China Ruifeng Galaxy Renewable Energy Holdings Limited

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

2011
Annual Report

Content

Company Information

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 00527

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling
Mr. Qu Weidong
Ms. Hu Xiaolin

AUDIT COMMITTEE

Ms. Wong Wai Ling *(Chairman)*
Mr. Qu Weidong
Ms. Hu Xiaolin

REMUNERATION COMMITTEE

Mr. Zhang Zhixiang *(Chairman)*
Ms. Wong Wai Ling
Mr. Qu Weidong
Ms. Hu Xiaolin

COMPANY SECRETARY

Mr. Cheng Koon Kau Alfred

AUTHORISED REPRESENTATIVES

Mr. Zhang Zhixiang
Mr. Cheng Koon Kau Alfred

PRINCIPAL BANKERS

In Hong Kong:

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

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

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY WEBSITE

www.c-ruifeng.com

LEGAL ADVISERS

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

AUDITORS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

DATES OF TEMPORARY SUSPENSION OF REGISTRATION OF SHAREHOLDERS

The transfer books and register of members of the Company will be closed from 8 May 2012 (Tuesday) to 9 May 2012 (Wednesday) (both dates inclusive), when no transfer of shares will be effected. The Board has resolved not to recommend the payment of final dividends for the year ended 31 December 2011.

In order to be eligible to attend and vote at the 2011 Annual General Meeting of the Company to be held on 9 May 2012 (Wednesday), all transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:30 p.m. on 7 May 2012 (Monday).

ANNUAL GENERAL MEETING

The 2011 Annual General Meeting will be held on 9 May 2012 (Wednesday). The Notice for the 2011 Annual General Meeting has been included in a circular distributed to the Shareholders together with this report.

Corporate Profile

China Ruifeng Galaxy Renewable Energy Holdings Limited ("China Ruifeng" or the "Company") together with its subsidiaries (collectively, the "Group") was principally engaged in four main businesses: (1) wind farm investment and operation; (2) constructions of power grid and transformer projects; (3) manufacturing, processing and sale of wind power equipment; and (4) manufacturing and trading of diodes.

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

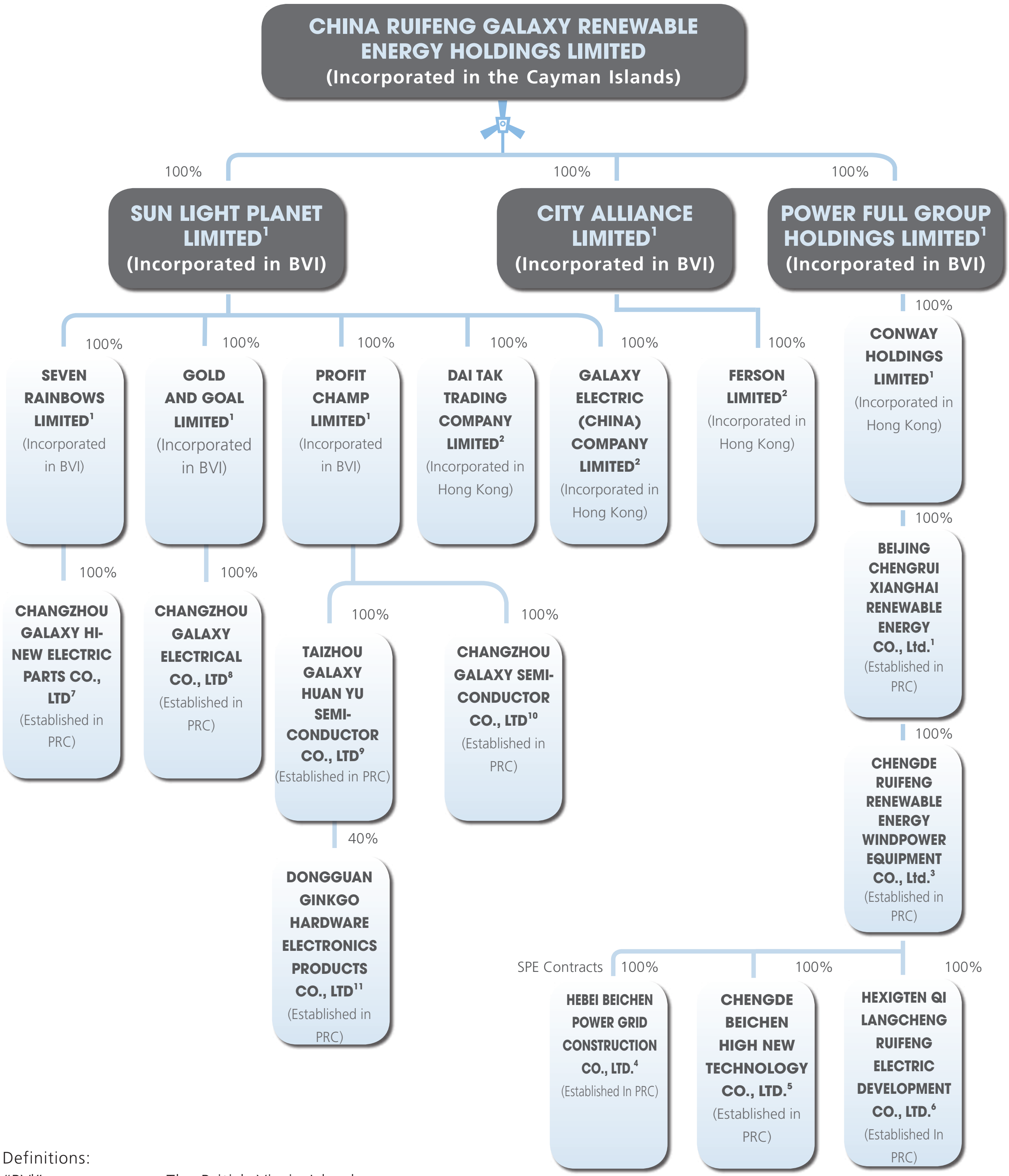
In addition, Ruifeng Windpower also manages and controls the business of Hebei Beichen Power Grid Construction Co., Ltd. ("Beichen Power Grid"), which is licenced to contract constructions regarding transmission and transformation of electricity (issued by the Ministry of Housing and Urban-Rural Development) and to construct and install (repair and test) power facilities (issued by the State Electricity Regulatory Commission). Having both first grade licences, Beichen Power Grid is allowed to carry out contracting works of high power transmission lines above 500 kilovolt ("kV") and works of those projects for regional subsidiaries of the State Grid Corporation of PRC. Beichen Power Grid also possesses international standard certifications such as GB/T19001:2000 idt ISO9001:2000, GB/T24001-2004 idt ISO14001:2004 and GB/T28001-2001.

Apart from the business generated by Beichen Power Grid, Ruifeng Windpower holds 100% equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. ("Langcheng"). Langcheng is principally engaged in the operation of wind farm engaging in the production of renewable energy based in Hexigten Qi of Inner Mongolia Autonomous Region, which is a desirable location for wind farm operation due to its huge wind resources, the maximum installation capacity of Langcheng is 594 megawatt (MW). In addition, the Company acquired 5.77% equity interest in Hebei Hongsong Wind Power Co., Ltd. ("Hongsong") during 2011, Hongsong owns and installation capacity of 296.4MW and its maximum installation capacity could reach 596.4MW.

Hongsong's wind farm is located in the proximity of Langcheng's wind farm, therefore both wind farms allow the Group to have better and larger wind power assets to develop in near future. The Company will adhere to the development strategies of exploring and using wind farm resources and realising integrated operation in the committed exploration and utilisation of renewable energies, whilst integrating the resources and edges of its own power grid business in the pursuit of new development opportunities.

Corporate Structure

Set out below is the structure of the Group as at 31 December 2011:



Definitions:

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

Notes:

1. These companies are investment holding companies.

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

3. Chengde Ruifeng Renewable Energy Windpower Equipment Co., Ltd. (承德瑞風新能源風電設備有限公司) ("Ruifeng Windpower") is principally engaged in manufacturing and processing of wind turbine blades and components.

4. Hebei Beichen Power Grid Construction Co., Ltd. (河北北辰電網建設股份有限公司) ("Beichen Power Grid") is a first grade licensed transmit and transform electricity contractor and is principally engaged in the construction, installation, repairing and testing of power facilities.

5. Chengde Beichen High New Technology Co., Ltd. (承德北辰高新科技有限公司) ("Beichen Hightech") is an investment holding company which holds 5.77% equity interest in Hebei Hongsong Wind Power Co., Ltd. (河北紅松風力發電股份有限公司) ("Hongsong"). Hongsong is principally engaged in wind power business.

6. Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. (克什克騰旗朗誠瑞風電力發展有限公司) ("Langcheng") is principally engaged in wind power business, which holds Shangtoudi wind farm in Inner Mongolia.

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

8. Galaxy Electrical is principally engaged in the design, development, production and sales of diodes.

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

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

11. Dongguan Ginkgo Hardware Electronics Products Co., Ltd. (東莞市精谷五金電子製品有限公司) ("Ginkgo Electronics") is an associate of Galaxy Huanyu. It is principally engaged in processing and sales of hardware, electronics and optoelectronics equipments.

Dear Shareholders:

On behalf of the board of directors (the "Board") of China Ruifeng Galaxy Renewable Energy Holdings Limited ("China Ruifeng" or the "Company", together with its subsidiaries referred to as the "Group"), I am pleased to present the results of the Group for the year ended 31 December 2011.

Chairman's Statement

As a new star in the renewable energy market, China Ruifeng is engaged in the businesses of wind power, power grid construction, manufacture of wind turbine blades, manufacture of diodes. The diversified development in the aforesaid businesses can explore different income channels, while at the same time synergize and complement with each other for the continuous enhancement of the Company's operating structure, as well as establishment and reinforcement of a solid foundation for the integrated development of wind power business.

For the year ended 31 December 2011, the Group recorded a net profit of approximately RMB91,518,000 (2010: net loss of approximately RMB573,750,000, or a net profit of approximately RMB73,250,000 excluding an one-off goodwill impairment in the amount of RMB647,000,000), representing a significant increase by approximately RMB665,268,000 compared with last year, or an increase of approximately RMB18,268,000 or 25% compared to last year's net profit excluding an one-off goodwill impairment.

Looking back at 2010, it was a major milestone for China Ruifeng's corporate development as the Group has undergone a period of transition in its business strategy, transforming from a model that focuses on diodes manufacturing to the wind power related business. Despite the fact that the businesses of power grid construction and manufacture of wind turbine blades only commenced in July 2010, the turnover from these businesses already accounted for approximately 33.17% of the total turnover for the year. It will build up a solid foundation for the wind power business in the future.

2011 marked the beginning of the "Twelfth Five-year Plan" of the PRC government, signifying the fundamental establishment of the draft "Twelfth Five-year Plan" for the renewable energy industry in the PRC. Despite increased efforts on industry re-structuring and macro-economic control exerted by the PRC government in response to a complex and fluctuating external environment, the renewable energy led by wind power generation is under strong encouragement and enormous support by the government, and is going to gain increasing emphasis. It is anticipated that countries around the world will continue to encourage and support the use and development of renewable energies, providing advantageous macro and external environment for the business development of the Group, whilst forming a penetration point for the Group to explore diversified financing channels to raise fund for development.

2011 also marked a year of adjustment for China Ruifeng after the migration of principal business into the wind power related business, with the Group's business strategies still under transition. However, turnover from the businesses of power grid construction and manufacture of wind turbine blades already accounted for nearly half of the total turnover for the year, and the contribution of these segments to the Group's net profits even amounted to over 80%. As seen, the Group's principal business has already shifted from the original manufacture of diodes to the wind power related business in 2011.

During the past year, China Ruifeng has acquired 70% equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. ("Langcheng"), thereby increasing China Ruifeng's shareholding in Langcheng to 100%. Langcheng's wind farm has a maximum installation capacity of 594MW. China Ruifeng has also acquired 5.77% equity interest in Hebei Hongsong Wind Power Co., Ltd. ("Hongsong"). The wind farm operated by Hongsong has a maximum installation capacity of 596.4MW. The aggressive progress of the aforesaid wind power projects fully reflected the transition of the Group's principal business into wind power related business.

Hongsong's wind farm is located in the proximity of Langcheng's wind farm, thereby the two major wind farms will create synergistic effects, turning the area into a large-scale wind farm equipped with an installation capacity of over 1,000MW. By then, China Ruifeng will prioritize income from wind power and transform itself into an integrated wind power operator that has a stable cash flow and optimized profitability. Guided by the development strategy of exploring and using wind farm resources and realizing integrated operation, we will relentlessly commit to the development and utilization of renewable energies and the creation of higher value for our shareholders.

In the future, China Ruifeng focuses its resources to expedite the pace of its wind power business, fully leverage on the two major wind farms and integrate the resources and edges in its own power grid business, in order to proactively pursue new development opportunities. At the same time, the weight in income accounted by non-wind power businesses such as manufacture of diodes is expected to reduce gradually, in an effort to establish a sound foothold in the wind power industry.

Last but not least, on behalf of the Board, I would like to express our sincere gratitude to our shareholders, partners and others groups in society for their trust and consistent support. I would also like to thank our management and staff for their professionalism and dedication. We will be of one mind to unite our efforts and commit our best. We believe we not only will reach higher in 2012, but also attain more tremendous achievement in the near future.

Li Baosheng
Chairman

Hong Kong, 28 March 2012

Management Discussion and Analysis

I. OPERATING ENVIRONMENT

In 2011, growth in the global economy further slowed down under the risk of a worsening European and US sovereign debt crisis. On the other hand, the PRC government has increased efforts on industry re-structuring and macro-economic control in response to complex and fluctuating economic issues, which timely prevented the otherwise possible hard-landing of the PRC economy and maintained the stable and relatively fast growth of the PRC economy. For the entire year in 2011, the PRC gross domestic product ("GDP") recorded a growth of 9.2%, reflecting a sustained strong growth power and satisfactory growth in the economy.

2011 marked the beginning of the "Twelfth Five-year Plan" of the PRC government, and was also a crucial year for a shift in driving the economic growth in the economy. The enormous emphasis on energy-saving and emission-reduction and the gradual crystallization of the roadmap for the national renewable energy policies have driven the PRC government's sustained strong policy support for the wind power sector, including implementation of the grid access policy and expedition of the construction of grid auxiliary facilities, in order to cater for the grid demand created by the swift development of the wind power sector.

Also, the "Twelfth Five-year Plan" for renewable energies is intended to complement with the "Twelfth Five-year Plan" for power grid in China. Through construction of Ultra-High Voltage ("UHV") grid, smart power grid and microgrid, the bottleneck problem of difficult grid access for renewable energies such as electricity output from large wind farm can be resolved, thereby significantly improving the capacity for transmission and consumption of the power grids in China. The "three vertical, three horizontal and one ring grids" for high voltage and UHV electricity transmission as planned with the PRC are currently under active implementation to effectively solve the issue of power output.

In July 2011, the National Energy Administration of the PRC promulgated the Technical Regulation of Design of Large Wind Farm Grid Connection in relation to enhancement of the wind power industry, with the objectives of regulating technical requirements of connection of wind farm to power grid, lowering the effect of abrupt changes in the grid voltage on the wind power generator, which in turn will improve the stability and safety of the wind power projects and establish a sound development platform for the wind power industry in China.

At the same time, continued advancements of wind power technologies, sustained rapid growth in production capacity for wind power equipment, decreasing purchase price for wind turbine primary generators, as well as further enhancement of wind energy conversion rate and wind turbine stability have all lowered the investment costs of wind farm to a certain extent. On the other hand, the launching of wind turbines to the market that targeted at low wind speed has also allowed new investment opportunities of wind resource exploration in southern provinces in China such as Guangdong Province and Yunnan Province.

The PRC government has guided and sped up the development of the wind power industry through various means including supportive policies, market exploration, technology innovations and preferential tax treatments, which has enabled the sustained speedy growth of the wind power industry in China. Currently, the accumulated connected installed capacity in the PRC has exceeded the United States and ranked the top in the world. It is expected that over the period of the "Twelfth Five-year Plan", the development of wind power industry in China will be more prosperous.

II. BUSINESS REVIEW

Business results of the Group for the year ended 31 December 2011

For the year ended 31 December 2011, the Group recorded a turnover of approximately RMB750,328,000 (2010: approximately RMB804,183,000). The Group's gross profit was approximately RMB139,475,000 (2010: approximately RMB192,479,000). Gross profit margin was approximately 19%. During the year, the Group recorded a net profit of approximately RMB91,518,000 (2010: net loss of approximately RMB573,750,000, or a net profit of approximately RMB73,250,000 excluding an one-off goodwill impairment in the amount of RMB647,000,000), representing a significant increase by approximately RMB665,268,000 or an increase of approximately RMB18,268,000 or 25% compared to last year's net profit excluding an one-off goodwill impairment. As at 31 December 2011, net assets value of the Group was approximately RMB349,416,000 (2010: approximately RMB255,733,000), increasing significantly by approximately 37% from that of last year.

During the year, the Group continued to increase the investment into wind power projects and acquired shareholdings of Langcheng and Hongsong. It has also prioritised the development of the businesses of power grid construction and manufacturing of wind turbine blades as its principal businesses, which are complemented by the manufacturing of diodes and other businesses. While the aforesaid development encompassing diversified businesses can explore different income channels, on the other hand, they can also complement and synergize with each other for the continued enhancement of the Company's business structure. Furthermore, leapfrog development of the various businesses, in particular remarkable improvement in the profitability of the wind power related business, will form a solid foundation for the realisation and reinforcement of integrated development of its wind power operation.

(1) Wind farm investment and operation business

1. Investing in Hongsong

On 12 January 2011, Ruifeng Windpower (an indirect wholly-owned subsidiary of the Group) acquired the entire equity interest in Beichen Hightech. Beichen Hightech is interested in 5.77% equity interest in Hongsong, which is principally engaged in the wind power business through transmitting clean energy to North China Grid Company Limited ("North China Grid").

Hongsong was established in 2001, and it was one of the pioneers in wind farm operation in Chengde City, Hebei Province, PRC. After over ten years of development, Hongsong has built a sizeable wind resources reserve at its wind farm, and has grown into a "Gold Standard" Clean Development Mechanism ("CDM") project qualified for carbon credits in the PRC. The maximum installation capacity of the wind farm operated by Hongsong is 596.4MW.

Hongsong derives its revenue mainly from selling electricity to the North China Grid, with a negligible revenue stream from sub-contracting installation of wind turbine blades and selling of carbon credits. Throughout the past ten years, Hongsong has been profitable and distributed substantial portions of its profits to its shareholders. For the first half of 2011, Hongsong has sold nearly 400 million kilowatt hour (kWh) of electricity to the North China Grid.

As the wind farm of Hongsong is located in the proximity of Langcheng's wind farm, its existing wind power business and grid connection will synergize with the Company's business development plans.

2. Continued development of Langcheng's wind farm

On 18 January 2011, Ruifeng Windpower acquired 70% equity interest in Langcheng. The transaction was completed on 23 June 2011, upon which Langcheng became an indirect wholly owned subsidiary of the Company and allowing the Company to own Langcheng's wind farm resources located in Hexigten Qi, Inner Mongolia, PRC.

Langcheng was established in 2005, and was principally engaged in the operation of wind farm which is located in Hexigten Qi, Inner Mongolia, PRC. The maximum installation capacity of Langcheng is 594MW, and construction of the wind farm is under progress. To date, approximately RMB100,000,000 has been invested in the project, with phases I to III of its major infrastructure works including road construction and base ring completed.

With Langcheng's wind farm located in the proximity of the wind farm of Hongsong, it is expected that electricity output upon commencement of operation of Langcheng will be connected and transmitted to the North China Grid.

(2) Power grid construction business

Beichen Power Grid (an indirect wholly-owned subsidiary of the Company) was established in 2001 and was mainly engaged in the construction, installation, maintenance and testing of power facilities.

Beichen Power Grid possesses the qualification of first grade licensed contractor regarding transmission and transformation of electricity issued by the Ministry of Housing and Urban-rural Development, as well as the first grade license to construct and install (repair and test) power facilities issued by the State Electricity Regulatory Commission. Having both first grade licenses, Beichen Power Grid is allowed to carry out contracting works of high voltage power transmission lines above 500 kV and works of projects for regional subsidiaries of the State Grid Corporation of China.

Apart from the aforesaid certifications, Beichen Power Grid also possesses international standard certifications such as GB/T19001:2000 idt ISO9001:2000, GB/T24001-2004 idt ISO14001:2004 and GB/T28001-2001.

(3) Wind turbine blade manufacturing business

Ruifeng Windpower focuses on the manufacturing and processing of wind turbine blades and parts and its products includes 750 kilowatt (kW) and 1.5MW wind turbine blades. Ruifeng Windpower has passed the ISO9001 quality system certification in 2006.

Ruifeng Windpower has its wind turbine blades production and processing base located in Chengde City, Hebei Province, PRC, enjoying geographical advantage of proximity to wind farms in Hebei and Inner Mongolia (approximately 25% of the installed wind power capacity of China is concentrated in these areas, which will lower the transportation and installation costs of wind turbine blades). The production base has an annual maximum capacity to manufacture 400 sets of 1.5MW wind turbine blades and 240 sets of 750kW wind turbine blades.

The major clients of Ruifeng Windpower include Hebei-based AVIC Huiteng Windpower Equipment Co., Ltd., which is one of the largest wind turbine blades manufacturers in China. Ruifeng Windpower has accumulated extensive experience in construction of large wind turbine blades and it strives to enhance its position in the wind turbine blade manufacturing industry by providing professional and comprehensive services and products to other wind turbine blades manufacturers, with an aim to broaden its client base.

(4) Diodes manufacturing business

Diodes manufacturing business of the Group was mainly operated through Galaxy Electrical, a Company's indirect wholly-owned subsidiary.

Galaxy Electrical was principally engaged in the design, development, manufacturing and sales of different types of diodes, and is a major diode manufacturer in China and the largest PRC manufacturer of rectifier diodes.

Leveraging on Galaxy Electrical's professionalism and strengths in the research and development, production, sales and technical support for semiconductor discrete devices, the diodes manufacturing business of the Group maintained stable.

III. PROSPECTS

Wind energy is the clean energy that is closest to us with the most convenient source and an enormous reserve. The total wind energy in the world is approximately 3 times of the total consumption of the world. For 1% of the total wind energy in the world that is utilised, the world energy consumption can be reduced by 3%. If 1% of the total wind energy in the world is applied in power generation, it will make a contribution of 8% to 9% to the world's total electricity generation. As can be seen, there is infinite room for utilisation of wind power.

During the recent years, with the increasing prominence of issues such as global energy shortage, environmental pollution and global warming, the active exploration of renewable energy has become the key strategic choice for many countries around the world in their search for sustainable development and cultivation of new economic growth points. Of these, the wind power industry enjoys the strongest momentum of development amongst all. In particular, the nuclear leakage in Fukushima, Japan has prompted the global increased interest and dependence on wind power and other renewable energies.

In 2011, the PRC has exceeded the United States in both the total connected installed wind power capacity and the additional connected installed capacity for the year, and ranked the top in the world. 2011 marked a special year of historical transition and a milestone year in the history of development of wind power in China. According to the relevant data, the growth rate of wind power generation topped all other energies in China in 2011. However, despite the accumulated connected installed capacity in the PRC accounted for nearly 5% of the total connected installed power capacity, it only accounted for 1.4% of the total electricity consumption, signifying that the utilisation rate of wind power remains extremely limited, with abundant room for development in the future.

With wind power being the most advanced renewable energy in terms of technology, possessing the best conditions for scale-up development and prospects for commercialised development, it is expected that wind power will enjoy unwavering importance as the State's strategic emerging industry. In accordance with the relevant development plans, the accumulated connected installed wind power capacity in China will maintain an annual growth rate of about 15 million kW over the period of the "Twelfth Five-year Plan", bringing immense market potential. Against this background, the PRC wind power industry is about to enter into a brand new phase of development, during which a series of policies and plans including the "Renewable Energy Law" and the "Medium to Long Term Development Plan for Renewable Energy" will exert crucial effects. It is foreseeable that the industry will head for increasingly technological, sophisticated development in the future with an emphasis on enhanced quality and efficiency.

Building on favourable policy platform and industry environment, the Company will fully leverage on the two major wind farms of Hongsong and Langcheng and integrate the resources and edges in its own power grid business to keep accelerating the pace of the wind power related business, in particular the wind power operation. The two major wind farms of Hongsong and Langcheng will create synergy effects due to geographical proximity, turning the area into a large-scale wind farm equipped with an installation capacity of over 1,000MW. The Company aims at becoming an integrated wind power operator that prioritises income from wind power and has a stable cash flow that could optimise profitability.

Looking ahead into the future, the Company will adhere to the development strategies of exploring and using wind farm resources and realising integrated operation in the committed exploration and utilisation of renewable energies, whilst integrating the resources and edges of its own power grid business in the pursuit of new development opportunities. At the same time, we will continue to strive for excellence in the development of existing and prospective wind farm projects, to gradually reduce the weight in income accounted by non-wind power businesses such as manufacturing of diodes, in an effort to establish a sound foothold in the wind power industry in the near future, to build a solid and extensive foundation for its long-term development, and to create values for society and realise higher return for the shareholders and investors of the Company.

FINANCIAL REVIEW

Following several acquisitions by the Group since 7 July 2010, the Group currently engages in manufacturing, processing and sales of wind turbine blades, construction of power grid and transformer project and wind farm operation through its subsidiaries including Ruifeng Windpower, Beichen Power Grid, Beichen Hightech and Langcheng.

For the year ended 31 December 2011, the Group's turnover amounted to approximately RMB750,328,000 (2010: approximately RMB804,183,000), representing a decrease of approximately 7% over that of 2010. Gross profit decreased by approximately 28% to approximately RMB139,475,000 for the year ended 31 December 2011 (2010: approximately RMB192,479,000). However, Net profit increased significantly to approximately RMB91,518,000 (2010: net loss of approximately RMB573,750,000).

Operating results for the year ended 31 December 2011 were as follows:

	Year ended 31 December		**Increase/**	**Change in**
	2011	2010	**(decrease)**	**percentage**
	RMB'000	*RMB'000*	*RMB'000*	*%*
Turnover	**750,328**	804,183	(53,855)	(6.70)
Gross profit	**139,475**	192,479	(53,004)	(27.54)
Profit/(loss) from operations	**182,875**	(532,765)	715,640	N/A
Profit/(loss) before taxation	**100,088**	(558,124)	658,212	N/A
Profit/(loss) for the year	**91,518**	(573,750)	665,268	N/A
Attributable to:				
Equity shareholders of the Company	**91,518**	(573,750)	665,268	N/A

		Year ended 31 December	
	Note	**2011**	2010
Net cash (RMB'000)	*1*	**(397,315)**	(243,016)
Net assets (RMB'000)	*2*	**349,416**	255,733
Liquidity ratio	*3*	**229%**	185%
Inventories turnover (number of days)	*4*	**47**	45
Trade receivable turnover (number of days)	*5*	**128**	95
Trade payable turnover (number of days)	*6*	**72**	70
Earning interest multiple (times)	*7*	**2.21**	(21.19)
Net debt to equity ratio	*8*	**115%**	106%

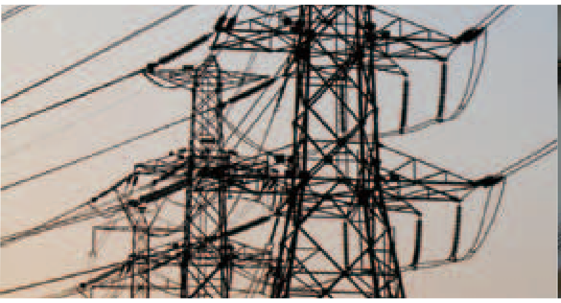
Notes:

1. Cash at bank and on hand – interest bearing borrowings
2. Total assets – Total liabilities
3. Current assets/Current liabilities x 100%
4. Inventories/Cost of inventories x 365 days
5. Trade Receivable/Turnover x 365 days
6. Trade Payable/Cost of sales x 365 days
7. Profit before interest and tax/Net interest expense
8. Net debt/Equity x 100%

TURNOVER

During the year under review, the Group's turnover of approximately RMB750,328,000 was derived from two business divisions — the power-related business and the diodes manufacturing business. The power-related business recorded a turnover of approximately RMB369,453,000, representing an increase by approximately 39%, of which approximately RMB317,683,000 was attributed mainly to the power grid construction business for the year under review. The operating base for the power-related business is mainly located in Chengde City, Hebei Province and Inner Mongolia.

The diodes manufacturing business recorded a turnover of approximately RMB380,875,000 for the year under review. The Group's production base for the diodes manufacturing business is mainly located in Changzhou City, Jiangsu Province.



Turnover by business

		Year ended 31 December		Increase/	Approximate
		2011	2010	**(Decrease)**	Change in percentage
		RMB million	*RMB million*	***RMB million***	*(%)*
(i)	**Power-related business**				
	Power grid construction and consultation	**317.68**	262.13	55.55	21.19
	Sales and processing of wind turbine blades	**51.77**	4.58	47.19	1,030.35
		369.45	266.71	102.74	38.52
(ii)	**Diodes manufacturing business**				
	Plastic packaged diodes	**264.42**	285.40	(20.98)	(7.35)
	Glass packaged diodes	**29.82**	28.37	1.45	5.11
	Bridge rectifiers	**2.82**	7.55	(4.73)	(62.65)
	Surface mount device packaged diodes	**83.64**	214.73	(131.09)	(61.05)
	Others	**0.18**	1.42	(1.24)	(87.32)
		380.88	537.47	(156.59)	(29.13)
	Total	**750.33**	804.18	(53.85)	(6.70)

Cost of Sales

Cost of sales mainly includes the cost of raw materials, subcontracting costs, wages, water, electricity, gas and other ancillary materials. Cost of sales accounted approximately RMB610,853,000 for the year ended 31 December 2011, represented approximately 81% of the Group's turnover, showing an increase when compared with approximately 76% for the year ended 31 December 2010.

Gross Profit

Gross profit decreased by approximately 28% to approximately RMB139,475,000 (2010: approximately RMB192,479,000), and the gross profit margin has also decreased from approximately 24% to approximately 19% for the year ended 31 December 2011.

Other Revenue and Net Income

Other revenue and net income mainly comprised of fair value gain on derivative financial instruments (2011: approximately RMB36,648,000; 2010: Nil), gain on change of estimated cash flows of convertible bonds (2011: approximately RMB19,355,000; 2010: Nil), gain on a bargain purchase arising from acquisition of Langcheng (2011: approximately RMB6,105,000; 2010: Nil), gain on deemed disposal of an associate Langcheng (2011: approximately RMB8,101,000; 2010: Nil), rental income from operating leases relating to plant and machinery (2011: approximately RMB20,149,000; 2010: Nil), compensation income on prepayment on acquisition of land use rights (2011: approximately RMB19,656,000; 2010: Nil) and interest income on financial assets not at fair value through profit or loss (2011: approximately RMB898,000; 2010: approximately RMB571,000). The significant increase in other revenue and net income by approximately RMB109,878,000 is mainly attributable by the fair value gain on derivative financial instruments, compensation income on prepayment on acquisition of land use rights, gain on change of estimated cash flows of convertible bonds, gain on a bargain purchase arising from acquisition of Langcheng, gain on deemed disposal of an associate Langcheng and rental income from operating leases relating to plant and machinery.

Distribution Costs

Distribution costs mainly include commission expenses from sales and distribution activities, travelling expenses, wages and salaries of sales personnel and transportation costs. Distribution costs for the year ended 31 December 2011, which represented approximately 2% of the Group's total turnover, showing a drop when compared with that of approximately 3% for the year ended 31 December 2010.

Administration Expenses

Administration expenses mainly include wages, salaries and welfare expenses, professional fees, depreciation expenses of office equipment, provision for bad debts, repair expenses and entertainment expenses.

Other Operating Expenses

Other operating expenses for the year ended 31 December 2010 amounting RMB647,000,000 refer to an impairment of goodwill relating to the acquisition of Power Full which was nil for the year ended 31 December 2011.

Finance Costs

Finance costs refer to interest expenses and bank charges on bank loans obtained, promissory note and convertible bonds/note issued by the Group. It was recorded as approximately RMB82,682,000 for the year ended 31 December 2011 when compared with that of approximately RMB25,154,000 in the previous year. The increase in finance costs were derived from the issuance of the convertible bonds, convertible note and promissory note for acquiring power-related business in both 2010 and 2011.

Taxation

Taxation decreased from approximately RMB15,626,000 for the year ended 31 December 2010 to approximately RMB8,570,000 for the year ended 31 December 2011 as a result of income tax refund for 2011.

Net Profit/(Loss)

The net profit for the year ended 31 December 2011 increased by approximately RMB665,268,000 to approximately RMB91,518,000 (2010: net loss of approximately RMB573,750,000). The significant increase was mainly due to profit generated from power-related business, other revenue and net income and that an impairment of goodwill for acquisition of Power Full of RMB647,000,000 in previous year no longer applied for 2011. Excluding the impairment of goodwill for acquisition of Power Full of RMB647,000,000, the adjusted net profit margin increased from approximately 9% for the year ended 31 December 2010 to approximately 12% for the year ended 31 December 2011.

Net Current Assets

The net current assets of the Group as at 31 December 2011 increased to approximately RMB360,736,000 compared with that of approximately RMB341,646,000 in 2010.

Liquidity and Financing

The cash and bank balances as at 31 December 2011 and 31 December 2010 amounted to approximately RMB86,283,000 (mainly comprised approximately RMB79,924,000, USD445,000 and HKD4,388,000) and approximately RMB208,887,000, respectively.

Total borrowings of the Group as at 31 December 2011 amounted to approximately RMB483,598,000, representing an increase of approximately 7% when compared with that of approximately RMB451,903,000 as at 31 December 2010.

The Group repaid its debts mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio decreased to approximately 66% as at 31 December 2011 from approximately 74% as at 31 December 2010. That ratio was calculated by dividing the Group's total liabilities by its total assets. During 2011, all of the Group's borrowings was settled in Renminbi ("RMB") and Hong Kong dollars ("HKD"). Approximately 85% of the Group's income was denominated in Renminbi and the remaining was denominated in Hong Kong dollars and United States dollars ("USD"). Borrowings of the Group amounted to approximately RMB331,598,000 were fixed-rate loans, while RMB152,000,000 were variable rate loans. The Group had not engaged in any currency hedging facility for the year ended 31 December 2011 and up to the date of this report as the Board considered that the cost of any hedging facility would be higher than the potential risk of the costs incurred from currency fluctuations and interest rate fluctuations in individual transactions.

Placing of Non-Listed Warrants

On 29 April 2011, the Company entered into a placing agreement with Goldin Equities Limited (the "Placing Agent"), pursuant to which the Company agreed to appoint the Placing Agent and the Placing Agent agreed to act, on a best effort basis, to procure not less than six placees at the issue price of HKD0.03 per warrant to subscribe for up to 150,000,000 warrants. The placing was completed on 20 May 2011 and warrants of up to HKD240,000,000 at the initial subscription price of HKD1.60 (subject to adjustment) in aggregate were issued and allotted by the Company pursuant to the placing.

Upon the exercise of the subscription rights attaching to the warrants in full at the initial subscription price of HKD1.60 per share, a maximum of 150,000,000 new ordinary shares of the Company will be issued. 12,000,000 warrants have been exercised during March 2012 and 138,000,000 warrants remain outstanding as at the date of this report. Further details of the placing are set out in the announcements of the Company dated 29 April 2011, 3 May 2011 and 20 May 2011, respectively.

Acquisitions

Acquisition of Interest in Beichen Hightech

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

As the relevant applicable percentage ratios (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) in respect of the acquisition are higher than 5% but below 25%, the acquisition constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules.

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

The aforesaid acquisition was approved at the extraordinary general meeting of the Company on 1 March 2011 and was completed.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 12 January 2011, 2 February 2011 and 1 March 2011, respectively, and the circular of the Company dated 14 February 2011.

Acquisition of Interest in Langcheng

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

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

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

The aforesaid acquisition was approved at the extraordinary general meeting of the Company on 8 June 2011 and was completed in June 2011.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 25 January 2011, 11 February 2011, 15 March 2011, 13 May 2011 and 8 June 2011, and circular of the Company dated 23 May 2011.

Refreshment of General Mandates

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



Pledge of Assets

As at 31 December 2011, the Group had pledged leasehold land and buildings with net book values of approximately RMB12,554,000 (2010: approximately RMB10,619,000) as security for the bank loans obtained by the Group.

Upon the completion of the acquisition of the entire issued share capital of Power Full by the Company on 7 July 2010, the entire issued share capital of Sun Light Planet Limited, a direct wholly-owned holding subsidiary of the Company, was pledged to the holder of the promissory note to secure the Company's obligation under the promissory note which was issued by the Company to satisfy part of the consideration in the amount of HKD330,000,000.

Upon the issuance of convertible bonds in the principal amount of USD18,580,000 in December 2010 to Advance Gain Enterprises Limited ("Advance Gain"), the entire issued share capital of Power Full was pledged to Advance Gain to secure the Company's obligation under the said convertible bonds.

Contingent Liabilities

As at 31 December 2011 and as at 31 December 2010, the Group had no material contingent liabilities.

Employees

As at 31 December 2011, the Group had approximately 2,200 full-time employees (2010: 2,800 employees) in Hong Kong and the PRC, comprising 900 employees from the power-related business and 1,300 from the business of diodes manufacturing. For the year ended 31 December 2011, the relevant staff costs (including the Directors' remuneration) were approximately RMB93,194,000 (2010: approximately RMB92,695,000). The Group's remuneration and bonus packages were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Li Baosheng（李保勝）, aged 47, is the chairman of the Company and an executive Director. He joined Beichen Power Grid (then known as Chengde Beichen Electricity Transmission and Transformation Co., Ltd.（承德北辰送變電工程有限公司）), a wholly-owned subsidiary of the Company, as the chairman of the board of directors and legal representative since 2001. He was appointed as an executive Director on 7 July 2010.

He has been a director and the legal representative of Beijing Chengrui Xianghai Renewable Energy Co., Ltd（北京承瑞翔海新能源科技有限公司）(“Chengrui Xianghai”) since December 2009. He has been appointed as the director and the legal representative of Langcheng and Ruifeng Windpower in December 2005 and in December 2009 respectively. He is also a legal representative and director of Beichen Hightech. Each of Chengrui Xianghai, Ruifeng Windpower, Langcheng, Beichen Hightech and Beichen Power Grid are wholly-owned subsidiaries of the Company.

Mr. Li was a director of, and a beneficial owner of 77.78% of the share capital in, Diamond Era Holdings Limited (“Diamond Era”), a substantial shareholder of the Company interested in 243,000,000 shares, representing approximately 28.19% of the issued share capital of the Company, and 107,000,000 shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD107,000,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010 as at the date of this report.

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

Mr. Zhang Zhixiang（張志祥）, aged 44, is the general manager and chief executive officer of the Company and an executive Director. He is also the authorised representative of the Company and the chairman of the remuneration committee of the Company. He was appointed as an executive Director on 7 July 2010.

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

Mr. Zhang was a director of, and a beneficial owner of 22.22% of the share capital in, Diamond Era, a substantial shareholder of the Company interested in 243,000,000 shares, representing approximately 28.19% of the issued share capital of the Company, and 107,000,000 shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD107,000,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010 as at the date of this report.

Mr. Xu Xiaoping（許小平）, aged 45, is an executive Director. Mr. Xu is a director, legal representative and general manager of Galaxy Electrical, Galaxy Hi-New, Galaxy Huanyu and Galaxy Semiconductor, each a subsidiary of the Company. Mr. Xu is also a director of all subsidiaries in BVI and Hong Kong of Sun Light Planet Limited, a subsidiary of the Company. Mr. Xu was appointed as a Director on 23 June 2005, and subsequently re-designated as an executive Director on 16 May 2006.

Mr. Xu is responsible for the overall operation of diodes manufacturing of the Group. Prior to joining the Group in September 2000, Mr. Xu has served as the vice supervisor and department head of the operation liaison office of the Electronic Bureau of Changzhou City, the PRC（中國常州市電子工業局）. Mr. Xu graduated from Electronics Industrial School of Huai Yin（淮陰電子工業學校）in July 1988, majoring in electronic component profession and subsequently joined Changzhou Radio Components 7th Factory（常州市無線電元件七廠）. Mr. Xu has over 20 years of experience in the electronics field.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yong（張勇）, aged 46, is a deputy general manager of the Company, responsible for operation of the Group. Mr. Zhang was appointed as a non-executive Director on 4 January 2011. He graduated from Hebei Radio and TV University（河北廣播電視大學） in July 1989, majoring in finance and accounting. He obtained the Qualification Certificate of Speciality and Technology in Finance (intermediate level) awarded by the Ministry of Personnel of the People's Republic of China on 10 April 1994. He completed the Bachelor Program in Accounting jointly organised by Beijing T&B University（北京工商大學）and The Open University of China（中央廣播電視大學）, and obtained a bachelor degree in management in July 2003.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling（黃慧玲）, aged 50, is an independent non-executive Director, the chairman to the audit committee of the Company and a member of the remuneration committee of the Company. Ms. Wong was appointed as an independent non-executive Director on 16 May 2006.

Ms. Wong obtained a Bachelor of Arts degree from the University of Hong Kong and a diploma in Accounting and Finance from the London School of Economics and Political Science, the United Kingdom. Ms. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants. She has 20 years of extensive experience in accounting, taxation and auditing. She had worked for more than 7 years in international accounting firms and local accounting firms before she set up her own accounting firm W.L. Wong & Co. in Hong Kong in 1994. Since then, she has been practising as a Certified Public Accountant. Ms. Wong is also an independent non-executive director of two Hong Kong listed companies, namely, Overseas Chinese Town (Asia) Holdings Limited and CATIC Shenzhen Holdings Limited.

Mr. Qu Weidong (屈衛東), aged 45, is an independent non-executive Director and a member of each of the audit committee and the remuneration committee of the Company. Mr. Qu was appointed as an independent non-executive Director on 11 December 2010.

He graduated from the Tsing Hua University (清華大學) in the People's Republic of China in 1990 with a bachelor's degree in engineering. He obtained a master degree in international business at the University of Auckland in 1999. Mr. Qu is now a Director and general manager of Beijing Zero2IPO Venture Investment Management Centre (北京清科創業投資管理中心). Mr. Qu has over 8 years experience in the field of investment. He was the investment director of Bluerun Investment Consulting (Beijing) Co., Ltd from June 2007 to September 2010, and of Capinfo Company Limited (首都信息發展股份有限公司) from April 2005 to July 2007. He worked at the headquarters of the investment bank of China Galaxy Securities Co., Limited (中國銀河證券股份有限公司投資銀行總部) from March 2003 to July 2005.

Ms. Hu Xiaolin (胡曉琳), aged 43, is an independent non-executive Director and a member of each of the audit committee and remuneration committee of the Company. Ms. Hu was appointed as an independent non-executive Director on 9 May 2011.

She was graduated from Northwest University (西北大學), the People's Republic of China with a bachelor's degree in literature in July 1990. She obtained a master of literature from Capital Normal University (首都師範大學), the People's Republic of China in July 1995. Ms. Hu worked in the news commentary department and sports centre of Beijing Television (北京電視台) from 1995 to 2005. She worked as a producer and a general director (總導演) of a section in Shanghai China Business Network Co. Ltd. (上海第一財經傳媒有限公司) from January 2005 to March 2008. She has been a director and a general manager of Shanghai Shile Yongdao Culture Communication Co., Ltd. (上海世樂永道文化傳播有限公司) since March 2008.

SENIOR MANAGEMENT

Mr. Cheng Koon Kau Alfred (鄭冠球), aged 37, is an authorised representative and the company secretary of the Company, and has over 14 years of experience in the fields of auditing and accounting. Mr. Cheng joined the Group on 22 January 2008. He is a full-time chief financial officer of the Company. He graduated from the Hong Kong University of Science and Technology with a bachelor's degree in Business Administration (Financial Accounting) degree in 1997 and a master degree in financial analysis in 2010. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He is responsible for the financial strategy, accounting and financial reporting of the Group. Prior to joining the Group, he had served in an international accounting firm and a number of multi-national corporations.

Ms. Li Juan (李娟), aged 47, is the deputy general manager of the Company, responsible for internal audit, accounting and financial management. Ms. Li was graduated in 1989 from Chengde Broadcast and Television University (承德廣播電視大學) majoring in diploma of Business Management. Ms. Li obtained title of Senior in 2009 from International Profession Certification Association and obtained the title of top ten best chief accountants from Finance Ministry of Chengde City. Ms. Li has joined the Group since 1997 and has over 15 years working experience in the industry of power grid.

Mr. Li Baomin（李寶民）, aged 42, is a deputy general manager of the Company, responsible for new business exploration. He was graduated from Beijing Liangxiang Electricity Institute majoring at electricity transmission and distribution engineering. He obtained a bachelor's degree in business administration at the University of Nan Kai in 1996. He also obtained a master degree of industrial engineering at the University of Hua Bei Electricity. He had worked in Chengde Electricity Transmission and Distribution Engineering Company and Chengde General Electricity Company Limited. He has 16 years of experience in the industry of electricity transmission and distribution. He joined the Group in 2000. Mr. Li is a cousin of Mr. Li Baosheng, an executive Director and the Chairman of the Company, and the director of Beichen Power Grid.

Mr. Lu Qiang（盧強）, aged 33, is the general manager of Beichen Power Grid. He graduated in 2005 from the Hebei University Of Economics And Business（河北經貿大學）and obtained a bachelor's degree majoring in business administration. He worked at Chengde Agricultural Development Office（承德市農業開發辦公室）and Ministry of Finance of Chengde city before joining the Group since 2005.

Mr. Qu Shaofeng（屈少峰）, aged 35, is a chief engineer of Beichen Power Grid. He graduated in 1998 from Beijing Electricity Power Higher Professional Institute（北京電力高等專科學校）majoring in circuit of electricity transmission engineering. At 2006, he obtained the title of electricity engineer and blasting engineer. In 2008, he obtained practicing qualification of Class 1 constructor of electricity engineering, good at technical study, solution design, tools renovation and organization and management of construction over electricity transmission construction of high voltage and supreme high voltage. He worked in the engineering department as a specialist engineer. He was awarded for several technical renovations.

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

Mr. Cui Yi（崔毅）, aged 45, is a general manager of the Shuangluan branch of Ruifeng Windpower responsible for design and sales of wind turbine blade operation. He graduated in 1989 from University of South-west Technology（西南科技大學）with a bachelor's degree in mechanical art and design. He was an engineering manager and a project manager of Chengde Xiangye Automatic Automobile Parking Company Limited（承德祥業自動化停車設備有限公司）and Jiangsu Shuangliang Automatic Automobile Parking Company Limited（江蘇雙良停車設備有限公司）respectively. He joined the Group in 2007.

Mr. Zhang Pengfei（張鵬飛）, aged 45, is the general manager of Langcheng responsible for the operation of wind farm of Shangtoudi. He was graduated in 1993 from Beijing Forestry Management Government Officer Institute majoring at enterprise management. He was township secretary and chairman. He joined the Group in 2006.

COMPANY SECRETARY

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

The Directors present this report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2011 are set out in the consolidated income statement on page 52 of this report.

PROPOSED FINAL DIVIDEND

The Directors did not recommend the payment of dividends for the year ended 31 December 2011.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 148 of this report.

FIXED ASSETS

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

NON-LISTED WARRANTS

On 29 April 2011, the Company entered into a placing agreement with Goldin Equities Limited (the "Placing Agent"), pursuant to which the Company agreed to appoint the Placing Agent and the Placing Agent agreed to act, on a best effort basis, to procure not less than six placees at the issue price of HKD0.03 per warrant to subscribe for up to 150,000,000 warrants. The placing was completed on 20 May 2011 and warrants of up to HKD240,000,000 at the initial subscription price of HKD1.60 (subject to adjustment) in aggregate were issued and allotted by the Company pursuant to the placing.

Upon the exercise of the subscription rights attaching to the warrants in full at the initial subscription price of HKD1.60 per share, a maximum of 150,000,000 new ordinary shares of the Company will be issued. 12,000,000 warrants have been exercised during March 2012 and 138,000,000 warrants remain outstanding as at the date of this report. Further details of the placing are set out in the announcements of the Company dated 29 April 2011, 3 May 2011 and 20 May 2011, respectively.

REFRESHMENT OF GENERAL MANDATES

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

SHARE CAPITAL

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

DONATIONS

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

RESERVES

Movements in the reserves of the Company during the year are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of the Cayman Islands, the Company's reserves available for distribution to Shareholders as at 31 December 2011 amounted to approximately RMB206,214,000.

DIRECTORS

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

Executive Directors

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

Non-executive Director

Mr. Zhang Yong (appointed on 4 January 2011)

Independent non-executive Directors

Ms. Wong Wai Ling
Mr. Su Xiucheng (resigned on 30 April 2011)
Mr. Qu Weidong
Ms. Hu Xiaolin (appointed on 9 May 2011)

In accordance with Article 112 of the Company's Articles of Association, Ms. Hu Xiaolin shall retire at the forthcoming annual general meeting of the Company.

In accordance with Article 108(a) of the Company's Articles of Association, Ms. Zhang Zhixiang and Ms. Wong Wai Ling shall retire by rotation at the forthcoming annual general meeting of the Company.

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

DIRECTORS' SERVICE CONTRACTS

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

Each of the non-executive Directors (including the independent non-executive Directors) has entered into a service agreement with the Company for a term of two years from May 2010, December 2010, January 2011 and May 2011 for Ms. Wong Wai Ling, Mr. Qu Weidong, Mr. Zhang Yong and Ms. Hu Xiaolin (appointed on 9 May 2011) respectively, which is determinable by either party by giving one month's written notice.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors, namely, Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin (appointed 9 May 2011), an annual confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules, and as at the date of this report, the Company still considers all the independent non-executive Directors to be independent.

SHARE OPTIONS

Particulars of the Company's share option scheme ("Share Option Scheme") are set out in note 30 to the consolidated financial statements.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue at the date of approval of the share option scheme ("General Scheme Limit"), i.e. 40,000,000 Shares, which represented approximately 4.6% of the issued share capital of the Company as at the date of this report. The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the shareholders' approval.

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

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

An option may be accepted by a participant within 7 days inclusive of the day on which such offer was made. A nominal consideration of HKD1 is payable on acceptance of the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Directors may determine which shall not exceed 10 years from the date of grant subject to the provision of early termination thereof.

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

No option has been granted under the Share Option Scheme from the date of adoption of the Share Option Scheme up to 31 December 2011.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

MATERIAL CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" in this report, no contract of significance in relation to the Group's business to which the Company, any of its subsidiaries, holding companies or its fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSURE OF INTEREST

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

Save as disclosed below, as at 31 December 2011, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying Shares and/or debentures (as the case may be) of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Directors or chief executives is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules:

Name of Director	Number of Shares held/ interested	Nature of interest	Approximate percentage of shareholdings
Li Baosheng *(Note)*	350,000,000	Interest of controlled corporation	42.74%
Zhang Zhixiang *(Note)*	77,777,000	Interest of controlled corporation	9.50%

Note:

Mr. Li Baosheng and Mr. Zhang Zhixiang are the beneficial owners of 77.78% and 22.22%, respectively, of the issued shares of Diamond Era. As at 31 December 2011, Diamond Era was interested in (i) 243,000,000 Shares, and (ii) 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD107,000,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010.

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

(b) Interests of substantial Shareholders and other persons

Save as disclosed below, as at 31 December 2011, the Directors were not aware of any person (other than the Directors or chief executives of the Company) who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Number of Shares held/ interested	Nature of interest	Approximate percentage of shareholdings
Advance Gain *(Note 1)*	378,996,666	Nominee for another person (other than a bare trustee)	46.28%
CCB International (Holdings) Limited *(Note 1)*	378,996,666	Beneficial owner	46.28%
CCB Financial Holdings Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
CCB International Asset Management Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
CCB International Assets Management (Cayman) Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
CCB International Group Holdings Limited *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
Central Huijin Investment Ltd. *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
China Construction Bank Corporation *(Note 1)*	378,996,666	Interest of controlled corporation	46.28%
Diamond Era *(Note 2)*	350,000,000	Beneficial owner	42.74%

Notes:

1. As at 31 December 2011, Advance Gain Enterprises Limited was interested in 378,996,666 Shares, comprising (i) its interest in 95,996,666 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of USD18,580,000 attached to the 8.0% per annum coupon rate secured convertible bonds in the principal amount of USD18,580,000 issued by the Company on 31 December 2010 (the "Convertible Bonds") and held by it; and (ii) its interest in 283,000,000 Shares held by or to be issued to Diamond Era Holdings Limited by virtue of a share charge executed by Diamond Era Holdings Limited in favour of Advance Gain Enterprises Limited dated 21 December 2010; pursuant to the said share charge, Diamond Era Holdings Limited has pledged 243,000,000 Shares held by Diamond Era Holdings Limited, and 40,000,000 Shares to be issued upon exercise of the conversion rights in respect of HKD40,000,000 out of the entire outstanding principal amount HKD107,000,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010 and held by Diamond Era Holdings Limited in favour of Advance Gain Enterprises Limited to secure the Company's obligations under the Convertible Bonds.

   As at 31 December 2011, Advance Gain Enterprises Limited was wholly-owned by CCB International Asset Management Limited, which in turn was wholly-owned by CCB International Assets Management (Cayman) Limited, which in turn was wholly owned by CCB International (Holdings) Limited, which in turn was wholly-owned by CCB Financial Holdings Limited, which in turn was wholly-owned by CCB International Group Holdings Limited, which in turn was wholly owned by China Construction Bank Corporation. Central Huijin Investment Ltd. was a controlling shareholder of China Construction Bank Corporation having 57.09% interest in China Construction Bank Corporation. The interest in 378,996,666 Shares by these companies relates to the same block of Shares.

2. As at 31 December 2011, Diamond Era Holdings Limited was interested in (i) 243,000,000 Shares, and (ii) 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD107,000,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010.

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

CONNECTED TRANSACTIONS

Continuing connected transactions

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

On 23 December 2010, Galaxy Electrical, an indirect wholly-owned subsidiary of the Company and Changzhou Galaxy Century Micro-Electronics Co., Ltd. ("Galaxy Micro-Electronics") entered into a supply agreement pursuant to which Galaxy Micro-Electronics shall supply the diodes manufactured by Galaxy Micro-Electronics (the "Products") to Galaxy Electrical with the aggregate amount not exceeding for HKD9,500,000 for the period from 3 November 2010 to 31 December 2010 and HKD22,000,000 for the year ending 31 December 2011, respectively. During the period from 1 January 2011 to 31 December 2011, Galaxy Micro-Electronics sold the Products to the Group amounting to RMB5,496,000 (equivalent to approximately HKD6,638,000).

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

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

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

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

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

Connected transactions

Acquisition of interest in Beichen Hightech

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

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

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

The aforesaid acquisition was approved at the extraordinary general meeting of the Company on 1 March 2011 and was completed.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 12 January 2011, 2 February 2011 and 1 March 2011, respectively, and the circular of the Company dated 14 February 2011.

Acquisition of interest in Langcheng

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

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

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

The aforesaid acquisition was approved at the extraordinary general meeting of the Company on 8 June 2011 and was completed in June 2011.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 25 January 2011, 11 February 2011, 15 March 2011, 13 May 2011 and 8 June 2011, and circular of the Company dated 23 May 2011.

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 36 to the consolidated financial statements did not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

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

— the largest customer	9.48%
— five largest customers	24.54%
— the largest supplier	6.99%
— five largest suppliers	22.40%

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

BANK LOANS

Particulars of bank loans are set out in note 28 to the consolidated financial statements.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the Share Option Scheme are set out in note 30 to the consolidated financial statements and the paragraph headed "Share Options" in this Directors' Report.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

ACQUISITIONS AND DISPOSALS

Apart from the transactions disclosed and as set out in the paragraph headed "Connected Transactions" in this Directors' Report, there was no other material acquisition and disposal of subsidiaries and associated companies by the Group from 2011 to the date of this report.

MANAGEMENT CONTRACTS

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

AUDITORS

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

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

EVENTS AFTER THE REPORTING PERIOD

(1) Exercise of warrants

In March 2012, 12,000,000 non-listed warrants were exercised by the holders of warrants at the subscription price of HKD1.60 per share, resulting in the issue of 12,000,000 ordinary Shares of the Company, the net proceeds from exercise of warrants were approximately HKD19,200,000. Further details of the warrants are also set out in the paragraph headed "Non-Listed Warrants" above.

(2) Conversion of convertible bonds

In March 2012, conversion rights attached to convertible bonds (issued on 31 December 2010 in a principal amount of USD18,580,000 with a maturity date on 30 June 2013) in an aggregate amount of USD6,000,000 were exercised at a conversion price of HKD1.50 per share; resulting in the issue of 31,000,000 ordinary shares of the Company. Further details of the convertible bonds are set out in the announcement of the Company dated 20 December 2010.

On behalf of the Board

Li Baosheng
Chairman

Hong Kong

28 March 2012

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

CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code") for the financial year ended 31 December 2011.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of practice for securities transactions by the Directors. The Company had made specific enquiries with all the Directors and all the Directors confirmed that they had complied with the practice as contained in the Model Code for the year ended 31 December 2011.

THE BOARD OF DIRECTORS

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

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

COMPOSITION AND APPOINTMENT

As at 31 December 2011, the Board comprised seven Directors, of whom three were executive Directors, one was non-executive Director and three were independent non-executive Directors. Details of the names and biographies of the existing Directors are set out on page 26 to page 28 of this report.

During the year ended 31 December 2011, the executive Directors were Mr. Li Baosheng, Mr. Zhang Zhixiang and Mr. Xu Xiaoping. Mr. Li Baosheng is the chairman and Mr. Zhang Zhixiang is the chief executive officer of the Company. Mr. Zhang Zhixiang is responsible for the daily operations of the Group and reports to the chairman of the Company.

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

As at 31 December 2011, Mr. Li Baosheng and Mr. Zhang Zhixiang holds 77.78% and 22.22% respectively, of the issued share capital of Diamond Era which is a substantial shareholder of the Company, holding approximately 29.67% of the issued share capital of the Company, Diamond Era is also interested in 107,000,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD107,000,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010.

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

The Board has supervised and controlled the Company's affairs effectively, and relevant decisions were made in the Company's best interests. For the year ended 31 December 2011, the Board had held 14 board meetings to consider (of which included) the Company's transactions, financial affairs and other matters under the articles of associations to carry out its duties. The Board has adopted a telephone-conference system to raise the attendance rates, the average rate of attendance was between 54% and 100%.

For the year ended 31 December 2011, the Board has compiled the following statistics:

Director's name	Attendance Rate for Board meeting Number	Percentage (%)*	Title
Li Baosheng	10	83	Chairman, executive Director
Zhang Zhixiang	14	100	Executive Director, Chief executive officer
Yang Senmao (resigned on 14 February 2011)	5	83	Executive Director
Yue Lian (resigned on 16 January 2011)	5	100	Executive Director
Xu Xiaoping	12	86	Executive Director
Zhang Yong	11	92	Non-executive Director
Wong Wai Ling	13	100	Independent non-executive Director
Su Xiucheng (resigned on 30 April 2011)	9	82	Independent non-executive Director
Qu Weidong	7	54	Independent non-executive Director
Hu Xiaolin (appointed on 9 May 2011)	2	100	Independent non-executive Director

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

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

THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not established a nomination committee during the year ended 31 December 2011. All members of the Board are responsible for formulating the procedures for appointing Directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of Directors or appoint additional Directors during the year.

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

The Board held 1 meeting in 2011 to review the policy for the nomination of Directors.

The Company established the nomination committee with effect on 29 March 2012, which will comprise Mr. Li Baosheng (Chairman), Mr. Zhang Zhixiang, Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin.

PROCEDURES OF BOARD MEETINGS

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

AUDITORS' REMUNERATION

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

Type of service	**Auditors** **HLB Hodgson Impey Cheng**
Annual audit	HKD1,200,000

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

ACCOUNTABILITY AND AUDIT

The Directors understand their responsibility to prepare the Group's financial statements according to relevant legal provisions and the Hong Kong GAAP to ensure that the financial reports present a true and fair view of the Group's financial conditions. In the preparation of the Group's financial reports for the year ended 31 December 2011, the Directors had adopted and implemented the appropriate accounting policies, made prudent and reasonable judgments and projections and prepared the financial statements on a going concern basis.

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

The auditors' responsibilities are set out in the Independent Auditors' Report on pages 50 to 51.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

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

AUDIT COMMITTEE

During the year under review, the audit committee comprised Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin (appointed on 9 May 2011) and Ms. Wong Wai Ling is the chairman of the audit committee.

For the year ended 31 December 2011, 2 meetings were held. The attendance rates of every member of the audit committee were as follows:

	Attendance Rate		
Name of member	**Number**	**Percentage *(%)***	**Title**
Wong Wai Ling	2	100	Independent non-executive Director
Su Xiucheng (resigned on 30 April 2011)	—	—	Independent non-executive Director
Qu Weidong	2	100	Independent non-executive Director
Hu Xiaolin (appointed on 9 May 2011)	1	100	Independent non-executive Director

Duties of the audit committee include:

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

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

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

(4) review interim and year end accounts.

The audit committee has reviewed the audit performance, internal controls and audited accounts for the year ended 31 December 2011. The audit committee has also reviewed this report and confirmed that it is complete and accurate and complies with the Listing Rules.

REMUNERATION COMMITTEE

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

Mr. Zhang Zhixiang (Chairman) (appointed on 14 February 2011), Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin (appointed on 9 May 2011).

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

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

The remuneration committee held 4 meetings for the year ended 31 December 2011, at which the remuneration committee reviewed, discussed and determined the remuneration policy and the remuneration of the Directors and the senior management in the year. The attendances of the meetings of the remuneration committee are as follows:

	Attendance rate		
Name of member	**Number**	**Percentage (%)**	**Title**
Zhang Zhixiang	3	100	Executive Director
Yang Senmao (resigned on 14 February 2011)	1	100	Executive Director
Wong Wai Ling	3	100	Independent non-executive Director
Su Xiucheng (resigned on 30 April 2011)	1	50	Independent non-executive Director
Qu Weidong	2	67	Independent non-executive Director
Hu Xiaolin (appointed on 9 May 2011)	1	100	Independent non-executive Director

On 28 March 2012, Ms. Hu Xiaolin, was appointed as the Chairman of the remuneration committee in place of Mr. Zhang Zhixiang with effect from 29 March 2012.

DIRECTORS' REMUNERATION

The Group paid or accrued total Directors' remuneration amounts of approximately RMB1,350,000, RMB1,381,000, RMB1,040,000, RMB500,000, RMB95,000, RMB73,000, RMB51,000, RMB155,000, and RMB56,000 to Mr. Li Baosheng, Mr. Zhang Zhixiang, Mr. Xu Xiaoping, Mr. Zhang Yong, Ms. Wong Wai Ling, Mr. Qu Weidong, Ms. Hu Xiaolin, Mr. Yang Senmao and Mr. Su Xiucheng respectively, for the year ended 31 December 2011.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2011, there was no arrangement in which the Directors waived their remuneration.

SECURITIES TRANSACTIONS BY SENIOR MANAGEMENT AND STAFF

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

CHIEF FINANCIAL OFFICER

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

COMPANY SECRETARY

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

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

INVESTORS RELATIONSHIP

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

COMMUNICATION WITH SHAREHOLDERS

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

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA RUIFENG GALAXY RENEWABLE ENERGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Ruifeng Galaxy Renewable Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 147, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Turnover	4	**750,328**	804,183
Cost of sales		**(610,853)**	(611,704)
Gross profit		**139,475**	192,479
Other revenue and net income	5	**114,311**	4,433
Distribution costs		**(16,155)**	(23,393)
Administrative expenses		**(54,756)**	(59,284)
Other operating expenses		**—**	(647,000)
Profit/(Loss) from operations		**182,875**	(532,765)
Finance costs	6(a)	**(82,682)**	(25,154)
Share of profits less losses of associates		**(105)**	(205)
Profit/(Loss) before taxation	6	**100,088**	(558,124)
Income tax	7	**(8,570)**	(15,626)
Profit/(Loss) for the year		**91,518**	(573,750)
Attributable to:			
Equity shareholders of the Company	10	**91,518**	(573,750)
Non-controlling interests		**—**	—
Profit/(Loss) for the year		**91,518**	(573,750)
Earnings/(Loss) per share			
Basic (RMB)	11	**0.112**	(0.915)
Diluted (RMB)	11	**0.076**	(0.915)

The notes on pages 59 to 147 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
Profit/(Loss) for the year	**91,518**	(573,750)
Other comprehensive income		
Exchange differences on translation of financial statements of operations outside the PRC	**(1,393)**	(1,201)
Other comprehensive income for the year (net of tax)	**(1,393)**	(1,201)
Total comprehensive income for the year	**90,125**	(574,951)
Total comprehensive income attributable to:		
Equity shareholders of the Company	**90,125**	(574,951)

The notes on pages 59 to 147 form part of these financial statements.

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**223,878**	123,746
Lease prepayments	16	**17,750**	12,989
Goodwill	15	**83,006**	78,946
Investment in an associate	18	**5,106**	9,740
Available-for-sale investments	19	**46,184**	—
Deferred tax assets	31(b)	**3,201**	2,480
		379,125	227,901
Current assets			
Inventories	20	**48,034**	47,003
Trade and other receivables	21	**506,427**	489,345
Lease prepayments	16	**401**	297
Pledged bank deposits	23	**3,627**	26,897
Cash and cash equivalents	24	**82,656**	181,990
		641,145	745,532
Current liabilities			
Trade and other payables	26	**162,792**	217,806
Derivative financial instruments	25	**1,027**	38,830
Interest-bearing borrowings	27	**105,400**	145,000
Current taxation	31(a)	**11,190**	2,250
		280,409	403,886
Net current assets		**360,736**	341,646
Total assets less current liabilities		**739,861**	569,547
Non-current liabilities			
Interest-bearing borrowings	27	**378,198**	306,903
Deferred tax liabilities	31(b)	**12,247**	6,911
		390,445	313,814
Net assets		**349,416**	255,733
Capital and reserves	32		
Share capital		**7,740**	7,740
Reserves		**341,676**	247,993
Total equity		**349,416**	255,733

Approved and authorised for issue by the board of Directors on 28 March 2012.

Li Baosheng
Director

Zhang Zhixiang
Director

The notes on pages 59 to 147 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	17	**415,289**	415,289
Current assets			
Other receivables	21	**1,680**	—
Amounts due from subsidiaries	17	**110,217**	5,445
Cash and cash equivalents	24	**2,427**	125,958
		114,324	131,403
Current liabilities			
Other payables	26	**9,071**	1,229
Amounts due to subsidiaries	17	**39**	112,280
Derivative financial instruments	25	**1,027**	38,830
		10,137	152,339
Net current assets/(liabilities)		**104,187**	(20,936)
Total assets less current liabilities		**519,476**	394,353
Non-current liabilities			
Interest-bearing borrowings	27	**316,198**	301,903
Deferred tax liabilities	31(b)	**4,439**	6,911
		320,637	308,814
Net assets		**198,839**	85,539
Capital and reserves	32		
Share capital		**7,740**	7,740
Reserves		**191,099**	77,799
Total equity		**198,839**	85,539

Approved and authorised for issue by the board of Directors on 28 March 2012.

Li Baosheng
Director

Zhang Zhixiang
Director

The notes on pages 59 to 147 form part of these financial statements.

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Special reserve	Statutory reserves	Other reserve	Translation reserve	Warrants reserve	Convertible bonds/note reserve	Retained profits/ (Accumulated losses)	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010		4,785	222,433	(82,562)	10,279	31,477	1,815	–	–	123,924	312,151
Changes in equity for 2010:											
Acquisition of subsidiaries	32	1,701	313,003	–	–	–	–	–	–	–	314,704
Issue of convertible bonds	27	–	–	–	–	–	–	–	58,180	–	58,180
Issue of convertible note	27	–	–	–	–	–	–	–	65,431	–	65,431
Conversion of convertible bonds	27	840	123,072	–	–	–	–	–	(57,985)	–	65,927
Conversion of convertible note	27	414	41,820	–	–	–	–	–	(20,191)	–	22,043
Deferred tax relating to convertible bonds/note	31	–	–	–	–	–	–	–	(7,752)	–	(7,752)
Disposal of subsidiaries	34	–	–	(8,722)	–	–	8	–	–	8,714	–
Total comprehensive income for the year		–	–	–	–	–	(1,201)	–	–	(573,750)	(574,951)
Balance at 31 December 2010 and 1 January 2011		7,740	700,328	(91,284)	10,279	31,477	622	–	37,683	(441,112)	255,733
Changes in equity for 2011:											
Transfer to statutory reserves		–	–	–	2,839	–	–	–	–	(2,839)	–
Issue of warrants		–	–	–	–	–	–	3,558	–	–	3,558
Total comprehensive income for the year		–	–	–	–	–	(1,393)	–	–	91,518	90,125
Balance at 31 December 2011		**7,740**	**700,328**	**(91,284)**	**13,118**	**31,477**	**(771)**	**3,558**	**37,683**	**(352,433)**	**349,416**

The notes on page 59 to 147 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Profit/(Loss) before taxation		**100,088**	(558,124)
Adjustments for:			
Depreciation		**19,735**	25,663
Loss on disposal of subsidiaries		**—**	105
Loss on disposal of property, plant and equipment		**787**	860
Impairment loss on property, plant and equipment		**2,637**	—
Impairment loss on trade and other receivables		**6,360**	3,007
Impairment of goodwill		**—**	647,000
Amortisation of lease prepayments		**338**	420
Interest income		**(898)**	(571)
Share of profits less losses of associates		**105**	205
Interest expenses		**82,682**	25,154
Fair value gain on derivative financial instruments		**(36,648)**	—
Gain on disposal of lease prepayments		**(350)**	—
Gain on deemed disposal of an associate		**(8,101)**	—
Gain on a bargain purchase		**(6,105)**	—
Gain on change of estimated cash flows of convertible bonds		**(19,355)**	—
Net losses/(gains) on trading securities		**38**	(819)
Gain on early redemption of promissory note		**—**	(2,251)
Operating profit before changes in working capital		**141,313**	140,649
(Increase)/Decrease in inventories		**(759)**	10,510
(Increase)/Decrease in trading securities		**(38)**	679
Increase in trade and other receivables		**(28,905)**	(27,158)
Decrease/(Increase) in amounts due from related companies		**458**	(458)
Decrease/(Increase) in amount due from an associate		**9,620**	(9,620)
Decrease in trade and other payables		**(108,983)**	(12,756)
(Decrease)/Increase in amounts due to Directors		**(880)**	455
(Decrease)/Increase in amounts due to related companies		**(18,334)**	18,052
Cash (used in)/generated from operations		**(6,508)**	120,353
PRC Enterprise Income Tax paid		**(2,541)**	(15,629)
Interest paid		**(16,954)**	(10,921)
Net cash (used in)/generated from operating activities		**(26,003)**	93,803

	Note	**2011** **RMB'000**	2010 RMB'000
Investing activities			
Payments for the purchase of property, plant and equipment		**(15,605)**	(69,913)
Payments for acquisition of subsidiaries		**(78,637)**	(108,858)
Payments for acquisition of an associate		**(5,000)**	—
Interest received		**898**	571
Proceeds from disposal of property, plant and equipment		**7,047**	31
Proceeds from disposal of subsidiaries		**—**	68,045
Proceeds from sales of lease prepayments		**532**	—
Net cash used in investing activities		**(90,765)**	(110,124)
Financing activities			
Payment of issuing costs of convertible bonds		**—**	(2,462)
Proceeds from new bank and other loans		**258,800**	155,000
Proceeds from issue of convertible bonds		**—**	203,161
Repayment of promissory note		**—**	(111,774)
Proceeds from issue of warrants		**3,558**	—
Proceeds from issue of derivative financial instruments		**—**	38,830
Repayment of bank and other loans		**(241,400)**	(166,600)
Interest expense of convertible bonds		**(9,339)**	—
Decrease/(Increase) in pledged bank deposits		**23,270**	(5,763)
Net cash generated from financing activities		**34,889**	110,392
Net (decrease)/increase in cash and cash equivalents		**(81,879)**	94,071
Cash and cash equivalents at 1 January		**181,990**	97,566
Effect of foreign exchange rate changes		**(17,455)**	(9,647)
Cash and cash equivalents at 31 December	24	**82,656**	181,990

The notes on page 59 to 147 form part of these financial statements.

1 GENERAL INFORMATION

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

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

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), the Company's functional currency is Hong Kong dollars ("HKD"). The functional currency of the Group's major subsidiaries is Renminbi ("RMB"). The consolidated financial statements are presented in RMB. All financial information in RMB has been rounded to the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as available-for-sale (see note 2(f)); and

— derivative financial instruments (see note 2(g)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 38.

(c) Subsidiaries and non-controlling interests

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in equity securities *(continued)*

Investments in securities which do not fall into the above category is classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss. When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

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

(h) Property, plant and equipment

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

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

— other items of plant and equipment.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

	Useful lives	Residual value
— Buildings	20-30 years	5% to 10%
— Leasehold improvement	5 years	—
— Plant and machinery	5-10 years	5% to 10%
— Equipment, furniture and fixtures	3-5 years	0% to 10%
— Motor vehicles	3-5 years	5% to 10%

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

(i) Lease prepayments

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

(j) Leased assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

— For investments in subsidiaries and associates (including those recognised using the equity method (see note 2(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(i) *Impairment of investments in equity securities and trade and other receivables (continued)*

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

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

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets

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

— property, plant and equipment;
— lease prepayments;
— investments in subsidiaries; and
— goodwill.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

(l) Inventories

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Construction contracts

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

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

(n) Trade and other receivables

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

(o) Convertible notes

(i) Convertible notes that contain an equity component

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Convertible notes *(continued)*

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

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

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

(ii) Other convertible notes

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Employee benefits

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee benefits *(continued)*

(ii) Termination benefits

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

(t) Income tax

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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

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

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

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

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

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

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

    — the same taxable entity; or

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Sale of goods and processing income

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

(ii) Contract revenue

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(iii) Interest income

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

(iv) Government grants

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

(w) Translation of foreign currencies

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Borrowing costs

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

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

(y) Related parties

(a) A person, or a close member of that person's family, is related to the group if that person:

(i) has control or joint control over the group;

(ii) has significant influence over the group; or

(iii) is a member of the key management personnel of the group or the group's parent.

(b) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties *(continued)*

(b) An entity is related to the group if any of the following conditions applies: *(continued)*

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

(z) Segment reporting

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

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

3 CHANGES IN ACCOUNTING POLICIES

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, Extinguishing financial liabilities with equity instruments
- Amendments to HK(IFRIC) 14, HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement

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

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has reassessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosure about the Group's financial instruments in note 33 has been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4 TURNOVER

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

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

	2011	2010
	RMB'000	*RMB'000*
Sales of goods	**424,169**	537,473
Revenue from construction contracts	**317,683**	262,135
Processing income	**8,476**	4,575
	750,328	804,183

5 OTHER REVENUE AND NET INCOME

	2011	2010
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**898**	571
Government subsidy income	**344**	153
Sales of scrap	**2,912**	1,187
Gain on early redemption of promissory note	**—**	2,251
Net (losses)/gains on trading securities	**(38)**	819
Gain on deemed disposal of an associate	**8,101**	—
Gain on a bargain purchase	**6,105**	—
Compensation income on prepayment on acquisition of land use rights	**19,656**	—
Fair value gain on derivative financial instruments	**36,648**	—
Gain on change of estimated cash flows of convertible bonds	**19,355**	—
Rental income from operating leases relating to plant and machinery	**20,149**	—
Loss on disposal of subsidiaries	**—**	(105)
Others	**181**	(443)
	114,311	4,433

6 PROFIT/(LOSS) BEFORE TAXATION

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

		2011 RMB'000	2010 RMB'000
(a)	**Finance costs:**		
	Interest on bank and other loans wholly repayable within five years	**16,954**	10,869
	Interest expenses on convertible bonds *(note 27)*	**38,236**	1,181
	Interest expenses on convertible note *(note 27)*	**13,280**	2,640
	Interest expenses on promissory note *(note 27)*	**14,212**	10,464
	Interest expenses on financial liabilities not at fair value through profit or loss	**82,682**	25,154
(b)	**Staff costs (including Directors' remuneration)#:**		
	Contributions to defined contribution retirement plans	**4,790**	4,393
	Salaries, wages and other benefits	**88,404**	88,302
		93,194	92,695
(c)	**Other items:**		
	Amortisation of lease prepayments	**338**	420
	Impairment losses:		
	— trade and other receivables *(note 21)* (included in administrative expenses)	**6,360**	3,007
	— property, plant and equipment *(note 14)* (included in cost of sales)	**2,637**	—
	— goodwill *(note 15)* (included in other operating expenses)	**—**	647,000
	Depreciation for property, plant and equipment#	**19,735**	25,663
	Net foreign exchange gain	**(14,413)**	(6,651)
	Auditors' remuneration — audit services	**987**	1,047
	Operating lease charges		
	— minimum lease payments in respect of property rentals#	**1,897**	786
	Cost of inventories# *(note 20)*	**366,050**	420,797
	Loss on disposal of subsidiaries *(note 34)*	**—**	105
	Gain on disposal of lease prepayments	**(350)**	—
	Loss on disposal of property, plant and equipment	**787**	860

Cost of inventories includes approximately RMB60,228,000 (2010: approximately RMB77,776,000) relating to staff costs, depreciation and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2011	2010
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	**14,913**	17,333
Over-provision in respect of prior years	**(3,432)**	(779)
Deferred tax		
Origination and reversal of temporary differences	**(2,911)**	(928)
	8,570	15,626

No provision of Hong Kong Profits Tax had been made as the Group's profit neither arises in, nor is derived from Hong Kong during the year (2010: Nil).

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New 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. Except for Changzhou Galaxy Electrical Co., Ltd. ("Galaxy Electrical") and Changzhou Galaxy Semiconductor Co., Ltd. ("Galaxy Semiconductor"), the applicable income tax rate to the Group's PRC subsidiaries will gradually be adjusted to 25% in the following five years.

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

Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises ("FEIT"), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. ("Galaxy Hi-New"), is located in the coastal economic open zone and is recognised as Production Foreign Invested Enterprises. According to the PRC tax regulations, Galaxy Hi-New is entitled to a tax concession period in which Galaxy Hi-New is fully exempted from PRC income tax for the first two years commencing from their first profit making year (after the offset of tax losses brought forward), followed by a 50% reduction in the PRC income tax for the next three years. Year 2011 is the third year of 50% reduction on the income tax for Galaxy Hi-New. The applicable income tax rate of other PRC subsidiaries is 25% in 2010 and 2011.

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

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

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

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

	2011 ***RMB'000***	2010 *RMB'000*
Profit/(Loss) before taxation	**100,088**	(558,124)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in PRC of 25%	**25,022**	(139,531)
Tax effect of non-deductible expenses	**7,568**	175,162
Tax effect of non-taxable income	**(17,857)**	(36,750)
Tax effect of unused tax loss recognised	**(295)**	—
Tax loss not recognised	**2,231**	24,400
Tax effect of tax concessions in the PRC	**(1,756)**	(5,668)
Over-provision in prior years	**(3,432)**	(779)
Others	**(2,911)**	(1,208)
Actual tax expense	**8,570**	15,626

8 DIRECTORS' REMUNERATION

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

Year ended 31 December 2011

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	2011 Total *RMB'000*
Executive Directors					
Li Baosheng	—	1,242	108	—	1,350
Zhang Zhixiang	—	1,371	—	10	1,381
Xu Xiaoping	—	914	100	26	1,040
Yue Lian (resigned on 16 January 2011)	—	—	—	—	—
Yang Senmao (resigned on 14 February 2011)	—	152	—	3	155
Non-executive Director					
Zhang Yong (appointed on 4 January 2011)	—	500	—	—	500
Independent non-executive Directors					
Wong Wai Ling	93	2	—	—	95
Qu Weidong	72	1	—	—	73
Hu Xiaolin (appointed on 9 May 2011)	51	—	—	—	51
Su Xiucheng (resigned on 30 April 2011)	54	2	—	—	56
	270	4,184	208	39	4,701

8 DIRECTORS' REMUNERATION *(continued)*

Year ended 31 December 2010

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

Note: The Company did not grant any share options during the current and the previous year. At the end of the reporting period, no share options were held by Directors of the Company. The details of the share option scheme are set out in note 30 to the consolidated financial statements.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: four) were Directors of the Company whose emoluments are disclosed in note 8 above. The aggregate of the emoluments in respect of the remaining two (2010: one) individual are as follows:

	2011	2010
	RMB'000	*RMB'000*
Salaries and other benefits	**1,222**	691
Retirement scheme contributions	**27**	10
	1,249	701

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

During the year, no emolument or incentive payments were paid to the Directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

10 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes a profit of approximately RMB115,175,000 (2010: loss of approximately RMB615,221,000) which has been dealt with in the financial statements of the Company.

11 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB91,518,000 (2010: loss of approximately RMB573,750,000) and the weighted average of 819,000,000 ordinary shares (2010: approximately 626,899,000 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2011	2010
	'000	*'000*
Issued ordinary shares at 1 January	**819,000**	480,000
Effect of shares issue	—	95,096
Effect of conversion of convertible note	—	13,414
Effect of conversion of convertible bonds	—	38,389
Weighted average number of ordinary shares at 31 December	**819,000**	626,899

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB77,665,000 (2010: loss of approximately RMB573,750,000) and the weighted average number of ordinary shares of approximately 1,025,762,000 ordinary shares (diluted) (2010: approximately 626,899,000 ordinary shares), calculated as follows:

(i) Profit/(Loss) attributable to ordinary equity shareholders of the Company (diluted)

	2011	2010
	RMB'000	*RMB'000*
Profit/(Loss) attributable to ordinary equity shareholders	**91,518**	(573,750)
Effect of effective interest on the liability component of convertible bonds and convertible note (net of tax)	**49,325**	—
Effect of net foreign exchange gain on convertible bonds and convertible note	**(7,175)**	—
Effect of gain on change of estimated cash flows of convertible bonds	**(19,355)**	—
Effect of fair value gain recognised on the derivative component of convertible bonds	**(36,648)**	—
Profit/(Loss) attributable to ordinary equity shareholders (diluted)	**77,665**	(573,750)

11 EARNINGS/(LOSS) PER SHARE *(continued)*

(b) Diluted earnings/(loss) per share *(continued)*

(ii) Weighted average number of ordinary shares (diluted)

	2011	2010
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**819,000**	626,899
Effect of conversion of convertible bonds	**95,997**	—
Effect of conversion of convertible note	**107,000**	—
Effect of deemed issue of shares under the Company's warrants for nil consideration	**3,765**	—
Weighted average number of ordinary shares (diluted) at 31 December	**1,025,762**	626,899

For the year ended 31 December 2010, the computation of diluted loss per share does not assume the conversion of the Group's outstanding convertible note and convertible bonds since their exercise would result a decrease in loss per share.

12 DIVIDENDS

No dividend has been declared or paid by the Company for the year ended 31 December 2011 (2010: Nil).

13 SEGMENT REPORTING

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

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

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

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

— Wind farm operation: this segment uses wind turbine blades to generate electricity in the PRC.

(a) Segment results, assets and liabilities

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

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

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

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

13 SEGMENT REPORTING *(continued)*

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

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

Information regarding the Group's reportable segments as provided to the Group's chief executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Production of diodes		Construction contracts		Production of wind turbine blades		Wind farm operation		Sub-total		Un-allocated		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue	**380,875**	537,473	**317,683**	262,135	**51,770**	4,575	**–**	–	**750,328**	804,183	**–**	–	**750,328**	804,183
Reportable segment profit/(loss)	**15,829**	54,402	**72,109**	54,133	**4,084**	(1,392)	**12,665**	–	**104,687**	107,143	**56,045**	(205)	**160,732**	106,938
Impairment loss on goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(647,000)	**–**	(647,000)
Central administrative costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**5,084**	(3,777)	**5,084**	(3,777)
Finance costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(65,728)**	(14,285)	**(65,728)**	(14,285)
Profit/(Loss) before taxation													**100,088**	(558,124)
Income tax													**(8,570)**	(15,626)
Profit/(Loss) for the year													**91,518**	(573,750)

13 SEGMENT REPORTING *(continued)*

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

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

	Production of diodes		Construction contracts		Production of wind turbine blades		Wind farm operation		Sub-total		Un-allocated		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Depreciation and amortisation for the year	**14,241**	23,230	**4,784**	2,393	**871**	435	**46**	–	**19,942**	26,058	**131**	25	**20,073**	26,083
Interest income	**800**	571	**47**	–	**4**	–	**6**	–	**857**	571	**41**	–	**898**	571
Share of profits less losses of associates	**86**	–	**–**	–	**–**	–	**–**	–	**86**	–	**(191)**	(205)	**(105)**	(205)
Assets	**312,801**	374,319	**396,436**	368,415	**37,222**	13,916	**183,223**	–	**929,682**	756,650	**85,482**	207,043	**1,015,164**	963,693
Associate	**5,106**	–	**–**	–	**–**	–	**–**	–	**5,106**	–	**–**	9,740	**5,106**	9,740
Reportable segment assets	**317,907**	374,319	**396,436**	368,415	**37,222**	13,916	**183,223**	–	**934,788**	756,650	**85,482**	216,783	**1,020,270**	973,433
Additions to non-current segment assets during the year	**11,406**	67,874	**548**	1,429	**16**	25	**3,513**	–	**15,483**	69,328	**122**	585	**15,605**	69,913
Reportable segment liabilities	**(87,669)**	(160,895)	**(195,647)**	(203,905)	**(21,060)**	(3,899)	**(27,615)**	–	**(331,991)**	(368,699)	**(338,863)**	(349,001)	**(670,854)**	(717,700)

(b) Geographic information

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

14 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construct-ion in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2010	33,600	—	153,006	31,859	5,219	2,984	226,668
Acquisition of subsidiaries	1,901	—	22,096	1,979	7,370	—	33,346
Reclassification	—	—	(10,387)	10,387	—	—	—
Additions	20	399	29,833	12,405	1,303	25,953	69,913
Transfer	1,175	—	1,837	154	—	(3,166)	—
Disposals	—	—	(1,006)	(5,184)	—	(114)	(6,304)
Derecognised on disposal of subsidiaries	—	—	(83,026)	(21,272)	(1,325)	(25,118)	(130,741)
At 31 December 2010 and 1 January 2011	36,696	399	112,353	30,328	12,567	539	192,882
Acquisition of subsidiaries	—	—	14	130	—	120,000	120,144
Additions	103	—	7,279	3,779	633	3,811	15,605
Exchange adjustments	—	(18)	—	(13)	—	—	(31)
Transfer	—	—	297	70	—	(5,752)	(5,385)
Disposals	(12)	—	(8,861)	(2,399)	(200)	(3,172)	(14,644)
At 31 December 2011	36,787	381	111,082	31,895	13,000	115,426	308,571
Accumulated depreciation and impairment:							
At 1 January 2010	5,318	—	43,052	18,125	2,998	—	69,493
Charge for the year	1,528	20	12,865	9,601	1,649	—	25,663
Reclassification	—	—	(1,896)	1,896	—	—	—
Written back on disposal	—	—	(747)	(4,666)	—	—	(5,413)
Derecognised on disposal of subsidiaries	—	—	(11,504)	(8,246)	(857)	—	(20,607)
At 31 December 2010 and 1 January 2011	6,846	20	41,770	16,710	3,790	—	69,136
Impairment loss	—	—	1,888	749	—	—	2,637
Charge for the year	1,615	78	11,118	4,771	2,153	—	19,735
Exchange adjustments	—	(3)	—	(1)	—	—	(4)
Written back on disposal	(2)	—	(5,003)	(1,626)	(180)	—	(6,811)
At 31 December 2011	8,459	95	49,773	20,603	5,763	—	84,693
Net book value:							
At 31 December 2011	**28,328**	**286**	**61,309**	**11,292**	**7,237**	**115,426**	**223,878**
At 31 December 2010	29,850	379	70,583	13,618	8,777	539	123,746

14 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2011, the Group has pledged its buildings with carrying values of approximately RMB10,476,000 (2010: approximately RMB8,487,000) to secure its bank loans (note 28).

The Group's buildings held for own use are located in the PRC and on land with medium term lease.

Impairment loss

During the year, a number of items of plant and machinery in the production of diodes segment were determined to be obsoleted. The Group assessed the recoverable amounts of those items of plant and machinery and as a result their carrying amount was written down by approximately RMB2,637,000 (included in "Cost of sales") at 31 December 2011. The estimates of recoverable amount were based on the assets' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

15 GOODWILL

	The Group *RMB'000*
Cost:	
At 1 January 2010	—
Addition	725,946
At 31 December 2010 and 1 January 2011	725,946
Addition	4,060
At 31 December 2011	730,006
Accumulated impairment losses:	
At 1 January 2010	—
Impairment loss	647,000
At 31 December 2010 and 1 January 2011	647,000
Impairment loss	—
At 31 December 2011	647,000
Carrying amount:	
At 31 December 2011	**83,006**
At 31 December 2010	78,946

15 GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

	2011	2010
	RMB'000	*RMB'000*
Construction and processing services in the PRC	**78,946**	78,946
Wind farm operation in the PRC	**4,060**	—
	83,006	78,946

Construction and processing services in the PRC

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2010: 3%). The growth rate used does not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of approximately 28.73% (2010: approximately 29.27%). The discount rate used is pre-tax and reflect specific risks relating to the industry. Other key assumption for the value in use calculation relates to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the CGU to materially exceed the recoverable amount.

The impairment loss recognised at 31 December 2011 and 2010 solely relates to the Group's construction and processing services in the PRC.

Wind farm operation in the PRC

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%. The growth rate used does not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of approximately 16.68%. The discount rate used is pre-tax and reflect specific risks relating to the industry.

16 LEASE PREPAYMENTS

The Group's lease prepayments comprise:

	2011 RMB'000	2010 RMB'000
Land in PRC:		
Medium term lease	**18,151**	13,286
Analysed for reporting purpose as:		
Current assets	**401**	297
Non-current assets	**17,750**	12,989
	18,151	13,286

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

As at 31 December 2011, the Group has pledged its lease prepayments with carrying value of approximately RMB2,078,000 (2010: approximately RMB2,132,000) to secure its bank loans (note 28).

17 INTEREST IN SUBSIDIARIES

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**1,018,289**	1,018,289
Less: Impairment loss	**(603,000)**	(603,000)
	415,289	415,289
Amounts due from subsidiaries	**110,217**	5,445
Amounts due to subsidiaries	**(39)**	(112,280)
	525,467	308,454

17 INTEREST IN SUBSIDIARIES *(continued)*

Note:

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

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

(c) Details of subsidiaries at 31 December 2011 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
Changzhou Galaxy Semiconductor Co., Ltd* 常州銀河半導體有限公司	PRC	PRC	Registered capital USD1,500,000	—	100%	Manufacturing and sales of electrical parts and spares
Changzhou Galaxy Hi-New Electric Parts Co., Ltd* 常州銀河高新電裝有限公司	PRC	PRC	Registered capital USD1,204,819	—	100%	Manufacturing and sales of diodes and semi-conductor products
Taizhou Galaxy Huan Yu Semiconductor Co., Ltd* 泰州銀河寰宇半導體有限公司	PRC	PRC	Registered capital USD5,000,000	—	100%	Manufacturing and sales of diodes and semi-conductor products
Seven Rainbows Limited	British Virgin Islands ("BVI")	Hong Kong ("HK")	Ordinary shares USD2	—	100%	Investment holding
Gold And Goal Limited 金機有限公司	BVI	HK	Ordinary shares USD2	—	100%	Investment holding
Profit Champ Limited 盈冠有限公司	BVI	HK	Ordinary shares USD1	—	100%	Investment holding
Sun Light Planet Limited	BVI	HK	Ordinary shares USD5,516,952	100%	—	Investment holding
Galaxy Electric (China) Company Limited 銀河電子(中國)有限公司	HK	HK	Ordinary shares HKD10,000	—	100%	Inactive

17 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Dai Tak Trading Company Limited 大得貿易有限公司	HK	HK	Ordinary shares HKD1	—	100%	Inactive
Changzhou Galaxy Electrical Co., Ltd* 常州銀河電器有限公司	PRC	PRC	Registered capital USD11,263,000	—	100%	Manufacturing and sales of diodes and semi-conductor products
City Alliance Limited	BVI	HK	Ordinary shares USD1	100%	—	Investment holding
Power Full Group Holdings Limited 富力集團控股有限公司	BVI	HK	Ordinary shares USD2	100%	—	Investment holding
Ferson Limited 緯建有限公司	HK	HK	Ordinary shares HKD1	—	100%	Inactive
Conway Holdings Limited 康威集團有限公司	HK	HK	Ordinary shares HKD1	—	100%	Investment holding
Beijing Chengrui Xianghai Renewable Energy Co., Ltd.* 北京承瑞翔海新能源科技有限公司	PRC	PRC	Registered capital RMB100,000	—	100%	Investment holding
Chengde Ruifeng Renewable Energy Windpower Equipment Co., Ltd.* 承德瑞風新能源風電設備有限公司	PRC	PRC	Registered capital RMB30,000,000	—	100%	Production of wind turbine blades and components
Hebei Beicheng Power Grid Construction Co., Ltd.** 河北北辰電網建設股份有限公司	PRC	PRC	Registered capital RMB70,500,000	—	100%	Construction, installation, repairing and testing of power facilities

17 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Chengde Beichen High New Technology Co., Ltd. * 承德北辰高新科技有限公司	PRC	PRC	Registered capital RMB46,900,000	—	100%	Investment holding
Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. * 克什克騰旗朗誠瑞風電力發展有限公司	PRC	PRC	Registered capital RMB39,500,000	—	100%	Wind farm operation (under construction)

* wholly-owned foreign enterprise
** special purpose entity ("SPE") controlled by SPE agreement

18 INTEREST IN AN ASSOCIATE

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Share of net assets	**5,106**	9,740
Amount due from an associate *(note 21)*	**—**	9,620
	5,106	19,360

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

18 INTEREST IN AN ASSOCIATE (continued)

Details of the associates are as follow:

Name of associate	Place of establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
At 31 December 2011						
Dongguan Ginkgo Hardware Electronics Products Co., Ltd.* 東莞市精谷五金電子制品有限公司	PRC	Registered capital RMB12,500,000	40%	—	40%	Production of diodes components
At 31 December 2010						
Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd.* 克什克騰旗朗誠瑞風電力發展有限公司	PRC	Registered capital RMB39,500,000	30%	—	30%	Wind farm operation (under construction)

* private limited liability company

Summary of financial information on the associates

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit RMB'000
2011					
100 per cent	**30,021**	**17,257**	**12,764**	**34,068**	**273**
Group's effective interest	**12,009**	**6,903**	**5,106**	**13,627**	**109**

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

19 AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Unlisted equity securities, at cost	**46,184**	—

The unlisted equity securities do not have quoted market price in active market and were stated at cost less impairment at the end of each reporting period.

Name of company	Place of establishment and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Hebei Hongsong Wind Power Co., Ltd. 河北紅松風力發電股份有限公司	PRC	RMB480,000,000	5.77%	Wind farm operation in the PRC

20 INVENTORIES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Raw materials	**9,054**	8,971
Work in progress	**17,567**	23,121
Finished goods	**21,413**	14,911
	48,034	47,003

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

	2011	2010
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**366,050**	420,797
	366,050	420,797

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**280,721**	215,264	**—**	—
Less: allowance for doubtful debts	**(19,397)**	(15,198)	**—**	—
	261,324	200,066	**—**	—
Other receivables	**53,776**	82,058	**1,680**	—
Note receivables	**32,132**	33,498	**—**	—
Amounts due from related companies *(note i)*	**—**	458	**—**	—
Amount due from an associate *(note 18)*	**—**	9,620	**—**	—
Loans and receivables	**347,232**	325,700	**1,680**	—
Prepayments and deposits	**66,172**	58,758	**—**	—
Gross amount due from customers for contract work *(note 22)*	**93,023**	104,887	**—**	—
	506,427	489,345	**1,680**	—

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

Note:

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

Name of company	**Changzhou Galaxy Technology Developing Co., Ltd**	**Changzhou Galaxy Century Micro-Electronic Co., Ltd**
Terms of amount due		
— duration and repayment terms	Repayable on demand	Repayable on demand
— interest rate	Interest-free	Interest-free
— security	None	None
Balance of the amount due		
— at 1 January 2010	Nil	Nil
— at 31 December 2010 and 1 January 2011	Approximately RMB66,000	Approximately RMB392,000
— at 31 December 2011	**Nil**	**Nil**
Maximum balance outstanding		
— during 2011	**Approximately RMB66,000**	**Approximately RMB3,977,000**
— during 2010	Approximately RMB66,000	Approximately RMB1,187,000

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on these outstanding balance at 31 December 2011 and 2010.

21 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts of approximately RMB19,397,000 (2010: approximately RMB15,198,000) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within three months	**226,049**	182,614
More than three months but within one year	**24,086**	14,730
More than one year	**11,189**	2,722
At 31 December	**261,324**	200,066

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

(b) Impairment of trade receivables

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

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**15,198**	12,244
Impairment loss recognised	**6,360**	3,007
Uncollectible amounts written off	**(2,161)**	(53)
At 31 December	**19,397**	15,198

As at 31 December 2011, trade receivables of the Group amounting to approximately RMB19,397,000 (2010: approximately RMB15,198,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 180 days as at the end of the reporting period or related to customers that were in financial difficulties. The Group does not hold any collateral over these balances.

21 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Trade receivables that are not impaired

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**219,895**	170,392
Past due but not impaired		
— Less than three months past due	**28,243**	24,936
— More than three months but within one year past due	**8,010**	4,436
— More than one year past due	**5,176**	302
	261,324	200,066

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

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

22 CONSTRUCTION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2011 is approximately RMB582,596,000 (2010: approximately RMB1,127,183,000).

In respect of construction contracts in progress at the end of the reporting period, the amount of retentions receivable from customers, recorded within "Trade receivables" at 31 December 2011 is approximately RMB2,621,000 (2010: approximately RMB7,959,000).

23 PLEDGED BANK DEPOSITS

The amounts are pledged to banks as securities for certain bank loans granted to an independent third party and for the Group to issue bank acceptance bills and other banking facilities (see note 26).

24 CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**68,656**	173,990	**2,427**	125,958
Deposits with banks	**14,000**	8,000	**—**	—
Cash and cash equivalents in the statements of financial position and the consolidated statement of cash flows	**82,656**	181,990	**2,427**	125,958

25 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group and the Company	
	2011	2010
	RMB'000	*RMB'000*
Derivative financial liabilities:		
Derivative component of convertible bonds *(note 27(b)(iii))*	**1,027**	38,830

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

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

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**110,896**	88,467	**—**	—
Note payables	**—**	40,889	**—**	—
Other payables	**34,909**	32,745	**9,071**	1,229
Advance from customers	**14,613**	23,284	**—**	—
Amounts due to related companies	**—**	18,334	**—**	—
Amounts due to Directors	**720**	1,600	**—**	—
Financial liabilities measured at amortised cost	**161,138**	205,319	**9,071**	1,229
Gross amount due to customers for contract work *(note 22)*	**1,654**	12,487	**—**	—
	162,792	217,806	**9,071**	1,229

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within three months	**70,545**	65,031
More than three months but within one year	**32,064**	18,928
More than one year	**8,287**	4,508
	110,896	88,467

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

The note payables of the Group are secured by pledged bank deposits (see note 23).

27 INTEREST-BEARING BORROWINGS

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans *(note 28)*	**165,000**	133,000	**—**	—
Convertible bonds *(note 27(b)(iii))*	**82,843**	77,774	**82,843**	77,774
Convertible note *(note 27(b)(ii))*	**59,845**	48,112	**59,845**	48,112
Promissory note *(note 27(b)(iv))*	**173,510**	176,017	**173,510**	176,017
Loan from an executive Director *(note 27(b)(v))*	**—**	10,000	**—**	—
Other loan *(note 27(b)(vi))*	**2,400**	7,000	**—**	—
	483,598	451,903	**316,198**	301,903
Analysis as:				
Current	**105,400**	145,000	**—**	—
Non-current	**378,198**	306,903	**316,198**	301,903
	483,598	451,903	**316,198**	301,903

All of the non-current interest-bearing borrowings, except for the non-current bank loans of RMB62,000,000 (2010: RMB5,000,000), are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

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

(i) Convertible bonds issued in May 2010

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

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

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

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

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

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

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

	The Group and the Company		
	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	—	—	—
Issued during the year	67,207	58,180	125,387
Recognition of deferred tax liabilities in respect of issuance of convertible bonds	—	(9,600)	(9,600)
Issuing cost	(2,432)	—	(2,432)
Interest expenses *(note 6(a))*	1,181	—	1,181
Recognition of deferred tax liabilities in respect of conversion of convertible bonds	—	9,405	9,405
Conversion of convertible bonds	(65,956)	(57,985)	(123,941)
At 31 December 2010 and 31 December 2011	—	—	—

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

In 7 July 2010, the Company issued a zero coupon convertible note with a principal amount of HKD155,000,000 to Diamond Era Holdings Limited as part of the consideration for the Acquisition of the entire equity interest in Power Full as detailed in note 34. The note is convertible at the option of the note holder into ordinary shares of the Company on or before 6 July 2013 at a price of HKD1.00 per share. If the conversion right is not exercised by the note holder, the note not converted will be redeemed on 6 July 2013 at 100% of the principal amount of the note. The note is unsecured.

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

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

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

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

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

	The Group and the Company		
	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	—	—	—
Issued during the year	69,785	65,431	135,216
Recognition of deferred tax liabilities in respect of issuance of convertible note	—	(10,796)	(10,796)
Interest expenses *(note 6(a))*	2,640	—	2,640
Conversion of convertible note	(22,043)	(20,191)	(42,234)
Realisation of deferred tax liabilities in respect of conversion of convertible note	—	3,239	3,239
Exchange adjustment	(2,270)	—	(2,270)
At 31 December 2010	48,112	37,683	85,795
Interest expenses *(note 6(a))*	13,280	—	13,280
Exchange adjustment	(1,547)	—	(1,547)
At 31 December 2011	**59,845**	**37,683**	**97,528**

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

	2011	2010
	RMB'000	*RMB'000*
Liabilities component analysed for reporting purposes:		
Non-current liabilities		
— convertible note	**59,845**	48,112
	59,845	48,112

(iii) Convertible bonds issued in December 2010

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

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

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

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

— At anytime after the 12 months of the issue date but before anytime after one month of the date of release of audited consolidated financial statements of the Group for the year ending 31 December 2011 and having given not less than seven days' notice to the bondholders. Redeem an amount equivalent to 50% of the subscription amount together with a premium interest of 3% per annum calculated and based on the redemption amount of the bonds from the issue date up to the date fixed for redemption, a gross yield to maturity of 18% per annum, all interest paid thereon on or prior to such date of determination, services fees and all prepaid interest payment made by the Company.

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

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

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

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

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

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

	The Group and the Company		
	Liability component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2010	77,774	38,830	116,604
Change in fair value	—	(36,648)	(36,648)
Gain on change of estimated cash flows	(19,355)	—	(19,355)
Cash settled	(9,339)	—	(9,339)
Interest expenses *(note 6(a))*	38,236	—	38,236
Exchange adjustment	(4,473)	(1,155)	(5,628)
At 31 December 2011	**82,843**	**1,027**	**83,870**

	2011	2010
	RMB'000	*RMB'000*
Liabilities component analysed for reporting purposes:		
Non-Current liabilities		
Convertible bonds	**82,843**	77,774
	82,843	77,774

27 INTEREST-BEARING BORROWINGS *(continued)*

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

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

On 7 July 2010, the Company issued promissory note with a principal amount of HKD330,000,000 to Cheerful Heart Holdings Limited as part of the consideration for the Acquisition of the entire equity interests in Power Full as detailed in note 34.

Under the terms of the promissory note, the promissory note with principal amount of HKD330,000,000 is secured by a charge on all the issued shares of Sun Light Planet Limited dated 7 July 2010, interest bearing at 10% per annum and have a maturity period of 3 years from the date of issue. For the six-month period after the date of issue, no interest is chargeable on the outstanding amount under the terms of the promissory note. The promissory note was issued as part of the consideration in connection with the acquisition, as detailed in note 34 and were fair valued at initial recognition with an effective interest rate of approximately 8.49% per annum.

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

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

	The Group and the Company	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**176,017**	—
Issued during the year	**—**	285,597
Interest expenses *(note 6(a))*	**14,212**	10,464
Settlement during the year	**(8,107)**	(115,678)
Exchange adjustment	**(8,612)**	(4,366)
At 31 December	**173,510**	176,017

(v) Loan from an executive Director

At 31 December 2010, the loan of RMB10,000,000 was from Li Baosheng and was unsecured, bore interest at 10.098% per annum and was fully settled on 25 August 2011 (note 36(c)).

27 INTEREST-BEARING BORROWINGS *(continued)*

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

(vi) Other loan

At 31 December 2011, the other loan of RMB2,400,000 was guaranteed by Mr. Zhang Yong, an non-executive Director of the Company, bore interest at 14.4% per annum and was repayable on 29 June 2012. At 31 December 2010, the other loan of RMB7,000,000 was secured by Li Baosheng's personal properties, bore interest at 7% per annum and was fully settled on 30 June 2011.

28 BANK LOANS

At 31 December 2011, the bank loans were repayable as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within 1 year or on demand	**103,000**	128,000
After 1 year but within 2 years	**62,000**	5,000
	165,000	133,000

At 31 December 2011, the bank loans were secured and guaranteed as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Bank loans		
— secured *(note a)*	**130,000**	83,000
— guaranteed *(note b)*	**35,000**	50,000
	165,000	133,000

28 BANK LOANS *(continued)*

Notes:

(a) The secured bank loans of RMB130,000,000 as at 31 December 2011 were secured by the Group's buildings with a carrying value of approximately RMB10,476,000 (2010: approximately RMB8,487,000) and lease prepayments with a carrying value of approximately RMB2,078,000 (2010: approximately RMB2,132,000). At 31 December 2011, certain properties of Li Baosheng（李保勝）, being one of the Company's executive Directors and key management of the Group, were also pledged to the bank for the loans granted to the Group.

The average effective interest rate on secured bank loans approximated 9.72% (2010: approximated 7.21%) per annum.

(b) As at 31 December 2011, the unsecured bank loans of RMB35,000,000 (2010: RMB10,000,000) were guaranteed by a wholly-owned subsidiary, namely Chengde Beichen High New Technology Co., Ltd.（承德北辰高新科技有限公司）. As at 31 December 2010, the unsecured bank loans of RMB40,000,000 were guaranteed by a wholly-owned subsidiary, namely Chengde Ruifeng Renewable Energy Windpower Equipment Co., Ltd..

The average effective interest rate on unsecured, guaranteed bank loans approximated 9.67% (2010: approximated 10.66%) per annum.

(c) As at 31 December 2011 and 31 December 2010, all of the bank loans are denominated in RMB.

29 EMPLOYEE RETIREMENT BENEFITS

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

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

The total expenses recognised in the consolidated income statement for the year of approximately RMB4,790,000 (2010: approximately RMB4,393,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

30 SHARE OPTION SCHEME

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

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

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

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Share Option Scheme ("General Scheme Limit"). The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

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

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

An option may be accepted by a participant within 7 days inclusive of the day on which such offer was made. A nominal consideration of HKD1 is payable on acceptance of the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Directors may determine which shall not exceed ten years from the date of grant subject to the provision of early termination thereof.

30 SHARE OPTION SCHEME *(continued)*

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

No option has been granted under the Share Option Scheme from the date of adoption of the scheme up to 31 December 2011.

31 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**2,250**	1,539
Provision for PRC Enterprise Income Tax for the year	**14,913**	17,333
Over provision in respect of prior years	**(3,432)**	(779)
Disposal of subsidiaries	**—**	(214)
PRC Enterprise Income Tax paid	**(2,541)**	(15,629)
At 31 December	**11,190**	2,250

31 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised:

(i) The Group

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

	Allowance for doubtful debts	Revaluation of property	Provision for unrealised profits	Convertible note	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:					
At 1 January 2010	1,837	—	345	—	2,182
Charged to reserves	—	—	—	(7,752)	(7,752)
Credited/(Charged) to income statement	443	—	(145)	630	928
Exchange adjustment	—	—	—	211	211
At 31 December 2010 and 1 January 2011	2,280	—	200	(6,911)	(4,431)
Acquisition of a subsidiary	—	(7,808)	—	—	(7,808)
Credited/(Charged) to income statement	750	—	(29)	2,190	2,911
Exchange adjustment	—	—	—	282	282
At 31 December 2011	**3,030**	**(7,808)**	**171**	**(4,439)**	**(9,046)**

31 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION *(continued)*

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

(ii) The Company

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

	Convertible note
	RMB'000
Deferred tax arising from:	
At 1 January 2010	—
Charged to reserves	7,752
Credited to income statement	(630)
Exchange adjustment	(211)
At 31 December 2010 and 1 January 2011	6,911
Credited to income statement	(2,190)
Exchange adjustment	(282)
At 31 December 2011	**4,439**

(iii) Reconciliation to the consolidated statement of financial position

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Net deferred tax asset recognised on the consolidated statement of financial position	**3,201**	2,480
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(12,247)**	(6,911)
	(9,046)	(4,431)

31 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of approximately RMB8,874,000 (2010: approximately RMB1,911,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profits streams.

(d) Deferred tax liabilities not recognised

Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of approximately RMB12,763,000 (2010: approximately RMB9,970,000) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

32 CAPITAL AND RESERVES

(a) Movements in components of equity

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

The Company

	Share capital	Translation reserve	Share premium	Convertible bonds/note reserve	Warrants reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	4,785	(8,401)	222,433	—	—	(35,309)	183,508
Acquisition of subsidiaries *(note 32 (b))*	1,701	—	313,003	—	—	—	314,704
Issue of convertible bonds in May 2010	—	—	—	58,180	—	—	58,180
Issue of convertible note in July 2010	—	—	—	65,431	—	—	65,431
Conversion of the convertible bonds *(note 32 (b))*	840	—	123,072	(57,985)	—	—	65,927
Conversion of the convertible note *(note 32 (b))*	414	—	41,820	(20,191)	—	—	22,043
Deferred tax relating to convertible bonds/note *(note 31)*	—	—	—	(7,752)	—	—	(7,752)
Total comprehensive income for the year	—	(1,281)	—	—	—	(615,221)	(616,502)
At 31 December 2010 and 1 January 2011	7,740	(9,682)	700,328	37,683	—	(650,530)	85,539
Issue of warrants	—	—	—	—	3,558	—	3,558
Total comprehensive income for the year	—	(5,433)	—	—	—	115,175	109,742
At 31 December 2011	7,740	(15,115)	700,328	37,683	3,558	(535,355)	198,839

32 CAPITAL AND RESERVES *(continued)*

(b) Share capital

	2011		2010	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Authorised:				
Ordinary shares of HKD0.01 each	**2,000,000**	**20,400**	2,000,000	20,400
Ordinary shares, issued and fully paid:				
At 1 January	**819,000**	**7,740**	480,000	4,785
Acquisition of subsidiaries *(note i)*	—	—	195,000	1,701
Conversion of the convertible bonds in July 2010 *(note ii)*	—	—	34,000	297
Conversion of the convertible bonds in August 2010 *(note iii)*	—	—	62,000	543
Conversion of the convertible note in September 2010 *(note iv)*	—	—	48,000	414
At 31 December	**819,000**	**7,740**	819,000	7,740

Notes:

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

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

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

32 CAPITAL AND RESERVES *(continued)*

(b) Share capital *(continued)*

Notes: (continued)

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

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

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Special reserve

The special reserve represented:

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

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

(iii) Statutory reserves

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

32 CAPITAL AND RESERVES *(continued)*

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

(iv) Other reserve

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

(v) Translation reserve

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

(vi) Convertible bonds/note reserve

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

(vii) Warrants reserve

The Company subscribed 150,000,000 warrants at an issue price of HKD0.03 per warrant with subscription price of HKD1.60 per share on 20 May 2011. The total consideration of approximately RMB3,558,000 received are recognised directly to the warrants reserve in equity.

(d) Distributability of reserves

As at 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB206,214,000 (2010: approximately RMB87,481,000).

(e) Capital management

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

32 CAPITAL AND RESERVES *(continued)*

(e) Capital management *(continued)*

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into account its future financial obligations and commitments. The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
	RMB'000	*RMB'000*
Interest-bearing borrowings:		
Current portion	**105,400**	145,000
Non-current portion	**378,198**	306,903
Total interest-bearing borrowings *(note 27)*	**483,598**	451,903
Less: Cash and cash equivalents *(note 24)*	**(82,656)**	(181,990)
Net debt	**400,942**	269,913
Total equity	**349,416**	255,733
Gearing ratio	**115%**	106%

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(a) Credit risk *(continued)*

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

(iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had a certain concentration of credit risk as 14% (2010: 8%) and 36% (2010: 19%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2011 respectively. The Group does not hold any collateral over these balances.

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

(v) Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(b) Liquidity risk

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(b) Liquidity risk *(continued)*

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

The Group

2011

	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Convertible bonds	9,339	141,477	—	150,816	82,843
Convertible note	—	86,745	—	86,745	59,845
Promissory note	16,214	178,354	—	194,568	173,510
Bank loans	115,680	67,471	—	183,151	165,000
Other loan	2,572	—	—	2,572	2,400
Trade and other payables (excluding advance from customers)	148,179	—	—	148,179	148,179
	291,984	474,047	—	766,031	631,777

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(b) Liquidity risk *(continued)*

The Group *(continued)*

2010

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(b) Liquidity risk *(continued)*

The Company

2011

	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Convertible bonds	**9,339**	**141,477**	**—**	**150,816**	**82,843**
Convertible note	**—**	**86,745**	**—**	**86,745**	**59,845**
Promissory note	**16,214**	**178,354**	**—**	**194,568**	**173,510**
Other payables	**9,071**	**—**	**—**	**9,071**	**9,071**
Amounts due to subsidiaries	**39**	**—**	**—**	**39**	**39**
	34,663	**406,576**	**—**	**441,239**	**325,308**

2010

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash and cash equivalents, bank deposits, bank loans, other loans and loans from ultimate holding company. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

	The Group				The Company			
	2011		2010		**2011**		2010	
	Effective interest rates %	***RMB'000***	Effective interest rates %	*RMB'000*	**Effective interest rates %**	***RMB'000***	Effective interest rates %	*RMB'000*
Fixed rate borrowings:								
Convertible bonds	**50.53**	**82,843**	50.53	77,774	**50.53**	**82,843**	50.53	77,774
Convertible note	**9.49**	**59,845**	9.49	48,112	**9.49**	**59,845**	9.49	48,112
Promissory note	**8.49**	**173,510**	8.49	176,017	**8.49**	**173,510**	8.49	176,017
Loan from an executive Director	**—**	**—**	10.098	10,000	**—**	**—**	—	—
Other loan	**14.40**	**2,400**	7.00	7,000	**—**	**—**	—	—
Bank loans								
Long term loan	**—**	**—**	9.68	5,000	**—**	**—**	—	—
Short term loan	**6.00**	**13,000**	8.46	128,000	**—**	**—**	—	—
		331,598		451,903		**316,198**		301,903
Variable rate borrowings:								
Bank loans								
Long term loan	**10.64**	**62,000**	—	—	**—**	**—**	—	—
Short term loan	**9.61**	**90,000**	—	—	**—**	**—**	—	—
		152,000		—		**—**		—
Total net borrowings		**483,598**		451,903		**316,198**		301,903
Net fixed rate borrowings as a percentage of total net borrowings		**69%**		100%		**100%**		100%

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB1,140,000 (2010: Nil).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense of such a change in interest rates.

(d) Currency risk

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

(i) Exposure to currency risk

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

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

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

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

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(d) Currency risk *(continued)*

(i) Exposure to currency risk *(continued)*

	2011	2010	**2011**	2010
	USD'000	*USD'000*	***HKD'000***	*HKD'000*
The Group				
Trade and other receivables	**2,369**	2,691	**697**	121
Cash and cash equivalents	**445**	18,794	**4,389**	4,939
Trade and other payables	**(42)**	(166)	**(726)**	(247)
Convertible bonds	**(13,293)**	(17,608)	**—**	—
Convertible note	**—**	—	**(73,819)**	(57,777)
Promissory note	**—**	—	**(214,023)**	(206,853)
Overall exposure arising from recognised assets and liabilities	**(10,521)**	3,711	**(283,482)**	(259,817)
The Company				
Amounts due from subsidiaries	**—**	—	**13,535**	5,852
Cash and cash equivalents	**—**	18,580	**2,992**	3,454
Trade and other payables	**—**	—	**(1,020)**	(48)
Convertible bonds	**(13,293)**	(17,608)	**—**	—
Convertible note	**—**	—	**(73,819)**	(57,777)
Promissory note	**—**	—	**(214,023)**	(206,853)
Overall exposure arising from recognised assets and liabilities	**(13,293)**	972	**(272,335)**	(255,372)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

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

The Group

	2011		2010	
	Increase/ (Decrease) in foreign exchange rates	Effect on profit after tax and retained profits *RMB'000*	Increase/ (Decrease) in foreign exchange rates	Effect on profit after tax and retained profits *RMB'000*
UNITED STATES DOLLARS	5%/(5%)	(3,342)/3,342	5%/(5%)	1,223/(1,223)
HONG KONG DOLLARS	5%/(5%)	(11,613)/11,613	5%/(5%)	(11,010)/11,010

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2010.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(e) Price risk

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

(f) Fair values

(i) Financial instruments carried at fair value

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

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

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

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(f) Fair values *(continued)*

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

2011

	The Group and the Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Liabilities				
— Derivative option embedded in convertible bonds	**—**	**1,027**	**—**	**1,027**

2010

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

During the year there were no significant transfer between instruments in Level 1 and Level 2 and no transfer into or out of Level 3 (2010: Nil).

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values because of their immediate or short term maturity as at 31 December 2011 and 2010.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(g) Estimation of fair values

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

(i) Derivative financial instruments

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

	2011	2010
Fair value of conversion options and assumptions		
Share price	**HKD1.58**	HKD1.73
Initial conversion price	**HKD1.50**	HKD1.50
Expected volatility	**44.075%**	39.07%
Option life	**1.5 years**	2.5 years
Risk-free interest rate	**0.20%**	0.81%

	2011	2010
Fair value of redemption options and assumptions		
	Early redemption price	Early redemption price
Exercise price	**HKD1.50**	HKD1.50
Option life	**1.5 years**	2.5 years
Risk-free interest rate	**0.20%**	0.81%

(ii) Interest-bearing loans and borrowings

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

34 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

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

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

(a) Acquisition of Beichen Hightech

On 12 January 2011, Chengde Ruifeng Renewable Energy Windpower Equipment Co., Ltd. ("Ruifeng Windpower"), a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire the entire equity interest in Chengde Beichen High New Technology Co., Ltd. ("Beichen Hightech") from Mr. Li Baosheng, an executive Director of the Company, and his associates, for a total consideration transferred of approximately RMB50,802,000 in cash. The acquisition was completed in February 2011.

Identifiable assets acquired and liabilities assumed:

	Recognised values on acquisition *RMB'000*
Property, plant and equipment	130
Available-for-sales investments	46,184
Inventories	272
Trade and other receivables	100
Cash and cash equivalents	103
Trade and other payables	(47)
Total identifiable net assets	46,742
Add: Goodwill	4,060
Consideration	50,802
Cash consideration	50,802
Cash and cash equivalents acquired	(103)
Net cash outflow for the year	**50,699**

34 ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(continued)*

(b) Acquisition of Langcheng

On 18 January 2011, Ruifeng Windpower, a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire further 70% equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. ("Langcheng") from Mr. Li Baosheng, an executive Director of the Company, and his associate, thereby increasing Ruifeng Windpower's interest in Langcheng from 30% to 100%, for a total consideration of RMB31,500,000 in cash. The acquisition was completed in June 2011.

The fair value was determined by the Directors with reference to a professional valuation performed by RHL Appraisal Limited ("RHL"), an independent professional qualified valuer.

Identifiable assets acquired and liabilities assumed:

	Recognised values on acquisition *RMB'000*
Property, plant and equipment	120,014
Trade and other receivables	7,516
Cash and cash equivalents	3,562
Trade and other payables	(68,029)
Deferred tax liabilities	(7,808)
Total identifiable net assets	55,255
Cash consideration	31,500
Fair value of previously held 30% interest in Langcheng	17,650
Net Identifiable assets acquired and liabilities assumed	(55,255)
Gain on a bargain purchase	**(6,105)**
Cash consideration	31,500
Cash and cash equivalents acquired	(3,562)
Net cash outflow for the year	**27,938**

As a result of remeasuring fair value of the 30% equity interest in Langcheng held by the Group before the acquisition, a gain of approximately RMB8,101,000 was recognised in the consolidated income statement.

34 ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(continued)*

(c) Acquisition of Power Full and its subsidiaries ("Power Full Group") in 2010

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

The fair value was determined by the Directors with reference to a professional valuation performed by RHL Appraisal Limited ("RHL"), an independent professional qualified valuer.

Identifiable assets acquired and liabilities assumed:

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

34 ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(continued)*

(d) Disposal of subsidiaries

There was no disposal of subsidiaries during the year ended 31 December 2011. Details of the subsidiaries (Action Star International Limited and its subsidiaries) disposed of during the year ended 31 December 2010 are set out below:

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

The consideration of HKD130,000,000 (equivalent to approximately RMB111,774,000) was satisfied in full by the purchaser in cash upon completion. The entire proceeds from the disposal were applied to repay a portion of the Company's outstanding indebtedness under the promissory note (note 27(b)(iv)).

Significant non-cash transactions

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

35 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

The Group

	2011	2010
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment		
— Contracted for	**11,385**	839

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 1 year	**1,025**	2,538
After 1 year but within 5 years	**445**	1,573
More than 5 years	**827**	907
	2,297	5,018

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

36 MATERIAL RELATED PARTY TRANSACTIONS

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

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties

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

		2011	2010
		RMB'000	*RMB'000*
Lucky Star Electronic	Purchase of goods	—	1,657
Micro-Electronics	Purchase of goods	5,496	7,755
Zhong Shan	Office rentals paid	—	53
Langcheng	Contract revenue	—	20,000
Mr. Li	Interest expenses	180	513

(b) Key management personnel remuneration

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

	2011	2010
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	5,884	5,949
Post-employment benefits	66	85
Salaries and other emoluments	5,950	6,034

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

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balance with related parties

As at 31 December 2011, the Group had the following balances with related parties:

Name of party	**2011** **RMB'000**	2010 RMB'000
Amounts due from related companies** *(note 21)*	—	458
Amount due from an associate** *(note 21)*	—	9,620
	—	10,078
Loan from an executive Director* *(note 27)*	—	10,000
Amounts due to Directors** *(note 26)*	**720**	1,600
Amounts due to related companies *(note 26)*	—	18,334
	720	29,934

* Loan from an executive Director was unsecured, bore interest at 10.098% per annum and was fully settled on 25 August 2011.

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

37 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Exercise of warrants

In March 2012, 12,000,000 warrants were exercised by the holders at a subscription price of HKD1.60 per share. As a result, 12,000,000 ordinary shares of HKD0.01 each were issued and allotted by the Company to the holders of such warrants. The net proceeds from exercise of warrants were approximately HKD19,200,000.

(b) Share conversion of convertible bonds

In March 2012, convertible bonds in aggregate amounts of USD6,000,000 was converted into ordinary shares, creating a total of 31,000,000 new ordinary shares of the Company at a conversion price of HKD1.50 per share.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

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

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

The recoverable amount of an asset is the greater of its fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(ii) Impairment of receivables

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

(iii) Depreciation

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

38 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(iv) Net realisable value of inventories

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

(v) Construction contracts

As explained in policy notes 2(m) and (v)(ii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 22 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(vi) Estimated impairment of goodwill

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

(vii) Fair value of derivative financial instruments

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

38 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(viii) Recognition of deferred tax assets

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

(ix) Recognition of deferred tax liabilities

As at 31 December 2011, no deferred tax liabilities have been recognised on the distributable profits of the group companies in the PRC as the Group plans to retain those profits in the respective entities for their daily operations and future developments. In case there is distribution of profits, additional tax liabilities will arise, which will be recognised in the profit or loss for the period in which such profits are declared or the future development plan of the Group amends, whichever is earlier.

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

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

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to HKAS 12, Income taxes — Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income	1 July 2012
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
HK (IFRIC) — Int 20 — Stripping costs in the production phase of a surface mine	1 January 2013
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
HKAS 28, Investments in associates and joint ventures	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

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

Five Years' Financial Summary

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**750,328**	804,183	425,742	387,541	384,278
Profit/(Loss) from operations	**182,875**	(532,765)	16,527	30,573	49,751
Profit/(Loss) before taxation	**100,088**	(558,124)	11,314	21,083	41,074
Profit/(Loss) for the year	**91,518**	(573,750)	12,577	18,713	35,630
Attributable to:					
Equity holders of the Company	**91,518**	(573,750)	12,577	18,713	36,831
Non-controlling interests	**—**	—	—	—	(1,201)
	91,518	(573,750)	12,577	18,713	35,630
Assets and liabilities					
Total assets	**1,020,270**	973,433	550,592	487,919	511,507
Total liabilities	**(670,854)**	(717,700)	(238,441)	(219,574)	(263,801)
Net assets	**349,416**	255,733	312,151	268,345	247,706
Equity					
Share capital	**7,740**	7,740	4,785	4,080	4,080
Reserves	**341,676**	247,993	307,366	264,265	243,626
Total equity attributable to equity shareholders of the Company	**349,416**	255,733	312,151	268,345	247,706
Non-controlling interests	**—**	—	—	—	—
Total equity	**349,416**	255,733	312,151	268,345	247,706

Note:

1 The results for the year ended 31 December 2011, and the assets and liabilities as at 31 December 2011 have been extracted from the consolidated income statement and consolidated statement of financial position as set out on pages 52 to 54 respectively, of the consolidated financial statements.