferred tax liabilities

As at 31 December 2010, no deferred tax liabilities have been recognised on the distributable profits of the group companies in the PRC as the Group plans to retain those profits in the respective entities for their daily operations and future developments. In case there is distribution of profits, additional tax liabilities will arise, which will be recognised in the profit or loss for the period in which such profits are declared or the future development plan of the Group amends, whichever is earlier.

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 1 Amendment, Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	1 July 2010
HKFRS 1 Amendment, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
HKFRS 7 Amendment, Disclosures – Transfers of Financial Assets	1 July 2011
HKFRS 9, Financial Instruments	1 January 2013
HKAS 12 Amendments, Deferred Tax: Recovery of Underlying Assets	1 January 2012
Revised HKAS 24, Related party disclosures	1 January 2011
HKAS 32 Amendments, Classification of Right Issues	1 February 2010
HK(IFRIC) – Int. 14, Prepayment of a Minimum Funding Requirement	1 January 2011
HK(IFRIC) – Int. 19, Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011

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

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**804,183**	425,742	387,541	384,278	336,562
(Loss)/Profit from operations	**(532,765)**	16,527	30,573	49,751	37,516
(Loss)/Profit before taxation	**(558,124)**	11,314	21,083	41,074	34,622
(Loss)/Profit for the year	**(573,750)**	12,577	18,713	35,630	29,055
Attributable to:					
Equity holders of the Company	**(573,750)**	12,577	18,713	36,831	30,202
Minority shareholders	**—**	—	—	(1,201)	(1,147)
	(573,750)	12,577	18,713	35,630	29,055
Assets and liabilities					
Total assets	**973,433**	550,592	487,919	511,507	394,759
Total liabilities	**(717,700)**	(238,441)	(219,574)	(263,801)	(172,946)
Net assets	**255,733**	312,151	268,345	247,706	221,813
Equity					
Share capital	**7,740**	4,785	4,080	4,080	4,080
Reserves	**247,993**	307,366	264,265	243,626	214,734
Total equity attributable to equity shareholders of the Company	**255,733**	312,151	268,345	247,706	218,814
Non-controlling interests	**—**	—	—	—	2,999
Total equity	**255,733**	312,151	268,345	247,706	221,813

Note:

1 The results for the year ended 31 December 2010, and the assets and liabilities as at 31 December 2010 have been extracted from the consolidated income statement and consolidated statement of financial position as set out on pages 51 to 53 respectively, of the consolidated financial statements.