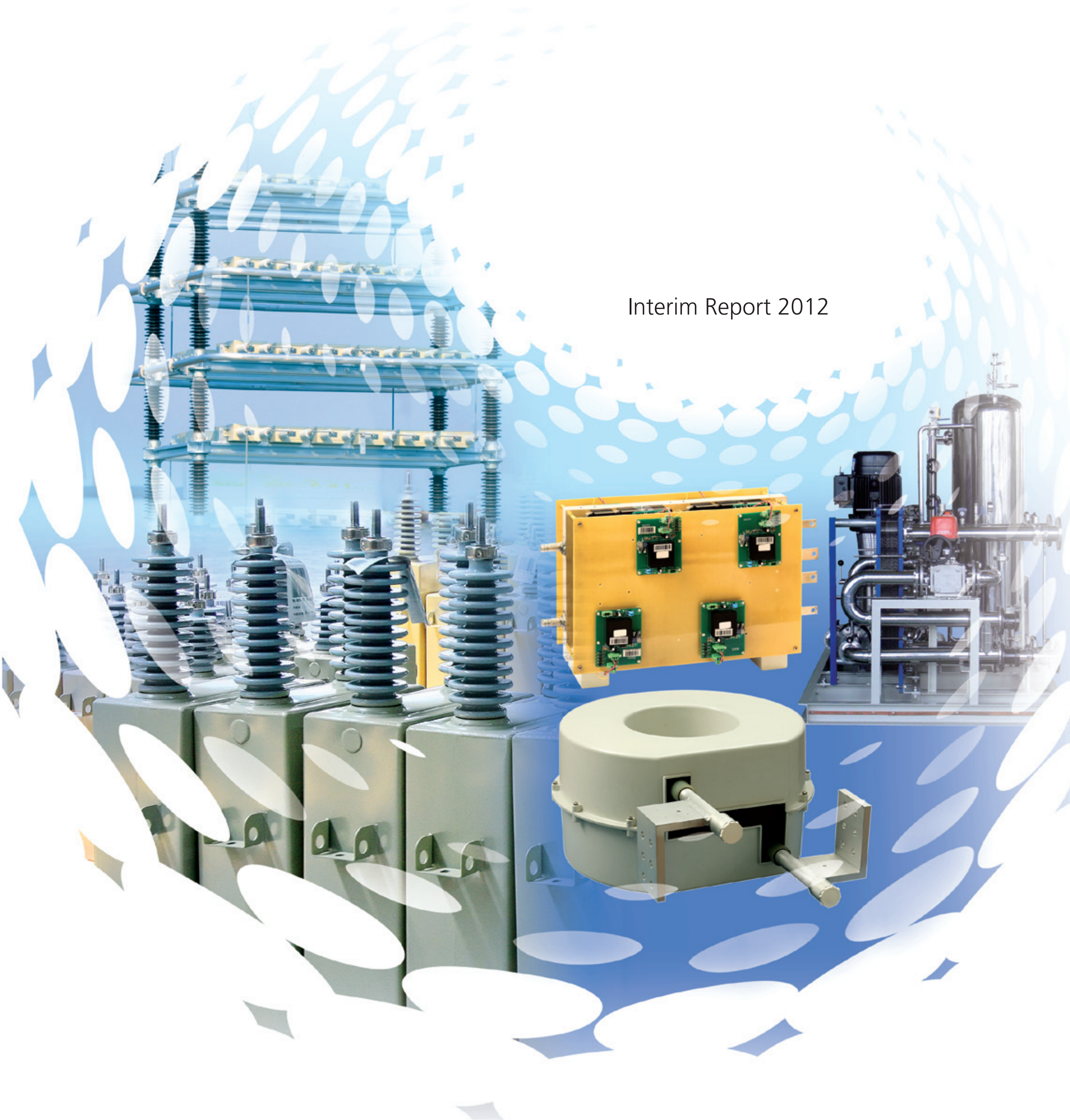
# Sun.King Power Electronics Group Limited
# 賽晶電力電子集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 580



Interim Report 2012

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# CORPORATE INFORMATION

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

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

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

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

## Audit committee
Mr. Chen Shimin *(chairman)*
Mr. Wang Yi
Mr. Ye Weigang Greg

## Remuneration committee
Mr. Wang Yi *(chairman)*
Mr. Wong Kun Kau
Mr. Li Fengling

## Nomination committee
Mr. Li Fengling *(chairman)*
Mr. Gong Renyuan
Mr. Chen Shimin

## Investment committee
Mr. Li Fengling *(chairman)*
Mr. Xiang Jie
Mr. Ye Weigang Greg
Mr. Wong Kun Kau
Mr. Chen Shimin

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

## Auditors
Ernst & Young

## Compliance adviser
Haitong International Capital Limited

## Legal adviser
Pang & Co.

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

## Headquarters
25 Building
No.99 Kechuang 14th Street
Beijing Economic-Technological Development Area
Daxing District, Beijing
PRC

## Principal place of business in Hong Kong
8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

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

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

## Listing Exchange Information
Place of listing: Main Board of
The Stock Exchange of Hong Kong Limited
Stock Code: 00580

## Company's website
www.speg.hk

Dear Shareholders,

I am pleased to present on behalf of the Board (the "**Board**") of Directors (the "**Directors**") the interim report of Sun.King Power Electronics Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2012.

During the period under review, the Group's consolidated turnover increased by 1.9% year-to-year to RMB274.9 million driven by the significant growth of our manufacturing of power electronic components business. Turnover for the trading of power electronic components accounted for 11.3% of the Group's consolidated turnover, represented a decrease of 74.2% over the same period in 2011; on the other hand, turnover for the manufacturing of power electronic components accounted for 88.7% of the Group's consolidated turnover, represented an outstanding growth of 63.1% over the same period in 2011, which reflected the Group endeavored to improve its manufactured products under the difficult market environment of trading business which the Group experienced in the first half of this year.

To facilitate the growth of the Group's manufacturing business and to maintain a stable supply of semiconductors, on 11 April 2012, it has successfully renewed a distribution agreement with its largest supplier, ABB Switzerland Ltd Semiconductors ("**ABB Switzerland**"), effective retroactively from 1 December 2011 and in force for 12 months, subject to an annual automatic renewal until the end of year 2016. Under the distribution agreement, ABB Switzerland shall constantly supply a range of products for its resale in the People's Republic of China ("**PRC**").

The Group makes continuous efforts to maintain and expand its leadership position in power electronic components related businesses through strategic alliance and joint venture arrangements. On 26 March 2012, the Group formed a new joint venture company with an international leading company in equipment and components for railway systems. The scope of business of the new joint venture company shall include producing, selling and maintaining electronic traction systems and train control and monitoring systems in the PRC. The construction of the required systems and facilities is expected to be completed in or before the year 2013. The Company believes that the new joint venture company would provide synergies to its development in IGBT power modules for urban metro projects.

In order to expand the Group's market shares, it has been launching new products from time to time and the sales in first half of 2012 of its new products launched was satisfactory. The Group became one of the five largest local manufacturers in manufacturing DC ice melting and static reactive power compensation in the PRC. During the period under review, we launched various types of high-power laminated busbars for uses in power conversion and targeted to increase its market share. Such samples have been distributed to its customers for trails and test and their qualities have been proven to be of very high quality standard in the PRC.

As disclosed in the Company's 2011 Annual Report ("**2011 Annual Report**"), the Group's construction of the "High Power Experimental System" laboratory under the "HVDC Converter Valve Industrialisation" programme promoted by Xi'an Electric Power System Co., Ltd. has been in progress. The installment of equipment is expected to be completed by the end of 2012.

During the first half of 2011, the appreciation of Swiss Franc ("**CHF**") brought material adverse effect on the Group's operation. In order to reduce the risk of currency fluctuations, the Group have implemented a more stringent policy on currency exposures by purchasing forward currency exchange contracts to lock-up exchange rates on the corresponding delivery during the period under review. The Board is of the view that the impact of volatility of CHF on the Group's results has been mitigated with such measure taken.

In the second half of 2012, the global environment is still foreseen to be challenging. Our management will pay close attention to the economic development while implementing further costs control policies, improving our production efficiency and utilization rate of the manufacturing facilities. We are cautiously optimistic about the Company's outlook in the second half in light of the PRC government's continuous support in investment in infrastructures.

Last but not least, on behalf of the Board, I would like to take this opportunity to thank our colleagues of the Board, our dedicated staff for their hard work and contributions as well as our business partners for their support during the period.

**Xiang Jie**
*Chairman*

Hong Kong, 23 August 2012

## BUSINESS REVIEW

### Revenue

The Group's revenue increased by approximately RMB5.1 million, or 1.9%, from approximately RMB269.8 million for the six months ended 30 June 2011 to approximately RMB274.9 million for the six months ended 30 June 2012. The growth was mainly attributable to rapid increase in business of manufacturing of power electronic components.

The following table sets forth the breakdown of the Group's revenue by business units and their contribution to the Group's total revenue for the six months ended 30 June 2012, with corresponding comparative figures in 2011:

| | For the six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Trading of power electronic components | **31,008** | 120,292 |
| Manufacturing of power electronic components | **243,846** | 149,462 |
| Total | **274,854** | 269,754 |

Notwithstanding that the revenue generated from the trading of power electronic components decreased by approximately RMB89.3 million, or 74.2%, from approximately RMB120.3 million during the first six months in 2011 to approximately RMB31.0 million for the corresponding period in 2012; the revenue generated from manufacturing of power electronic components significantly increased by approximately RMB94.3 million, or 63.1%, from approximately RMB149.5 million during the first six months in 2011 to approximately RMB243.8 million for the corresponding period in 2012.

### Cost of sales

Cost of sales decreased by 9.2% from approximately RMB228.0 million for the six months ended 30 June 2011 to approximately RMB207.1 million for the corresponding period in 2012.

The reduction of cost of sales was resulted from the less adverse impact by currency fluctuation on its raw material costs.

### Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB25.9 million, or 62.0%, from approximately RMB41.8 million for the six months ended 30 June 2011 to approximately RMB67.7 million for the corresponding period in 2012 its gross profit margin increased from approximately 15.5% for the six months ended 30 June 2011 to approximately 24.6% for the corresponding period in 2012. The increases in both gross profit and gross profit margin were primarily resulting from the effective measures taken by the Group against foreign currency transaction exposures. The Group therefore managed to control the costs of trading power electronic components and some other raw materials which were denominated in CHF.

### Other income and gains, net

Other net income and gains of the Group decreased by approximately RMB2.1 million, or 30.9%, from approximately RMB6.8 million for the six months ended 30 June 2011 to approximately RMB4.7 million for the corresponding period in 2012. The decreased was primarily due to a net fair value loss on foreign currency forward contracts of RMB1.3 million (six months ended 30 June 2011: net fair value gain on foreign currency forward contracts: RMB4.9 million) which resulted from the conversion of currency of the Group's trade payables as at 30 June 2012 from CHF to RMB and an appreciation of CHF against RMB as at 30 June 2012 compared to the rate prevailing as at 31 December 2011. The government grants received by the Group significantly increased from approximately RMB0.2 million for the six months ended 30 June 2011 to approximately RMB4.5 million for the corresponding period in 2012, which partially offset the loss on foreign currency forward contracts.

## Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB8.5 million or 85.0%, from approximately RMB10.0 million in the six months ended 30 June 2011 to approximately RMB18.5 million in the corresponding period in 2012, primarily attributable to an increase in salaries and social welfare paid to the increased number of staff employed and advertising and promotion expenses and traveling expenses incurred for new product launch and branding. Distribution and selling expenses constituted 6.7% of the Group's revenue for the six months ended 30 June 2012, as compared to 3.7% for the corresponding period in 2011.

## Administrative expenses

Administrative expenses increased by approximately RMB2.3 million or 7.2%, from approximately RMB31.8 million for the six months ended 30 June 2011 to approximately RMB34.1 million for the corresponding period in 2012, primarily reflecting an increase in number of headcounts and other administrative expenses incurred due to the acquisitions of subsidiaries. As a result, administrative expenses constituted 12.4% of the Group's total revenue for the six months ended 30 June 2012, as compared to 11.8% for the corresponding period in 2011.

## Other expenses

Other expenses of the Group significantly decreased by approximately RMB10.2 million, or 58.6%, from approximately RMB17.4 million for the six months ended 30 June 2011 to approximately RMB7.2 million for the corresponding period in 2012. The decrease was mainly due to the decrease of foreign exchange differences from approximately RMB12.4 million to approximately RMB1.6 million for the corresponding period in 2012. Other expenses mainly comprised provisions for doubtful debts, research and development expenses, and foreign exchange differences, net.

## Finance costs

The Group's finance costs increased from approximately RMB1.5 million for the six months ended 30 June 2011 to approximately RMB9.2 million for the corresponding period in 2012. The increase was due to the increase in the interest in relation to bank loans from RMB1.5 million for the six months ended 30 June 2011 to RMB9.2 million for the corresponding period in 2012.

## Profit before tax

As a result of the foregoing, the Group's profit before tax increased by approximately RMB15.9 million, or 127.2%, from a loss before tax amounted to approximately RMB12.5 million for the six months ended 30 June 2011 to a profit before tax amounted to approximately RMB3.4 million for the corresponding period in 2012.

## Income tax expense

The Group's income tax expense increased by approximately RMB3.6 million, or 80.0%, from approximately RMB4.5 million for the six months ended 30 June 2011 to approximately RMB8.1 million for the corresponding period in 2012. The increase was primarily due to the rebound from the Group's loss before tax in 2011 to profit before tax for the corresponding period in 2012 and thus the Group was subject to PRC corporate income tax ("**CIT**").

## Loss and total comprehensive loss for the period attributable to owners of the Company

The Group's loss and total comprehensive loss for the period attributable to owners of the parent amounted to approximately RMB3.0 million for the six months ended 30 June 2012 when compared to the loss and total comprehensive loss for the period of approximately RMB17.6 million for the six months ended 30 June 2011. The Group's net loss margin is approximately 1.1% in the six months ended 30 June 2012, which is calculated as loss attributable to owners of the Company for the period divided by total revenue, while the net loss margin was approximately 6.5% for the corresponding period in 2011.

## Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (corresponding period in 2011: Nil).

## FINANCIAL REVIEW

### Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from sales of its products and bank borrowings. As at 30 June 2012, the Group's current ratio (current assets divided by current liabilities) was 1.9 (as at 31 December 2011: 2.0). As at 30 June 2012, the Group had cash and cash equivalents of RMB207.3 million (mainly denominated in RMB, United States dollars ("USD"), and Hong Kong dollars ("HKD"); as at 31 December 2011: RMB184.5 million) and interest-bearing bank loans of RMB283.2 million (as at 31 December 2011: RMB227.1 million). The increase in short-term bank loans was mainly for working capital purposes.

As at 30 June 2012, the Group's gearing ratio measured on the basis of total interest-bearing bank loans to total equity was 34.1%, as compared to 27.5% as at 31 December 2011.

As at 30 June 2012 and 31 December 2011, all the Group's bank loans were at variable interest rates, mainly denominated in RMB and had contractual maturity within one year from the end of the reporting period. The effective interest rates on the Group's fixed-rate bank borrowings were also equal to the weighted average contracted interest rates of 5.93% per annum as at 30 June 2012 (as at 31 December 2011: 5.48% per annum). During the period under review, there was no material movement in the Group's funding and treasury policy.

Majority of the Group's fund has been deposited in banks in the PRC and licensed banks in Hong Kong. The Board believes that the Group possesses sufficient cash and cash equivalents to meet its commitments and working capital requirements in the second half of its fiscal year. The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

### Interest rate and foreign currency exposure

The Group's interest rate risk primarily relates to its fixed-rate bank borrowings. The Group currently has not entered into interest rate swaps to hedge against its exposure to changes in fair values of its borrowings. The Group's cash flow interest rate risk primarily relates to its variable-rate bank deposits. Currently, the Group does not have a specific policy to manage its interest rate risk, but will closely monitor the interest rate risk exposure in the future. In the opinion of the Board, the Group did not have significant exposure to cash flow interest rate risk as at 31 December 2011 and 30 June 2012.

As most of the principal subsidiaries of the Company are operating in the PRC, their functional currency is RMB. However, certain purchases of the Group are denominated in CHF, USD, Euro and HKD, which are currencies other than the functional currency of the relevant group entities and thus expose the Group to foreign currency risk.

Since 2007, the Group has been reducing its CHF exposure against RMB by using foreign exchange forward contracts in order to increase its foreign exchange visibility and limit losses. The carrying amount of foreign currency forward contracts outstanding as at 30 June 2012 was RMB1.6 million (as at 31 December 2011: RMB0.9 million).

### Contingent liabilities

As at 30 June 2012, the Group had no material contingent liability.

### Charges on Group Assets

As at 30 June 2012, the Group pledged (i) deposits of approximately RMB14.2 million (31 December 2011: approximately RMB25.1 million) to secure short-term foreign currency forward contracts and letters of credit of the Group.; and (ii) certain trade receivables with an aggregate carrying amount of approximately RMB64.5 million (31 December 2011: RMB96.1 million) to secure bank loans granted to the Group.

## USAGE OF PROCEEDS FROM LISTING

Net proceeds of approximately HKD593.0 million were raised from the listing (the "**Listing**") of the Company's shares on the The Stock Exchanges of Hong Kong Limited (the "**Stock Exchange**") in October 2010. Up to 30 June 2012, out of the total net proceeds from the Listing, RMB284.3 million was utilised for repayment of bank borrowings, land acquisition and construction of buildings for expansion of production capacity, building construction for research and development, strategic acquisitions and investments and working capital and general corporate expenses.

## HUMAN RESOURCES

As at 30 June 2012, the Group employed 628 employees (30 June 2011: 620 employees). Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group has neither experienced any significant problems with its employees or disruptions to its operations due to labor disputes, nor has it experienced any difficulties in the recruitment and retention of experienced employees.

## PROSPECTS

The Group's vision is to become a leading enabler of power efficiency and emission reduction in the PRC by providing a comprehensive range of power electronic components, integrated systems and technology solutions domestically and internationally. Looking ahead, the PRC government increased the public finance expenditure and introduced monetary policies to promote domestic demand, especially to facilitate investment in social and infrastructure. The Group will focus on the PRC rail transportation, and power distribution and transmission sectors, which are expected to benefit from the continuous public investments encouraged by the PRC government's policies.

The Group places a strong emphasis on improving its research and development capability, in order to diversify its product range and to stay at the technological forefront in the industry. The Group will endeavor to expand its market share and diversify product portfolio, as well as enhance its capability in developing high-end products through its proprietary know-how and strategic business collaborations with suitable partners.

In addition, the Group will also continue to improve production and operational efficiency, utilisation rate of its manufacturing facilities in order to achieve a sustainable growth. The Board and management of the Company commit that they will dedicate their efforts in leading its staff to drive the development of the Group, thus to maximise benefits for the shareholders of the Group.

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PRACTICES

In the Corporate Governance Report published in the 2011 Annual Report, the Company reported that it places high value on its corporate governance practice and the Board firmly believes that good corporate governance practices could improve accountability and transparency for the benefit of its shareholders. The Company has complied with the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) set out in Appendix 14 to the Listing Rules of Securities on the Stock Exchange (the "**Listing Rules**") throughout the six months ended 30 June 2012, except the deviation from the practice under the code provision A2.1 of the Code on Corporate Governance Practices and Corporate Governance Code for the period from 1 January 2012 to 9 April 2012. The code provision A2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. In order to comply with code provision A2.1, with effect from 10 April 2012, Mr. Xiang Jie has relinquished his role as the Chief Executive Officer of the Company and remains an executive Director and the Chairman of the Board and Mr. Gong Renyuan is appointed as the Chief Executive Officer. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining high standards of corporate governance practices.

## BOARD OF DIRECTORS AND BOARD COMMITTEES

Since January 2012, the compositions of the Board, the audit committee ("**Audit Committee**"), the nomination committee ("**Nomination committee**"), the remuneration committee ("**Remuneration Committee**") and the investment committee ("**Investment Committee**") of the Board (together, the "**Board Committees**") remain the same as set out in the 2011 Annual Report, save that (i) Mr. Wong Kun Kau resigned as the chairman of the Remuneration Committee and was re-appointed as a member of the Remuneration Committee; and (ii) Mr. Wang Yi was appointed as the chairman of the Remuneration Committee on 27 March 2012 and became effective on 10 April 2012.

The positions of the Chairman of the Board and the Chief Executive Officer of the Group are held by separate individuals. There are no substantial changes in the information of Directors as disclosed in the 2011 Annual Report.

## AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, including the review of the condensed consolidated financial statements of the Group for the six months ended 30 June 2012.

The Audit Committee comprises Mr. Chen Shimin (chairman), Mr. Wang Yi and Mr. Ye Weigang Greg. At the Company's annual general meeting held on 1 June 2012, shareholders approved the appointment of Ernst & Young as the Company's external auditors up to the conclusion of the annual general meeting to be held in 2013. The procedures in relation to the selection, appointment and determination of the audit fee of the Company's external auditors were reviewed by the Audit Committee and approved by the Board.

## REMUNERATION COMMITTEE

The Remuneration Committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The Remuneration Committee is responsible for making recommendations to the Board regarding the compensation of the Directors. In addition, the Remuneration Committee conducts reviews of the performance, and determines the compensation structure of senior management of the Group. The current members of the Remuneration Committee are Mr. Wang Yi (chairman), Mr. Wong Kun Kau and Mr. Li Fengling.

## NOMINATION COMMITTEE

The Nomination Committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The Nomination Committee is responsible for making recommendations to the Board regarding candidates to fill vacancies on the Board. The current members of the Nomination Committee are Mr. Li Fengling (chairman), Mr. Gong Renyuan and Mr. Chen Shimin.

## INVESTMENT COMMITTEE

The Investment Committee was established on 28 June 2011 and is responsible for making recommendation to the Board regarding investments in fixed assets (both tangible and intangible), equity, debt, financial securities, restructuring and joint venture. The Investment Committee comprises two independent non-executive Directors, Mr. Li Fengling (chairman) and Mr. Chen Shimin, two non-executive Directors, Mr. Ye Weigang Greg and Mr. Wong Kun Kau and one executive Director, Mr. Xiang Jie.

## CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed herein, for the six months ended 30 June 2012 and up to the date of this report, there were no changes to information required to be disclosed by the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

## INTERNAL CONTROL

In respect of the year ended 31 December 2011, the Board considered the Company's internal control system effective and adequate. During the six months ended 30 June 2012, the Board, through the Audit Committee, conducted review on the internal control system previously adopted by the Company in the year 2011 and considered no significant areas of concern that might affect shareholders were identified.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Board 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 Group's own code of conduct regarding Directors' securities transactions. The Board having made specific enquiry of all Directors and the Directors confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2012.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("**SFO**"), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### (i) Long positions in the shares, underlying shares and debentures of the Company:

| Name of Director | Nature of interest | Number of ordinary shares | Number of underlying shares held under equity derivatives *(Note 3)* | Total | Approximate percentage of interest in the Company *(Note 4)* |
|---|---|---|---|---|---|
| Mr. Xiang Jie | Beneficial owner and interest in controlled corporation | 421,182,347 *(Note 1)* | 12,000,000 | 433,182,347 | 31.74% |
| Mr. Gong Renyuan | Beneficial owner and the interest of spouse | 18,060,000 | 8,770,000 *(Note 2)* | 26,830,000 | 1.97% |
| Mr. Yue Zhoumin | Beneficial owner | 4,000,000 | 1,420,000 | 5,420,000 | 0.40% |
| Mr. Huang Xiangqian | Beneficial owner | 6,000,000 | 1,700,000 | 7,700,000 | 0.56% |

*Notes:*

1. Out of these 421,182,347 shares, 5,554,000 shares were directly held by Mr. Xiang Jie ("**Mr. Xiang**") and the remaining 415,628,347 shares were held by Max Vision Holdings Limited ("**Max Vision**"), which in turn was wholly and beneficially owned by Mr. Xiang. Mr. Xiang is deemed under the SFO to be interested in the 415,628,347 shares held by Max Vision.

2. Out of these 8,770,000 underlying shares, 7,350,000 underlying shares were directly held by Mr. Gong Renyuan and the remaining 1,420,000 underlying shares were held by Ms. Ren Jie, the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan is deemed under the SFO to be interested in the 1,420,000 underlying shares held by Ms. Ren Jie.

3. These interests represented the interests in underlying shares in respect of share options granted by the Company to these Directors as beneficial owners, the details of which are set out in the section below headed "**Share Option Scheme**".

4. There were 1,364,650,000 shares of the Company in issue as at 30 June 2012.

### (ii) Short position in the shares, underlying shares and debentures of the Company:

None of the Directors of the chief executives had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company or its associated corporations as at 30 June 2012.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in the interim report, at no time during the six months ended 30 June 2012, and up to the date of this interim report were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was in the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

### (i) Long positions in the shares and underlying shares of the Company:

| Name of Substantial shareholder | Nature of interest | Total number of shares held | Approximate percentage of interest in the Company *(Note 4)* |
|---|---|---|---|
| Max Vision | Beneficial owner | 415,628,347 | 30.46% |
| Meng Fankun | Interest of spouse | 433,182,347 *(Note 1)* | 31.74% |
| NewMargin Growth Fund L.P. | Beneficial owner | 200,000,000 | 14.66% |
| Common Goal Holdings Limited ("**Common Goal**") | Beneficial owner | 89,570,000 | 6.56% |
| Peregrine Greater China Capital Appreciation Fund, L.P. ("**Peregrine Greater China**") | Interest in controlled corporation | 89,570,000 *(Note 2)* | 6.56% |
| Bull Capital Partners GP Limited ("**Bull Capital**") | Interest in controlled corporation | 89,570,000 *(Note 3)* | 6.56% |

*Notes:*

1. Ms. Meng Fankun, the spouse of Mr. Xiang, is deemed under the SFO to be interested in the 433,182,347 shares in which Mr. Xiang was interested.

2. Peregrine Greater China held 100% equity interest in Common Goal. As such, it is deemed to be interested in the 89,570,000 shares held by Common Goal.

3. Bull Capital was the general partner of Peregrine Greater China and held 6.49% of its equity interest. As such, Bull Capital is deemed to be interested in the 89,570,000 shares held indirectly by Peregrine Greater China in Common Goal.

4. There were 1,364,650,000 shares of the Company in issue as at 30 June 2012.

### (ii) Short position in the shares and underlying shares of the Company:

Save as disclosed above, as at 30 June 2012, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under section 336 of the SFO.

## SHARE OPTION SCHEME

Prior to the Listing, the Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 23 September 2010 which became effective and unconditional upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in the section headed "Share Option Scheme" in the prospectus of the Company dated 30 September 2010 as rewards or incentives for their contribution to the Group.

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

The total number of shares of the Company issued and to be issued upon exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue. The Share Option Scheme will remain in force for a period of 10 years. Under the Share Option Scheme, each option has a 10-year exercise period unless otherwise determined by the Board.

Details of movements in the share options under the Share Option Scheme during the six months ended 30 June 2012 and share options outstanding as at the beginning and end of the period are set out below:

| Name of grantees | Date of grant | As at 1 January 2012 | Granted during the period | Exercised during the period | Lapsed during the period | Number of share options cancelled during the period | Outstanding as at 30 June 2012 | Exercise price (HK$ per share) | Share price immediately before the grant date (HK$ per share) | Fair value of share options# (HK$ per share) | Exercisable period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mr. Xiang Jie *(Chairman, executive Director and substantial shareholder of the Company)* | 26 April 2012 | – | 12,000,000 | – | – | – | 12,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 - 25 April 2018 |
| Mr. Gong Renyuan *(Chief executive officer and executive Director)* | 27 April 2011 | 1,350,000 | – | – | – | – | 1,350,000 | 1.83 | 1.72 | 0.83 | 27 April 2012 - 26 April 2017 |
| | 26 April 2012 | – | 6,000,000 | – | – | – | 6,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 - 25 April 2018 |
| Mr. Yue Zhoumin *(executive Director)* | 27 April 2011 | 420,000 | – | – | – | – | 420,000 | 1.83 | 1.72 | 0.83 | 27 April 2012 - 26 April 2017 |
| | 26 April 2012 | – | 1,000,000 | – | – | – | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 - 25 April 2018 |
| Mr. Huang Xiangqian *(executive Director)* | 27 April 2011 | 700,000 | – | – | – | – | 700,000 | 1.83 | 1.72 | 0.83 | 27 April 2012 - 26 April 2017 |
| | 26 April 2012 | – | 1,000,000 | – | – | – | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 - 25 April 2018 |
| Ms. Ren Jie *(senior management and the spouse of Mr. Gong Renyuan)* | 27 April 2011 | 420,000 | – | – | – | – | 420,000 | 1.83 | 1.72 | 0.81 | 27 April 2012 - 26 April 2017 |
| | 26 April 2012 | – | 1,000,000 | – | – | – | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 - 25 April 2018 |
| | | 2,890,000 | 21,000,000 | – | – | – | 23,890,000 | | | | |
| Employees in aggregates | 27 April 2011 | 7,600,000 | – | – | – | (370,000) | 7,230,000 | 1.83 | 1.72 | 0.79 | 27 April 2012 - 26 April 2017 |
| | 26 April 2012 | – | 20,950,000 | – | – | (200,000) | 20,750,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 - 25 April 2018 |
| Other grantees | 27 April 2011 | 4,000,000 | – | – | – | – | 4,000,000 | 1.83 | 1.72 | 0.83 | 27 April 2012 - 26 April 2017 |
| Total | | 14,490,000 | 41,950,000 | – | – | (570,000) | 55,870,000 | | | | |

# The fair value per option varies slightly amongst employees, executives and other grantees because certain parameters including post-vesting forfeiture rates for different level of grantees were adopted for valuation purpose based on historical turnover rate of similar level and management's estimation.

In respect of the share options granted on 26 April 2012, the fair value of the options was estimated on the date of grant using the binomial tree of lattice pricing model with the following significant parameters:

| | |
|---|---|
| Grant date share price | HK$0.47 |
| Exercise price | HK$0.55 |
| Expected life of option | 6 years |
| Expected volatility | 59% |
| Dividend yield | 0% |
| Risk-free interest rate | 0.7% |

The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate with the assistance of an independent valuation firm, Shanghai FairPro consulting Co., Ltd. The major variables and assumptions are derived as follows:

(a) Expected volatility: based on Company's historical price movement and average industry rate;

(b) Dividend yield: assumed to be zero.

As any changes is subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the model does not necessarily provide a reliable single measure of the fair value of the share options.

## REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2012, the Company repurchased the following number of its own shares on the Stock Exchange. The particulars of repurchases are as follows:

| **Month of repurchases** | **Number of shares** | **Highest price per share paid** HK$ | **Lowest price per share paid** HK$ | **Aggregate price paid** HK$ |
|---|---|---|---|---|
| May 2012 | 930,000 | 0.42 | 0.39 | 371,260 |

The above-mentioned shares were duly cancelled and, accordingly, the issued share capital of the Company was diminished by the nominal value of these shares. The premium and brokerage expenses paid on repurchases were charged against retained profit and an amount equivalent to the nominal value of the shares cancelled was transferred from retained profit to the capital redemption reserve account.

The repurchase of shares was made for the purpose of enhancing the net asset value per share of the Company and was pursuant to a general mandate granted to the Board at the annual general meeting of the Company held on 21 June 2011.

Save as disclosed above, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed securities during six months ended 30 June 2012.

## MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not engage in any material acquisitions or disposals during the six months ended 30 June 2012.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**TO THE BOARD OF DIRECTORS OF SUN.KING POWER ELECTRONICS GROUP LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 28 which comprises the condensed consolidated statement of financial position of Sun.King Power Electronics Group Limited (the "Company") as at 30 June 2012 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

**Ernst & Young**
*Certified Public Accountants*

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

23 August 2012

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

| | Notes | For the six months ended 30 June **2012** RMB'000 (Unaudited) | 2011 RMB'000 (Unaudited) |
|---|---|---|---|
| REVENUE | *3* | **274,854** | 269,754 |
| Cost of sales | | **(207,146)** | (227,998) |
| Gross profit | | **67,708** | 41,756 |
| Other income and gains, net | *4* | **4,740** | 6,805 |
| Selling and distribution costs | | **(18,526)** | (10,019) |
| Administrative expenses | | **(34,131)** | (31,795) |
| Other expenses | | **(7,220)** | (17,408) |
| Finance costs | *6* | **(9,220)** | (1,487) |
| Share of loss of a jointly-controlled entity | | **–** | (380) |
| PROFIT/(LOSS) BEFORE TAX | *5* | **3,351** | (12,528) |
| Income tax expense | *7* | **(8,054)** | (4,499) |
| LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | | **(4,703)** | (17,027) |
| Attributable to: | | | |
| Owners of the parent | | **(2,971)** | (17,636) |
| Non-controlling interests | | **(1,732)** | 609 |
| | | **(4,703)** | (17,027) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | *8* | | |
| Basic and diluted | | **RMB(0.22) cents** | RMB(1.29) cents |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

| | Notes | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *9* | **246,651** | 211,897 |
| Prepaid land lease payments | | **62,863** | 56,387 |
| Deposits for purchase of items of property, plant and equipment | | **1,715** | 8,908 |
| Deposits paid for prepaid land lease payments | | **–** | 7,117 |
| Goodwill | | **40,357** | 40,357 |
| Other intangible assets | | **26,122** | 26,373 |
| Club memberships | | **2,534** | 2,534 |
| Trade receivables | *10* | **33,609** | 25,206 |
| Deferred tax assets | | **6,661** | 4,341 |
| Total non-current assets | | **420,512** | 383,120 |
| CURRENT ASSETS | | | |
| Inventories | | **153,713** | 175,479 |
| Trade and bills receivables | *10* | **469,398** | 468,538 |
| Prepayments, deposits and other receivables | | **46,030** | 43,087 |
| Due from directors | *16(a)* | **383** | – |
| Prepaid land lease payments | | **1,401** | 1,041 |
| Pledged deposits | | **14,238** | 25,110 |
| Cash and cash equivalents | | **207,300** | 184,452 |
| Total current assets | | **892,463** | 897,707 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *11* | **117,985** | 142,020 |
| Other payables and accruals | | **46,834** | 56,725 |
| Derivative financial instruments | | **1,615** | 886 |
| Interest-bearing bank borrowings | | **283,220** | 227,130 |
| Tax payable | | **16,657** | 12,193 |
| Total current liabilities | | **466,311** | 438,954 |

*(Continued)*

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2012

| | 30 June 2012 RMB'000 (Unaudited) | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| NET CURRENT ASSETS | **426,152** | 458,753 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **846,664** | 841,873 |
| NON-CURRENT LIABILITIES | | |
| Deferred income | **2,572** | 3,143 |
| Deferred tax liabilities | **13,737** | 11,649 |
| Total non-current liabilities | **16,309** | 14,792 |
| Net assets | **830,355** | 827,081 |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Issued capital | **117,305** | 117,385 |
| Reserves | **663,234** | 663,899 |
| | **780,539** | 781,284 |
| Non-controlling interests | **49,816** | 45,797 |
| Total equity | **830,355** | 827,081 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

| | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (Unaudited) | Share premium account RMB'000 (Unaudited) | Employee share-based compensation reserve RMB'000 (Unaudited) | Capital redemption reserve RMB'000 (Unaudited) *(Note b)* | Deemed contribution reserve RMB'000 (Unaudited) *(Note a)* | Other reserve RMB'000 (Unaudited) *(Note c)* | Retained profits/ (accumulated losses) RMB'000 (Unaudited) | Total RMB'000 (Unaudited) | Non-controlling interests RMB'000 (Unaudited) | Total equity RMB'000 (Unaudited) |
| At 1 January 2011 | 117,425 | 400,692 | – | – | 11,375 | 248,886 | 54,754 | 833,132 | 1,500 | 834,632 |
| Total comprehensive loss for the period | – | – | – | – | – | – | (17,636) | (17,636) | 609 | (17,027) |
| Acquisition of non-controlling interests | – | – | – | – | – | – | – | – | (1,500) | (1,500) |
| Partial disposal of a subsidiary | – | – | – | – | – | – | – | – | 2,000 | 2,000 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | 18,115 | 18,115 |
| Equity-settled share option arrangements | – | – | 3,087 | – | 1,236 | – | – | 4,323 | – | 4,323 |
| At 30 June 2011 | 117,425 | 400,692 | 3,087 | – | 12,611 | 248,886 | 37,118 | 819,819 | 20,724 | 840,543 |
| **At 1 January 2012** | **117,385** | **400,511** | **5,253** | **40** | **13,855** | **248,886** | **(4,646)** | **781,284** | **45,797** | **827,081** |
| Total comprehensive loss for the period | **–** | **–** | **–** | **–** | **–** | **–** | **(2,971)** | **(2,971)** | **(1,732)** | **(4,703)** |
| Contributions from non-controlling shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,751** | **1,751** |
| Equity-settled share option arrangements | **–** | **–** | **2,000** | **–** | **530** | **–** | **–** | **2,530** | **–** | **2,530** |
| Share award *(Note 12)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4,000** | **4,000** |
| Repurchase of own shares | **(80)** | **(224)** | **–** | **80** | **–** | **–** | **(80)** | **(304)** | **–** | **(304)** |
| **At 30 June 2012** | **117,305** | **400,287*** | **7,253*** | **120*** | **14,385*** | **248,886*** | **(7,697)*** | **780,539** | **49,816** | **830,355** |

*Notes:*

(a) Deemed contribution reserve represents share-based payment expense incurred and recognised by the Group as settled by issue of shares of Sun.King Group Ltd. (賽晶集團有限公司) ("**Sunking BVI**"), a former shareholder of the Company.

(b) The Company repurchased an aggregate of 930,000 shares of HK$0.10 each in May 2012 and these repurchased shares were cancelled prior to 30 June 2012. The issued share capital of the Company was reduced by the nominal value of these repurchased shares in the amount of HK$93,000 (equivalent to approximately RMB80,000) and the equivalent amount was transferred from retained profits to the capital redemption reserve pursuant to 37(4) of the Companies Law (2007 Revision) of the Cayman Islands. The premium paid on the repurchase of these shares in the amount of RMB224,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of RMB304,000 was deducted from shareholders' equity.

(c) Other reserve mainly represents certain waiver of loans and/or advances by Sunking BVI to the Group in prior years.

* These reserve accounts comprise the consolidated reserves of RMB663,234,000 (31 December 2011: RMB663,899,000) in the condensed consolidated statement of financial position.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

| | For the six months ended 30 June 2012 RMB'000 (Unaudited) | 2011 RMB'000 (Unaudited) |
|---|---|---|
| NET CASH FLOWS USED IN OPERATION ACTIVITIES | **(8,959)** | (242,030) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | **(23,291)** | (82,890) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | **55,541** | 227,501 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | **23,291** | (97,419) |
| Cash and cash equivalents at beginning of period | **184,452** | 446,016 |
| Effect of foreign exchange rate changes, net | **(443)** | (379) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | **207,300** | 348,218 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | **202,300** | 348,218 |
| Non-pledged time deposits with original maturity of less than three months when acquired | **5,000** | – |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows | **207,300** | 348,218 |

## 1. CORPORATE INFORMATION

Sun.king Power Electronics Group Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 19 March 2010. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited the (the "Stock Exchange") with effect from 13 October 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

In the opinion of the directors of the Company, the Company's immediate and ultimate holding company is Max Vision Holdings Limited, which in turn is controlled by Mr. Xiang Jie, the founder and a director of the Company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are trading and manufacturing of power electronic components.

The condensed consolidated interim financial information is presented in Renminbi ("**RMB**").

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("**IASB**").

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

- ### IAS 12 – *Deferred Tax: Recovery of Underlying Assets* (Amendment)

  This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

- ### International Financial Reporting Standard ("IFRS") 7 – *Disclosures – Transfers of Financial Assets* (Amendment)

  The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

- **IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendment)**

  When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

The above amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 3. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold and services rendered to customers, net of business tax, and after allowances for goods returned and trade discounts.

Management monitors the results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Business unit performance is evaluated based on revenue.

An analysis of the Group's revenue is as follows:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Trading of power electronic components | **31,008** | 120,292 |
| Manufacturing of power electronic components | **243,846** | 149,462 |
| Total | **274,854** | 269,754 |

### Geographical information

As the Group's major operations and customers are located in the People's Republic of China (the "**PRC**"), no further geographical segment information is provided.

## 4. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net, is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Interest income | **951** | 1,283 |
| Government grants* | **4,464** | 190 |
| Fair value gains/(losses) on foreign currency forward contracts, net | **(1,264)** | 4,898 |
| Changes in fair value of equity interests in investees | **–** | 403 |
| Gain on fair value change of embedded derivatives | **–** | 31 |
| Gain on disposal of items of property, plant and equipment | **135** | – |
| Others | **454** | – |
| | **4,740** | 6,805 |

* Various government grants have been received for investments in certain provinces in Mainland China in which the Company's subsidiaries operate. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the condensed consolidated statement of financial position. There are no unfulfilled conditions for contingencies relating to these grants.

## 5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

| | For the six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **207,146** | 228,334 |
| Reversal of provision against inventories | **–** | (336) |
| Cost of sales | **207,146** | 227,998 |
| Depreciation | **6,925** | 4,934 |
| Amortisation of other intangible assets | **251** | 186 |
| Amortisation of land lease payments | **663** | 420 |
| Minimum lease payments under operating leases for lands and buildings | **733** | 1,428 |
| Impairment of trade receivables | **4,285** | 2,820 |
| Foreign exchange differences, net | **1,643** | 12,425 |
| Research and development costs | **1,292** | 2,163 |

## 6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Interest on bank loans | **9,220** | 1,487 |

## 7. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2012.

During the six months ended 30 June 2011, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to Corporate income tax ("**CIT**") at a rate of 25%.

Jiashan Sunking Power Equipment Technology Co., Ltd. ("**Jiashan Sunking**"), a subsidiary of the Company, was recognised as a wholly-foreign owned enterprise and was entitled to tax exemption from CIT for two years commencing from its first profit making year in 2007, followed by a 50% tax rate reduction for CIT for the subsequent three years. Therefore, the applicable income tax rate for Jiashan Sunking is 25.0% for the six months ended 30 June 2012 (six months ended 30 June 2011: 12.5%).

Jiujiang Jiuzheng Rectifier Co., Ltd. and Wuhan Langde Electrics Co., Ltd., subsidiaries of the Company, were registered as new and high technology enterprises, and are subject to CIT at a rate of 15% for the three years ending 31 December 2011, 2012 and 2013.

| | For the six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Current charge for the period | | |
| Hong Kong | **–** | 1,403 |
| Mainland China | **8,286** | 3,516 |
| Deferred | **(232)** | (420) |
| Total tax charge for the period | **8,054** | 4,499 |

## 8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of RMB2,971,000 (six months ended 30 June 2011: RMB17,636,000), and the weighted average number of 1,365,355,000 (six months ended 30 June 2011: 1,366,040,000) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2012 and six months ended 30 June 2011 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment at a total cost of RMB16,545,000 (six months ended 30 June 2011: RMB8,149,000) and disposed of items of property, plant and equipment with a total net carrying amount of RMB317,000 (six months ended 30 June 2011: Nil).

As at 30 June 2012, certificate of ownership in respect of a building of the Group in Mainland China, which was acquired from an independent third party (the "**Seller**"), with a carrying amount of RMB21,451,000 (31 December 2011: RMB21,832,000) had not been obtained by the Group. Such building was pledged to a bank for facilities granted to the Seller as at 30 June 2012.

## 10. TRADE AND BILLS RECEIVABLES

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Trade receivables | **369,990** | 301,542 |
| Impairment | **(18,936)** | (14,651) |
| | **351,054** | 286,891 |
| Add: Bills receivables | **151,953** | 206,853 |
| Less: Amount shown as non-current | **(33,609)** | (25,206) |
| | **469,398** | 468,538 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

For certain customers, the Group allows a percentage, ranging from 2% to 10%, of the contracted amount (the retention money) to be settled within six months to thirty-six months, as agreed between the Group and the respective customer on a case by case basis, subsequent to the fulfillment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts.

## 10. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Within 3 months | **118,085** | 146,231 |
| 3 to 6 months | **74,690** | 85,489 |
| 6 to 12 months | **133,950** | 37,933 |
| Over 1 year | **24,329** | 17,238 |
| | **351,054** | 286,891 |

An aged analysis of bills receivable as at the end of the reporting period, based on the invoice date, is as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Within 6 months | **84,562** | 206,853 |
| 6 to 12 months | **67,391** | – |
| | **151,953** | 206,853 |

As at 30 June 2012, certain trade receivables of the Group with an aggregate carrying amount of RMB64,451,000 (31 December 2011: RMB96,060,000) were pledged to banks to secure the bank loans granted to the Group.

## 11. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Within 6 months | **96,402** | 136,327 |
| Over 6 months | **21,583** | 5,693 |
| | **117,985** | 142,020 |

## 12. SHARE AWARD

Jiashan Sunking Converter Technology Co., Ltd. ("**Sunking Converter**"), a subsidiary of the Company, was established in March 2010. As at 31 December 2011, the paid-in capital of Sunking Converter was RMB10,000,000, of which 65% was held by the Group and 35% in aggregate was held by unrelated parties to the Group (the "**Sunking Converter NCI(s)**"). During the six months ended 30 June 2012, a capital contribution in the form of an unregistered technical know-how was made by one of the Sunking Converter NCIs.

In the opinion of the directors of the Company, the contribution of unregistered technical know-how was regarded as a share-based payment by the Group for the expertise of the Sunking Converter NCI. The fair value of the share-based payment of RMB4,000,000, which was determined referencing to the fair value of Sunking Converter's equity at the date of capital contribution, was charged to the condensed consolidated statement of comprehensive income for the six months ended 30 June 2012.

## 13. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Within one year | **467** | 533 |
| In the second to fifth years, inclusive | **–** | 49 |
| | **467** | 582 |

## 14. CAPITAL COMMITMENTS

In addition to the operating lease arrangements detailed in note 13 above, the Group had the following capital commitments at the end of the reporting period:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Property, plant and equipment: | | |
| Contracted, but not provided for | **18,050** | 22,117 |

## 15. CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

## 16. RELATED PARTY TRANSACTIONS

### (a) Amounts due from directors

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Mr. Xiang Jie | **202** | – |
| Mr. Huang Xiangqian | **181** | – |
| | **383** | – |

The balances are unsecured, interest-free and are repayable on demand. The maximum outstanding balance due from Mr. Xiang Jie and Mr. Huang Xiangqian during the period was RMB235,000 and RMB200,000, respectively.

### (b) Compensation of key management personnel of the Group

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2012 RMB'000 (Unaudited)** | 2011 RMB'000 (Unaudited) |
| Short term employee benefits | **3,060** | 1,188 |
| Post-employment benefits | **358** | 227 |
| Equity-settled share option expense | **1,794** | 1,118 |
| Total compensation paid to key management personnel | **5,212** | 2,533 |

## 17. FAIR VALUE AND FAIR VALUE HIERARCHY

As at 30 June 2012 and 31 December 2011, the carrying amounts of the Group's financial instruments approximate to their fair values.

The fair values of the financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## 17. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Liabilities measured at fair value:

***Group***

**As at 30 June 2012**

| | Level 1 RMB'000 (Unaudited) | Level 2 RMB'000 (Unaudited) | Level 3 RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|---|---|---|
| Derivative financial instruments | **1,615** | **–** | **–** | **1,615** |

**As at 31 December 2011**

| | Level 1 RMB'000 (Audited) | Level 2 RMB'000 (Audited) | Level 3 RMB'000 (Audited) | Total RMB'000 (Audited) |
|---|---|---|---|---|
| Derivative financial instruments | 886 | – | – | 886 |

## 18. COMPARATIVE AMOUNTS

During the six months ended 30 June 2012, the directors of the Company have reviewed the components of the gains and expenses and reclassified certain gains and expenses in the condensed consolidated statement of comprehensive income. Accordingly, the corresponding comparative amounts have been revised to conform with the current period's presentation. In the opinion of the directors of the Company, the reclassification results in a more appropriate presentation of the Group's operating results.

## 19. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was approved and authorised for issue by the Board on 23 August 2012.