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30 June 2011

The Directors
Shunfeng Photovoltaic International Limited
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Shunfeng Photovoltaic International Limited (previously known as Shunfeng Photovoltaic International Ltd., the "Company") and its subsidiaries (together with the Company and its subsidiaries hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2010 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 30 June 2011 (the "Prospectus") in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 6 August 2010. Pursuant to a group reorganization as disclosed in section headed "History and Corporate Structure — Restructuring" to the Prospectus (the "Group Reorganization"), the Company became the holding company of its subsidiaries on 26 September 2010.

As at each of the respective reporting period ends and the date of this report, the Company has indirect interests, unless otherwise stated, in the following subsidiaries:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Equity interest attributable to the Group — As at 31 December 2008	2009	2010	At date of this report	Principal activities
Shunfeng Photovoltaic Holdings Limited 順風光電控股有限公司 ("Shunfeng HK")*	Hong Kong 16 August 2010	HK$500	N/A	N/A	100%	100%	Investment holding
Jiangsu Shunfeng Photovoltaic Technology Co., Ltd. 江蘇順風光電科技有限公司 ("Shunfeng Technology") (note 1)	The People's Republic of China (the "PRC") 10 October 2005	RMB167,600,000	100%	100%	100%	100%	Manufacturing and sales of solar cells and related products
Changzhou Shunfeng Photovoltaic Materials Co., Ltd. 常州順風光電材料有限公司 ("Shunfeng Materials")**	PRC 21 September 2010	RMB100,021,000 (note 2)	N/A	N/A	54.55%	54.55%	Manufacturing and sales of silicon wafers and related products
Jiangsu Shunfeng Photovoltaic Electronic Power Co., Ltd. 江蘇順風光電電力有限公司 ("Shunfeng Electronic")***	PRC 29 December 2010	— (note 3)	N/A	N/A	100%	100%	Manufacturing and sales of solar modules and provision of related installation services

* Directly held by the Company

** Sino foreign equity joint venture

*** Wholly-owned foreign enterprise

Notes:

(1) Shunfeng Technology is a sino foreign joint venture throughout the years ended 31 December 2008 and 2009. The entity became a wholly owned foreign enterprise since 26 September 2010 upon the Group Reorganization.

(2) Pursuant to the Certificate of Approval issued by government authorities in Jiangsu Province in the PRC, total registered capital was increased from RMB10,000,000 to RMB220,000,000 on 18 November 2010.

(3) The registered capital is USD100,000,000.

The Company and its subsidiaries have adopted 31 December as their financial year end date.

The statutory financial statements of Shunfeng Technology for each of the three years ended 31 December 2010 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") and were audited by Changzhou Jia Hao C.P.A. Partnership 常州嘉浩聯合會計師事務所, a firm of certified public accountants registered in the PRC.

No audited statutory financial statements have been prepared for the Company since its date of incorporation as it has not carried on any business, other than the events stated in Appendix VI of the Prospectus and there is no statutory requirement to do so. No audited financial statements have been prepared for Shunfeng HK, Shunfeng Electronic and Shunfeng Materials since their respective dates of incorporation/establishment as their first statutory financial statements are not yet due to be issued. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company, Shunfeng HK, Shunfeng Electronic and Shunfeng Materials since their respective dates of incorporation/establishment to the date of this report and carried out such procedures as we considered necessary for inclusion of the Financial Information relating to the Group.

For the purpose of this report, the directors of the Company have prepared the financial statements of the Group for the Relevant Periods in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of section E. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for the inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 of Section E below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2010 and of the Group as at 31 December 2008, 31 December 2009 and 31 December 2010, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

A CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2008	2009	2010
		RMB'000	RMB'000	RMB'000
Revenue	6	563,646	378,974	622,922
Cost of sales		(496,085)	(306,334)	(492,595)
Gross profit		67,561	72,640	130,327
Other income	7	6,368	3,202	3,375
Other gains and losses	8	(2,883)	(1,935)	(13,601)
Distribution and selling expenses		(952)	(2,460)	(2,520)
Administrative expenses		(11,326)	(12,128)	(19,255)
Finance costs	9	(3,981)	(1,268)	(3,970)
Profit before taxation	10	54,787	58,051	94,356
Tax credit (charge)	12	567	(4,573)	(14,266)
Profit and total comprehensive income for the year		55,354	53,478	80,090
Profit and total comprehensive income attributable to:				
Owners of the Company		55,354	53,478	80,449
Non-controlling interests		—	—	(359)
		55,354	53,478	80,090
		RMB cents	RMB cents	RMB cents
Earnings per share — Basic	14	4.73	4.57	6.88

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	The Group			The Company
		At 31 December			At 31 December
		2008	2009	2010	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	15	104,335	97,375	480,071	—
Prepaid lease payments — non-current	16	3,187	2,800	24,283	—
Deposits for acquisition of property, plant and equipment		2,768	6,886	55,193	—
Deposits for acquisition of land use rights		—	—	1,646	—
Investment in a subsidiary	17	—	—	—	233,969
Prepayments to suppliers	18	—	—	17,000	—
Deferred tax assets	19	567	375	—	—
		110,857	107,436	578,193	233,969
Current assets					
Inventories	20	45,710	19,409	34,452	—
Trade and other receivables	21	52,166	63,141	88,018	4,832
Value-added tax recoverable		1,152	—	49,224	—
Prepayments to suppliers	18	25,748	24,030	19,155	—
Prepaid lease payments — current	16	387	387	3,886	—
Taxation recoverable		—	137	—	—
Pledged bank deposits	22	1,048	39,479	17,645	—
Bank balances and cash	22	11,141	42,681	55,432	—
		137,352	189,264	267,812	4,832
Current liabilities					
Trade and other payables	23	3,818	68,633	166,913	7,036
Value-added tax payable		—	941	—	—
Customers' deposits received	24	31,600	190	56,846	—
Loans from Former Shareholders	25	20,000	20,000	—	—
Amount due to a director	23	—	—	859	—
Amounts due to subsidiaries	17	—	—	—	6,055
Taxation payable		—	—	2,468	—
Other financial liabilities	26	2,136	851	—	—
Borrowings	27	38,048	—	154,500	—
Deferred income	28	—	—	309	—
		95,602	90,615	381,895	13,091
Net current assets (liabilities)		41,750	98,649	(114,083)	(8,259)
Total assets less current liabilities		152,607	206,085	464,110	225,710
Capital and reserves					
Paid-in capital/Share capital	29	43,636	43,636	1	1
Reserves	30	108,971	162,449	286,538	225,709
Equity attributable to owners of the Company		152,607	206,085	286,539	225,710
Non-controlling interests		—	—	29,411	—
Total equity		152,607	206,085	315,950	225,710
Non-current liabilities					
Borrowings	27	—	—	140,000	—
Other payable	23	—	—	4,731	—
Customers' deposits received	24	—	—	1,500	—
Deferred income	28	—	—	1,929	—
		—	—	148,160	—
		152,607	206,085	464,110	225,710

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital/ Share capital	Special reserve	Capital reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	43,636	—	36,364	—	17,253	97,253	—	97,253
Profit and total comprehensive income for the year	—	—	—	—	55,354	55,354	—	55,354
At 31 December 2008	43,636	—	36,364	—	72,607	152,607	—	152,607
Profit and total comprehensive income for the year	—	—	—	—	53,478	53,478	—	53,478
At 31 December 2009	43,636	—	36,364	—	126,085	206,085	—	206,085
Profit and total comprehensive income for the year	—	—	—	—	80,449	80,449	(359)	80,090
Capitalization of dividends (note 13)	123,960	—	—	—	(123,960)	—	—	—
Issue of new share of the Company	1	—	—	—	—	1	—	1
Capital contribution from shareholders of the Company	—	233,968		—	—	233,968	—	233,968
Special reserve arising on Group Reorganization	(167,596)	(30,004)	(36,364)	—	—	(233,964)	—	(233,964)
Capital contribution from a non-controlling shareholder of Shunfeng Materials	—	—	—	—	—	—	29,770	29,770
Transfer	—	—	—	10,064	(10,064)	—	—	—
At 31 December 2010	1	203,964	—	10,064	72,510	286,539	29,411	315,950

Notes:

a. *Special reserve arises on a group reorganization which took place in the year ended 31 December 2010. The shareholders of the Company made a contribution of an aggregate amount of approximately RMB233,968,000 to the Company for the purpose to acquire the entire equity interests of Shunfeng Technology. The difference between the acquisition consideration paid and the paid-in capital and capital reserve of Shunfeng Technology acquired of approximately RMB30,004,000 is regarded as special reserve arising on group reorganization.*

b. *Capital reserve represents the difference between actual amount contributed by the then shareholders and the registered paid-in capital of Shunfeng Technology immediately before the Group Reorganization.*

c. *In accordance with relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory surplus reserve. Appropriation to statutory surplus reserve shall be approved by the shareholders and may cease if the balance of the statutory surplus reserve has reached 50% of the relevant PRC subsidiaries' registered capital.*

The PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserve into capital in proportion to their then existing shareholdings. However, when converting the PRC subsidiaries' statutory surplus reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Operating activities			
Profit before taxation	54,787	58,051	94,356
Adjustments for:			
Bank interest income	(654)	(452)	(895)
Other interest income	(2,020)	—	—
Finance costs	3,981	1,268	3,970
Recognition of fair values of financial guarantee contracts issued	2,704	753	2,761
Amortization of financial guarantee liability	(568)	(2,038)	(3,612)
Depreciation of property, plant and equipment	7,400	9,633	11,611
Write-down of inventories	4,538	756	—
Impairment made on prepayments to suppliers	—	2,244	—
Release of prepaid lease payments	387	387	1,844
Release of deferred income	—	—	(129)
Operating cash flows before movements in working capital	70,555	70,602	109,906
(Increase) decrease in inventories	(25,722)	25,545	(15,043)
Increase in trade and other receivables and value-added tax recoverable	(49,674)	(11,843)	(74,101)
Increase in prepayments to suppliers	(9,718)	(526)	(12,125)
(Decrease) increase in trade and other payables and value-added tax payable	(4,604)	66,178	(26,192)
Increase (decrease) in customers' deposits received	26,442	(31,410)	58,156
Cash generated from operations	7,279	118,546	40,601
Tax paid	—	(4,518)	(11,286)
Net cash from operating activities	7,279	114,028	29,315
Investing activities			
Bank interest income received	654	452	895
Other interest income received	—	2,020	—
Proceeds from government grants	—	—	9,463
New pledged bank deposits raised	(10,264)	(38,441)	(143,689)
Repayment of pledged bank deposits	9,216	10	165,523
Deposits paid for and purchase of land use rights	—	—	(28,472)
Deposits paid for and purchase of property, plant and equipment	(36,344)	(6,791)	(321,491)
Net cash used in investing activities	(36,738)	(42,750)	(317,771)
Financing activities			
New bank loans raised	180,048	42,000	294,500
Advance from Former Shareholders (defined in note 25)	30,000	—	40,000
Advance from a director	—	—	859
Issue of shares	—	—	1
Capital contribution from shareholders	—	—	233,968
Capital contribution from a non-controlling shareholder of Shunfeng Materials	—	—	29,770
Payments to owners of Shunfeng Technology upon Group Reorganization	—	—	(233,964)
Dividends paid to owners of Shunfeng Technology	(1,908)	—	—
Interest paid	(3,430)	(1,690)	(3,927)
Repayment to Former Shareholders	(10,000)	—	(60,000)
Repayment of bank loans	(169,000)	(80,048)	—
Net cash from (used in) financing activities	25,710	(39,738)	301,207
Net (decrease) increase in cash and cash equivalents	(3,749)	31,540	12,751
Cash and cash equivalents at beginning of the year	14,890	11,141	42,681
Cash and cash equivalents at end of the year, represented by bank balances and cash	11,141	42,681	55,432

E. NOTES TO THE FINANCIAL INFORMATION

1. Corporation Information and Basis of Presentation of Financial Information

The Company is a limited company incorporated in the Cayman Islands. Its addresses of registered office and principal place of business are stated in the "Corporate Information" section of the Prospectus. The Company is an investment holding company. The principal activities of the Company's subsidiaries are the manufacturing and sales of solar cells and related products.

Pursuant to the Group Reorganization to rationalize the structure of the Group in the preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 26 September 2010 by interspersing the Company and Shunfeng HK between Shunfeng Technology and Shunfeng Technology's then existing shareholders immediately before the Group Reorganization and accordingly, Shunfeng HK became a direct wholly-owned subsidiary of the Company and Shunfeng Technology became an indirect wholly-owned subsidiary of the Company.

The Group comprising the Company and its subsidiaries resulting from the Group Reorganization is regarded as a continuing entity. The Financial Information has been prepared on the basis as if the Company had always been the holding company of Shunfeng HK and Shunfeng Technology throughout the Relevant Periods.

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Company.

At 31 December 2010, the Group's and the Company's current liabilities exceeded their current assets by approximately RMB114,083,000 and RMB8,259,000, respectively. The Group obtained banking facilities of approximately RMB549,000,000 during the year ended 31 December 2010, included in which approximately RMB265,000,000 were utilized and approximately RMB284,000,000 were unutilized as at 31 December 2010. Subsequent to 31 December 2010, the Group has obtained new banking facilities of approximately RMB731,613,000, of which approximately RMB386,313,000 has been utilised as at the date of this report. In addition, subsequent to 31 December 2010, the Group received a waiver letter from a bank which confirmed that the bank agreed to defer the right to demand for repayment of borrowings of approximately RMB60,000,000 to June 2012. The borrowings were due in December 2011 according to the original terms of repayments. The directors of the Company believe that the banking facilities as mentioned above will continue to be available and will not be withdrawn within the next twelve months from the date of this report. Taking into account of the internally generated funds and the available banking facilities, the directors of the Company are confident that the Group and the Company will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis.

2. Application of International Financial Reporting Standards

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and Interpretations ("IFRICs") (herein collectively referred to as "new IFRSs"), which are effective for the accounting periods beginning on 1 January 2010 throughout the Relevant Periods.

E. NOTES TO THE FINANCIAL INFORMATION — continued

2. Application of International Financial Reporting Standards — continued

At the date of this report, the following new and revised standards, amendments and interpretations have been issued which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010(1)
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters(2)
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters(3)
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets(3)
IFRS 9	Financial Instruments(4)
IFRS 10	Consolidated Financial Statements(4)
IFRS 11	Joint Arrangements(4)
IFRS 12	Disclosure of Interests in Other Entities(4)
IFRS 13	Fair Value Measurements(4)
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income(8)
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets(5)
IAS 19 (Revised 2011)	Employee Benefits(4)
IAS 24 (Revised)	Related Party Disclosures(6)
IAS 27 (Revised 2011)	Separate Financial Statements(4)
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures(4)
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)

(1) Effective for annual periods beginning on or after 1 July 2010 and 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.

(8) Effective for annual periods beginning on or after 1 July 2012.

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 recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortized 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 amortized 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.

E. NOTES TO THE FINANCIAL INFORMATION — continued

2. Application of International Financial Reporting Standards — continued

- 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. 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.

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the Financial Information.

3. Significant Accounting Policies

The Financial Information has been prepared on the historical cost convention and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the Relevant Periods.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates 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.

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less accumulated impairment losses.

Revenue recognition

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

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

Revenue from processing services is recognized when the services are provided.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. Significant Accounting Policies — continued

Revenue recognition — continued

Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statements of financial position as liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest 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 and services, or administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category 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.

An item of property, plant and equipment is derecognized 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss the period in which the item is derecognized.

Leasing

Leases are classified as finance leases wherever 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 recognized as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. Significant Accounting Policies — continued

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognized on the consolidated statements of financial position as lease prepayments and are expensed in the profit or loss on a straight-line basis over the periods of the respective lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than its functional currency (foreign currency) are recorded at the rates of exchange 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 the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognized 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 capitalization.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes 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 recognized as deferred income in the consolidated statements 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 recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. 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 comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit 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 is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Impairment losses

At the end of each report period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. Significant Accounting Policies — continued

Inventories

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

Research and development costs

Expenditure on research activities is recognized 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 recognized 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 recognized for internally-generated intangible assets 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 recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognized 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 and 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 recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day 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.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. Significant Accounting Policies — continued

Financial instruments — continued

Effective interest method

The effective interest method is a method of calculating the amortized 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 net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

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

The carrying amount of 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 recognized 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 amortized 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 recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial liabilities and equity

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. Equity instruments issued by a group entity are recorded as the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, loans from Former Shareholders, amount due to a director, amounts due to subsidiaries and borrowings are subsequently measured at amortized cost, using the effective interest method.

Financial guarantee contracts

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

Derecognition

Financial assets are derecognized 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 recognized in other comprehensive income is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of transferred assets, the Group continues to recognize the financial assets and recognized collateralized borrowings of proceeds received.

E. NOTES TO THE FINANCIAL INFORMATION — continued

3. Significant Accounting Policies — continued

Financial instruments — continued

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

4. Critical Accounting Judgments and 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 and estimates 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 recognized 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.

(a) Useful lives and residual values of property, plant and equipment

The management determines the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances and technical innovation of solar products indicate that the carrying amount of an asset may not be recoverable. The carrying amounts of the Group's property, plant and equipment as at 31 December 2008, 2009 and 2010 are approximately RMB104,335,000, RMB97,375,000 and RMB480,071,000, respectively.

(b) Impairment of trade and other receivables

When there is an objective evidence of impairment loss, 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 2008, 2009 and 2010, the carrying amounts of the Group's trade receivable, bills receivable and other receivables are approximately RMB52,114,000, RMB63,131,000 and RMB81,975,000, respectively. No allowance for doubtful debts is recognized as at 31 December 2008, 2009 and 2010.

(c) Write-down of inventories

Inventories are valued at the lower of cost and net realizable 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 inventories in that year. During the years ended 31 December 2008, 2009 and 2010, write-down of inventories to net realizable value of approximately RMB4,538,000, RMB756,000 and nil, respectively,

E. NOTES TO THE FINANCIAL INFORMATION — continued

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty — continued

(c) Write-down of inventories — continued

were recognized. The carrying amounts of the Group's inventories as at 31 December 2008, 2009 and 2010 are approximately RMB45,710,000, RMB19,409,000 and RMB34,452,000, respectively.

(d) Impairment of prepayments to suppliers

As detailed in note 18, the Group makes prepayments to suppliers in accordance with the purchase contracts entered into with the suppliers. These prepayments are to be offset against future purchases.

The Group does not require collateral or other security against its prepayments to suppliers. The Group performs ongoing evaluation of impairment of prepayments to suppliers due to a change of market conditions and the financial conditions of its suppliers. The evaluation also takes into account the quality and timeframe of the products to be delivered to the Group. When the prepayments would not be settled as expected and the credit quality of the suppliers changed, the Group would impair the prepayments to suppliers.

During the years ended 31 December 2008, 2009 and 2010, the Group recognized an impairment of prepayment to a supplier of approximately nil, RMB2,244,000 and nil, respectively. The carrying amounts of prepayments to suppliers as at 31 December 2008, 2009 and 2010 are approximately RMB25,748,000, RMB24,030,000 and RMB36,155,000, respectively.

5. Financial Instruments

(a) Categories of financial instruments

	The Group			The Company
	At 31 December			At 31 December
	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables:				
Trade and other receivables	52,114	63,131	81,975	—
Pledged bank deposits	1,048	39,479	17,645	—
Bank balances and cash	11,141	42,681	55,432	—
Total loans and receivables	64,303	145,291	155,052	—
Financial liabilities				
Liabilities measured at amortized costs:				
Trade and other payables	3,090	67,453	171,121	7,036
Loans from Former Shareholders	20,000	20,000	—	—
Amount due to a director	—	—	859	—
Amounts due to subsidiaries	—	—	—	6,055
Borrowings	38,048	—	294,500	—
Total liabilities measured at amortized costs	61,138	87,453	466,480	13,091
Financial guarantee contracts (Note)	2,136	851	—	—

Note: The carrying amount of the financial guarantee contracts was measured at the higher of: (i) the amount determined in accordance with IAS 37 which represented probable amount of economic outflows reliably estimated by the management arose from the financial guarantee contracts provided by the Group; and (ii) the amount initially recognized, which represented fair values of the financial guarantee contracts, less cumulative amortization recognized in accordance with IAS 18.

E. NOTES TO THE FINANCIAL INFORMATION — continued

5. Financial Instruments — continued

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, loans from Former Shareholders, amount due to a director, other financial liabilities and borrowings. The Company's major financial instruments are mainly trade and other payables and amounts due to subsidiaries. Details of these financial instruments are disclosed in respective notes.

The risks 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.

Currency risk

The primary economic environment which the principal subsidiary of the Company operates is the PRC and its functional currency is RMB. However, certain transactions of the principal subsidiary including sales of goods and purchases of machinery and equipment are denominated in foreign currencies.

Details of bank balances and cash and pledged bank deposits, trade and other receivables and trade and other payables that are denominated in foreign currencies, mainly in United States Dollars ("USD"), Hong Kong Dollars ("HKD"), Japanese Yen ("JPY") and European dollars ("Euro") as at 31 December 2008, 2009 and 2010 are set out in notes 21, 22 and 23, respectively.

The Company's principal subsidiary entered into foreign currency forward contracts in the Relevant Periods, details of which are set out in note 26.

The Group and the Company currently do not have a foreign currency hedging policy but the management of the Group and the Company monitors foreign exchange exposure by closely monitoring the foreign exchange risk profile and will consider hedging significant foreign currency exposure should the need arise.

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

	The Group			The Company
	At 31 December			At 31 December
	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
USD	—	13,715	762	—
HKD	—	—	15,846	—
Euro	68	1,098	10,670	—
Liabilities				
USD	—	—	(5,431)	(5,375)
HKD	—	—	(196)	(196)
JPY	—	—	(33,220)	—
Euro	—	—	(71,904)	—

E. NOTES TO THE FINANCIAL INFORMATION — continued

5. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

The Group is mainly exposed to foreign currency risk between Euro/RMB, USD/RMB, HKD/RMB and JPY/RMB and the Company is mainly exposed to foreign currency risk between USD/RMB and HKD/RMB.

Sensitivity analysis

This sensitivity analysis details the sensitivity to a 5% appreciation and depreciation in each relevant foreign currency against functional currency, RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of the year for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year and a negative number below indicates a decrease in post-tax profit for the year where the relevant foreign currencies change 5% against RMB.

	The Group			The Company
	Year ended 31 December			Year ended 31 December
	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000
USD impact				
— if USD strengthens against RMB	—	632	(198)	(269)
— if USD weakens against RMB	—	(632)	198	269
HKD impact				
— if HKD strengthens against RMB	—	—	664	(10)
— if HKD weakens against RMB	—	—	(664)	10
JPY impact				
— if JPY strengthens against RMB	—	—	(1,410)	—
— if JPY weakens against RMB	—	—	1,410	—
Euro impact				
— if Euro strengthens against RMB	3	51	(2,599)	—
— if Euro weakens against RMB	(3)	(51)	2,599	—

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the Relevant Periods.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see note 27 for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, bank balances and variable-rate borrowings (see notes 22 and 27 for details of these pledged bank deposits, bank balances and borrowings, respectively). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

E. NOTES TO THE FINANCIAL INFORMATION — continued

5. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including pledged bank deposits, bank balances and borrowings) at the end of each reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of pledged bank deposits, bank balances and borrowings.

A 10 basis point increase or decrease on variable pledged bank deposits and bank balances, and 100 basis points increase or decrease on variable-rate borrowings are used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates. If interest rates on variable-rate pledged bank deposits and bank balances had been 10 basis points higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit for the year.

	The Group		
	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Increase in post-tax profit for the year	12	39	62

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rate on variable-rate pledged bank deposits and bank balances had been 10 basis points lower and all other variables were held constant.

If the interest rate on variable-rate borrowings had been 100 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax profit for the year after taking into consideration of capitalization of interest.

	The Group		
	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Decrease in post-tax profit for the year	70	—	1,922

The post-tax profit for the year after taking into consideration of capitalization of interest would be increased by the same amount as mentioned above if interest rate on variable-rate borrowings had been 100 basis points lower and all other variables were held constant.

The Company did not have any significant interest rate risk during the year ended 31 December 2010.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group include failure to discharge an obligation by the counterparties from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position and the financial guarantees provided by the Group in favour of certain third parties as set out in note 26.

E. NOTES TO THE FINANCIAL INFORMATION — continued

5. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

The Group's credit risk is primarily attributable to the trade and other receivables and the financial guarantees given by the Group to banks in favour of certain third parties. There is a concentration of credit risk on trade and bills receivable at 31 December 2009 and 2010 as the balance of trade and bills receivable is attributed from mainly two and five customers, respectively. These customers are based in the PRC engaged in the sales and manufacturing of solar products. In addition, there is a concentration of credit risk on other receivables of approximately RMB50,000,000, RMB50,000,000 and nil from a supplier at 31 December 2008, 2009 and 2010, respectively. In order to minimize the credit risk, the management of the Group has taken a series of action including regular visit with the senior management of the supplier and understand the financial conditions of the supplier to ensure the credit quality of the supplier has not been deteriorated. In addition, the management of the Group continuously monitors the credit quality and financial conditions of the customers and the guaranteed parties that the Group issued financial guarantee contracts in favour of and the level of exposure to ensure that action is taken to recover overdue debts or the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on repayment of the relevant loans. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on liquid funds which are deposited mainly with several banks in the PRC. However, the credit risk on pledged bank deposits and bank balances is limited because the majority of the counter parties are state-owned banks in the PRC with good reputation.

The Company did not have any significant credit risk as at 31 December 2010.

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's and the Company's short-term funding and liquidity management requirements. The Group and the Company manages liquidity risk by closely and continuously monitoring the Group's consolidated financial position and the Company's financial position. The directors of the Company maintain the sufficiency of cashflows with availability of unutilized banking facilities and internally generated funds. The directors of the Company also review the forecasted cashflows on an on-going basis to ensure that the Group and the Company will be able to meet their financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with creditors and changes on capital expansion plan will be made should the need arise.

E. NOTES TO THE FINANCIAL INFORMATION — continued

5. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

The following tables detail the remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows, include both principal and interest, on financial liabilities based on the earliest date in which the Group and the Company can be required to pay.

	Weighted average effective interest rate	Less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group							
At 31 December 2008							
Financial liabilities							
Trade and other payables		3,090	—	—	—	3,090	3,090
Loans from Former Shareholders	7.40	20,000	—	—	—	20,000	20,000
Short-term borrowings							
— Fixed-rate	5.86	31,663	—	—	—	31,663	31,048
— Variable-rate	6.30	7,063	—	—	—	7,063	7,000
Financial guarantee contracts		—	33,000	10,800	—	43,800	2,136
		61,816	33,000	10,800	—	105,616	63,274
At 31 December 2009							
Financial liabilities							
Trade and other payables		67,453	—	—	—	67,453	67,453
Loans from Former Shareholders	7.40	20,000	—	—	—	20,000	20,000
Financial guarantee contracts		—	30,800	—	—	30,800	851
		87,453	30,800	—	—	118,253	88,304
At 31 December 2010							
Financial liabilities							
Trade and other payables		164,025	2,365	4,731	—	171,121	171,121
Amount due to a director		859	—	—	—	859	859
Borrowings							
— Fixed-rate	5.84	30,230	25,175	—	—	55,405	54,500
— Variable-rate	5.79	46,500	65,695	78,165	74,125	264,485	240,000
		241,614	93,235	82,896	74,125	491,870	466,480
The Company							
At 31 December 2010							
Financial liabilities							
Trade and other payables		7,036	—	—	—	7,036	7,036
Amounts due to subsidiaries		6,055	—	—	—	6,055	6,055
		13,091	—	—	—	13,091	13,091

E. NOTES TO THE FINANCIAL INFORMATION — continued

5. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. The management considers that it is not probable the Group will be required to pay the guaranteed amount to the counterparty at the end of each of the reporting period. However, this estimate is subject to change depending on the probability of the counterparty claiming under the maximum amount of guarantee that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

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

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair values of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair values of financial guarantee contracts at initial recognition are determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The management considers that the carrying amounts of financial assets and financial liabilities of the Group and the Company recorded at amortized cost in the Financial Information approximate their fair values.

Capital risk management

The Group and the Company manages its capital to ensure that the group entities and the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of pledged bank deposits, cash and cash equivalents, borrowings and equity which includes capital, special reserve, capital reserve and retained profits.

The capital structure of the Company consists of equity of the Company, which includes share capital, special reserve and accumulated losses.

The management of the Group and the Company reviews the capital structure regularly. The directors of the Company 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, capital injection as well as raising and repayment of bank borrowings.

E. NOTES TO THE FINANCIAL INFORMATION — continued

6. Revenue and Segment Information

The Group has been operating in one reportable segment, being the manufacturing and sales of solar cells and related products. The chief executive officer who is also a director of the Company, the chief operating decision maker, regularly reviews revenue analysis by major products and the Group's profit for the year 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 of the Group's business activities.

Entity-wide disclosures

Revenue analyzed by major products

The Group has been engaged in manufacturing and sales of solar cells and related products.

The following table sets forth a breakdown of the Group's revenue for the Relevant Periods:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Monocrystalline solar cells	561,036	378,855	622,800
Other products (note)	2,610	119	122
Total	563,646	378,974	622,922

Note: Included in other products were multicrystalline solar cells and other related solar products.

Geographical information

The analysis of revenue by geographical location:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC (country of domicile)	556,034	366,783	577,386
Switzerland	5,734	12,110	43,802
Other countries (note)	1,878	81	1,734
Total	563,646	378,974	622,922

All the Group's non-current assets, including property, plant and equipment, prepaid lease payments, deposits for acquisition of property, plant and equipment and deposits for acquisition of land use rights are located in the PRC at the end of each reporting period.

Note: The customers located in other countries are certain Asian and European countries.

E. NOTES TO THE FINANCIAL INFORMATION — continued

6. Revenue and Segment Information — continued

Information about major customers

Details of the customers accounting for 10% or more of total revenue are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Customer A	*	45,630	138,486
Customer B	145,895	*	*
Customer C	*	*	154,277
Customer D	*	*	92,991
Customer E	92,736	*	*
Customer F	105,165	*	*

* The corresponding revenue does not contribute over 10% of the total revenue of the Group in the respective reporting period.

7. Other Income

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank interest income	654	452	895
Other interest income (note i)	2,020	—	—
Processing service fee (note ii)	114	891	—
Government grants (note iii)	1,272	632	981
Gain on sales of raw and other materials	2,219	1,009	1,209
Others	89	218	290
	6,368	3,202	3,375

Notes:

(i) Other interest income represents interest charged on prepayments made by the Group to a supplier during the year ended 31 December 2008.

(ii) Processing service fee represents income from cells processing services provided by the Group to outside customers.

(iii) The government grants represent the amount received from the local government by the principal subsidiary of the Company. Government grants of (a) RMB1,272,000, RMB632,000 and RMB852,000 during the years ended 31 December 2008, 31 December 2009 and 31 December 2010, respectively, represent incentive received in relation to technical innovation activities carried out by the Group; and (b) RMB129,000 during the year ended 31 December 2010, represents subsidy on acquisition of land use rights amortized to profit or loss (note 28).

E. NOTES TO THE FINANCIAL INFORMATION — continued

8. Other Gains and Losses

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Foreign exchange loss, net	(747)	(976)	(2,203)
Impairment recognized on prepayments to suppliers	—	(2,244)	—
Change in fair value of foreign currency forward contracts	—	—	(3,002)
Legal and professional fees (note)	—	—	(9,247)
Recognition of fair values of financial guarantee contracts issued	(2,704)	(753)	(2,761)
Amortization of financial guarantee liability	568	2,038	3,612
	(2,883)	(1,935)	(13,601)

Note: The amount mainly represented legal and professional expenses incurred for the preparation of the listing of the Company's shares on the Stock Exchange.

9. Finance Costs

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest on loans from Former Shareholders	544	—	—
Interest on bank borrowings wholly repayable within five years	3,437	1,268	3,635
Finance charges on factoring of bills receivable	—	—	580
Total borrowing costs	3,981	1,268	4,215
Less: amounts capitalized	—	—	(245)
	3,981	1,268	3,970

Borrowing costs capitalized during the year ended 31 December 2010 arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.67% per annum to expenditure on qualifying assets.

10. Profit Before Taxation

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:			
Directors' remuneration (note 11)	846	1,078	1,107
Other staff costs	8,291	13,445	20,626
Other staff's retirement benefits scheme contributions	353	709	958
Total staff costs	9,490	15,232	22,691
Auditor's remuneration	18	50	20
Cost of inventories recognized as expense	496,085	306,334	492,595
Depreciation of property, plant and equipment	7,400	9,633	11,611
Release of prepaid lease payments	387	387	1,844
Research expenses	1,073	1,521	2,654
Operating lease rentals in respect of rented premises	12	286	203

E. NOTES TO THE FINANCIAL INFORMATION — continued

10. Profit Before Taxation — continued

Included in costs of inventories recognized as expense were write-down of inventories to net realizable values of approximately RMB4,538,000, RMB756,000 and nil for the year ended 31 December 2008, 2009 and 2010, respectively.

11. Directors' and Employees' Emoluments

Directors

	Fees	Basic salaries and allowance	Performance -related incentive bonus	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000 (note c)	RMB'000	RMB'000
For the year ended 31 December 2008					
Executive directors:					
Mr. Lu Jianqing ("Mr. Lu") (note a)	—	600	—	1	601
Mr. Qian Kaiming ("Mr. Qian") (note a)	—	180	60	5	245
Mr. Tang Guoqiang "(Mr. Tang") (note a)	—	—	—	—	—
Independent non-executive directors:					
Mr. Tao Wenquan ("Mr. Tao") (note b)	—	—	—	—	—
Mr. Zhao Yuwen ("Mr. Zhao") (note b)	—	—	—	—	—
Mr. Ge Ming ("Mr. Ge") (note b)	—	—	—	—	—
	—	780	60	6	846
For the year ended 31 December 2009					
Executive directors:					
Mr. Lu (note a)	—	667	—	3	670
Mr. Qian (note a)	—	400	—	8	408
Mr. Tang (note a)	—	—	—	—	—
Independent non-executive directors:					
Mr. Tao (note b)	—	—	—	—	—
Mr. Zhao (note b)	—	—	—	—	—
Mr. Ge (note b)	—	—	—	—	—
	—	1,067	-	11	1,078
For the year ended 31 December 2010					
Executive directors:					
Mr. Lu (note a)	—	473	179	5	657
Mr. Qian (note a)	—	283	159	8	450
Mr. Tang (note a)	—	—	—	—	—
Independent non-executive directors:					
Mr. Tao (note b)	—	—	—	—	—
Mr. Zhao (note b)	—	—	—	—	—
Mr. Ge (note b)	—	—	—	—	—
	—	756	338	13	1,107

E. NOTES TO THE FINANCIAL INFORMATION — continued

11. Directors' and Employees' Emoluments — continued

Employees

The five highest paid individuals of the Group included two directors during each of the three years ended 31 December 2010. Details of whose emoluments are set out above. The emoluments of the remaining three individuals during each of the three years ended 31 December 2010 are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Employees			
— basic salaries and allowances	895	997	850
— performance-related incentive bonuses	250	42	298
— retirement benefits scheme contributions	9	9	10
	1,154	1,048	1,158

The emoluments of each of the five highest paid individuals of the Group during each of the three years ended 31 December 2010 were less than HK$1,000,000.

During each of the three years ended 31 December 2010, 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. None of the directors has waived any emoluments during the Relevant Periods.

Notes:

(a) The director was appointed on 6 August 2010.

(b) The director was appointed on 1 January 2011.

(c) The performance-related incentive bonus for the three years ended 31 December 2010 was determined based on the performance of the Group and the individuals.

12. Taxation

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC Enterprise Income Tax	—	4,381	13,891
Deferred taxation (note 19):	(567)	192	375
Tax (credit) charge	(567)	4,573	14,266

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

On 16 March 2007, the PRC promulgated the Law of the PRC on enterprise income tax (the "New Tax Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law, which have changed the income tax rate to 25% for all the PRC enterprises from 1 January 2008.

Pursuant to the relevant laws and regulations in the PRC, Shunfeng Technology is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three

E. NOTES TO THE FINANCIAL INFORMATION — continued

12. Taxation — continued

years. As a result, Shunfeng Technology was exempted from enterprise income tax for two years, starting from its first profitable year, which are 2007 and 2008, and is then entitled to a 50% reduction in enterprise income tax for three years thereafter from 2009 to 2011.

The taxation for the Relevant Periods is reconciled to profit before taxation as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before taxation	54,787	58,051	94,356
Tax at the PRC tax rate of 25%	13,697	14,513	23,589
Tax effect of expenses not deductible for tax purpose	760	242	5,480
Tax effect of income not taxable for tax purpose	(142)	(509)	(903)
Tax credit to a PRC subsidiary (note)	—	(2,624)	—
Effect of tax exemption of a PRC subsidiary	(14,882)	—	—
Effect on a 50% tax reduction granted to a PRC subsidiary	—	(7,049)	(13,900)
Tax (credit) charge for the year	(567)	4,573	14,266

Note:

The amount for the year ended 31 December 2009 represented tax credit granted to a subsidiary by the local tax authority as a result of acquisition of domestic-made property, plant and equipment in the PRC in prior years.

Under the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or 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. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

No deferred tax have been recognized in respect of the aggregate amount of temporary differences associated with earnings of Shunfeng Technology for the two years ended 31 December 2009 and up to the date of Group Reorganization as withholding income taxes upon dividends distribution on those earnings to Shunfeng Technology's then existing equity holders who did not form part of the Group will be borne by these then existing equity holders. Subsequent to the Group Reorganization, deferred tax liabilities have not been recognized in respect of the aggregate amount of temporary differences associated with undistributed earnings of the PRC operating entities of the Group, namely Shunfeng Technology and Shunfeng Electronic, for an aggregate amount of approximately RMB101 million at 31 December 2010 as the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such difference will not reverse in the foreseeable future.

13. Dividends

No dividend has been paid or declared by the Company since its date of incorporation.

E. NOTES TO THE FINANCIAL INFORMATION — continued

13. Dividends — continued

Pursuant to a shareholders' resolution on 8 July 2010, Shunfeng Technology declared a dividend of approximately RMB123,960,000 to the then equity holders of Shunfeng Technology immediately before the Group Reorganization and the amount was re-invested by the then equity holders as paid-in capital of Shunfeng Technology.

The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

14. Earnings Per Share

The calculation of the basic earnings per share for the Relevant Periods is based on the following data:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profits			
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	55,354	53,478	80,449
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,169,950,000	1,169,950,000	1,169,970,274

The number of shares for the purpose of basic earnings per share has been determined assuming the capitalization issue and the Group Reorganization as detailed in Appendix VI of the Prospectus occurred on the first day of the Relevant Periods.

No diluted earnings per share for the Relevant Periods was presented as there were no potential ordinary shares outstanding.

15. Property, Plant and Equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group						
COST						
At 1 January 2008	18,104	47,778	756	951	1,964	69,553
Additions	1,992	5,618	641	148	38,035	46,434
Transfers	943	38,223	—	19	(39,185)	—
At 31 December 2008	21,039	91,619	1,397	1,118	814	115,987
Additions	—	303	—	—	2,370	2,673
Transfers	—	2,864	—	—	(2,864)	—
At 31 December 2009	21,039	94,786	1,397	1,118	320	118,660
Additions	9,049	1,564	666	351	382,677	394,307
Transfers	15,838	197,262	—	—	(213,100)	—
At 31 December 2010	45,926	293,612	2,063	1,469	169,897	512,967

E. NOTES TO THE FINANCIAL INFORMATION — continued

15. Property, Plant and Equipment — continued

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
DEPRECIATION						
At 1 January 2008	129	3,746	246	131	—	4,252
Provided for the year	871	6,131	199	199	—	7,400
At 31 December 2008	1,000	9,877	445	330	—	11,652
Provided for the year	975	8,166	280	212	—	9,633
At 31 December 2009	1,975	18,043	725	542	—	21,285
Provided for the year	1,042	10,042	301	226	—	11,611
At 31 December 2010	3,017	28,085	1,026	768	—	32,896
CARRYING VALUES						
At 31 December 2008	20,039	81,742	952	788	814	104,335
At 31 December 2009	19,064	76,743	672	576	320	97,375
At 31 December 2010	42,909	265,527	1,037	701	169,897	480,071

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over the following estimated useful lives after taking into account the residual values:

Buildings	Over the shorter of the period of the respective lease or 20 years
Plant and machinery	10 years
Motor vehicles	4-5 years
Furniture, fixtures and equipment	3-5 years

The above buildings are located on land leases in the PRC which are under medium-term lease.

The Group pledged its property, plant and equipment with carrying values of approximately RMB31,927,000, nil and nil at 31 December 2008, 2009 and 2010, respectively, to banks to secure banking facilities granted to the Group.

16. Prepaid Lease Payments

The Group's prepaid lease payments comprise:

	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The Group			
Analyzed for reporting purpose as:			
Non-current assets	3,187	2,800	24,283
Current assets	387	387	3,886
	3,574	3,187	28,169

The land use rights in the PRC are under medium-term lease.

E. NOTES TO THE FINANCIAL INFORMATION — continued

17. Investment in a subsidiary/Amounts due to subsidiaries

	The Company
	At 31 December
	2010
	RMB'000
Investment in a subsidiary	
Unlisted investment, at cost	233,969
Amounts due to subsidiaries	
Amounts due to subsidiaries included in current liabilities (note)	(6,055)

Note:
The amounts are unsecured, interest-free and repayable on demand.

18. Prepayments to Suppliers

The Group

From time to time, the Group makes prepayments to suppliers prior to delivery of raw materials by these suppliers.

Movement in the allowance for doubtful debts:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	—	—	2,244
Increase in allowance recognized in profit or loss	—	2,244	—
Amounts written off as not recoverable	—	—	(2,244)
Balance at the end of the year	—	2,244	—

The Group did not hold any collateral over these balances at 31 December 2008, 2009 and 2010.

In September 2010, the Group entered into purchase contracts with two major suppliers for a contractual period of one year and three years (the "Supply Period"). Both of the suppliers are independent parties not connected or related to the Group. Pursuant to the terms of the contracts, the Group is committed to purchase an annual minimum quantity of raw materials (to be used in the manufacture of its products) from each of these two suppliers during the period from 1 October 2010 to 30 September 2011 and 1 January 2011 to 31 December 2013, respectively. According to the terms of contracts, the Group made certain prepayments to these suppliers during the year ended 31 December 2010. The prepayments are unsecured, interest-free and will be used to offset the purchases during the contractual period.

In accordance with the terms of the contracts, the monthly material purchase price will be determined by the Group and the suppliers with reference to market prices and related expenses to be incurred by the suppliers prevailing at that time.

Pursuant to the terms of the contracts, the Group is obliged to purchase certain minimum quantity of raw materials from these two suppliers for the years ending 31 December 2011, 2012 and 2013.

E. NOTES TO THE FINANCIAL INFORMATION — continued

18. Prepayments to Suppliers — continued

At the end of each reporting period, the directors of the Company estimated the amount of prepayments that is expected to be settled by offsetting purchases in accordance to the terms specified in the contracts which will be made in the next twelve months and classified it as current assets at the end of each reporting period. The remaining balance is classified as non-current asset in the consolidated statements of financial position.

19. Deferred Tax

The Group

The following is the deferred tax assets recognized and movements thereon during the Relevant Periods.

	Write-down of inventories	Allowance for prepayments to suppliers	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	—	—	—
Credit to profit or loss	567	—	567
At 31 December 2008	567	—	567
(Charge) credit to profit or loss	(472)	280	(192)
At 31 December 2009	95	280	375
Charge to profit or loss	(95)	(280)	(375)
At 31 December 2010	—	—	—

20. Inventories

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	10,202	14,598	30,367
Work-in-progress	144	126	2,415
Finished goods	35,364	4,685	1,670
	45,710	19,409	34,452

21. Trade and Other Receivables

	The Group			The Company
	At 31 December			At 31 December
	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	11,480	46,174	—
Bills receivable	—	1,340	29,500	—
Interest receivables	2,020	—	—	—
Other receivables and prepayments	50,146	50,321	12,344	4,832
	52,166	63,141	88,018	4,832

E. NOTES TO THE FINANCIAL INFORMATION — continued

21. Trade and Other Receivables — continued

The Group normally requests prepayments from customers before delivery of goods and allows an average credit period of 30 to 180 days to its trade customers.

The Group's trade receivables at 31 December 2009 and 2010 are aged within 30 days, determined based on the invoice date.

The following is an aged analysis of the Group's bills receivable presented based on the invoice date at the end of each reporting period:

Age	At 31 December 2008	2009	2010
	RMB'000	RMB'000	RMB'000
0 to 30 days	—	1,340	—
31 to 60 days	—	—	15,500
61 to 90 days	—	—	9,500
91 to 180 days	—	—	4,500
	—	1,340	29,500

At 31 December 2010, the Group factored bills receivable of approximately RMB29,500,000 (31 December 2008: nil and 31 December 2009: nil) to banks with full recourse and the bills receivables will be matured by the end of February 2011. Details of the transactions are set out in note 27.

No interest is charged on the Group's trade receivables and bills receivable. The Group did not hold any collateral over these balances. Before accepting any new customers, the Group assesses the potential customers' credit quality and defines credit limits by customer.

At the end of each of the reporting period, the Group does not have trade receivables and bills receivable which are past due at the reporting date. The Group's trade receivables and bills receivable that are neither past due nor impaired at 31 December 2008, 2009 and 2010 have no default history and of good credit quality.

At 31 December 2008, 2009 and 2010, the Group did not have allowance for doubtful debts on trade receivables and bills receivable.

Included in the Group's other receivables an amount of RMB50,000,000, RMB50,000,000 and nil which was outstanding at 31 December 2008, 2009 and 2010, respectively, represented prepayment to a supplier for the purpose of purchasing materials to be used in manufacturing of the Group's solar products. No materials were delivered to the Group in accordance with the terms of the contract which were due in the year ended 31 December 2008 and since then the Group has classified such prepayment as other receivable. Interest on overdue balance amounted to approximately RMB2,020,000 was charged by the Group during the year end 31 December 2008 in accordance with re-negotiated terms.

The amount of RMB50,000,000 has been settled in full during the year ended 31 December 2010.

In determining the recoverability of the trade and other receivables, the Group reassesses any change in the credit quality of the debtors since the credit was granted and up to the reporting date. After reassessment, the directors of the Company believe that no allowance is required.

E. NOTES TO THE FINANCIAL INFORMATION — continued

21. Trade and Other Receivables — continued

Trade and other receivables that were denominated in foreign currency of the relevant group entity, were re-translated to RMB and stated for reporting purpose as:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and other receivables denominated in USD	—	8,158	—

22. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits of the Group represent deposits pledged to banks to secure banking facilities granted to the Group. All the deposits have been pledged to secure short-term bank loans and undrawn facilities at the end of the relevant reporting period and therefore classified as current asset.

The pledged bank deposits of the Group carry interest at rates of 0.36% per annum, 1.71% per annum, 0.36% per annum at 31 December 2008, 2009 and 2010, respectively. The pledged bank deposits of the Group will be released upon the settlement of relevant bank loans as set out in note 27.

Bank balances and cash of the Group carry interest at market rates ranging from 0.10% to 0.36% per annum, 0.10% to 0.36% per annum, 0.10% to 0.36% per annum at 31 December 2008, 2009 and 2010, respectively.

Bank balances and cash and pledged bank deposits that were denominated in USD, HKD and Euro, foreign currencies of the relevant group entity, were re-translated to RMB and stated for reporting purpose as:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank balances and cash and pledged bank deposits denominated in:			
USD	—	5,557	762
HKD	—	—	15,846
Euro	68	1,098	10,670

Certain bank balances and cash and pledged bank deposits of the Group of approximately RMB12,121,000, RMB75,505,000 and RMB45,799,000 at 31 December 2008, 2009 and 2010, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

E. NOTES TO THE FINANCIAL INFORMATION — continued

23. Trade and Other Payables/Amount Due to a Director

	The Group			The Company
	At 31 December			At 31 December
	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities				
Trade payables	2,376	19,587	33,703	—
Bills payable	—	44,984	—	—
Payables for acquisition of property, plant and equipment	—	—	120,878	—
Other tax payables	177	74	87	—
Other payables and accrued charges	1,265	3,988	12,245	7,036
	3,818	68,633	166,913	7,036
Amount due to a director (note)	—	—	859	—
Non-current liabilities				
Other payable (note 28)	—	—	4,731	—

Note: The balance was settled by the Group in 2011.

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of each reporting period:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Age			
0 to 30 days	1,074	19,464	33,295
31 to 60 days	435	—	262
61 to 90 days	354	—	75
91 to 180 days	294	15	25
Over 180 days	219	108	46
	2,376	19,587	33,703

The following is an aged analysis of the Group's bills payable presented based on the invoice date at the end of each reporting period:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Age			
0 to 30 days	—	28,451	—
31 to 60 days	—	16,476	—
61 to 90 days	—	—	—
91 to 180 days	—	57	—
	—	44,984	—

E. NOTES TO THE FINANCIAL INFORMATION — continued

23. Trade and Other Payables/Amount Due to a Director — continued

The credit period on purchases of goods is 0 to 90 days and certain suppliers allow longer credit period up to 180 days on a case-by-case basis.

The amount due to a director as at 31 December 2010 was balance with Mr. Tang which was unsecured, interest-free and repayable on demand.

The trade and other payables denominated in HKD, USD, JPY and Euro, the foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	The Group			The Company
	At 31 December			At 31 December
	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables denominated in:				
USD	—	—	5,431	5,375
HKD	—	—	196	196
JPY	—	—	33,220	—
Euro	—	—	71,904	—

24. Customers' Deposits Received

The Group

Customers' deposits received are unsecured, interest-free and will be settled by the delivery of products by the Group. At the end of each reporting period, the directors of the Company estimate the amount of customers' deposits received that is expected to be settled by the delivery of products of the agreed contract quantity in the next twelve months and such amount is classified as current liability at the end of each reporting period. The remaining balance is classified as non-current liability in the consolidated statements of financial position.

25. Loans from Former Shareholders

		The Group		
		At 31 December		
	Notes	2008	2009	2010
		RMB'000	RMB'000	RMB'000
Shenzhen Oriental Fortune Capital Venture Capital Enterprise* 深圳市東方富海創業投資企業 ("Oriental Fortune Capital")	(i), (ii)	7,500	7,500	—
Shanghai Orica Vigor Venture Capital Co., Ltd.* 上海奧鋭萬嘉創業投資有限公司 ("Shanghai Orica")	(i), (ii)	7,500	7,500	—
Shanghai Lianyang Investment Management Co., Ltd.* 上海連陽投資管理有限公司 ("Shanghai Lianyang")	(ii)	5,000	5,000	—
		20,000	20,000	—

* The English names are for identification purposes only.

Notes:

(i) The loan was guaranteed by Changzhou City Wujin Power Equipment Factory 常州市武進發電設備廠 ("Wujin Equipment Factory"), in which Mr. Lu has beneficial interests.

(ii) The entity was a shareholder of Shunfeng Technology up to 1 April 2010.

E. NOTES TO THE FINANCIAL INFORMATION — continued

25. Loans from Former Shareholders — continued

During the year ended 31 December 2008, Shunfeng Technology entered into agreements with Oriental Fortune Capital, Shanghai Orica and Shanghai Lianyang (the "Former Shareholders"). Pursuants to the agreements, Shunfeng Technology borrowed loans with an aggregate amount of RMB30,000,000 via two banks in the PRC, which would be due in the year ended 31 December 2009. Included in the loans were an amount of RMB11,250,000 and RMB11,250,000 carried interest at fixed rates of 7.29% and 7.47% per annum, respectively, and the remaining balance of RMB7,500,000 carried interest based on the benchmark rate issued by the People's Bank of China. The loans were unsecured.

Shunfeng Technology repaid an amount of approximately RMB10,000,000 in the year ended 31 December 2008. The Group did not repay the remaining loan balance due in the year ended 31 December 2009. Pursuant to supplementary agreements entered into with the Former Shareholders during the year ended 31 December 2010, the Former Shareholders waived interest and agreed to change the terms of the remaining amount of RMB20,000,000 as repayable on demand and interest-free.

The balance was fully settled by the Group during the year ended 31 December 2010.

26. Other Financial Liabilities

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Financial guarantee contracts	2,136	851	—

Financial guarantee contracts

The Group provided guarantees of approximately RMB43,800,000, RMB30,800,000 and nil at 31 December 2008, 31 December 2009 and 31 December 2010, respectively, to banks in favour of certain third parties relating to banking facilities granted to these third parties. These third parties also provided guarantees of approximately RMB80,000,000, RMB45,000,000 and RMB265,000,000 at 31 December 2008, 31 December 2009 and 31 December 2010, respectively, to banks in favour of the Group relating to banking facilities granted to the Group.

The financial guarantees provided by the Group have been released upon the termination of the credit facilities and/or repayment of the respective loans by 31 December 2010.

Foreign currency forward contracts

During the year ended 31 December 2010, the Group entered into arrangements with a commercial bank in the PRC that the Group purchased Euro of an aggregate amount of Euro8,500,000 and sell RMB at pre-determined forward rates with maturity in August 2010 from the bank for settlement of its payment to suppliers in Euro for the acquisition of plant and equipment.

During the year ended 31 December 2010, a fair value loss of such foreign currency forward contracts amounting to RMB3,002,000 has been recognized in the profit or loss.

E. NOTES TO THE FINANCIAL INFORMATION — continued

27. Borrowings

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank loans	38,048	—	294,500
Secured	7,000	—	29,500
Unsecured	31,048	—	265,000
	38,048	—	294,500
Fixed-rate borrowings	31,048	—	54,500
Variable-rate borrowings	7,000	—	240,000
	38,048	—	294,500
Carrying amount repayable:			
On demand or within one year	38,048	—	154,500
More than one year, but not exceeding two years	—	—	70,000
More than two years but not more than five years	—	—	70,000
	38,048	—	294,500
Less: amounts due within one year shown under current liabilities	(38,048)	—	(154,500)
Amounts shown under non-current liabilities	—	—	140,000

At 31 December 2010, the Group factored bills receivable of approximately RMB29,500,000 (31 December 2008: nil and 31 December 2009: nil) to banks with full recourse. The finance charge of approximately RMB580,000 for the year ended 31 December 2010 (2008: nil and 2009: nil) was recognized in the consolidated statements of comprehensive income. The corresponding bank loans of approximately RMB29,500,000 were matured in February 2011 and are classified as current liability at 31 December 2010.

At 31 December 2008 and 31 December 2010, the Group had variable-rate borrowings which carried interest based on the benchmark interest rate issued by the People's Bank of China. Interest was reset every one month, three months or one year.

The ranges of effective interest rate of the Group's borrowings are as follows:

	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Effective interest rate:			
Fixed-rate borrowings	5.86%	N/A	5.84%
Variable-rate borrowings	6.30%	N/A	5.61 to 5.88%

Included in unsecured bank borrowings at 31 December 2008 were loans of RMB30,000,000, which were guaranteed jointly by personal guarantee from Mr. Lu, the director of the Company and corporate guarantee from Wujin Equipment Factory. The unsecured bank borrowings of RMB265,000,000 at 31 December 2010 were guaranteed by independent third parties.

E. NOTES TO THE FINANCIAL INFORMATION — continued

28. Deferred income

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Government grants:			
Analyzed for reporting purpose as:			
Non-current liabilities	—	—	1,929
Current liabilities	—	—	309
	—	—	2,238

During the year ended 31 December 2010, the Group received a government subsidy of approximately RMB9,463,000 in relation to certain land use rights acquired by the Group. There are certain conditions related to the performance of Shunfeng Technology in each of the three years ended 31 December 2012. When the conditions attached to the grant cannot be fulfilled in accordance with the specified timeline, the Group is obliged to repay to the relevant government authorities. An amount of RMB2,367,000 has been recorded as deferred income as the relevant conditions attached to the grant have been fulfilled during the year ended 31 December 2010, and released to income over the estimated useful lives of the respective land use rights. This resulted in a credit to income in the year ended 31 December 2010 of approximately RMB129,000 (2008: nil and 2009: nil).

The amount of government grant included in deferred income to be released to profit or loss in the next twelve months is classified as current liability at the end of each reporting period. The remaining balance is classified as non-current liability in the consolidated statements of financial position.

At 31 December 2010, the remaining balance of approximately RMB4,731,000 and RMB2,365,000, which are subject to the conditions to be fulfilled in the year ending 31 December 2011 and 31 December 2012, is included in non-current other payables and current other payables, respectively.

29. Paid-in Capital/Share Capital

The paid-in capital at 31 December 2008 and 2009 represented the fully paid and registered capital of Shunfeng Technology.

On 6 August 2010, the Company was incorporated with 39,000,000 authorized ordinary shares of HK$0.01 each.

Authorized:	Number of shares	Amount
		HK$
Ordinary shares		
Ordinary shares of HK$0.01 each at 6 August 2010 (date of incorporation) and 31 December 2010	39,000,000	390,000

Issued and fully paid:	Number of shares	Amount
		HK$
Ordinary shares		
Ordinary shares of HK$0.01 each at 6 August 2010 (date of incorporation) and 31 December 2010	50,000	500

E. NOTES TO THE FINANCIAL INFORMATION — continued

29. Paid-in Capital/Share Capital — continued

	At 31 December 2010
	RMB'000
Presented in the Financial Information as RMB:	
Ordinary shares	1

30. Reserves

	The Company		
	Special reserve	Accumulated losses	Total
	RMB'000 (note)	RMB'000	RMB'000
At 6 August 2010 (date of incorporation)	—	—	—
Loss and total comprehensive losses for the period	—	(8,259)	(8,259)
Capital contribution from shareholders of the Company	233,968	—	233,968
At 31 December 2010	233,968	(8,259)	225,709

Note: During the period ended 31 December 2010, the shareholders of the Company injected capital of approximately RMB233,968,000 to the Company for the purpose to acquire equity interests of Shunfeng Technology.

31. Major Non-cash Transaction

During the year ended 31 December 2010, dividends of approximately RMB123,960,000 (2008: nil and 2009: nil) were declared by Shunfeng Technology to the then equity holders and the amount was re-invested by the then equity holders of Shunfeng Technology as paid-in capital of Shunfeng Technology..

32. Operating Lease Commitments

The Group as lessee

At the end of each reporting period, the Group was committed to make the following future minimum leases payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	55	60	528
In the second to fifth year inclusive	95	44	12
	150	104	540

Operating lease payments represented rental payable by the Group for certain of its office properties and factory premises. The leases are negotiated for an average term from two to three years.

At 31 December 2010, the Group was committed to pay a consideration of approximately RMB6,184,000 to acquire land use rights.

The Company did not have any significant operating lease commitments at 31 December 2010.

E. NOTES TO THE FINANCIAL INFORMATION — continued

33. Capital Commitments

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment			
— contracted for but not provided in the Financial Information	425	123,960	707,231
— authorized but not contracted for	—	—	1,686,890
	425	123,960	2,394,121

The Company did not have any significant capital commitment at 31 December 2010.

34. Retirement Benefits Schemes

During the Relevant Periods, the Group operated MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme were held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees were each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme was to make the required contributions under the scheme. No forfeited contribution was available to reduce the contribution payable in the future years.

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll 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.

35. Related Party Disclosures

(a) Related party transactions

During the Relevant Periods, the Group has the following significant transactions with related parties:

Name of related party	Nature of transaction	Year ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Changzhou Shunfeng Electric Power Equipment Co., Ltd.* 常州順風發電設備有限公司 ("Changzhou Shunfeng") (note)	Purchase of property, plant and equipment	3,977	—	1,355

* The English name is for identification purpose only.

Note: Wujin Equipment Factory has beneficial interests in Changzhou Shunfeng.

E. NOTES TO THE FINANCIAL INFORMATION — continued

35. Related Party Disclosures — continued

(a) Related party transactions — continued

During the Relevant Periods, the Group obtained banking facilities with credit limit which were guaranteed by the following related parties:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Corporate guarantee from Wujin Equipment Factory and Changzhou Shunfeng jointly	13,000	—	—
Personal guarantee from Mr. Lu and corporate guarantee from Wujin Equipment Factory jointly	137,500	37,500	7,500
Corporate guarantee from Wujin Equipment Factory	22,500	22,500	22,500
	173,000	60,000	30,000

The guarantees provided by Mr. Lu, Wujin Equipment Factory and Changzhou Shunfeng were released by 31 December 2010.

During the year ended 31 December 2008, Shunfeng Technology paid interest expenses of approximately RMB544,000 (31 December 2009 and 31 December 2010: nil) to the Former Shareholders in relation to loans from them.

(b) Related party balances

Details of the balances with Former Shareholders and a director at the end of each of the reporting period are set out in notes 25 and 23, respectively.

(c) Compensation of key management personnel

The remuneration of key management of the Group during the Relevant Periods were as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	1,846	2,618	2,079
Performance–related incentive bonuses	337	55	745
Retirement benefits scheme contributions	15	25	25
	2,198	2,698	2,849

Key management represents the directors and other senior management personnel disclosed in the Prospectus. The remuneration of key management is determined with reference to the performance of the Group and the individuals.

F. ULTIMATE HOLDINGS COMPANY

As at the date of the report, the Company's ultimate holding company is Peace Link Services Limited, a company incorporated in the British Virgin Islands.

G. DIRECTORS' REMUNERATION

Under the arrangement presently in force, the aggregate amount of the fees and emoluments of the Company's director, for the year ending 31 December 2011 is estimated to be approximately RMB1,552,000.

H. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a board resolution of the Company passed on 23 May 2011, 390,000,000 shares were approved to be issued, credited as fully paid, on a pro rata basis, upon the completion of the IPO. Details of which are set out in paragraph "Further information about the Company" of Appendix VI of the Prospectus.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group or any of its subsidiaries have been prepared by the Group in respect of any period subsequent to 31 December 2010.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong