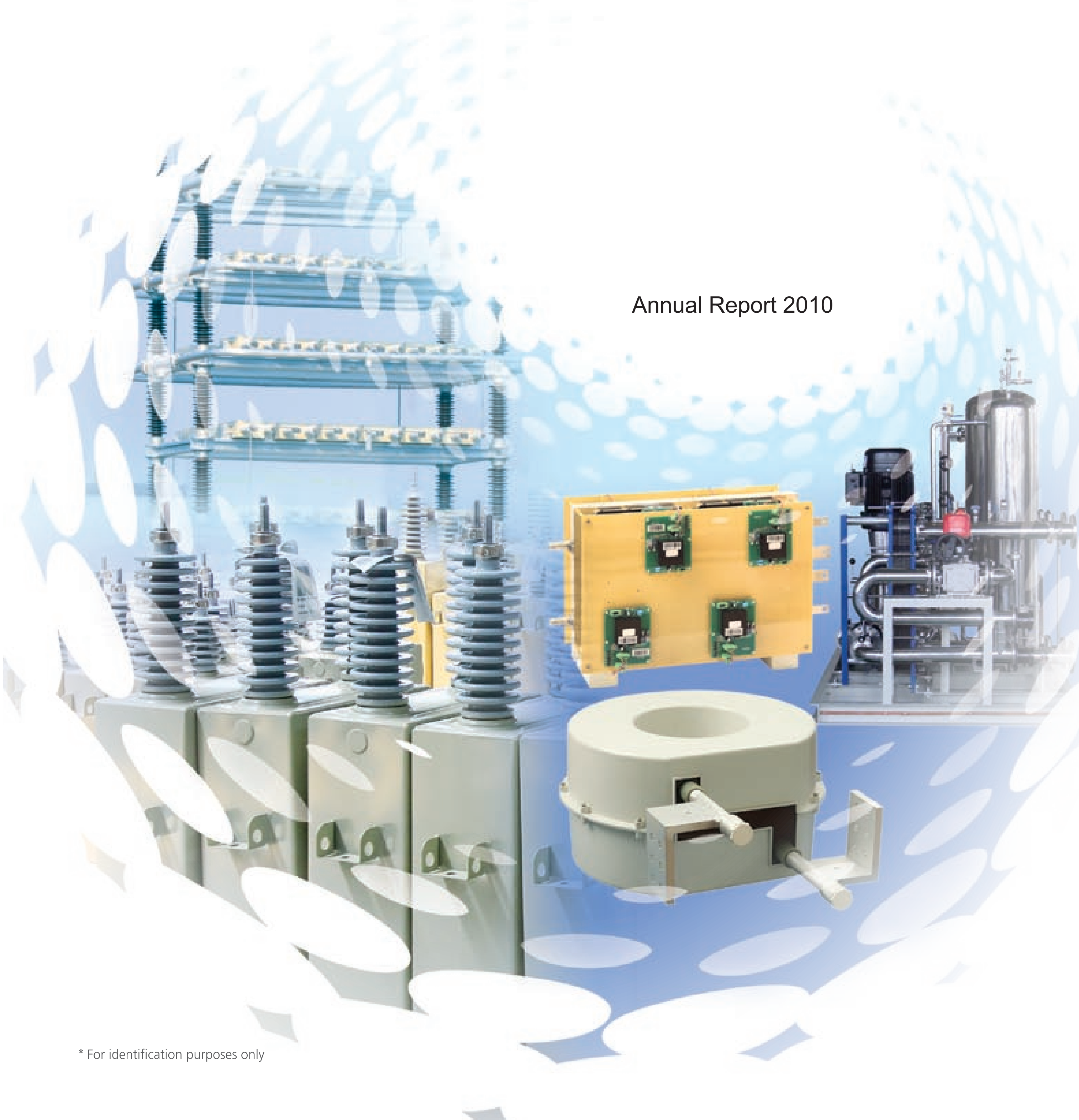
Sun.King Power Electronics Group Limited
賽晶電力電子集團有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 580



Annual Report 2010

* For identification purposes only

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CORPORATE INFORMATION

Executive Directors
Mr. Xiang Jie
Mr. Gong Renyuan
Mr. Yue Zhoumin
Mr. Huang Xiangqian

Non-executive Directors
Mr. Ye Weigang Greg
Mr. Wong Kun Kau

Independent non-executive Directors
Mr. Wang Yi
Mr. Li Fengling
Mr. Chen Shimin

Authorised representatives
Mr. Yue Zhoumin
Ms. Ma Sau Kuen Gloria

Audit Committee members
Mr. Chen Shimin *(chairman)*
Mr. Wang Yi
Mr. Ye Weigang Greg

Remuneration Committee members
Mr. Wong Kun Kau *(chairman)*
Mr. Wang Yi
Mr. Li Fengling

Nomination Committee members
Mr. Li Fengling *(chairman)*
Mr. Gong Renyuan
Mr. Chen Shimin

Joint secretaries of Company
Ms. Ma Sau Kuen Gloria *FCIS, FCS*
Mr. Lau Lap Kwan

Auditors
Deloitte Touche Tohmatsu

Compliance adviser
Haitong International Capital Limited

Legal adviser
Pang & Co in association with Salans LLP

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

Headquarters
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No. 66 Zhong Guan Cun East Road
Haidian District, Beijing
PRC

Principal place of business in Hong Kong
8th Floor, Gloucester Tower
The Landmark
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Hong Kong

Principal share registrar and transfer office
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, Grand Cayman KY1-1107
Cayman Islands

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

Principal bankers
Bank of China Limited, Jiashan branch
China Construction Bank Corporation, Jiashan branch
China Construction Bank Corporation, Wuxi Xishan sub-branch

Listing exchange information
Place of listing: Main Board of
The Stock Exchange of Hong Kong Limited
Stock code: 0580

Company's website
www.speg.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present on behalf of the board (the "**Board**") of directors (the "**Directors**") of Sun.King Power Electronics Group Limited (the "**Company**") the first annual report of the Company and its subsidiaries (collectively the "**Group**") after the listing (the "**Listing**") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Results Overview

Benefitting from the rapid development of the railway and power industries and the favorable market environment, the Group achieved remarkable results for 2010 with a significant increase in revenue. For the year ended 31 December 2010, the Group's turnover reached RMB428.0 million, representing a substantial rise of 63.5% compared with the year 2009. Consolidated profit attributable to owners of the Company was RMB37.6 million, a mild 3.3% decrease from the previous year.

Business Review

Since the commencement of the manufacturing operations in 2007, the Group has been recognised for its technological innovation, quality products and operating efficiency, which has attracted a broad customer base and secured a leading position in producing and designing high-end, specialised power electronic components and systems for use in the rail transportation, power transmission and distribution, and other general industrial sectors in the People's Republic of China (the "**PRC**"). With the stable growth of market demand and expansion of business scale, the Group's performance has been outstanding.

During the year under review, the Group's manufacturing business continued to focus on the railway transportation and power transmission and distribution sectors resulting in remarkable sales growth. The manufacturing business achieved total revenue of RMB289.5 million for 2010, representing a substantial 136.1% increase over 2009. In particular, the sale of insulated gate bipolar transistor ("**IGBT**") power modules, anode saturable reactors and silicon rectifier valves and others have recorded a notable increase of 147.5%, 183.9% and 109.1%, respectively, on a year-on-year basis. The revenue from the sale of high-voltage ("**HV**") power capacitors also achieved an encouraging revenue of RMB12.8 million after a year of operation. The Group has exported anode saturable reactors to South Korea for use in the project of China XD Electric Co., Ltd., therefore, the Group has accomplished a breakthrough in expanding the overseas market.

The success of the manufacturing business was largely attributable to the Group's efforts in research and development, technological innovations and product development. In April 2010, the anode saturable reactors products were appraised by the National Energy Administration and became available in the market.

The Group continued to be the sole domestic supplier of IGBT power modules to China CNR Corporation Limited ("**CNR**") and its subsidiaries (the "**CNR Group**") for its 9,600kw electric locomotives. The Group also became the manufacturer and supplier of anode saturable reactors for three dominant HV direct current ("**DC**") convertor valves manufacturers in the PRC. With respect to deionised water cooling systems, the Group achieved its long term stable position as a manufacturer for one of the locomotive manufacturing giants in the PRC.

The Group endeavored to develop power electronic technology in the power quality and energy saving environments with an aim to provide systematic and integrated solutions to customers. The Group also attained a breakthrough in the ambits of power quality and energy saving to retain research reserves for the power grid development. The Group successfully secured orders for its new products.

CHAIRMAN'S STATEMENT

Subsequent to the acquisition of the 20% equity interest in Shanghai Lang Zhi De Resources Technology Co. Ltd.* (上海朗之德能源科技有限公司) in July 2010, the research and development of online monitoring of smart power grid has been on the move progressively. The Group is also in negotiation with Trainelec ("**Trainelec**"), a subsidiary of Construcciones y Auxiliar de Ferrocarriles (CAF), S.A., for establishing a joint venture in developing power converters used in electric locomotives and city metros.

Externally, the Group has continuously been seeking strategic alliances with leading corporations. In September 2010, CNR became the Group's strategic investor. Leveraging and capitalising on CNR's existing resources, the Group's development in IGBT power modules used in electric locomotives has been enriched.

While the manufacturing business was so successful, it is still the Group's intention to continue its distribution business to complement the manufacturing business. The Group generated revenue from domestic customers and became one of the important suppliers of IGBT for CSR Corporation Limited and its subsidiaries. The results from distributing imported electronic components remained stable.

Our People

The progress achieved across the Group's businesses could not have been possible without the commitment of our people. I would like to take this opportunity to thank the management and staff for their dedicated efforts throughout the year. The Group will continue to invest in human resource development which we consider to be a critical factor in maintaining the momentum for growth in our business operations.

Corporate Governance

The Board believes that sound corporate governance is fundamental to the growth of the Group. Based on the core principles of fairness, transparency and accountability, the Group has strived to maintain a high standard of corporate governance through the establishment of a comprehensive and efficient framework of policies, procedures and systems. The Board established an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**") and a nomination committee (the "**Nomination Committee**") on 19 August 2010.

Listing

The Company's shares were listed successfully on the Main Board of the Stock Exchange on 13 October 2010. The Listing strengthened the Group's financial capability and enhanced its corporate governance standards, which marked a new milestone for the Group to develop further. I am very confident that the leading position of the Group will be sustainable.

* *for identification purpose only*

Prospects

Looking ahead, the Group believes there will be a sustainable growth in its business, benefiting from the PRC government policies which significantly enhance PRC's rolling stock and power grid infrastructure and encourage the use of domestic technology and products in major infrastructure projects, as well as from the global trend to reduce overall carbon emissions through the use of energy efficient technology and infrastructure. The PRC government has committed to make huge investments in both rolling stock industry and power grid industry, in which the Group's business falls within. Thus, the Group will see the PRC rolling stock manufacturers and power transmission customers as the prominent sources of demand for its products. The Group will also actively explore new business opportunities in other novice industries like renewable energies and energy savings.

For new products in the pipeline, the Group will, without reservation, place resources in the development of high-end and innovative technology products particularly in the application for improving power quality and energy savings. These products mainly include fixed series compensator (FSC) and thyristor controlled series compensator (TCSC), HV static var compensator (SVC), fixed DC melting ice SVC, removable HV static var compensator (RSVC), filter capacitor (FC), speed solid transfer switch (SSTS) and static var generator (SVG). The Group targets to offer these products to sizeable customers of power generating, power transmission and power consumption companies as their systematic and integrated solution providers.

The Group will speed up the pace of cooperation with Trainelec in order to gain access into the city metro market by providing the traction converter systems, enriching its product series, expanding the market share and enhancing the market position in the PRC rolling stock industry.

The Group will seize opportunities for growth in terms of market share and revenue through strategic alliance with selected partners, mergers and acquisitions and formation of business collaboration with large customers for the long run and will gradually explore and step into both regional and oversea markets. It is also the Group's ultimate vision to become a vertical integrated manufacturer so as to achieve economies of scale.

Our Customers, Partners and Shareholders

The unwavering support of our customers, business partners and shareholders is a key factor to our success. I would like to thank our growing number of customers, esteemed business partners as well as shareholders for their continued support.

Xiang Jie
Chairman

Hong Kong, 21 March 2011

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue increased by RMB166.3 million, or 63.5%, from RMB261.7 million for the year ended 31 December 2009 to RMB428.0 million for the year ended 31 December 2010 primarily reflecting an increase in the sale of manufactured products, in particular, the sale of IGBT power modules and silicon rectifier valves and others.

The following table sets forth a breakdown of the Group's revenue by business segment and product and as a percentage of the Group's total revenue for the year ended 31 December 2010, with corresponding comparative figures for 2009:

	Year ended 31 December			
	2010 RMB'000	**2010 %**	2009 RMB'000	2009 %
Sale of imported power electronic components	**138,535**	**32.4**	139,140	53.2
Sale of manufactured products:				
IGBT power modules	**113,626**	**26.5**	45,904	17.5
Anode saturable reactors	**33,513**	**7.8**	11,759	4.5
HV power capacitors	**12,781**	**3.0**	–	–
Silicon rectifier valves and others	**121,549**	**28.4**	58,061	22.2
Deionised water cooling systems	**7,992**	**1.9**	6,840	2.6
Sub-total of manufactured products	**289,461**	**67.6**	122,564	46.8
Total revenue	**427,996**	**100.0**	261,704	100.0

The Group's revenue from the sale of manufactured products increased by RMB166.9 million, or 136.1%, from RMB122.6 million for the year ended 31 December 2009 to RMB289.5 million for the corresponding year in 2010 primarily due to the increased sale of IGBT power modules to the CNR Group and the increased sale of silicon rectifier valves for the aluminium industry, in each case during the year ended 31 December 2010. As a percentage of the Group's total revenue, the sale of manufactured products increased from 46.8% in the year ended 31 December 2009 to 67.6% for the corresponding year in 2010. The Group's revenue from the sale of IGBT power modules increased from RMB45.9 million in the year ended 31 December 2009 to RMB113.6 million for the corresponding year in 2010 due to the rise in demand for locomotives resulting from the development of the PRC rolling stock industry. Such sale was predominately made to the CNR Group. The Group only started to sell IGBT power modules in November 2009 and therefore low sale of IGBT power modules was noted for year 2009.

For the year ended 31 December 2010, the Group recorded revenue of RMB33.5 million from the sale of anode saturable reactors, with a substantial increase of 183.9% as their quality and functionality were gradually recognised by customers, and revenue of RMB12.8 million from the sale of HV power capacitors. Revenue from the sale of silicon rectifier valves and other products increased by RMB63.4 million, or 109.1%, from RMB58.1 million in the year ended 31 December 2009 to RMB121.5 million for the corresponding year in 2010. As a percentage of the Group's total revenue, revenue from the sale of anode saturable reactors, HV power capacitors and silicon rectifier valves and others increased from 26.7% in the year ended 31 December 2009 to 39.2% for the corresponding year in 2010 because the sale of these products increased and the proportion of sale of the IGBT power modules decreased. The Group's revenue from the sale of deionised water cooling systems increased by RMB1.2 million, or 17.6%, from RMB6.8 million for the year ended 31 December 2009 to RMB8.0 million for the corresponding year in 2010 because of expanded customer base. As a percentage of the Group's total revenue, revenue from the sale of deionised water cooling systems decreased marginally from 2.6% in the year ended 31 December 2009 to 1.9% for the corresponding year in 2010.

Revenue from the sale of imported power electronic components remained steady with a slight decrease of RMB0.6 million, or 0.43%, from RMB139.1 million for the year ended 31 December 2009 to RMB138.5 million for the corresponding year in 2010. As a percentage of the Group's total revenue, revenue from the sale of imported power electronic components decreased from 53.2% in the year ended 31 December 2009 to 32.4% for the corresponding year in 2010 reflecting the proportional increase in revenue generated from the Group's manufacturing business as compared to the sale from the Group's distribution business.

Cost of sales

Cost of sales increased by 72.2% from RMB181.8 million for the year ended 31 December 2009 to RMB313.0 million for the corresponding year in 2010. The increase primarily reflects the combined effect of increases in sale, the higher cost of imported power electronic components that are denominated in Swiss Francs ("**CHF**") and the higher exchange rate of CHF:RMB during the year ended 31 December 2010 compared to the corresponding year in 2009.

Gross profit and gross profit margin

Gross profit increased by RMB35.1 million, or 43.9%, from RMB79.9 million for the year ended 31 December 2009 to RMB115.0 million for the corresponding year in 2010. The Group's gross profit margin decreased from 30.5% for the year ended 31 December 2009 to 26.9% for the corresponding year in 2010, primarily as a result of a change in the product mix of the Group's manufactured products sold in the year ended 31 December 2010 compared to the corresponding year in 2009, and the higher cost of imported power electronic components that are denominated in CHF, which was at a higher value on average relative to RMB during the year ended 31 December 2010 compared to the corresponding year in 2009.

For the years ended 31 December 2009 and 2010, RMB141.2 million and RMB260.0 million, representing 80.8% and 74.5%, of the Group's total purchases for the respective years were denominated in CHF. The lower average exchange rate of CHF:RMB in the year ended 31 December 2009 contributed to the Group's higher gross profit margins recorded for that year compared to the corresponding year in 2010.

The following table sets forth the Group's gross profit margins by business segment and product for the year ended 31 December 2010, with corresponding comparative figures in 2009:

	Year ended 31 December	
	2010	2009
	%	%
Distribution business:		
Imported power electronic components	**21.9**	27.0
Manufacturing business:	**29.2**	34.5
IGBT power modules	**21.5**	27.0
Anode saturable reactors	**69.4**	61.7
HV power capacitors	**23.9**	–
Silicon rectifier valves and others	**27.6**	38.2
Deionised water cooling systems	**4.1**	7.0
The Group	**26.9**	30.5

Gross profit margin for the Group's distribution business decreased from 27.0% for the year ended 31 December 2009 to 21.9% for the corresponding year in 2010 primarily due to the higher cost of imported power electronic components that are denominated in CHF, which was at a higher value on average relative to RMB during the year ended 31 December 2010 compared to the corresponding year in 2009. Gross profit margin of the Group's manufacturing business decreased from 34.5% for the year ended 31 December 2009 to 29.2% for the corresponding year in 2010 reflecting the mixed effects explained below.

Gross profit margin of IGBT power modules was 21.5% for the year ended 31 December 2010 compared to 27.0% for last year because of the lower selling price to the CNR Group and the higher exchange rate for CHF:RMB causing higher cost of imported raw materials. For the year ended 31 December 2010, gross profit margin of anode saturable reactors increased to 69.4% as a result of increased quantity and proportion for the sale of new models with higher gross profit margin. The gross profit margin of silicon rectifier valves and others decreased from 38.2% for the year ended 31 December 2009 to 27.6% for the corresponding year in 2010 primarily due to a greater proportion in the sale of a new type of silicon rectifier valve with a lower gross profit margin and less favorable exchange rate for imported material costs.

Gross profit margin for deionised water cooling systems decreased from 7.0% for the year ended 31 December 2009 to 4.1% for the corresponding year in 2010. During the two reporting years, the gross profit margin of deionised water cooling systems fluctuated considerably. The terms for constructing each deionised water cooling system are agreed upon with the customers on a case by case basis and hence the gross profit margin for each deionised water cooling system may vary. As the sale of deionised water cooling systems only accounted for 2.6% and 1.9% of the Group's total revenue for the year ended 31 December 2009 and 2010, respectively, the Group's overall gross profit margin during the two years was not affected by the performance of the deionised water cooling systems to any material extent.

Other income and other gains and losses

Other income and other gains and losses changed from a net loss of RMB1.8 million for the year ended 31 December 2009 to a net gain of RMB1.1 million for the corresponding year in 2010, primarily due to (i) government grants of RMB5.5 million received for the achievements in scientific and technological innovation in the current year; (ii) an increase in fair value gain of RMB3.8 million on foreign exchange forward contracts, arising from the re-translation to fair value of the Group's unexpired foreign exchange forward contracts to purchase CHF outstanding at the end of each reporting year; and (iii) a rise in bank interest income of RMB0.4 million, mainly received from the unused proceeds from the Listing deposited with bank, and offset by the loss from changes in fair values of embedded derivatives of RMB0.9 million and the increase in net foreign exchange loss of RMB6.2 million, mainly generated from the conversion of part of the gross Listing proceeds of HK$659.1 million into RMB during the month of the Listing and the translation of its unused balance into RMB at year end and the Group's trade payables outstanding as at 31 December 2010 denominated in CHF to RMB with an appreciation of CHF against RMB as at 31 December 2010 compared to the rate prevailing as at 31 December 2009. The CHF:RMB exchange rate was 6.5938 and 7.0562 as at 31 December 2009 and 31 December 2010, respectively.

Distribution and selling expenses

Distribution and selling expenses increased by RMB9.2 million, or 191.7%, from RMB4.8 million in the year ended 31 December 2009 to RMB14.0 million in the corresponding year in 2010 primarily reflecting an increase in salaries and social welfare paid to the increased number of staff employed and an increase in travelling expenses, freight costs and entertainment expenses.

Administrative and general expenses

Administrative and general expenses significantly increased by RMB17.5 million, or 77.1%, from RMB22.7 million for the year ended 31 December 2009 to RMB40.2 million for the corresponding year in 2010 primarily reflecting the legal and professional fees incurred for the preparation of the Listing, an increase in total staff costs (including salaries, social welfare and share-based payments and other staff costs) paid to the Directors and administrative staff of RMB2.5 million, additional depreciation of RMB0.2 million, a rise in external auditors' remuneration of RMB1.7 million and an impairment loss of RMB1.1 million recognised on inventory. Administrative and general expenses constituted 9.4% of the Group's total revenue for the year ended 31 December 2010, as compared to 8.7% for the corresponding year in 2009. The higher administrative and general expenses margin in the year ended 31 December 2010 was primarily due to the lower rate of increase in revenue compared to the rate of increase of administrative and general expenses.

Other expenses

Other expenses increased by RMB3.7 million, from RMB0.6 million for the year ended 31 December 2009 to RMB4.3 million for the corresponding year in 2010 primarily due to the following expenses incurred during the year ended 31 December 2010: (i) the recognition of RMB1.5 million impairment loss on the Group's trade receivables and (ii) additional RMB2.2 million research and development fees paid in relation to a power electronic component to be applied in the Group's own manufactured products.

Interest on bank borrowings wholly repayable within five years

Interest on bank borrowings wholly repayable within five years increased by RMB4.1 million, or 410.0%, from RMB1.0 million in the year ended 31 December 2009 to RMB5.1 million in the corresponding year in 2010 primarily due to the increased amount of bank loans outstanding during the year ended 31 December 2010. The increased amount of loans was mainly used for working capital purposes.

Profit before tax

The Group's profit before tax increased by RMB3.3 million, or 6.7%, from RMB49.1 million in the year ended 31 December 2009 to RMB52.4 million in the corresponding year in 2010 primarily due to an increase of RMB35.1 million in the Group's gross profit, the receipt of government grants of RMB6.1 million and an increase in fair value gain on foreign exchange forward contracts of RMB3.8 million recognised in the year ended 31 December 2010. The increase in profit before tax was partially offset by the legal and professional fees incurred for the preparation of the Listing, an increase in the staff costs of RMB6.2 million, an increase in depreciation and amortisation expenses of RMB3.4 million as a result of the transfer of construction in progress relating to office space to fixed depreciable assets, an increase of RMB3.7 million in other expenses, an increase in distribution and selling expenses of RMB9.2 million, an increase in net foreign exchange loss of RMB6.2 million and an increase in interest expenses of RMB4.1 million. EBITDA increased by RMB10.9 million, or 20.6%, from RMB52.8 million for the year ended 31 December 2009 to RMB63.7 million for the corresponding year in 2010 and EBITDA margins for the year ended 31 December 2010 were 14.9%, as compared to 20.2% for the corresponding year in 2009.

Income tax expense

Income tax expense increased by RMB4.6 million from RMB10.3 million in the year ended 31 December 2009 to RMB14.9 million for the corresponding year in 2010. The Group's effective tax rate for the year ended 31 December 2010 was 28.4%, as compared to 21.0% for the corresponding year in 2009, primarily reflecting the non-tax deductible nature of certain expenses for PRC EIT purposes that were incurred in 2010 and operating losses incurred but not provided for deferred tax benefit for certain subsidiaries. In 2010, significant amount of expenses related to the Listing was recorded in the Group entities that were incorporated in non-taxation jurisdictions. No tax benefit was recorded for these expenses.

Profit for the year and total comprehensive income for the year attributable to owners of the Company

The Group's profit for the year and total comprehensive income for the year attributable to owners of the Company decreased by RMB1.3 million, or 3.3%, from RMB38.9 million for the year ended 31 December 2009 to RMB37.6 million for the corresponding year in 2010. The Group's net profit margin, which is calculated as profit attributable to owners of the Company for the year divided by total revenue, decreased from 14.9% in the year ended 31 December 2009 to 8.8% for the corresponding year in 2010.

Inventories

The inventory balances increased from RMB20.1 million as at 31 December 2009 to RMB67.7 million as at 31 December 2010, reflecting an increase in both raw materials and work-in-process in anticipation of increased sales orders in 2011.

The average inventory turnover days increased from 42.7 days in 2009 to 51.2 days in 2010, mainly due to an increase in inventory levels.

Trade receivables

Trade receivables increased from RMB124.9 million as at 31 December 2009 to RMB313.6 million as at 31 December 2010, primarily due to an increase in sales recorded in the year, in particular to a number of state-owned or state-controlled enterprises.

The average trade receivables turnover days increased from 112.5 days for the year ended 31 December 2009 to 187.1 days in 2010. This was because of the increased sales to customers with longer credit period, such as the sales of IGBT power modules to the CNR Group, and a substantial portion of the Group's trade receivables was due from a number of large customers who are state-owned or state-controlled enterprises, which tend to be slow in settlement of invoices but are of better creditworthiness.

Trade and other payables

Trade and other payables increased from RMB61.2 million as at 31 December 2009 to RMB194.8 million as at 31 December 2010 reflecting increased purchases of imported power electronic components particularly in preparation for the anticipated increase in sales orders in 2011.

The average turnover days for trade payables increased from 61.9 days in 2009 to 117.1 days in 2010 primarily due to the stock up of imported power electronic components towards the end of year.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sale of its products and bank borrowings. As at 31 December 2010, the Group's current ratio (current assets divided by current liabilities) was 3.46 (as at 31 December 2009: 2.2). As at 31 December 2010, the Group had cash and cash equivalents of RMB446.0 million (as at 31 December 2009: RMB38.9 million) and short-term bank loans of RMB48.3 million (as at 31 December 2009: RMB20.0 million). The increase in short-term bank loans was mainly for working capital purposes. As at 31 December 2010, the Group's gearing ratio measured on the basis of total short-term bank loans and the loan due to a former shareholder to total equity was 5.8%, as compared to 11.9% as at 31 December 2009.

As at 31 December 2009 and 31 December 2010, all the Group's bank loans were at fixed interest rates and had contractual maturity within one year from the end of the reporting year. The effective interest rates on the Group's fixed-rate bank borrowings were also equal to the weighted average contracted interest rates of 4.61% per annum as at 31 December 2010 (as at 31 December 2009: 5.31% per annum).

Interest rate and foreign currency exposure

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group currently has not entered into interest rate swaps to hedge against its exposure to changes in fair values of its borrowings. The Group's cash flow interest rate risk relates primarily to its variable-rate bank deposits. Currently, the Group does not have a specific policy to manage its interest rate risk, but will closely monitor the interest rate risk exposure in the future. In the opinion of the management, the Group did not have significant exposure to cash flow interest rate risk as at 31 December 2009 and 31 December 2010.

As most of the principal subsidiaries of the Company are operating in the PRC, their functional currency is RMB. However, the amount due to a former shareholder, certain bank balances and certain purchases of the Group are either denominated in CHF, United States Dollars, Euros or Hong Kong Dollars, which are currencies other than the functional currency of the relevant Group entities and expose the Group to foreign currency risk.

Since 2007, the Group has reduced its CHF exposure against RMB by using foreign exchange forward contracts in order to increase its foreign exchange visibility and limit losses. The carrying amount of foreign currency forward contracts outstanding as at 31 December 2010 was RMB4.2 million (as at 31 December 2009: RMB1.3 million).

Contingent liabilities

As at 31 December 2010, the Group had no material contingent liabilities.

Charges on group assets

As at 31 December 2010, the Group pledged its bank deposits of RMB1.2 million (as at 31 December 2009: RMB4.2 million) to secure short-term foreign currency forward contracts and letters of credit of the Group. As at 31 December 2010, the Group's bank loans were secured by certain buildings owned by the Group and land use rights of carrying amounts of RMB49.2 million and RMB15.3 million, respectively (as at 31 December 2009: RMB16.4 million and RMB1.7 million, respectively). Certain trade receivables and note receivables of the Group with carrying amount of RMB17.0 million and RMB0.8 million, respectively (as at 31 December 2009: nil and nil, respectively) are pledged against short-term bank loans of the Group.

FINAL DIVIDEND

The Board did not recommend payment of a final dividend for the year ended 31 December 2010 (2009: nil).

HUMAN RESOURCES

As at 31 December 2010, the Group employed approximately 328 employees. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews for the employees and their salaries and bonuses are performance related. The Group has neither experienced any significant problems with its employees or disruptions to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the prospectus (the "**Prospectus**") of the Company dated 30 September 2010, the Group did not engage in any material acquisitions or disposals during the year ended 31 December 2010.

PROSPECTS

Looking ahead, the Group believes there will be sustainable growth in its business, which will benefit from the PRC government policies which significantly enhance the PRC's rolling stock and power grid infrastructure and encourage the use of domestic technology and products in major infrastructure projects, as well as from the global trend to reduce overall carbon emissions through the use of energy efficient technology and infrastructure. The PRC government has committed to make huge investments in both the rolling stock and the power grid industries, in which the Group's business currently lies. Thus, the Group will see the PRC rolling stock manufacturers and power transmission customers as the prominent sources of demand for its products. The Group will also actively explore new business opportunities in other novice industries like renewable energies and energy savings.

For new products in the pipeline, the Group will, without reservation, place resources in the development of high-end and innovative technology products particularly in the application for improving power quality and energy savings. These products mainly include fixed series compensator (FSC) and thyristor controlled series compensator (TCSC), HV static var compensator (SVC), fixed DC melting ice SVC, removable HV static var compensator (RSVC), filter capacitor (FC), speed solid transfer switch (SSTS) and static var generator (SVG). The Group seeks to offer these products to sizeable customers of power generating, power transmission and power consumption companies as their systematic and integrated solution providers.

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The Group will seize opportunities for growth in terms of market share and revenue through strategic alliances with selected partners, mergers and acquisitions and long-lasting of business collaborations with large customers and will gradually explore and step into both regional and oversea markets. It is also the Group's ultimate vision to become a vertically integrated manufacturer so as to achieve economies of scale.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 37, is an executive Director and the founder, chairman and chief executive officer of the Group. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduation from the Shanghai Maritime University (上海海事大學) in international shipping management in 1995, he obtained his master degree in business administration from the Maastricht School of Management, the Netherlands in 1999. Mr. Xiang has over 10 years of experience in the power electronic sectors.

Mr. Gong Renyuan, aged 40, is an executive Director and the president of the Group. He joined the Group in 2002. He is primarily responsible for overseeing the overall business of the Group, including devising and implementing the business and development strategies and targets. Before joining the Group, he has accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing Technology University (北京工業大學). Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Group.

Mr. Yue Zhoumin, aged 40, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. He is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) with a bachelor degree in economics in 1994. Mr. Yue has extensive experience in corporate and project management and fund raising in the capital markets. He is highly experienced in strategic management and has worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange with stock code 1919.

Mr. Huang Xiangqian, aged 39, is an executive Director and a vice president of the Group. He is also the general manager of the Group's subsidiary, Wuxi Sunking Power Capacitor Co. Ltd.*(無錫賽晶電力電容器有限公司) specialising in the manufacture of power capacitors. He is primarily responsible for the overall operation of this subsidiary as well as overseeing the production and quality of the Group's products. Mr. Huang graduated from the Harbin University of Science and Technology with a bachelor degree in engineering in 1997 and received his internal auditor qualification from the Beijing Zhongdahuayuan Certification Centre in 2004. Mr. Huang has rich experience in the design and production of power capacitors. Before joining the Group in 2008, he worked in the technology department of Nissin Electric Wuxi Co. Ltd. (日新電機(無錫)有公司) for a number of years and had vast expertise in product standardisation process of power capacitors and with HVDC projects.

NON-EXECUTIVE DIRECTORS

Mr. Ye Weigang Greg, aged 42, is a certified public accountant in the United States of America (the "**United States**"). He was appointed a non-executive Director in May 2010. Mr. Ye was awarded a bachelor degree in electrical engineering from the Shanghai Jiaotong University (上海交通大學) in 1990, a master degree in accountancy from the Northeast Missouri State University in 1993 and a master degree in business administration from the Harvard Business School in 2001. Mr. Ye has worked for PricewaterhouseCoopers in the United States and was a product marketing group director of Cadence Design Systems, Inc., a leading electronic design automation technology and engineering service company. He is currently a managing partner of NewMargin Ventures. Mr. Ye is also a director of Daqo New Energy Corp., a company listed on the New York Stock Exchange.

* *for identification purpose*

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Kun Kau, aged 50, was appointed a non-executive Director in May 2010. Mr. Wong obtained his bachelor degree in social science from The University of Hong Kong in 1982. He has more than 25 years of experience in fund management, securities brokering and corporate finance involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganisations and other general corporate advisory activities. He is currently the managing partner of Bull Capital Partners Ltd., a fund management company specialising in direct investment in the Greater China region. Prior to joining Bull Capital Partners Ltd., Mr. Wong held senior management positions with several multinational financial institutions including BNP Paribas Capital (Asia Pacific) Limited and Peregrine Securities Limited. Mr. Wong is also an independent non-executive director of West China Cement Limited, a company listed on the Stock Exchange with stock code 2233.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yi, aged 68, joined the Group as an independent non-executive Director in July 2010. Mr. Wang graduated from the Beihang University (北京航空航天大學). He was the president of China Technology and Economy Investment Consulting Co. Ltd. (中技經投資顧問股份有限公司). He was the deputy director (副司長) of the Department of Foreign Economic Cooperation of the Office of the Economic and Trade of the State Council (國務院經濟貿易辦公室對外經濟合作司) and was also a director general (正司級巡視員) of the Department of Investment and Planning of the State Economic and Trade Commission of the PRC (國家經濟貿易委員會投資與規劃司). He is currently a general vice director (常務副主任委員) of the Enterprise Technology Improvement Working Committee of the China Enterprise Confederation (中國企業聯合會企業技術進步工作委員會). Mr. Wang has substantial experience working in the PRC government authorities including experience in policy planning and project approval.

Mr. Li Fengling, aged 62, was appointed an independent non-executive Director in July 2010. In 1975, Mr. Li completed the programme in power engineering (電力工程) organised by the Tsinghua University. He subsequently obtained a master degree from the Tsinghua University in power system and automation (電力系統及自動化) in 1986. Mr. Li is currently a member of the Beijing Committee of The People's Political Consultative Conference of China (北京市中國人民政治協商會議委員會), the director (主任) of the management committee of the Xiushi Charity Foundation of the China Social Entrepreneur Foundation (中國友成企業家扶貧基金會修實公益基金管理委員會) and an external director of Beijing Capital Tourism Group Co., Ltd. (北京首都旅遊集團有限責任公司). Mr. Li has profound knowledge in the area of power engineering. Mr. Li was also the chairman of Beijing Energy Investment (Holding) Co., Ltd. (北京能源投資（集團）有限公司), a company established by the Beijing People's Government and engages in the electricity and energy saving related business in Beijing. Mr. Li held a number of positions with various companies prior to joining the Group. He was previously the president of Beijing International Power Development Investment Corporation (北京國際電力開發投資公司), the director of the management committee of the Beijing Economic and Technological Development Area (北京經濟技術開發區管理委員會) and the general manager of Beijing Economic-Technological Investment & Development Corporation (北京經濟技術投資開發總公司). Mr. Li was also the district mayor (區長) of the Chaoyang District of Beijing and the deputy district mayor (副區長) of the Haidian District of Beijing.

Mr. Chen Shimin, aged 53, was appointed an independent non-executive Director in August 2010. He is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. He graduated from the Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree and a master degree in economics in 1983 and 1985, respectively. He then obtained a doctoral degree in philosophy from The University of Georgia in 1992. He has been a professor of accounting at China Europe International Business School (中歐國際工商學院) since August 2008. He is also a guest professor and adjunct tutor to Ph.D. students (博士生合作指導教師) of the department of accounting of the Nanjing University (南京大學) and the school of accounting of the Shanghai University of Finance and Economics. He has extensive education and research experience in domestic and overseas financial accounting and management accounting and gained a lot of teaching experience in numerous well-known universities. Mr. Chen is also an independent non-executive director and a member of the audit committee of China High Speed Transmission Equipment Group Co., Ltd., a company listed on the Stock Exchange with stock code 658; an independent director and a member of the audit committee of Shanghai Oriental Pearl (Group) Co. Ltd. (上海東方明珠（集團）股份有限公司), a company listed on the Shanghai Stock Exchange; and an independent director and a member of the audit committee of Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), a company listed on the Shenzhen Stock Exchange.

JOINT SECRETARIES OF THE COMPANY

Ms. Ma Sau Kuen Gloria, aged 52, was appointed a joint company secretary and authorised representative of the Company in November 2010. Ms. Ma has almost 30 years of experience in corporate secretarial work including acting as secretary for companies listed on the Stock Exchange, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma is a director and the head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Lau Lap Kwan, aged 61, was appointed a joint secretary of the Company in February 2011. Mr. Lau graduated from Yanshan University (燕山大學) (formerly known as Northeast Heavy Machinery Institute (東北重型機械學院)), majoring in heavy machinery, in 1975. He has accumulated over 35 years of experience in corporate management, administration and corporate finance both in the PRC and Hong Kong.

SENIOR MANAGEMENT

Mr. Jin Jiafeng, aged 38, is the chief financial officer of the Group. He joined the Group in 2008. In 1994, Mr. Jin completed the programme in finance and accounting (財務會計專科) organised by the College of International Business and Management, Shanghai University. Before he joined the Group, he worked at KPMG as a supervisor. He also worked at NewMargin Venture Capital as an investment adviser until December 2003. Mr. Jin was designated as a “senior international finance manager” by the International Financial Management Association in March 2009 and has extensive experience in finance and mergers and acquisitions in a number of sectors.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Ren Jie, aged 33, has been a vice president of the Group since 2008 and is responsible for human resources management. In 1998, Ms. Ren completed the programme in English Language (英語專業大學專科) organised by the Xi'an International Studies University (西安外國語學院). She joined the Group in 2002 as a sales manager of the Group's subsidiary, Beijing Sunking Electronic Technology Co. Ltd.* (北京華瑞賽晶電子科技有限公司) and was promoted as its chief operating officer in 2004. Ms. Ren Jie is the spouse of Mr. Gong Renyuan, an executive Director.

Mr. Michael Simon Geissmann, aged 33, is a vice president of the Group who is responsible for overseeing the quality control and overseas business of the Group and reporting the affairs and progress of the Group to the chief executive officer. Mr. Geissmann joined the Group in 2008. He graduated from the Swiss Federal Institute of Technology Zurich in 2003 with a diploma in electrical engineering. Before joining the Group, he worked at ABB Schweiz AG, Semiconductors where he was in charge of supplier qualification and quality control.

Ms. Bai Xing, aged 29, is a vice president of the Group and is responsible for the Group's overall procurement process and daily operation of the procurement department. She has been with the Group since 2002. Ms. Bai graduated from the University of International Business and Economics (對外經濟貿易大學) with a bachelor degree in international business and trade in 2007 and has over eight years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

Mr. Li Jinyan, aged 32, is a vice president of the Group and is responsible for the sale and marketing of the Group's products. He has been with the Group since his graduation from the University of Science and Technology Beijing (北京科技大學) with a bachelor degree in automation in 2004.

* *for identification purpose only*

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is pleased to present this report in the Group's annual report for the year ended 31 December 2010.

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders. The Company has adopted the Code on Corporate Governance Practices (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintain and improve high standards of corporate governance practices. Since the Listing and up to the date of this report, the Company has continued to apply the code provisions (the "**Code Provisions**") of the Corporate Governance Code, except for the deviation set out as below:

Code Provision A2.1

The Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

At present, the positions of the chairman of the Board and the chief executive officer of the Company are held by Mr. Xiang Jie. Although this deviates from the practice under the Code Provision A2.1, where the two positions should be held by two different individuals, as Mr. Xiang Jie has considerable and extensive knowledge and experience in the industry and in enterprise operation and management in general, the Board believes that it is in the best interest of the Company and its shareholders as a whole to continue to have Mr. Xiang Jie as an executive chairman so the Board can benefit from his knowledge of the business and his capability in leading the Board in the long term development of the Group. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the Chairman should not be able to monopolise the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action is taken should the need arise.

BOARD

Responsibilities

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and financial performances. The management is delegated the authority and responsibility by the Board for the management of the Group under the leadership of the chief executive officer. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively the "**Committees**"), which assist the Board in discharging its duties and overseeing particular aspects of the Group's activities.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises four executive Directors, namely Mr. Xiang Jie, Mr. Gong Renyuan, Mr. Yue Zhoumin and Mr. Huang Xiangqian, two non-executive Directors, namely Mr. Ye Weigang Greg and Mr. Wong Kun Kau, and three independent non-executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" of this annual report.

The non-executive Directors (including the independent non-executive Directors) bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective direction of the Company.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure that strong independence exists across the Board.

During 2010, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual confirmation of independence from the three independent non-executive Directors. The Board has assessed their independence and is satisfied that all the independent non-executive Directors are in full compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Non-executive Directors

The term of office for non-executive Directors (including the independent non-executive Directors) is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's articles of association. At every annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the Corporate Governance Code.

Training for Directors

Every newly appointed Director shall receive an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by the Director. In addition, the package includes materials on the operations and business of the Group. The Company will subsequently arrange for briefing as is necessary to ensure that the newly appointed Directors have a proper understanding of the business and operations of the Group and that they are aware of their responsibilities under the relevant laws, rules and regulations.

Board meetings

Board meetings are held regularly, at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance record of the Directors at the Board meetings for the year 2010 and up to the date of this report is set out below:

	Attended/ Eligible to attend
Executive Directors	
Xiang Jie (appointed on 19 March 2010 and designated as the chairman and chief executive officer on 31 May 2010 and 23 September 2010, respectively)	9/9
Gong Renyuan (appointed on 19 March 2010)	3/9
Yue Zhoumin (appointed on 28 May 2010)	7/9
Huang Xiangqian (appointed on 28 May 2010)	5/9
Non-executive Directors	
Ye Weigang Greg (appointed on 28 May 2010)	4/9
Wong Kun Kau (appointed on 28 May 2010)	6/9
Independent non-executive Directors	
Wang Yi (appointed on 1 July 2010)	4/8
Li Fengling (appointed on 1 July 2010)	4/8
Chen Shimin (appointed on 19 August 2010)	4/8

All Directors have access to the advice and services of the joint secretaries of the Company. All Directors have access to the senior management for enquiries and information when required. The Directors, upon reasonable requests, may also seek independent professional advice at the Company's expense.

Practices and conduct of meetings

Draft agenda of all Board meetings are made available to the Directors in advance.

Where practicable, notices of regular Board meetings and Committee meetings are served on all Directors at least 14 days before the meetings. Board papers are sent to all Directors at least 3 days before each Board meeting or Committee meeting to keep the Directors apprised of the latest developments and the financial position of the Company and to enable them to make informed decisions.

The joint secretaries of the Company are responsible for keeping minutes of all Board meetings and Committee meetings. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction involving conflict of interests of a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association also contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates (as defined under the Listing Rules) have a material interest.

BOARD COMMITTEES

The Board established the Committees on 19 August 2010 with clearly-defined written terms of reference. The main roles and responsibilities of the Committees, including all authorities delegated to them by the Board, are set out in the respective terms of reference. The independent views and recommendations of the Committees ensure proper control of the Group and the continual achievement of high corporate governance standards expected of a listed company. The chairman of each Committee reports the outcome of the Committee's meetings to the Board for further discussions and approvals.

The majority of the members of each Committee are independent non-executive Directors. The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice at the Company's expenses.

Audit Committee

The Audit Committee comprises two independent non-executive Directors, Mr. Chen Shimin and Mr. Wang Yi, and one non-executive Director, Mr. Ye Weigang Greg. The Audit Committee is chaired by Mr. Chen Shimin, who possesses the appropriate professional qualifications and extensive experience in, and knowledge of, finance and accounting as required under Rule 3.10 of the Listing Rules. All Audit Committee members hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the Audit Committee members is a former partner of the Company's existing external auditors.

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors; monitoring the integrity of the financial statements, the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and reviewing the financial controls, internal control and risk management systems.

The Group's audited annual financial statements and annual report for 2010 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements and report complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

The Audit Committee has not taken any different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

At the Committee meeting held on 21 March 2011, the Audit Committee concluded that it was satisfied with its review of the audit fee, process and effectiveness, independence and objectivity of Deloitte Touche Tohmatsu. The Audit Committee has therefore made the recommendation to the Board that Deloitte Touche Tohmatsu be re-appointed as the Group's external auditors at the forthcoming annual general meeting.

The Audit Committee met 3 times during the year ended 31 December 2010 and up to the date of this report, in which the Audit Committee members reviewed the Company's internal controls and risk management process, financial reporting and compliance procedures, financial results and reports and assessed the external auditors for re-appointment. The Audit Committee meetings were attended by the Audit Committee members, the chief financial officer and the external auditors. The attendance record of the Audit Committee is set out below:

Directors	**Attended/ Eligible to attend**
Chen Shimin *(chairman of the Audit Committee)*	3/3
Wang Yi	3/3
Ye Weigang Greg	2/3

Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors, Mr. Wang Yi and Mr. Li Fengling, and one non-executive Director, Mr. Wong Kun Kau. The Remuneration Committee is chaired by Mr. Wong Kun Kau. The Remuneration Committee is responsible for, among other functions, making recommendations to the Board on the policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; determining the specific remuneration packages of all the executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors; and reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee met 2 times during the year ended 31 December 2010 and up to the date of this report, in which the Remuneration Committee members reviewed the existing remuneration policy and structure of the Company and the remuneration packages and discretionary bonus of the Directors and senior management for 2011 and made recommendation to the Board to approve the proposals on the fees of the non-executive Directors. The attendance record of the Remuneration Committee is set out below:

Directors	**Attended/ Eligible to attend**
Wong Kun Kau *(chairman of the Remuneration Committee)*	2/2
Wang Yi	2/2
Li Fengling	2/2

Nomination Committee

The Nomination Committee comprises two independent non-executive Directors, Mr. Li Fengling and Mr. Chen Shimin, and one non-executive Director, Mr. Gong Renyuan. The Nomination Committee is chaired by Mr. Li Fengling. The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships, in particular candidates who can add value to the management through their contributions in strategic business areas and whose appointment will lead to a strong Board; assessing the independence of the independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of the Directors and succession planning for the Directors in particular the chairman and the chief executive officer.

The Nomination Committee met 1 time during the year ended 31 December 2010 and up to the date of this Report, in which the Nomination Committee members discussed and made recommendations to the Board on the re-election of retiring Directors, and reviewed the annual confirmation of independence of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The attendance record of the Nomination Committee is set out below:

Directors	**Attended/ Eligible to attend**
Li Fengling *(chairman of the Nomination Committee)*	1/1
Chen Shimin	1/1
Gong Renyuan	1/1

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, the Directors have complied with the required standards as set out in the Model Code since the Listing and up to the year ended 31 December 2010.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The senior management has provided such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Board is responsible for presenting a clear and balanced view of the Company's annual and interim reports, price-sensitive announcements, disclosures required under the Listing Rules, and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements for the year 2010.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the external auditors of the Company in respect of statutory audit service, service rendered for the Listing and tax service were RMB1.7 million, RMB4.9 million and RMB0.1 million, respectively.

INTERNAL CONTROL

The Board is responsible for internal control of the Group and for reviewing its effectiveness. The Board requires the senior management to establish and maintain sound and effective internal controls.

The internal control framework includes central direction, resources allocation and risk management of the activities of various business units, supported by the human resources, information systems and financial practice. As such, the Group has a clear organisational structure including appropriate segregation of duties and reporting systems. Limits of authorities have been established. Starting from the top, there is a list of matters reserved for Board approval. In carrying out key functions, senior management personnel are assigned levels of authority and accountability commensurate with their positions and duties. There are also relevant policies and procedures applicable to all business units to guide their business operations. All business units are required to produce annual budgets for the senior management's approval. The heads of all business units are required to assess the risk factors attributed to their businesses. In addition, all business units shall submit monthly management reports with comparisons between actual and budget results and give explanations and solutions for major variances.

Extensive financial controls, procedures, self-assessment exercises and risk activities are reviewed by the Group's finance department, which is responsible for reviewing the Group's internal control systems, operational efficiency and compliance with the policies and procedures on a regular basis, and ensuring existence of an effective internal control system in all business units. The finance department performs independent reviews of risks associated with and controls over principal operations and critical applications, and reports to the Audit Committee with its findings and makes recommendations to improve the internal controls of the Group.

All key controls within the framework will be tested periodically by the finance department. External auditors will also test key controls for those processes which are most critical to producing complete and accurate financial reports. Semi-annual confirmations from chief executives of principal subsidiaries are obtained as to whether the internal controls are working properly and if any remedial actions are required on areas where control weaknesses are noted. External auditors also advise the senior management on whether the controls are in place and effective to ensure a proper financial controlling and reporting process of the Group.

With respect to the procedures and internal controls for the handling and dissemination of price-sensitive information, the Group conducts its affairs with close attention to the "Guide on Disclosure of Price-Sensitive Information" issued by the Stock Exchange, and has also implemented guidelines and procedures for dealings in its securities by the Directors.

During the year 2010, the Board, through the Audit Committee, had conducted review on the effectiveness of the internal control system of the Company, and considered the internal control system to be effective and adequate and concluded that there were no significant areas of concern which might affect shareholders' interests.

COMMUNICATIONS WITH SHAREHOLDERS

The Group reports to its shareholders twice a year. Interim and annual results are announced as early as possible to keep shareholders informed of the Group's performance. The general meetings of the Company provide a forum for communication between the shareholders and the Board. All shareholders are encouraged to attend the annual general meeting to discuss the progress of the Group's business. The chairman of the Board and the chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee, or in their absence, other members of the respective Committees, and where applicable, the independent Board committee, are available to answer questions at the general meetings. Separate resolutions are proposed at the general meetings on each substantial issue, including re-election of Directors. The Company's website, which contains corporate information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Group, enables the shareholders to access information on the Group on a timely basis.

The Directors are pleased to present the first annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 19 March 2010.

Pursuant to a group reorganisation (the "**Group Reorganisation**") which rationalised the group structure in preparation for the Listing, the Company became the holding company of the Group on 23 September 2010 by Sun.King Group Limited's distribution of the shares of the Company.

Details of the Group Reorganisation are set out in note 1 to the consolidated financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the Group are distribution of imported power electronic components, design, manufacture and sale of products including IGBT power modules, anode saturable reactors, HV power capacitors, silicon rectifier valves, and deionised water cooling systems. Details of the principal activities of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and its state of affairs as at that date are set out in the consolidated financial statements on pages 36 to 38.

No interim dividend was paid during the year. The Directors did not recommend payment of a final dividend for the year ended 31 December 2010.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing after deducting the relevant expenses were approximately HK$593.0 million. The Company currently does not have any intention to change its plan for use of proceeds as stated in the Prospectus. From the date of the Listing (i.e. 13 October 2010) up to the date of this report, out of the total net proceeds from the Listing, RMB55.1 million was utilised for repayment of bank borrowings, RMB68.2 million for land acquisition and construction of buildings for expansion of production capacity, RMB21.8 million for building construction for research and development and RMB39.8 million for working capital and general corporate expenses.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years is set out on page 100 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's share capital during the year are set out in note 30 to the consolidated financial statements.

Prior to the Listing, the Company had conditionally adopted a share option scheme (the "**Share Option Scheme**") on 23 September 2010 which became unconditional and effective upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in the section headed "Share Option Scheme" in the Prospectus) as incentives or rewards for their contribution to the Group.

The Board may, at its absolute discretion, offer an option to the Eligible Participant to subscribe for the shares of the Company at an exercise price and subject to the other terms of the Share Option Scheme. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 136,604,000 shares of the Company, being 10% of the total number of shares of the Company in issue at the time dealings in the shares first commenced on the Stock Exchange.

The total number of shares of the Company issued and to be issued upon exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue. The Share Option Scheme will remain in force for a period of 10 years. Under the Share Option Scheme, each option has a 10-year exercise period. As at the date of this annual report, no option has been granted under the Share Option Scheme.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB420,682,741 (as at 31 December 2009: Nil), of which nil dividend has been proposed for the year. Under the Companies Law, the share premium account of the Company of approximately RMB400,691,967 as at 31 December 2010 (as at 31 December 2009: Nil) is distributable to the shareholders of the Company subject to the provisions of its memorandum and articles of association and provided that immediately following the date on which the dividend, if any, is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business. The Company's share premium account may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive Directors

Xiang Jie	(appointed on 19 March 2010)
Gong Renyuan	(appointed on 19 March 2010)
Yue Zhoumin	(appointed on 28 May 2010)
Huang Xiangqian	(appointed on 28 May 2010)

Non-executive Directors

Ye Weigang Greg	(appointed on 28 May 2010)
Wong Kun Kau	(appointed on 28 May 2010)

Independent non-executive Directors

Wang Yi	(appointed on 1 July 2010)
Li Fengling	(appointed on 1 July 2010)
Chen Shimin	(appointed on 19 August 2010)

In accordance with Article 83(3) of the Company's articles of association, all the Directors will retire and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the date of this report still considers them to be independent pursuant to Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from the date of the Listing. Each of the non-executive Directors has been appointed for a term of three years commencing from the date of the Listing. The independent non-executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin, have been appointed for a term of three years commencing from 1 July 2010, 1 July 2010 and 19 August 2010, respectively.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the shareholders of the Company at the annual general meeting each year. The remuneration of the executive Directors is subject to review by the Remuneration Committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and the independent non-executive Directors, their remuneration is determined by the Board, upon recommendation from the Remuneration Committee. Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 11 and 12, respectively, to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("**SFO**"), as recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	**Nature of interest**	**Total number of shares held** *(Note 1)*	**Approximate percentage of interest in the Company**
Mr. Xiang Jie	Interest in controlled corporation	415,274,180 *(L) (Note 2)*	30.4%
Mr. Gong Renyuan	Beneficial owner	18,000,000 *(L)*	1.3%
Mr. Yue Zhoumin	Beneficial owner	4,000,000 *(L)*	0.3%
Mr. Huang Xiangqian	Beneficial owner	6,000,000 *(L)*	0.4%

Notes:

1. The letter "L" denotes the Director's long position in the shares of the Company.

2. These 415,274,180 shares were held by Max Vision Holdings Limited ("**Max Vision**"), which in turn was wholly and beneficially owned by Mr. Xiang Jie. As such, Mr. Xiang Jie is deemed under the SFO to be interested in these 415,274,180 shares held by Max Vision.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2010 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2010, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Nature of interest	Total number of shares held *(Note 1)*	Approximate percentage of interest in the Company
Max Vision	Beneficial owner	415,274,180 *(L)*	30.4%
Meng Fankun	Interest of spouse	415,274,180 *(L) (Note 2)*	30.4%
NewMargin Growth Fund L.P.	Beneficial owner	200,000,000 *(L)*	14.6%
Common Goal Holdings Limited ("**Common Goal**")	Beneficial owner	89,570,000 *(L)*	6.6%
Peregrine Greater China Capital Appreciation Fund, L.P. ("**Peregrine Greater China**")	Interest in controlled corporation	89,570,000 *(L) (Note 3)*	6.6%
Bull Capital Partners GP Limited ("**Bull Capital**")	Interest in controlled corporation	89,570,000 *(L) (Note 4)*	6.6%

Notes:

1. The letter "L" denotes the substantial shareholder's long position in the shares of the Company.
2. Ms. Meng Fankun, the spouse of Mr. Xiang Jie, is deemed under the SFO to be interested in the 415,274,180 shares in which Mr. Xiang Jie is deemed to be interested.
3. Peregrine Greater China holds 100% equity interest in Common Goal. As such, it is deemed to be interested in the 89,570,000 shares held by Common Goal.
4. Bull Capital is the General Partner of Peregrine Greater China and holds 6.49% of its equity interest. As such, Bull Capital is deemed to be interested in the 89,570,000 shares held indirectly by Peregrine Greater China in Common Goal.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. Xiang Jie and Max Vision, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the said undertaking and are of the view that Mr. Xiang and Max Vision have complied with the non-competition undertaking during the period from the date of the Listing up to 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the date of the Listing up to 31 December 2010.

PRE-EMPTIVE RIGHTS

There were no provisions of pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders unless otherwise required by the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

DONATIONS

During the year ended 31 December 2010, charitable donations of RMB20,000 were made by the Group (2009: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's major supplier accounted for 74.5% (2009: 80.8%) of the Group's total purchases. The Group's five largest suppliers accounted for 87.2% (2009: 89.1%) of the Group's total purchases.

In the year under review, the Group's sale to its five largest customers accounted for 61.1% (2009: 43.9%) of the Group's total sale. The Group's largest customer accounted for 25.5% (2009: 17.5%) of the Group's total sale.

None of the Directors or any of their associates (as defined under the Listing Rules) or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or five largest suppliers.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditor; monitoring integrity of the financial statements, the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and reviewing the financial controls, internal control and risk management systems.

The Audit Committee has reviewed with the management accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2010. The consolidated financial statements for the year ended 31 December 2010 have been audited by the Company's external auditors, Deloitte Touche Tohmatsu.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 18 to 26 of this annual report.

AUDITOR

During the year, Deloitte Touche Tohmatsu were appointed as the external auditors of the Company.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as the external auditors of the Company.

On behalf of the Board

Xiang Jie
Chairman

Hong Kong, 21 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF SUN.KING POWER ELECTRONICS GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 36 to 99, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	6	**427,996**	261,704
Cost of sales	7	**(313,044)**	(181,789)
Gross profit		**114,952**	79,915
Other income and other gains and losses	8	**1,085**	(1,791)
Distribution and selling expenses		**(14,046)**	(4,801)
Administrative and general expenses		**(40,199)**	(22,671)
Other expenses	9	**(4,280)**	(565)
Interest on bank borrowings wholly repayable within five years		**(5,099)**	(975)
Share of result of jointly controlled entities		**30**	–
Profit before tax	10	**52,443**	49,112
Income tax expense	13	**(14,851)**	(10,262)
Profit and total comprehensive income for the year		**37,592**	38,850
Attributable to:			
Owners of the Company		**37,592**	38,850
Non-controlling interests		**–**	–
		37,592	38,850
		RMB cents	RMB cents
Earnings per share – basic	14	**3.42**	3.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**136,190**	91,570
Deposits for property, plant and equipment		**17,757**	–
Prepaid lease payments – non-current	*16*	**36,585**	17,016
Intangible asset	*17*	**561**	440
Interests in jointly controlled entities	*18*	**3,655**	–
Available-for-sale investments	*19*	**3,540**	–
Club memberships		**1,734**	–
TOTAL NON-CURRENT ASSETS		**200,022**	109,026
CURRENT ASSETS			
Inventories	*20*	**67,740**	20,137
Trade and other receivables	*21*	**376,820**	161,035
Amount due from a related party	*22*	**22**	40
Deposits and prepayments		**2,028**	2,946
Other financial assets	*23*	**4,739**	1,295
Prepaid lease payments – current	*16*	**767**	360
Pledged bank deposits	*24*	**1,203**	4,237
Bank balances and cash	*24*	**446,016**	38,946
TOTAL CURRENT ASSETS		**899,335**	228,996
TOTAL ASSETS		**1,099,357**	338,022

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CURRENT LIABILITIES			
Trade and other payables	*25*	**194,827**	61,240
Tax liabilities		**12,883**	10,403
Short-term bank loans	*26*	**48,324**	20,000
Amount due to a former shareholder	*27*	**–**	7,481
Deferred income	*28*	**3,524**	3,810
TOTAL CURRENT LIABILITIES		**259,558**	102,934
Net current assets		**639,777**	126,062
Total assets less current liabilities		**839,799**	235,088
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*29*	**5,167**	3,088
Total net assets		**834,632**	232,000
CAPITAL AND RESERVES			
Share capital	*30*	**117,425**	–
Reserves		**715,707**	232,000
Equity attributable to owners of the Company		**833,132**	232,000
Non-controlling interests		**1,500**	–
TOTAL EQUITY		**834,632**	232,000

The consolidated financial statements on pages 36 to 99 were approved and authorised for issue by the Board of Directors on 21 March 2011 and are signed on its behalf by:

Xiang Jie
Director

Yue Zhoumin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to the owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Deemed contribution RMB'000	Other reserve RMB'000	(Accumulated losses) retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2009	–	–	5,779	131,221	(21,688)	115,312	–	115,312
Profit and total comprehensive income for the year	–	–	–	–	38,850	38,850	–	38,850
Contribution from owners *(Note a)*	–	–	–	75,146	–	75,146	–	75,146
Recognition of equity-settled share-based payment *(Note b)*	–	–	2,692	–	–	2,692	–	2,692
Balance at 31 December 2009	–	–	8,471	206,367	17,162	232,000	–	232,000
Profit and total comprehensive income for the year	–	–	–	–	37,592	37,592	–	37,592
Capital contribution from non-controlling shareholders *(Note c)*	–	–	–	–	–	–	1,500	1,500
Recognition of equity-settled share-based payment *(Note b)*	–	–	2,904	–	–	2,904	–	2,904
Exchange of shares upon group reorganisation *(Note 30)*	88,070	(88,070)	–	–	–	–	–	–
Issues of shares pursuant to initial public offering *(Note 30)*	29,355	537,203	–	–	–	566,558	–	566,558
Transaction costs attributable to issue of shares	–	(48,441)	–	–	–	(48,441)	–	(48,441)
Contributions from owner *(Note a)*	–	–	–	42,519	–	42,519	–	42,519
Balance at 31 December 2010	**117,425**	**400,692**	**11,375**	**248,886**	**54,754**	**833,132**	**1,500**	**834,632**

Notes:

(a) On 15 June 2009 and 28 September 2009, Sun.King Group Ltd. (賽晶集團有限公司), formerly known as Sunking Group Ltd. ("**Sunking BVI**") waived loans of RMB54,660,000 and RMB20,486,000 advanced to Sunking Pacific Limited, respectively. On 8 October 2010, Sunking BVI further waived loans of RMB42,519,000 advanced to the Group.

(b) During the years ended 31 December 2010 and 2009, share-based payment expense incurred and recognized by the Group was settled by the issuance of equity by Sunking BVI without charging the Group. As a result, the amounts involved are treated as deemed contribution from former shareholder of the Company.

(c) On 29 March 2010, Jiashan Sunking Converter Technology Co., Ltd. 嘉善華瑞賽晶變流技術有限公司 ("**Jiashan Converter Technology**") was established as a limited liability company under the laws of the PRC with the registered capital of RMB10,000,000. Jiashan Sunking Power Equipment Technology Co., Ltd. 嘉善華瑞賽晶電氣設備科技有限公司 ("**Jiashan Sunking**") owns 65% of the equity interest in Jiashan Converter Technology and two non-controlling shareholders own the 20% and 15% of the equity interest in Jiashan Converter Technology, respectively. As at 31 May 2010, Jiashan Sunking has contributed the registered capital of RMB6,500,000 and one of the non-controlling shareholders has contributed the registered capital of RMB1,500,000 to Jiashan Converter Technology. On 5 July 2010, Jiashan Sunking entered into a share transfer agreement with Rui Hua Ying. Pursuant to the terms of this agreement, the Group agreed to take up Rui Hua Ying's 20% equity interest in Jiashan Converter Technology by contributing capital of RMB2,000,000 to Jiashan Converter Technology, increasing the Group's equity interest in Jiashan Converter Technology from 65% to 85%.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**52,443**	49,112
Adjustments for:		
Finance costs	**5,099**	975
Interest income	**(801)**	(387)
Share of result of jointly controlled entities	**(30)**	–
Depreciation and amortisation of non-current assets	**5,771**	2,380
Allowance for doubtful debts	**1,523**	–
Impairment loss recognised on inventory	**1,104**	–
Release of prepaid lease payment	**360**	360
Amortisation of deferred income	**(286)**	–
Net unrealised foreign exchange loss (gain)	**4,906**	(1,390)
Fair value gain on foreign exchange forward contracts	**(4,179)**	(416)
Loss from changes in fair values of embedded derivatives	**864**	–
Gain on disposal of available-for-sale investment	**–**	(296)
Loss on disposal of property, plant and equipment	**62**	3
Share-based compensation expenses	**2,904**	2,692
Operating cash flow before movements in working capital	**69,740**	53,033
(Increase) decrease in inventories	**(48,707)**	2,252
Increase in trade and other receivables	**(217,308)**	(109,793)
Decrease (increase) in deposits and prepayments	**918**	(928)
Increase in trade and other payables	**120,880**	28,864
Decrease in other financial assets	**1,246**	5,079
Cash used in operations	**(73,231)**	(21,493)
Income taxes paid	**(10,292)**	(1,061)
Interest paid	**(5,099)**	(975)
NET CASH USED IN OPERATING ACTIVITIES	**(88,622)**	(23,529)

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES		
Decrease in pledged bank deposits	3,034	7,489
Interest received	801	387
Purchases of property, plant and equipment	(50,638)	(60,932)
Deposits paid for purchases of property, plant and equipment	(17,757)	–
Payment for acquisition of land use rights	(20,336)	–
Purchases of intangible assets	(269)	(247)
Payment for acquisition of jointly controlled entities	(5,000)	–
Payments for acquisition of available-for-sale investment	(1,425)	–
Payment for acquisition of club membership	(1,734)	–
Proceeds on disposal of property, plant and equipment	333	
Governments grants received	–	3,810
Advance to a related party	(1,694)	(205)
Repayment from a related party	1,712	1,949
NET CASH USED IN INVESTING ACTIVITIES	(92,973)	(47,749)
FINANCING ACTIVITIES		
New bank borrowings raised	161,346	40,000
Repayments of borrowings	(133,022)	(26,000)
Proceeds from issue of shares	566,558	–
Expenses on issue of shares	(41,778)	–
Advance from a former shareholder	35,038	442
Repayment to a former shareholder	–	(486)
Proceeds from capital contribution	–	75,146
Capital contributed from non-controlling shareholders	1,500	–
NET CASH FROM FINANCING ACTIVITIES	589,642	89,102
NET INCREASE IN CASH AND CASH EQUIVALENTS	408,047	17,824
CASH AND CASH EQUIVALENTS AT 1 JANUARY	38,946	20,649
Effects of foreign exchange rate changes	(977)	473
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	446,016	38,946

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 19 March 2010. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 13 October 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company. The principal activities of the Group are the import and sales of power electronic components, and the manufacture and sale of Insulated Gate Bipolar Transistor ("**IGBT**") power modules, deionised water cooling systems, reactors, capacitors and other power electronic components.

Pursuant to a group reorganisation (the "**Group Reorganisation**") to rationalize the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 23 September 2010 by issuing shares of the Company in exchange for the entire issued share capital of Sunking Pacific Limited. Details of the Group Reorganisation were set out in the section headed "History and Development" of the prospectus dated 30 September 2010 issued by the Company (the "**Prospectus**"). The Group Reorganisation is a reorganisation of companies under common control. Accordingly, the Group resulting from the Group Reorganisation including the Company and its subsidiaries is regarded as a continuing entity.

The consolidated statement of comprehensive income, the consolidated statement of cash flows and consolidated statement of changes in equity which are prepared in accordance with the principles of merger accounting, for each of the years ended 31 December 2010 and 2009 include the financial statements of the companies now comprising the Group as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the period or since their respective dates of incorporation or establishment whichever is the shorter period. The consolidated statement of financial position of the Group as at 31 December 2009 has been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising the Group as if the group structure upon the completion of the Group Reorganisation had been in existence as at that date.

The consolidated financial statements are presented in Renminbi ("**RMB**"), the currency of the primary economic environment in which the Company and its principal subsidiaries operate (the functional currency of the Company and its principal subsidiaries).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations.

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
International Accounting Standard ("**IAS**") 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC – Int 17	Distributions of Non-cash Assets to Owners

Amendments to IAS 17 Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

The application of the amendment has had no material effect on the consolidated financial statements of the Group.

The application of the other new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the consolidated financial statements of the Group.

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for the amendments to IFRS 3 (as revised in 2008), IAS 1 and IAS 28[1]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised Standards and Interpretations issued but not yet effective (continued)

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

All intra-Group transactions, balances, income and expenses are eliminated on combination.

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries *(continued)*

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010 (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Merger accounting for business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entitles or business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations other than common control combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets and the liabilities assumed are recognised at their fair values at the acquisition date, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis, required by another Standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations other than common control combinations *(continued)*

Business combinations that took place on or after 1 January 2010 *(continued)*

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations other than common control combinations *(continued)*

Business combinations that took place prior to 1 January 2010 *(continued)*

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportion of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognized goodwill.

Investments in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in jointly controlled entities *(continued)*

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

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

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location an condition necessary for them to capable of operating in the manner intended by management).

Leasing

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

The Group as lessee

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

Leasehold land and building

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit scheme is charged as an expense when employees have rendered service entitling them to the contributions.

Club memberships

Club memberships are stated at cost less impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets acquired separately.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("**FVTPL**"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group include financial assets held for trading.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near future; or

– it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Loan and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities

Financial liabilities including trade and other payables, amount due to a former shareholder and short-term bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

The fair value of services received by the Group determined by reference to the fair value of ordinary shares of the holding company of the Group granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the ordinary shares granted vest immediately, with a corresponding increase in equity (deemed contribution).

At the end of the reporting period, the Group revises its estimates of the number of ordinary shares granted that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to deemed contribution.

At the time when the ordinary shares granted are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Ordinary shares of the holding company of the Group issued in exchange for goods or services received by the Group are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the ordinary shares of the holding company of the Group granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (deemed contribution), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

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

Impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010 and 2009, the carrying amounts of trade receivables were approximately RMB313,556,000 and RMB124,852,000, respectively.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down the value of inventories in that period. As at 31 December 2010 and 2009, the carrying amount of inventories was approximately RMB67,740,000 and RMB20,137,000 respectively.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current year.

Fair value of embedded derivatives

The fair value of the embedded derivatives is calculated using the Monte Carlo Simulation method by discounting future cash flows. These models involve making assumptions based on quoted market data adjusted for specific feature of the instrument, as well as assumption not supported by market observable data (see note 18 for details). Should any of the estimates be revised, it may lead to a material change to the fair value of the derivative components of embedded derivatives. As at December 31, 2010, the carrying amount of the embedded derivative is RMB511,000.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

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

The capital structure of the Group consists of debt (which includes short-term bank loans disclosed in note 26) and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits (accumulated losses).

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as raising of borrowings.

Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	2010 RMB'000	2009 RMB'000
Financial assets		
FVTPL:		
Foreign exchange forward contracts	4,228	1,295
Embedded derivatives	511	–
Available-for-sale investments	3,540	–
Loan and receivables (including cash and cash equivalents)	816,370	200,516
Financial liabilities		
Amortised cost	219,319	73,888

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sales investments, trade and other receivables, amount due from a related party, other financial assets, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a former shareholder and short-term bank loans. Details of these financial instruments are disclosed in respective notes.

The risk associated with these financial instruments and 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.

Foreign currency risk management

The primary economic environment which most of the principal subsidiaries of the former Company operate is the PRC and their functional currency is RMB. However, amount due to a former shareholder, certain bank balances and certain purchases of the Group are denominated in Swiss Franc ("**CHF**"), United States Dollars ("**US$**"), Euro ("**EUR**") and Hong Kong Dollars ("**HK$**"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

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

	2010 RMB'000	2009 RMB'000
Assets		
US$	88,557	247
CHF	2,145	4,202
EUR	319	–
HK$	71,660	–
Liabilities		
US$	(2,627)	(778)
CHF	(134,117)	(36,764)
EUR	(233)	(1,097)
HK$	(43)	–

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Foreign currency risk management *(continued)*

Foreign currency sensitivity analysis

The following table details the sensitivity to a 5% (2009: 5%) change in RMB against US$, EUR, CHF and HK$ 5% (2009: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items excluding foreign currency forward contracts and adjusts their translation at the end of the reporting period for a 5% (2009: 5%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where the relevant foreign currencies strengthen 5% (2009: 5%) against RMB. For a 5% (2009: 5%) weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact with equal amounts on the profit for the year.

	2010 RMB'000	2009 RMB'000
US$ impact	**4,297**	(27)
CHF impact	**(6,599)**	(1,628)
EUR impact	**4**	(55)
HK$ impact	**3,581**	–

In addition, the Group also reduced its CHF exposure against RMB by using exchange forward contracts in order to increase its foreign exchange visibility and limit losses. The carrying amounts of outstanding foreign currency forward contracts are as follows:

	2010 RMB'000	2009 RMB'000
Foreign currency forward contracts to purchase CHF using RMB *(see note 23)*	**4,228**	1,295

The following table details the Group's sensitivity to a 5% (2009: 5%) change in RMB against CHF due to the foreign currency forward contracts. The sensitivity analysis includes only outstanding foreign currency forward contracts and adjusts their fair value at the end of the reporting year for a 5% (2009: 5%) change in foreign currency rates. A positive number below indicates an increase in profit for the year where CHF strengthens 5% (2009: 5%) against RMB. For a 5% (2009: 5%) weakening of CHF against RMB, there would be an opposite impact with equal amount on the profit for the year.

	2010 RMB'000	2009 RMB'000
Foreign currency forward contracts impact	**3,656**	702

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to their variable-rate bank balances and pledged bank deposits. The Group currently has not entered into interest rate swaps to hedge against their exposure to interest rate risk. The Group does not have a specific policy to manage its interest rate, but will closely monitor the interest rate exposure in the future.

In the opinion of management, the Group does not have significant exposure to cash flow interest rate risk at 31 December 2010 and 2009 because the increase or decrease of interest income yielded from bank accounts as a result of estimated change in interest rate is not expected to be significant. Therefore, no sensitivity analysis has been presented.

Other price risk

The Group is exposed to other price risk in relation to embedded derivatives, which are call and put options in connection with its investment in Shanghai Langzhide Power and Technology Co., Ltd. ("**Lang Zhi De**"), details of which are set out in note 18. Changes in the equity fair value and revenue volatility of Lang Zhi De would affect the loss from changes in fair values of embedded derivatives recognised in the consolidated statement of comprehensive income.

In the opinion of management, the Group does not have significant exposure to other price risk at 31 December 2010 because the increase or decrease of fair value of embedded derivatives as a result of estimated change in equity fair value and revenue volatility of Lang Zhi De is not expected to be significant. Therefore, no sensitivity analysis has been presented.

Credit risk management

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

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

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Credit risk management *(continued)*

The Group has concentration of credit risk in respect of bank balances. Approximately 81% (2009: 89%) of the bank balances as at 31 December 2010 were deposited at three major banks; the credit risk on these liquid funds is limited because the counterparties are state-owned banks located in the PRC and reputable international banks with high credit ratings.

The Group has concentration of credit risk in respect of note receivables. Approximately 58% (2009: 35%) of the note receivables balances as at 31 December 2010 were issued by three and three major banks. The credit risk on note receivables is limited because the counterparties are state-owned banks located in the PRC.

Certain trade accounts receivable (''TAR") individually accounted for more than 10% of the Group's total trade accounts receivable as at the end of the reporting period. Their amounts and percentages to total TAR as at the end of the reporting period are as follows:

	2010		2009	
	TAR		TAR	
Customer	**RMB'000**	**%**	RMB'000	%
A	**94,573**	**30**	54,322	44
B	**70,842**	**23**	13,536	11
C	**31,724**	**10**	*	*

* Less than 10% of the Group's TAR

The Group has concentration of credit risk as 63% (2009: 55%) of the total trade receivables was due from three (2009: two) customers. In order to minimise the credit risk of these major customers, the management of the Group determines the credit limits and credit approvals, and monitors follow-up action to recover over-due balances. Customer A and customer C are reputable state-owned enterprises. In addition to the normal credit review and follow-up procedures on over-due balances, the management of the Group monitors their financial positions periodically to ensure the recoverability is not impaired.

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management *(continued)*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The maturity dates for other non-derivative financial liabilities are determined based on the agreed repayment dates. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 2010 RMB'000
2010						
Non-derivative financial liabilities						
Trade and other payables	**N/A**	**90,622**	**80,373**	**–**	**170,995**	**170,995**
Short-term bank loans	**4.61**	**41,760**	**6,674**	**–**	**48,434**	**48,324**
		132,382	**87,047**	**–**	**219,429**	**219,319**

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 2009 RMB'000
2009						
Non-derivative financial liabilities						
Trade and other payables	N/A	19,915	26,492	–	46,407	46,407
Amount due to a former shareholder	N/A	7,481	–	–	7,481	7,481
Short-term bank loans	5.31	89	177	20,441	20,707	20,000
		27,485	26,669	20,441	74,595	73,888

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Fair value

The fair value of the Group's financial assets and financial liabilities at amortised costs are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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

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

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

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

Foreign currency forward contracts as detailed in note 23 are measured using inputs of quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Fair value *(continued)*

Embedded derivatives as detailed in note 18 are measured using the Monte Carlo Simulation method by discounting future cash flows.

	2010		
	Level 2	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Financial assets at FVTPL			
Foreign exchange forward contracts	**4,228**	**–**	**4,228**
Embedded derivatives	**–**	**511**	**511**
Total	**4,228**	**511**	**4,739**

	2009		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
Foreign exchange forward contracts	1,295	–	1,295
Embedded derivatives	–	–	–
Total	1,295	–	1,295

There were no transfers between Levels 1 and 2 in the current and prior years.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

Fair value *(continued)*

Reconciliation of Level 3 fair value measurement of financial assets

	Embedded derivatives RMB'000
At 1 January 2009 and 31 December 2009	–
Contracted upon acquisition of jointly controlled entity	1,375
Loss included in profit or loss	(864)
At 31 December 2010	511

The loss for the year included in profit or loss, relates to embedded derivatives held at the end of the reporting period. Fair value gains or losses on embedded derivatives are included in 'Other income and other gains or losses'.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold to outside customers during the reporting period.

Mr. Xiang, the Chief Executive Officer and Chairman of the Company is the chief operating decision maker of the Group and he regularly reviews revenue analysis by major products and the Group's profit for the period under IFRS to make decisions about resources allocation and performance assessment. No segment information is presented other than entity-wide disclosures as no other discrete financial information is available for the assessment of performance and resources allocation of different business activities.

Substantially all of the Group's revenue from external customers is derived from the PRC and the Group's non-current assets (non-current assets refer to long-term assets other than financial instruments) are also substantially located in the PRC, the place of domicile of the Group's operating entities.

6. REVENUE AND SEGMENT INFORMATION *(continued)*

Revenue analysed by major products is as follows:

	2010 RMB'000	2009 RMB'000
Sale of:		
Imported power electronic components	138,535	139,140
Sales of:		
IGBT power modules	113,626	45,904
Anode saturable reactors	33,513	11,759
High-voltage power capacitors	12,781	–
Silicon rectifier valves and others	121,549	58,061
Deionised water cooling systems	7,992	6,840
Sub-total of manufactured goods	289,461	122,564
Total turnover	427,996	261,704

Information about major customers

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

	2010 RMB'000	2009 RMB'000
Customer A (for sales of IGBT power modules and imported power electronic components)	109,296	45,904
Customer B (for sales of imported power electronic components)	69,785	*

* Less than 10% of the Group's total revenue

7. COST OF SALES AND PURCHASES

	2010 RMB'000	2009 RMB'000
Cost of inventories recognised as expense	**313,044**	181,789

Products purchased from a major supplier accounted for 74% (2009: 81%) of the Group's total purchase during the year. The following table shows the total purchase amount from that supplier during the corresponding years.

Information about a major supplier

Purchase from the sole major supplier which accounts for 10% or more of the Group's purchase is as follows:

	2010 RMB'000	2009 RMB'000
Supplier A	**259,953**	141,200

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	2010 RMB'000	2009 RMB'000
Bank interest income	**801**	387
Net foreign exchange loss	**(9,057)**	(2,887)
Fair value gain on foreign exchange forward contracts	**4,179**	416
Loss from changes in fair values of embedded derivatives	**(864)**	–
Gain on disposal of available-for-sale investment	**–**	296
Government grants *(Note)*	**6,088**	–
Loss on disposal of property, plant and equipment	**(62)**	(3)
Total	**1,085**	(1,791)

Note: Included in government grants is an amount of RMB5,510,000 (2009: Nil) received from the Zhejiang Province Jiashan Economic Development Zone Administrative Committee (浙江省嘉善經濟開發區管理委員會) for rewarding Jiashan Sunking's achievements in scientific and technological innovation.

9. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Allowance for doubtful debts	**1,523**	–
Research and development costs recognized as an expense	**2,757**	565
	4,280	565

10. PROFIT BEFORE TAX

	2010 RMB'000	2009 RMB'000
Profit before tax has been arrived at after charging:		
Directors' remuneration, including share-based payment expense and retirement benefit schemes contributions *(Note 11)*	**2,259**	1,009
Other staff costs	**11,259**	5,959
Other staff's retirement benefit schemes contributions	**1,198**	928
Other share-based payment expense	**1,730**	2,254
Total staff costs	**16,446**	10,150
Impairment loss recognised on inventory	**1,104**	–
Depreciation for property, plant and equipment	**5,623**	2,292
Amortisation of intangible assets	**148**	88
Auditor's remuneration	**1,711**	54
Operating lease rentals in respect of rented premises	**2,230**	2,309
Release of prepaid lease payment	**360**	360

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 9 directors were as follows:

	Basic salaries RMB'000	Share-based and other benefits RMB'000	Retirement benefit scheme contribution RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Directors					
For the year ended 31 December 2010					
Mr. Xiang	**163**	**738**	**59**	**–**	**960**
Mr. Gong Ren Yuan	**151**	**–**	**57**	**–**	**208**
Mr. Yue Zhou Min	**102**	**207**	**45**	**–**	**354**
Mr. Huang Xiang Qian	**246**	**229**	**43**	**–**	**518**
Mr. Ye Weigang Greg	**–**	**–**	**–**	**–**	**–**
Mr. Wong Kun Kau	**–**	**–**	**–**	**–**	**–**
Mr. Wang Yi	**80**	**–**	**–**	**–**	**80**
Mr. Li Fengling	**80**	**–**	**–**	**–**	**80**
Mr. Chen Shimin	**59**	**–**	**–**	**–**	**59**
	881	**1,174**	**204**	**–**	**2,259**
For the year ended 31 December 2009					
Mr. Xiang	125	–	50	–	175
Mr. Gong Ren Yuan	115	–	46	–	161
Mr. Yue Zhou Min	85	208	25	–	318
Mr. Huang Xiang Qian	90	230	35	–	355
Mr. Ye Weigang Greg	–	–	–	–	–
Mr. Wong Kun Kau	–	–	–	–	–
Mr. Wang Yi	–	–	–	–	–
Mr. Li Fengling	–	–	–	–	–
Mr. Chen Shimin	–	–	–	–	–
	415	438	156	–	1,009

No directors waived any emoluments in both years ended 31 December 2010 and 2009.

12. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: three) directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2009: two) individuals were as follows:

	2010 RMB'000	2009 RMB'000
Employees		
Salaries and other benefits	**221**	140
Share-based payment expense	**458**	422
Retirement benefits scheme contributions	**41**	63
Performance related incentive payments	**–**	–
	720	625

During the current and prior years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

The annual emoluments of each of these two individuals during the current and prior years were below HK$1,000,000.

13. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC enterprise income tax ("**EIT**")	**11,859**	8,910
Deferred tax charge:		
Current period	**2,992**	1,352
Total tax expense	**14,851**	10,262

Sunking Pacific was incorporated in Hong Kong, where the applicable income tax rate is 16.5% for both years ended 31 December 2010 and 2009.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries (other than Jiashan Sunking) is 25%.

Jiashan Sunking, a Foreign Invested Manufacturing Enterprise, was entitled to exemption from EIT for two years commencing from its first profit making year in 2007, followed by a 50% tax rate reduction for EIT for the subsequent three years. Therefore, the applicable income tax rate for Jiashan Sunking is 12.5% for the years ended 31 December 2010 and 2009.

13. INCOME TAX EXPENSE *(continued)*

Wuxi Sunking Power Capacitor Co., Ltd. 無錫賽晶電力電容器有限公司, Jiangsu Sunking Power Equipment Co., Ltd. 江蘇賽晶電氣設備有限公司, Jiashan Converter Technology, Tianjin Sunking Xinglu Water Technology Co., Ltd. 天津市華瑞賽晶興路水科技有限公司, Wuxi Zhuofeng Information Technology Co., Ltd. 無錫卓峰信息科技有限公司, and Sudian Power Electronic Technology (Wuxi) Co., Ltd. 蘇電電力電子技術（無錫）有限公司, were established in the PRC and have had no assessable profits subject to the PRC EIT since their establishment.

The tax charge for the year can be reconciled to profit before tax per the consolidated statement of comprehensive income as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	52,443	49,112
Income tax expense at PRC income tax rate: 25% *(Note 1)*	13,111	12,278
Tax effect of expenses not deductible for tax purpose	6,169	715
Effect of different tax rate of entities operating in other jurisdictions	(146)	(9)
Effect of tax reduction granted to subsidiaries	(10,572)	(6,535)
Tax effect of unused tax losses and other deductible temporary differences not recognised as deferred tax assets	2,545	1,582
Tax effect of utilisation of unused tax losses and other deductible temporary differences not previously recognised as deferred tax assets	–	(12)
Deferred tax liabilities recognised in respect of withholding tax *(Note 2)*	3,274	2,202
Others	470	41
Tax charge for the year	14,851	10,262

Notes

1: The PRC income tax rate for the year was 25%, which represented the applicable income tax rate of the PRC subsidiaries through which the Group's operations were substantially conducted.

2: Upon the New Tax Law and Implementation Regulations, PRC withholding income tax at the rate of 10% is applicable to dividends to be payable by the Company's PRC operating subsidiaries based on their profits generated from 2008 onwards to investors that are "non-PRC tax resident enterprises", which do not have an establishment or a place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Pursuant to the Double Taxation Arrangement between the PRC and Hong Kong, a company being the Hong Kong tax resident shall be eligible for a reduced withholding tax rate of 5% on dividends where the Hong Kong company directly owns at least 25% of the capital of the PRC company which pays the dividends. Deferred tax liabilities have been provided in the consolidated financial statements in respect of undistributed retained profits of the PRC entities amounting to RMB65,480,000 (2009: RMB44,048,000) for the year ended 31 December 2010.

14. EARNINGS PER SHARE

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

	2010 RMB'000	2009 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**37,592**	38,850
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,099,389,315**	1,024,540,000

The weighted average number of shares for the purpose of calculating basic earnings per share for each of the two years ended 31 December 2010 and 2009 is based on the assumption that the 51,227,000 shares issued and outstanding upon the Group Reorganisation and the 973,313,000 shares issued pursuant to the capitalization issue as disclosed in note 30 had been in issue as at the beginning of the respective years.

In addition, the effect of the 341,500,000 shares issued under public offering as more fully described in note 30 has also been included in the calculation of the weighted average number of shares for the year ended 31 December 2010.

No diluted earnings per share have been presented as the Group has no potential dilutive ordinary shares outstanding during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2009	6,423	3,730	1,867	2,605	1,177	19,396	35,198
Additions	751	1,286	1,183	771	540	56,401	60,932
Transfer	12,836	1,827	56	–	–	(14,719)	–
Disposals	–	–	(6)	–	(636)	–	(642)
At 31 December 2009	20,010	6,843	3,100	3,376	1,081	61,078	95,488
Additions	–	437	1,719	519	–	47,963	50,638
Transfer	37,679	33,454	1,157	–	–	(72,290)	–
Disposal	–	–	(54)	(437)	–	–	(491)
At 31 December 2010	**57,689**	**40,734**	**5,922**	**3,458**	**1,081**	**36,751**	**145,635**
DEPRECIATION							
At 1 January 2009	(105)	(276)	(624)	(489)	(771)	–	(2,265)
Provided for the year	(182)	(516)	(467)	(685)	(442)	–	(2,292)
Eliminated on disposals	–	–	3	–	636	–	639
At 31 December 2009	(287)	(792)	(1,088)	(1,174)	(577)	–	(3,918)
Provided for the year	(812)	(2,808)	(1,008)	(760)	(235)	–	(5,623)
Disposal	–	–	18	78	–	–	96
At 31 December 2010	(1,099)	(3,600)	(2,078)	(1,856)	(812)	–	(9,445)
NET BOOK VALUES							
At 31 December 2009	19,723	6,051	2,012	2,202	504	61,078	91,570
At 31 December 2010	**56,590**	**37,134**	**3,844**	**1,602**	**269**	**36,751**	**136,190**

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipments are depreciated on a straight-line basis at the following rates per annum:

Buildings	2.5%
Plant and machinery	10%
Furniture, fixtures and equipments	20-33%
Motor vehicles	25-33%
Leasehold improvement	Over the shorter of the lease term and 5 years

The Group has pledged buildings with a net book value of approximately RMB49,183,000 (2009: RMB16,390,000) to secure short-term loan granted to the Group.

16. PREPAID LEASE PAYMENTS

	2010 **RMB'000**	2009 RMB'000
Analysed for reporting purpose as:		
Current asset	**767**	360
Non-current asset	**36,585**	17,016
	37,352	17,376

The land use rights are under medium-term lease for a period of 50 years, will expire in 2054, 2058 and 2060, and are located in Jiashan and Wuxi, the PRC. Certain land use rights with carrying amount of RMB15,325,000 (2009: RMB1,730,000) are pledged against short-term bank loans of the Group.

The Group is in the process of obtaining the land use right certificates for certain of its prepaid lease payment with carrying amount of approximately RMB20,336,000 (2009: Nil).

17. INTANGIBLE ASSET

	Computer software RMB'000
COST	
At 1 January 2009	303
Additions	247
At 31 December 2009	550
Additions	269
At 31 December 2010	**819**
AMORTISATION	
At 1 January 2009	(22)
Amortisation	(88)
At 31 December 2009	(110)
Amortisation	(148)
At 31 December 2010	**(258)**
CARRYING VALUES	
At 31 December 2009	440
At 31 December 2010	**561**

Computer software has definite useful life and is amortised over its estimated useful life of five years.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES AND EMBEDDED DERIVATIVES

As at 31 December 2010 and 2009, the Group had interests in the following jointly controlled entities:

Name of entity	Form of entity	Place of establishment	Principal place of operation	Class of capital held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activities
					2010	2009	**2010**	2009	
Lang Zhi De	Incorporated	PRC	PRC	Registered capital	**20%**	–	**20%** *(Note 1)*	–	Investment holding
Wuhan Langde Electrics Co., Ltd. ("**Wuhan Langde**")	Incorporated	PRC	PRC	Registered capital	**20%** *(Note 2)*	–	**20%**	–	On-line monitoring of smart grid

Notes:

(1) The Group is able to exercise joint control over Lang Zhi De because it has the power to appoint two out of the five directors of that company under the provisions stated in the Articles of Association of that company. Resolutions with 2/3 directors approval must be obtained before it can be passed. The Group also has the power to appoint the chief financial officer of Lang Zhi De.

(2) Wuhan Langde is a wholly owned subsidiary of Lang Zhi De.

Jiashan Sunking entered into an investment agreement (the "**Agreement**") with Lang Zhi De, Mr. Zhu Xiaodong and Mr. Chen Yong (each of whom is a former shareholder of Lang Zhi De and collectively known as "**Original Shareholders**") on 18 June 2010, pursuant to which Jiashan Sunking acquired 20% equity interest in Lang Zhi De by injection of capital of RMB5 million (the "**First Phase Investment**") into Lang Zhi De on 6 July 2010.

The Agreement provided the Group with options to further acquire additional equity interest in Lang Zhi De from the Original Shareholders if certain performance conditions are met and options to put the Group's investments back to the Original Shareholders if certain performance conditions are not met. Accordingly, the First Phase Investment was allocated to the respective elements acquired as follows:

	Total RMB'000
Investment in jointly controlled entities	3,625
Embedded derivatives	1,375
	5,000

18. INVESTMENT IN JOINTLY CONTROLLED ENTITIES AND EMBEDDED DERIVATIVES *(continued)*

Interests in jointly controlled entities

	2010 RMB'000	2009 RMB'000
Cost of unlisted investments in jointly controlled entities	3,625	–
Share of post-acquisition profits and other comprehensive income	30	–
	3,655	–

Included in the cost of investment in jointly controlled entities is goodwill of RMB2,178,000 arising from on acquisitions of jointly controlled entities this year. The movement of goodwill is set out as below:

	RMB'000
COST	
At 1 January 2009 and 31 December 2009	–
Arising on acquisition of jointly controlled entities	2,178
At 31 December 2010	**2,178**

The summarised financial information in respect of the Group' interests in the jointly controlled entities which are accounted for using the equity method is set out below:

	2010 RMB'000
Current assets	4,183
Non-current assets	3,784
Current liabilities	338
Non-current liabilities	244

	Period from 6 July 2010 to 31 December 2010 RMB'000
Income recognised in profit or loss	2,901
Expense recognised in profit or loss	(2,751)
Other comprehensive income	–

18. INVESTMENT IN JOINTLY CONTROLLED ENTITIES AND EMBEDDED DERIVATIVES *(continued)*

Embedded derivatives

	2010 RMB'000	2009 RMB'000
Balance at beginning of the year	–	–
Initial investments	1,375	–
Changes in fair value *(Note 8)*	(864)	–
Balance at end of the year	511	–

The fair values of these derivatives are estimated using the Monte Carlo Simulation method by discounting future cash flows. The followings are the key inputs used in the model.

	As at 31 December 2010 %	As at 6 July 2010 %
Revenue volatility	25%	25%
Risk free rate	4.29%	4.00%
Weighted average cost of capital	22.0%	27.5%

19. AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted equity investment	3,540	–

The unlisted equity investment represents 5% equity investment in Jiujiang Jiuzheng Rectifier Co., Ltd, an enterprise established in the PRC, acquired from a third party. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that its fair value cannot be measured reliably. As at 31 December 2010, the Group paid RMB1,425,000 only and the remaining RMB2,115,000 was recorded in payables.

20. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	53,215	6,177
Work-in-process	2,901	1,874
Finished goods	11,624	12,086
Total	67,740	20,137

21. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	313,949	124,852
Less: Allowance for doubtful debts	(393)	–
	313,556	124,852
Note receivables	45,541	28,830
Other receivables	17,723	7,353
Total	376,820	161,035

Other receivables are unsecured, interest-free and repayable on demand.

Generally, the Group allows credit period ranging from 0 to 180 days to its trade customers. For certain major and well established customers, 10% of the amounts invoiced to these customers are due after the expiry of the relevant warranty period, which is eighteen months from the date of delivery of the Group's products or twelve months from the date of installation of the Group's products by the respective customers. As at 31 December 2010, trade receivables expected to be recovered or settled more than the twelve months from the respective dates amounted to RMB13,257,000 (31 December 2009: RMB5,371,000).

The following is an aging analysis of trade receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2010 RMB'000	2009 RMB'000
0-90 days	199,668	99,734
91-180 days	87,253	20,463
181-360 days	25,302	2,600
>360 days	1,333	2,055
Total	313,556	124,852

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB171,006,000 (31 December 2009: RMB67,052,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

21. TRADE AND OTHER RECEIVABLES *(continued)*

The following is an aged analysis of trade receivables, net of allowance for doubtful debts presented based on the due date at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Not yet due	142,550	57,800
Overdue 0-180 days	164,472	63,821
Overdue 181-360 days	6,206	1,358
Overdue >360 days	328	1,873
Total	313,556	124,852

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the management of the Group monitors the financial positions of the customers periodically through meetings, independent investigation and review of publicly available information. Considering historical payment records and subsequent settlements, the directors believe that no further allowance is required.

Certain trade receivables with carrying amount of RMB17,000,000 as at 31 December 2010 (2009: Nil), respectively are pledged against short-term bank loans of the Group.

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
1 January	–	–
Impairment losses recognised on receivables	1,523	–
Amounts written off as uncollectible	(1,130)	–
31 December	393	–

The credit risk on note receivables is limited because the counterparties are state-owned banks located in the PRC. The aging of note receivables presented based on the invoice date at the end of the reporting period is as follows:

	2010 RMB'000	2009 RMB'000
0-180 days	45,041	23,725
181-360 days	500	5,105
Total	45,541	28,830

Certain note receivables with carrying amount of RMB800,000 as at 31 December 2010 (31 December 2009: Nil) are pledged against short-term bank loans of the Group.

22. AMOUNT DUE FROM A RELATED PARTY

	Balance at 31 December 2010 RMB'000	Balance at 31 December 2009 RMB'000	Maximum amount outstanding during the year RMB'000
Non-trading in nature			
Mr. Xiang	22	40	1,734

The amount due from a related party represents advances which are unsecured, non-interest bearing and repayable on demand.

23. OTHER FINANCIAL ASSETS

	2010 RMB'000	2009 RMB'000
Embedded derivatives *(Note 18)*	511	–
Foreign exchange forward contracts	4,228	1,295
	4,739	1,295

Major terms of the foreign currency forward contracts as at 31 December 2010 and 2009 are as follows:

Notional amount	Forward contract rates	Maturity
At 31 December 2010 18 contracts to buy CHF10,349,000 in total	CHF1: RMB6.6270 to 6.6990	From 1 January 2011 to 31 October 2011
At 31 December 2009 2 contracts to buy CHF2,117,000 in total	CHF1: RMB6.0221	From 1 January 2010 to 29 January 2010

Pursuant to the terms of the foreign exchange forward contracts, the Group is obliged, within the relevant contract period, to buy (at any time during the relevant contract period) CHF at the specified rate (through gross settlement) for the total notional amounts as specified in the contracts.

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carried interest at market rates ranging from 0.36% to 3.25% per annum and 0.36% to 1.71% per annum at 31 December 2010 and 2009, respectively.

The Group's bank balances and cash and pledged bank deposits that were denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2010 RMB'000	2009 RMB'000
Bank balances and cash and pledged bank deposits denominated in:		
CHF	893	2,878
US$	88,515	247
HK$	71,493	–
EUR	46	–
Total	160,947	3,125

Pledged bank deposits represent deposits pledged to banks to secure short-term foreign currency forward contracts and letters of credit of the Group and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of the relevant foreign exchange forward contracts and letters of credit.

25. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**156,902**	43,862
Advance from customers	**3,000**	4,083
Other payables	**14,093**	2,545
Other taxes payables	**12,780**	9,930
Accrued expenses	**8,052**	820
	194,827	61,240

Other payables are unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade payables at the end of each period:

	2010 RMB'000	2009 RMB'000
0-180 days	**151,923**	43,373
>181 days	**4,979**	489
Total	**156,902**	43,862

The trade payable comprises amounts outstanding for the trade purchases. The credit period with the suppliers varies and ranges from 30 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

26. SHORT-TERM BANK LOANS

	2010 RMB'000	2009 RMB'000
Secured bank loans	**48,324**	20,000

The bank borrowings are secured (see notes 15, 16, 21 and 24) and the effective interest rates on the Group's fixed-rate bank borrowings are also equal to weighted average contracted interest rates of 4.61% per annum at 31 December 2010 (2009: 5.31% per annum). All the Group's bank loans have contractual maturity within one year from the end of the reporting period.

27. AMOUNT DUE TO A FORMER SHAREHOLDER

	2010 RMB'000	2009 RMB'000
Non-trading in nature		
Sunking BVI	**–**	7,481

The amount due to a former shareholder represented loan provided by a former shareholder, which was unsecured, non-interest bearing and was waived during the year ended 31 December 2010.

28. DEFERRED INCOME

	2010 RMB'000	2009 RMB'000
Government grants	**3,524**	3,810

In 2009, the Group received a government subsidy of RMB3,810,000 to compensate the purchase cost of its machineries. The amount is treated as deferred income and amortised to income over the useful lives of related assets once the machineries are ready for their intended use by the management and depreciation commences. An amount of RMB286,000 (2009: Nil) has been recognised as income during the year ended 31 December 2010.

29. DEFERRED TAX

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Unrealised foreign exchange forward contract gains RMB'000	Pre-operating expense RMB'000	Unrealised profit RMB'000	Bad debt provision RMB'000	Inventory provision RMB'000	Embedded derivatives RMB'000	Accrued expenses RMB'000	Withholding tax on undistributed profit of subsidiaries RMB'000	Total RMB'000
At 1 January 2009	(1,165)	73	–	–	–	–	43	(687)	(1,736)
Charge/(credit) to consolidated statement of comprehensive income for the year	841	(19)	–	–	–	–	28	(2,202)	(1,352)
At 31 December 2009	(324)	54	–	–	–	–	71	(2,889)	(3,088)
Charge/(credit) to consolidated statement of comprehensive income for the year	(310)	(19)	107	222	53	216	13	(3,274)	(2,992)
Eliminated on distribution of profit of subsidiaries	–	–	–	–	–	–	–	913	913
At 31 December 2010	**(634)**	**35**	**107**	**222**	**53**	**216**	**84**	**(5,250)**	**(5,167)**

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

For the purposes of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance for financial reporting purposes.

	2010 RMB'000	2009 RMB'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**5,167**	3,088

At the end of the reporting period, the Group has unused tax losses of RMB13,422,000 (2009: RMB4,466,000) available for offset against future profits. Included in unrecognised tax losses are tax losses of RMB1,952,000 (2009: RMB1,952,000) that will expire by 2013, RMB2,514,000 (2009: RMB2,514,000) that will expire by 2014 and RMB8,956,000 (2009: Nil) that will expire by 2015. Other deductible temporary differences not recognised as deferred tax assets are deferred income amounted to RMB3,524,000 (2009: RMB3,810,000) and other items amounted to RMB1,218,000 (2009: Nil). No deferred tax asset has been recognised in respect of the tax losses and deferred income due to the unpredictability of future profit streams.

30. SHARE CAPITAL

	The Company	
	Number of shares	**Amount**
		HK$'000
Authorised:		
On 19 March 2010, date of incorporation of the Company (a)	**3,800,000**	380
Increase in authorised share capital (b)	**1,996,200,000**	199,620
At 31 December 2010	**2,000,000,000**	200,000
Issued and fully paid:		
Issued on 19 March 2010, date of incorporation of the Company (a)	**1**	–
Issued in consideration for the acquisition of the issued share capital of Sunking Pacific (c)	**51,226,999**	5,123
Issued by capitalisation of the share premium account (d)	**973,313,000**	97,331
Issue of share pursuant to initial public offering (e)	**341,500,000**	34,150
At 31 December 2010	**1,366,040,000**	136,604

	2010	2009
	RMB'000	RMB'000
Presented in RMB		
Share capital (f)	**117,425**	–

30. SHARE CAPITAL *(continued)*

(a) The Company was incorporated on 19 March 2010 with an authorized share capital of HK$380,000 initially divided into 3,800,000 ordinary shares with a par value of HK$0.1 each, of which 1 ordinary share with a par value of HK$0.1 each was allotted and issued, credited as fully paid by the Company to its then sole shareholder on 19 March 2010.

(b) Pursuant to a resolution in writing passed by the sole shareholder of the Company on 19 August 2010, the authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by the creation of additional 1,996,200,000 shares of HK$0.1 each.

(c) On 23 September 2010, the Company acquired the entire issued share capital of Sunking Pacific Limited from Sunking BVI, in consideration of which the Company allotted and issued, credited as fully paid, an aggregate of 51,226,999 new shares to Sunking BVI pursuant to the Group Reorganisation.

(d) Pursuant to resolutions in writing passed by the sole shareholder of the Company on 23 September 2010, the Directors of the Company were authorised to capitalise HK$97,331,300 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 973,313,000 shares. On 13 October 2010, 973,313,000 shares were allotted and issued.

(e) On 13 October 2010, 341,500,000 shares of HK$0.10 each of the Company were issued at HK$1.93 by way of placing and public offering and the Company's shares were listed on the Main Board of the Stock Exchange.

(f) The share capital as at 31 December 2009 represented the share capital of Sunking Pacific Limited.

All shares issued rank pari passu with other shares in issue in all respects.

31. SHARE-BASED PAYMENTS TRANSACTIONS

A share award scheme (the "Scheme") was adopted by Sunking BVI for the primary purpose of providing incentives to officers, directors, consultants and employees of Sunking BVI and its then subsidiaries. Under the Scheme, Sunking BVI may issue up to 6,000,000 ordinary shares to officers, directors, consultants and employees including the ordinary shares granted to the consultants and employees of the Group.

Ordinary shares of Sunking BVI granted to consultants of the Group

During the years ended 31 December 2010 and 2009, a total of 200,000 ordinary shares of Sunking BVI were granted and issued to consultants of the Group in the capacity of independent service providers.

Details of ordinary shares of Sunking BVI granted to consultants of the Group are as follows:

Grant Series	**Date of grant**	**Vesting date**	**Number of shares granted**	**Fair value per share at grant date**
				RMB
2009	1 July 2009	1 July 2009	150,000	5.74
2010	18 January 2010	18 January 2010	50,000	7.10

In accordance with the terms of the share-based arrangements, ordinary shares of Sunking BVI granted in the above table were vested upon the completion of the services provided by the consultants in the capacity of independent service providers.

The following table discloses movements of Sunking BVI's ordinary shares granted to consultants during the current and prior years.

	2009	**2010**	Total
Unvested shares at 1 January 2009	–	–	–
Granted	150,000	–	150,000
Vested	(150,000)	–	(150,000)
Unvested shares at 31 December 2009	–	–	–
Granted	–	**50,000**	50,000
Vested	–	**(50,000)**	(50,000)
Unvested shares at 31 December 2010	–	–	–

31. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Ordinary shares of Sunking BVI granted to consultants of the Group *(continued)*

As the fair value of the service provided by consultants could not be estimated reliably, the Company measured the service received by reference to the fair value of the ordinary shares of Sunking BVI granted at the date of grant. The expense recognised in respect of the above share award was RMB355,000 for the year (2009: RMB861,000) and have been included in administrative and general expenses.

Ordinary shares of Sunking BVI granted to employees of the Group

During the years ended 31 December 2010 and 2009, 543,709 ordinary shares of Sunking BVI were granted to employees of the Group.

Details of ordinary shares of Sunking BVI granted to employees of the Group are as follows:

Grant series	Date of grant	Vesting period	Number of shares granted	Fair value per share at grant date RMB
2008	1 April 2008	1 April 2008~31 March 2012	2,059,000	3.06
2009A	1 January 2009	1 January 2009~31 December 2012	200,000	4.15
2009B	1 July 2009	1 July 2009~30 June 2012	110,000	5.74
2010	1 January 2010	1 January 2010~31 March 2012	233,709	7.10

The following table discloses movements of the unvested ordinary shares of Sunking BVI granted to employees during the years ended 31 December 2010 and 2009.

	2008	2009A	2009B	**2010**	Total
Unvested shares					
At 1 January 2009	2,059,000	–	–	–	2,059,000
Granted	–	200,000	110,000	–	310,000
Vested	(881,853)	(50,000)	(10,909)	–	(942,762)
Forfeited *(Note)*	(142,709)	–	–	–	(142,709)
Unvested shares					
at 31 December 2009	1,034,438	150,000	99,091	–	1,283,529
Granted	–	–	–	**233,709**	233,709
Vested	(459,750)	(50,000)	(33,750)	**(103,871)**	(647,371)
Unvested shares					
at 31 December 2010	574,688	100,000	65,341	**129,838**	869,867

Note: The unvested ordinary shares were forfeited when the employments were terminated.

31. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Ordinary shares of Sunking BVI granted to employees of the Group *(continued)*

The expense recognised in respect of the above share award was RMB2,549,000 (2009: RMB1,831,000) for the year and have been included in the profit or loss as follow:

	2010 **RMB'000**	2009 RMB'000
Cost of sales	**259**	330
Distribution and selling expenses	**206**	226
Administrative and general expenses	**2,084**	1,275
Total	**2,549**	1,831

The fair value of ordinary shares of Sunking BVI is determined by using the weighted average of income approach and market approach. Five benchmark dates were selected to evaluate the fair value of ordinary shares of Sunking BVI that are used to calculate share-based compensation for the above shares awards.

Inputs into the share pricing model are as follows:

			Type		
	1 April 2008	**1 January 2009**	**1 July 2009**	**1 January 2010**	**18 January 2010**
Marketability discount	25.0%	25.0%	17.5%	14.0%	14.0%
Weighted average capital cost	18.5%	18.5%	19.0%	18.0%	18.0%
Income approach percentage	75.0%	75.0%	50.0%	50.0%	50.0%

32. OPERATING LEASES

	2010 RMB'000	2009 RMB'000
Minimum lease payments paid under operating leases during the year	**2,230**	2,309

Operating lease payments represented rentals payable by the Group for certain of its office premises.

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

	2010 RMB'000	2009 RMB'000
Within one year	**1,966**	1,681
In the second to fifth year inclusive	**175**	873
Total	**2,141**	2,554

Leases are negotiated for an average term from one to three years.

33. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**22,213**	12,959

34. RETIREMENT BENEFITS SCHEME

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 15% to 20% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

During the current and prior years, the total amounts contributed by the Group to the scheme and charged to the consolidated statements of comprehensive income represent contribution payable to the scheme by the Group at rates specified in the rules of the schemes and are as follows:

	2010	2009
	RMB'000	RMB'000
Amount contributed and charged to the consolidated statement of comprehensive income	**1,402**	1,084

The contributions due had not been paid over to the scheme were RMB7,000 as at 31 December 2010 (31 December 2009: RMB4,000).

35. RELATED PARTY TRANSACTIONS

The Group's related party balances at the end of the reporting period and transactions during the reporting periods are disclosed in notes 22, 27 and 31.

The remuneration of directors and other members of key management for the current and prior years were as follows:

	2010	2009
	RMB'000	RMB'000
Short-term benefits	**1,649**	1,358
Post-employment benefits	**451**	347
Share-based payments	**2,252**	1,601
	4,352	3,306

The remuneration of key management is determined with reference to the performance of individuals and market trends.

36. MAJOR NON-CASH TRANSACTIONS

On 8 October 2010, Sunking BVI waived loans of RMB42,519,000 advanced to the Group.

On 15 June 2009 and 28 September 2009, Sunking BVI waived loans of RMB54,660,000 and RMB20,486,000 advanced to the Group.

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/registered capital as at 31 December 2010	Attributable equity interest of the Group As at 31 December 2009	Attributable equity interest of the Group As at 31 December 2010[(2)]	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK$1	100%	**100%**	Investment holding
Beijing Sunking Electronic Technology Co., Ltd. 北京華瑞賽晶電子科技有限公司[(1)]	PRC as a domestic limited liability company	RMB1,000,000	100%	**100%**	Trading agent for various products and technologies
Jiashan Sunking Power Equipment Technology Co., Ltd. 嘉善華瑞賽晶電氣設備科技有限公司	PRC as a wholly-foreign owned enterprise	US$61,500,000	100%	**100%**	Sale, research and development, after sales service and production of electrical/electronic component and installation, including IGBT
Tianjin Sunking Xinglu Water Technology Co., Ltd. 天津市華瑞賽晶興路水科技有限公司	PRC as a domestic limited liability company	RMB5,000,000	100%	**100%**	Environmental machinery, electronic facilities, new type of purification and water facilities, technology advisory, technology transfer, technology service, sale and distribution production of environmental machinery
Wuxi Sunking Power Capacitor Co., Ltd. 無錫賽晶電力電容器有限公司	PRC as a wholly-foreign owned enterprise	US$25,000,000	100%	**100%**	Production of electrical capacitors and its complete device, amorphous alloy transformer, DC current anode saturable dry-type reactors, FM voltage AC traction device; trading agent of various products and technologies

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/registered capital as at 31 December 2010	Attributable equity interest of the Group As at 31 December 2009	Attributable equity interest of the Group As at 31 December 2010[(2)]	Principal activities
Jiangsu Sunking Power Equipment Co., Ltd. 江蘇賽晶電氣設備有限公司	PRC Limited liability company	RMB50,000,000	100%	**100%**	Manufacture and sale of capacitor
Jiashan Sunking Converter Technology Co., Ltd. 嘉善華瑞賽晶變流技術有限公司	PRC Limited liability company	RMB10,000,000	–	**85%**	Manufacture and sale of transformers, capacitors and their ancillary equipments, electricity switch control equipments, power electronic components, and other power transmission and distribution and control equipments, and research and development of the aforesaid products
Wuxi Zhuofeng Information Technology Co., Ltd. 無錫卓峰信息科技有限公司	PRC Limited liability company	RMB5,000,000	–	**100%**	Manufacture and sale of computer software and hardware, research and development of network technology, technology advisory, technology transfer, technology service, computer system service, sale of electronic product computer auxiliary equipments and office supplies, technology research and service of electronic product, enterprise management advisory, business advisory
Sudian Power Electronic Technology (Wuxi) Co., Ltd 蘇電電力電子技術(無錫) 有限公司	PRC Limited liability company	US$6,000,000	–	**100%**	Technology research, technology transfer, technology advisory and technology detect service of power electronic equipment, computer software and hardware, high voltage electrical capacitors, high voltage power networks reactive-load compensation equipment

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

(1) From 5 June 2002, the date of the establishment of Beijing Sunking, Mr. Xiang Jie ("**Mr. Xiang**"), a director of the Company, owns 90% equity interest in Beijing Sunking. An independent third party, Mr. Xu Nanping, owns the remaining 10% equity interest in Beijing Sunking.

On 10 April 2008, Jiashan Sunking, a wholly-owned subsidiary of the Company, entered into a series of agreements with Beijing Sunking, Mr. Xiang and Mr. Xu Nanping (the "**Agreements**"). The key provisions of the Agreements are as follows:

Exclusive Equity Transfer Call Agreements. Jiashan Sunking, Mr. Xiang and Mr. Xu Nanping irrevocably agreed that, at Jiashan Sunking's sole discretion, Jiashan Sunking will be entitled to acquire all or part of the equity interests in Beijing Sunking to the extent as permitted by the then-effective PRC laws and regulations. The consideration for such acquisition will be the minimum amount as permitted by PRC law. Mr. Xiang and Mr. Xu Nanping have also agreed that they will not enter into any transaction, or fail to take any action, that would substantially affect the assets, liabilities, equity or operations of Beijing Sunking without Jiashan Sunking's prior written consent.

Exclusive Technical Service and Consultancy Agreement. Jiashan Sunking agreed to provide Beijing Sunking with technical consulting and related services. Jiashan Sunking is the exclusive provider of these services. In consideration for those services, Beijing Sunking agrees to pay service fees to Jiashan Sunking, which represents substantially all of the economic benefit from Beijing Sunking's operation.

Equity Pledge Agreements. To secure the full performance of their respective obligations under the Exclusive Technical Service and Consultancy Agreement and the Exclusive Equity Transfer Call Agreement, Mr. Xiang and Mr. Xu Nanping agreed to pledge all of their equity interests in Beijing Sunking to Jiashan Sunking. In the event of a breach of any term in the above agreements by either Mr. Xiang and Mr. Xu Nanping, Jiashan Sunking will be entitled to enforce its pledge rights over such pledged equity interests to compensate for any and all losses suffered from such breach.

The directors of the Company, after consulting legal opinion, are of the view that the terms of the Agreements have in substance enable Jiashan Sunking to obtain control over, and the entire beneficial economic interests in, Beijing Sunking without getting formal legal equity interest in Beijing Sunking (the "**Arrangements**").

Accordingly, Beijing Sunking is accounted for as a subsidiary of the Company throughout the reporting period as it and other companies comprising the Group were under the common control of Mr. Xiang. The assets, liabilities and results of Beijing Sunking are included in the consolidated financial statements of the Group as if the Company has always been the parent of Beijing Sunking. The 10% equity interest in Beijing Sunking attributable to Mr. Xu Nanping prior to the Arrangements is treated as non-controlling interests.

On 10 April 2010, the entire equity interest in Beijing Sunking was transferred from Mr. Xiang and Mr. Xu Nanping to Jiashan Sunking for a total consideration of RMB1,905,000. Among the total consideration, RMB190,000 was returned from Mr. Xu Nanping on 27 May 2010 and the remaining RMB1,715,000 was returned from Mr. Xiang on 2 August 2010.

(2) Except Sunking Pacific, the other subsidiaries are indirectly held by the Company.

38. DIVIDENDS

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**427,996**	261,704	249,521	188,296
Profit for the year and total comprehensive income for the year	**37,592**	38,850	44,972	22,844
Attributable to:				
Owners of the Company	**37,592**	38,850	44,972	22,003
Non-controlling interests	**–**	–	–	841
	37,592	38,850	44,972	22,844

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,099,357**	338,022	166,465	136,622
Total liabilities	**(264,725)**	(106,022)	(51,153)	(90,348)
Non-controlling interests	**(1,500)**	–	–	(1,111)
Equity attributable to owners of the Company	**833,132**	232,000	115,312	45,163

Note: The Company was incorporated in the Cayman Islands on 19 March 2010 and became the holding company of the Group on 23 September 2010. The results and assets and liabilities of the Group for 2007, 2008 and 2009 have been prepared on a combined basis as if the current group structure had been in existence throughout and at the end of those years and have been extracted from the Prospectus.