China Ruifeng Galaxy Renewable Energy Holdings Limited

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

2012
Annual Report

CONTENTS

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
Mr. Ning Zhongzhi (appointed on 28 January 2013)

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yong (resigned on 29 January 2013)

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

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

NOMINATION COMMITTEE

Mr. Li Baosheng *(Chairman)*
Mr. Zhang Zhixiang
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
China Minsheng Banking Corporation Limited, Hong Kong Branch

In the People's Republic of China (the "PRC"):

Bank of China Limited
Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of Chengde
China Construction Bank

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 2607, 26th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong (with effect from 28 June 2012)

COMPANY WEBSITE

www.c-ruifeng.com

LEGAL ADVISERS AS TO HONG KONG LAWS

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

AUDITORS

HLB Hodgson Impey Cheng Limited
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 & 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 for the purpose of determining shareholders who are entitled to attend the 2012 Annual General Meeting of the Company to be held on 7 May 2013 (Tuesday) from 6 May 2013 (Monday) to 7 May 2013 (Tuesday) (both dates inclusive), when no transfer of shares will be registered. The Board has resolved not to recommend payment of final dividends for the year ended 31 December 2012.

In order to be eligible to attend and vote at the 2012 Annual General Meeting of the Company to be held on 7 May 2013 (Tuesday), 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 3 May 2013 (Friday).

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting will be held on 7 May 2013 (Tuesday). The Notice for the 2012 Annual General Meeting has been included in a circular distributed to the Shareholders together with this report.

Corporate Profile

As a renewable energy enterprise specialised in wind power operation, China Ruifeng Galaxy Renewable Energy Holdings Limited ("China Ruifeng" or the "Company") together with its subsidiaries (collectively, the "Group") is engaged in the businesses of wind power generation, power grid construction, wind turbine blades manufacturing and diodes manufacturing. Such development in different business areas not only can expand various income streams, but also can facilitate the development of, and complement with each other, for the continuous enhancement of the Company's industrial structure, and the establishment of a solid foundation for reinforcing the comprehensive development of its wind power operation.

On 6 January 2013, the capital injection of Hebei Hongsong Wind Power Co., Ltd. ("Hongsong") has been approved by and filed with all relevant government authorities (including the subsequent approval for Hongsong to be changed into a sino-foreign equity joint venture). Pursuant to the Capital Increment Agreement, On Win Corporation Limited ("On Win"), our subsidiary, has paid to Hongsong 20% of the consideration (RMB129,000,000 or its equivalent), and Hongsong has also allotted and issued to On Win 430,000,000 new shares in the share capital of Hongsong, representing approximately 47.3% of the enlarged share capital of Hongsong. Together with the approximately 5.77% share capital of Hongsong originally held by the Group, the Group holds approximately 50.3% of the issued share capital of Hongsong following the completion of the transaction. The Group's principal business has also transformed into wind power related business successfully.

Hongsong has an installation capacity of 348.9 megawatt (MW), and its maximum installation capacity is 596.4MW. Apart from Hongsong's wind farm, the Group also holds 100% equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. ("Langcheng"). Langcheng is principally engaged in the operation of a wind farm that generates renewable energy in Hexigten Qi, Inner Mongolia Autonomous Region, where wind energy resources are abundant, making it an ideal location for wind farm operation. The maximum installation capacity of Langcheng's wind farm is 594MW. Hongsong's wind farm is located in the proximity of Langcheng's wind farm. Accordingly, the two wind farms provide the Group with better and larger wind farm assets for development in the near future.

In addition, Hebei Beichen Power Grid Construction Co., Ltd. ("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 authorised to carry out contracting works of high voltage power transmission lines above 500 kilovolt and project works of regional subsidiaries of the State Grid Corporation of China. 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.

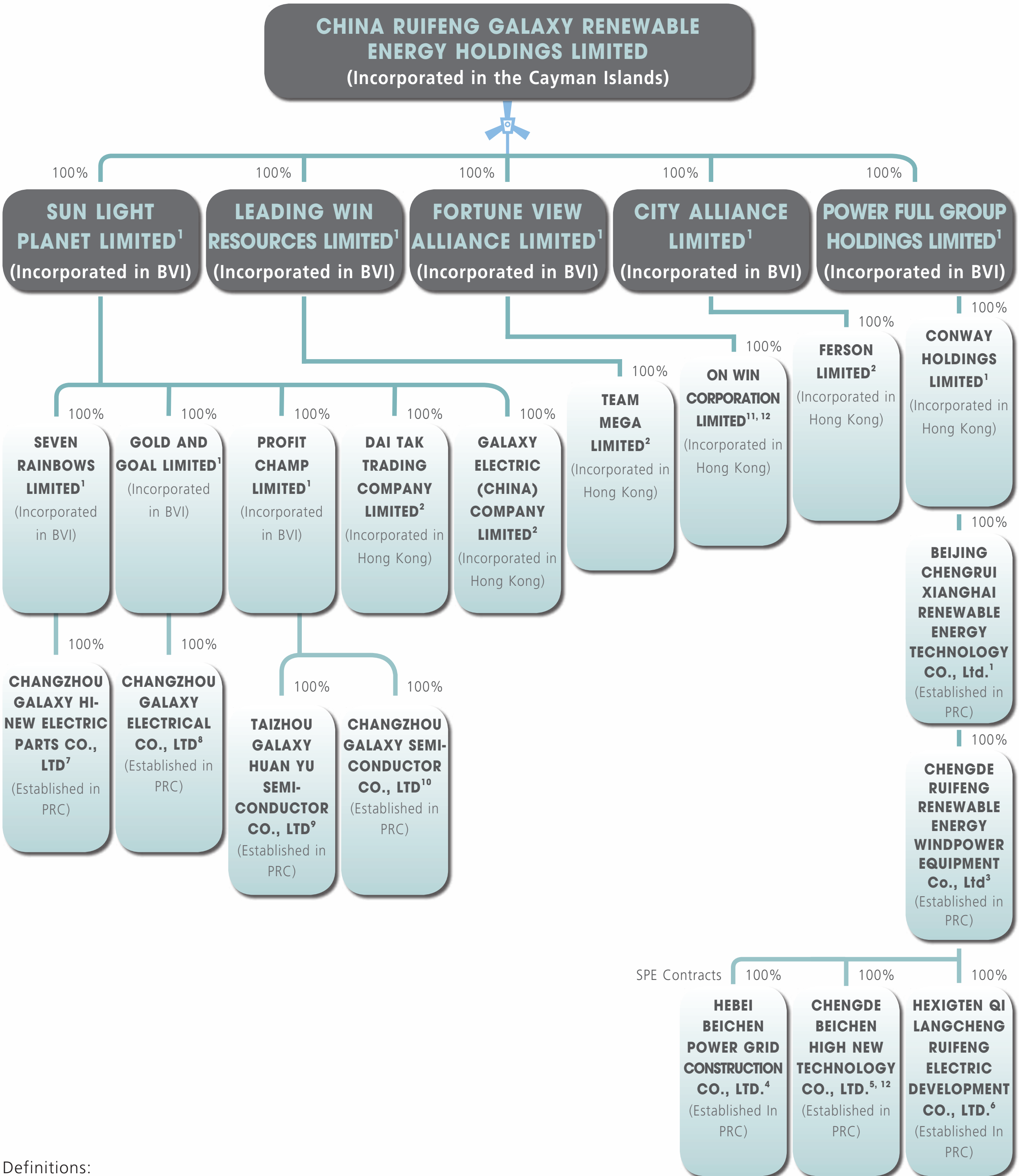
Chengde Ruifeng Renewable Energy Windpower Equipment Co., Ltd. ("Ruifeng Windpower") mainly focuses on the manufacturing and processing of wind turbine blades and parts. Its customers include Hebei-based AVIC Huiteng Windpower Equipment Co., Ltd., one of the largest wind turbine blades manufacturers in China. Ruifeng Windpower has accumulated extensive experience in the construction of large wind turbine blades. It strives to enhance its position in the wind turbine blades manufacturing industry by providing professional and comprehensive services and products to other wind turbine blades manufacturers, with an aim to broaden its customer base.

Guided by the development strategy of exploring and utilising wind farm resources and realising integrated operation, the Company will relentlessly commit to developing and utilising renewable energy, whilst integrating the resources and edges of its own power grid business in the pursuit of new development opportunities.

Corporate Structure

Corporate Structure

Set out below is the structure of the Group as at 31 December 2012:



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 approximately 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") as at 31 December 2012. 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. On Win Corporation Limited（進盈有限公司）is an investment holding company.

12. Following the completion of the capital increment of Hongsong on 6 January 2013 (details of which are set out in the paragraph headed "Acquisition of interest in Hongsong" in the section headed "Management Discussion and Analysis" in this report), the Company is indirectly interested in approximately 50.3% of the issued share capital of Hongsong.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Ruifeng Galaxy Renewable Energy Holdings Limited ("China Ruifeng" or the "Company", together with its subsidiaries referred to as the "Group"), I hereby present to the shareholders the results of the Group for the year ended 31 December 2012.

As a renewable energy enterprise specialised in wind power operation, China Ruifeng is engaged in the businesses of wind power generation, power grid construction, wind turbine blades manufacturing and diodes manufacturing. Such development in different business areas not only can expand various income streams, but also can facilitate the development of, and complement with each other, for the continuous enhancement of the Company's industrial structure, and the establishment of a solid foundation for reinforcing the comprehensive development of its wind power operation.

For the year ended 31 December 2012, the Group recorded a net loss of approximately RMB166,964,000 (2011: net profit of approximately RMB91,518,000).

Despite the deterioration of financial results in 2012, 2012 was another major milestone for China Ruifeng's corporate development. As at the date of this report, the capital injection of Hebei Hongsong Wind Power Co., Ltd. ("Hongsong") has been approved by and filed with all relevant government authorities (including the subsequent approval for Hongsong to be changed into a sino-foreign equity joint venture). Pursuant to the Capital Increment Agreement, On Win Corporation Limited ("On Win") has paid to Hongsong 20% of the consideration (RMB129,000,000 or its equivalent), and Hongsong has also allotted and issued to On Win 430,000,000 new shares in the share capital of Hongsong, representing approximately 47.3% of the enlarged share capital of Hongsong. Together with the approximately 5.77% share capital of Hongsong originally held by the Group, the Group holds approximately 50.3% of the issued share capital of Hongsong following completion of the transaction. The Group's principal business has also gradually transformed into wind power related business on the right track.

The Group currently holds 100% equity interest in Hexigten Qi Langcheng Ruifeng Electric Development Co., Ltd. ("Langcheng"). The maximum installation capacity of Langcheng wind farm is 594 megawatt (MW). China Ruifeng also holds currently approximately 50.3% of the issued share capital of in Hongsong. The maximum installation capacity of the wind farm operated by Hongsong is 596.4MW. The positive progress of the aforesaid wind power projects fully reflects 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. The two major wind farms are expected to create synergistic effects, developing the area into a large-scale wind farm equipped with an installation capacity of over 1,000MW, transforming China Ruifeng into an integrated wind power operator which relies on wind power as its major source of income, and enjoys a stable cash flow and optimised profitability. Guided by the development strategy of exploring and utilising wind farm resources and realising integrated operation, we will relentlessly commit to developing and utilising renewable energy and creating higher value for our shareholders.

Despite the strengthened industrial restructuring and macro-economic control by the People's Republic of China (the "PRC") government in 2012, the renewable energy sector, represented by wind power, is benefited from strong encouragement and support of the government, and is gaining importance. Countries around the world are expected to continue to encourage and support the use and development of renewable energy, creating a favourable macro and external environment for the business development of the Group, and providing a starting point for us to explore diversified financing channels to raise fund for development.

In the future, China Ruifeng will focus its resources on the continuous acceleration of its wind power business, fully leverage on the two major wind farms and integrate the resources and edges of its own power grid business in the pursuit of new development opportunities. At the same time, the share of income by non-wind power business such as diodes manufacturing will be reduced gradually, in an effort to establish a solid market foothold in the wind power industry in the near future.

Last but not least, on behalf of the Board, I would like to express our sincere gratitude to our shareholders, partners and other groups in society for their trust and continued support. I would also like to thank our management team and all staffs for their professionalism and dedication. We will work together and commit our best. We believe we will not only regain positive momentum in 2013, but also attain more tremendous achievement in the near future.

Chairman
Li Baosheng

Hong Kong, 26 March 2013

Management Discussion and Analysis

I OPERATING ENVIRONMENT

In 2012, global economic growth slowed down under the influence of the worsening European and US sovereign debt crisis. On the other hand, the PRC government has increased industrial restructuring and macro-economic control in response to the complicated and changing economic issues, which timely prevented the possible hard-landing of the PRC economy effectively and maintained the stable and relatively rapid development of the PRC economy. For the entire 2012, despite the slower growth rate of the PRC's gross domestic product ("GDP") as compared with last year, the economy is expected to resume stable growth in 2013.

The enormous emphasis on energy-saving and emission-reduction and the gradual crystallisation of a roadmap for the national renewable energy policies have driven the PRC government's continued strong policy support for the wind power sector, including the implementation of grid access policy and the expedition of the construction of grid auxiliary facilities, in order to cater for the grid demand brought about by the rapid development of the wind power sector.

The "Twelfth Five-year Plan" for renewable energy works to complement with the "Twelfth Five-year Plan" for power grid in China. Through construction of Ultra-High Voltage ("UHV") grid, smart grid and microgrid, the bottleneck problem of difficult grid access for renewable energy such as electricity output from large-scale wind farms can be solved, 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 in the PRC are currently under active implementation to effectively solve the problem of electricity output in the future.

The National Energy Administration of the PRC promulgated the Technical Regulations on Large Wind Farms Grid Connection Design for the enhancement of wind power industry, with the objectives of regulating the technical requirements of wind farms grid connection, relieving the effect of abrupt grid voltage changes on wind power generators, which in turn will improve the stability and safety of wind power projects and establish a sound development platform for the PRC wind power industry in the future.

At the same time, continuous advancement in wind power technology, continued rapid growth in production capacity of 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 cost of wind farms to a certain extent. On the other hand, the launch of new wind turbines designed for low wind speed has also contributed to the emergence of new investment opportunities of wind resource exploration.

The PRC government has guided and sped up the rapid development of wind power industry through various means, including supportive policies, market expansion, technological innovations and preferential tax treatments, which have maintained the speedy growth of the PRC wind power industry. Currently, the accumulated connected installed capacity in the PRC has surpassed the United States and ranked number one in the world. It is expected that over the period of the "Twelfth Five-year Plan", the development of wind power sector in China will be more prosperous.

II BUSINESS REVIEW

Results of the Group for the year ended 31 December 2012

For the year ended 31 December 2012, the Group's turnover was approximately RMB582,987,000 (2011: approximately RMB750,328,000). The Group's gross profit was approximately RMB48,596,000 (2011: approximately RMB139,475,000). Gross profit margin was approximately 8% (2011: approximately 19%). The Group's net loss for the year was approximately RMB166,964,000 (2011: net profit of approximately RMB91,518,000). As at 31 December 2012, net assets of the Group was approximately RMB340,261,000 (2011: approximately RMB349,416,000).

The financial results for the year ended 31 December 2012 deteriorated mainly because of the following reasons. Firstly, the diodes manufacturing business experienced a loss in 2012. Secondly, goodwill impairment loss on investments was provided for in 2012. Thirdly, the nature of incomes from fair value gain recorded in 2011 no longer recurred in 2012, like a gain on change of estimated cash flows of convertible bonds, a gain from bargain purchase arising from the acquisition and a gain on deemed disposal of an associate.

During the year, the Group continued to increase investment in wind power projects and subscribe for the controlling stake in Hongsong pursuant to a capital injection agreement. The Group's principal business has also been transformed into wind power related business successfully. At the same time, the business development of wind farm operation is expected to lay a solid foundation for the Group to take a great leap and the contribution of wind farm operation to the Group is expected to gain more importance in coming future.

Leveraging on the wind farms resources and power grid construction business, the Group aspires to be an efficient integrated operator, focusing on exploring, running the operation of and providing maintenance services to wind farms and exploring the field of clean energy, power saving and environmental protection related businesses.

(1) Wind farm investment and operation business

1. *Investment in Hongsong*

As at the date of this report, the capital injection to subscribe for the controlling stake in Hongsong has obtained the approval from and filed with all relevant government authorities (including the approval for Hongsong to be changed into a sino-foreign equity joint venture company). Pursuant to the capital increment agreement (the "Capital Increment Agreement") entered into between On Win (being an indirect wholly-owned subsidiary of the Company), Hongsong and the then existing shareholders of Hongsong on 24 October 2012, On Win has paid to Hongsong 20% of the consideration (equivalent to RMB129,000,000 or an equivalent amount of foreign currency) and Hongsong also allotted and issued to On Win 430,000,000 new shares of Hongsong, representing approximately 47.3% of the enlarged share capital of

Hongsong. Together with the approximately 5.77% share capital of Hongsong originally held by the Group prior to the capital injection, the Group holds an aggregate of approximately 50.3% issued share capital in Hongsong upon the completion of the transaction.

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

Hongsong's principal business is wind power generation. Hongsong derives its revenue mainly from selling electricity to the State Power Grid, with a small portion of revenue derived from sub-contracting installation of wind turbine blades and selling carbon credits. In the past ten years, Hongsong has been profitable and distributed a substantial portion of its profits to its shareholders.

As the wind farm of Hongsong is located in proximity to the wind farm of Langcheng, its existing wind power business and grid connection are expected to strengthen the Company's business development plan.

By the end of 2012, the installed capacity of Hongsong increased by another 49.5MW to 348.9MW when the construction project of the eighth phase wind farm of Hongsong ("the eighth phase") was completed successfully. In addition, Hongsong has already obtained the necessary approvals for the right to develop the ninth phase wind farm of Hongsong ("the ninth phase") of which the construction project is expected to be completed by the second half of 2013. Upon the completion of construction project of the eighth phase and the ninth phase, Hongsong is expected to generate more electricity, enhancing the profitability and cash flows of the Group.

2. *Continuous development of Langcheng's wind farm*

On 18 January 2011, Chengde Ruifeng Renewable Energy Windpower Equipment Co., Ltd. ("Ruifeng Windpower") agreed to acquire 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, allowing the Company to own Langcheng's wind farm resources located in Hexigten Qi, Inner Mongolia, the PRC.

Langcheng was established in 2005, and was principally engaged in the operation of wind farm located in Hexigten Qi, Inner Mongolia. 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.

As Langcheng's wind farm is located in proximity to the wind farm of Hongsong, electricity generated upon commencement of operation of Langcheng is expected to be connected and transmitted to the State Power Grid.

(2) Power grid construction business

Hebei Beichen Power Grid Construction Co., Ltd. ("Beichen Power Grid") (an indirect wholly-owned subsidiary of the Company) was established in 2001, and was principally 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 authorised to carry out contracting works of high voltage power transmission lines above 500 kilovolt and project works of 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 blades manufacturing business

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

AVIC Huiteng Windpower Equipment Co., Ltd. remains our largest customer. However, 2012 is a tough year for the wind turbine blades manufacturing business since Ruifeng Windpower suffered from the overcapacity of the industry in the PRC. In view of the fierce competition of the industry, Ruifeng Windpower is in a position to seek alternative business alliances to start wind turbine blades manufacturing projects in areas with less severe competition like Qin Huang Dao and the south-western region of the PRC.

On the other hand, the geographical advantage of Ruifeng Windpower and the proximity to quality wind farms in Hebei Province and Inner Mongolia offer possible business opportunities to Ruifeng Windpower to provide maintenance services to wind farm operation for neighborhood wind farms. Hongsong is expected to offer its resources for Ruifeng Windpower to commence the business of maintenance services when it becomes a member of the Group upon the completion of the acquisition.

(4) Diodes manufacturing business

The diodes manufacturing business of the Group was mainly operated through Changzhou Galaxy Electrical Co., Ltd ("Galaxy Electrical"), an indirect wholly-owned subsidiary of the Company.

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.

As the renewable energy business is the key business direction in the coming future and is gaining weight on its contribution, it is expected that the contribution of diodes manufacturing business would lose its importance gradually, together with the worsening financial performance for the past few years.

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 three 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 contribute 8% to 9% to the world's total electricity generation. This shows that there is infinite room for wind power utilisation.

In 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. The wind power industry enjoys the strongest momentum of development amongst all. In particular, the nuclear leakage in Fukushima, Japan has prompted increasing interest and dependence of the world on renewable energy such as wind power.

Currently, the PRC has surpassed the United States in both the total connected installed wind power capacity and annual additional connected installed capacity, and ranked number one in the world. According to the relevant data, the growth rate of wind power generation topped all other energy in China in 2012. However, at the same time, 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 of the society, 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, wind power is expected to 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 is expected to 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 scientific, sophisticated development in the future with an emphasis on enhancing 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 on accelerating the pace of the development of wind power related business, in particular wind power operation. The two major wind farms of Hongsong and Langcheng are expected to create synergistic effects due to their 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 enjoys a stable cash flow and better profitability.

Looking ahead, the Group is in the process of acquiring land use rights and properties to enrich its asset level and to enhance its asset quality. Guided by the development strategy of exploring and utilising existing wind farm resources in the Group and realising integrated operation, the Company will relentlessly commit to developing and utilising renewable energy, 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 the existing and potential wind farm projects, and gradually reduce the share of income by non-wind power businesses such as diodes manufacturing, in an effort to establish a solid market 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 the society and strive for higher return for the shareholders and investors of the Company.

FINANCIAL REVIEW

The Group currently engages in construction and consultation of power grid and transformer project, manufacturing, processing and sales of wind turbine blades, and wind farm operation through its wholly-owned subsidiaries including Beichen Power Grid, Ruifeng Windpower, Chengde Beichen High New Technology Co., Ltd ("Beichen Hightech") and Langcheng.

For the year ended 31 December 2012, the Group's turnover amounted to approximately RMB582,987,000 (2011: approximately RMB750,328,000), representing a decrease of approximately 22% over that of 2011. Gross profit decreased approximately 65% to approximately RMB48,596,000 for the year ended 31 December 2012 (2011: approximately RMB139,475,000). The decrease was mainly attributable to provision of impairment loss for property, plant and equipment with an amount of approximately RMB36,351,000 regarding the production of diodes segment. Net loss for the year ended 31 December 2012 was approximately RMB166,964,000 (2011: net profit of approximately RMB91,518,000). The significant decrease was mainly due to an impairment of goodwill of approximately RMB78,946,000, impairment of property, plant and equipment and lease prepayments of approximately RMB43,035,000, and a drop in other revenue and net income. The impairments of assets were considered as one-off and non-cash expense. There will be no impact on the cash flow or operations of the Group.

The operating results for the year ended 31 December 2012 were as follows:

	Year ended 31 December			**Approximate change in**
	2012	2011	**Decrease**	**percentage**
	RMB'000	*RMB'000*	*RMB'000*	%
Turnover	**582,987**	750,328	(167,341)	(22.30)
Gross profit	**48,596**	139,475	(90,879)	(65.16)
(Loss)/Profit from operations	**(80,527)**	182,875	(263,402)	N/A
(Loss)/Profit before taxation	**(155,544)**	100,088	(255,632)	N/A
(Loss)/Profit for the year	**(166,964)**	91,518	(258,482)	N/A
Attributable to:				
Equity shareholders of the Company	**(166,964)**	91,518	(258,482)	N/A

		Year ended 31 December	
	Note	**2012**	2011
Net cash (RMB'000)	*1*	**(472,523)**	(397,315)
Net assets (RMB'000)	*2*	**340,261**	349,416
Liquidity ratio	*3*	**117%**	229%
Inventories turnover (number of days)	*4*	**46**	47
Trade receivable turnover (number of days)	*5*	**161**	128
Trade payable turnover (number of days)	*6*	**64**	72
Earning interest multiple (times)	*7*	**(1.07)**	2.21
Net debt to equity ratio	*8*	**140%**	115%

Notes:

1. Cash at bank and on hand – borrowings
2. Total assets – Total liabilities
3. Current assets/Current liabilities x 100%
4. Inventories/Cost of inventories x 365 days
5. (Trade receivables + Note receivables)/Turnover x 365 days
6. Trade Payable/Cost of sales x 365 days
7. (Loss)/profit before interest and taxation/Finance cost
8. Net debt/Equity x 100%

Turnover

During the year under review, the Group's turnover of approximately RMB582,987,000 was derived from two business divisions — the power-related business and the diodes manufacturing business. The power-related business recorded a turnover of approximately RMB271,267,000, representing a decrease by approximately 27%, of which approximately RMB269,352,000 was attributed mainly to the power grid construction business for the year under review. The Group's operating bases for the power-related business are mainly located in Chengde City of Hebei Province and Inner Mongolia.

The diodes manufacturing business recorded a turnover of approximately RMB311,720,000 for the year under review. The decrease in turnover was mainly due to fierce market competition. The Group's production base for the diodes manufacturing business is mainly located in Changzhou City of Jiangsu Province.

Analysis of the Group's turnover by its businesses for the year ended 31 December 2012 is set out below:

Turnover by business

		Year ended 31 December		(Decrease)/	Approximate change in
		2012	2011	**Increase**	**percentage**
		RMB million	*RMB million*	*RMB million*	%
(i)	**Power-related business**				
	Power grid construction and consultation	**269.35**	317.68	(48.33)	(15.21)
	Sales and processing of wind turbine blades	**1.92**	51.77	(49.85)	(96.29)
		271.27	369.45	(98.18)	(26.57)
(ii)	**Diodes manufacturing business**				
	Plastic packaged diodes	**210.96**	264.42	(53.46)	(20.22)
	Glass packaged diodes	**21.38**	29.82	(8.44)	(28.30)
	Bridge rectifiers	**0.55**	2.82	(2.27)	(80.50)
	Surface mount device packaged diodes	**78.05**	83.64	(5.59)	(6.68)
	Others	**0.78**	0.18	0.60	333.33
		311.72	380.88	(69.16)	(18.16)
	Total	**582.99**	750.33	(167.34)	(22.30)

Cost of Sales

Cost of sales mainly includes the cost of raw materials, subcontracting costs, staff costs, water, electricity, gas, other ancillary materials and provision of impairment loss on property, plant and equipment. Cost of sales for the year ended 31 December 2012 accounted for approximately RMB534,391,000, and represented approximately 92% of the Group's turnover, showing an increase from that of approximately 81% for the year ended 31 December 2011. The increase was mainly attributed by a provision of impairment loss on property, plant and equipment with an amount of approximately RMB36,351,000.

Gross Profit

Gross profit decreased significantly by approximately 65% to approximately RMB48,596,000 (2011: approximately RMB139,475,000), and the gross profit margin has also decreased from approximately 19% for the year ended 31 December 2011 to approximately 8% for the year ended 31 December 2012. Save as disclosed in the paragraph headed "Cost of Sales" above, the significant decrease was mainly due to the provision of impairment loss. Apart from this, it was also due to the severe market competition of production of diodes and an increase in production cost.

Other Revenue and Net Income

Other revenue and net income mainly comprised of rental income from operating leases relating to plant and machinery (2012: approximately RMB22,930,000; 2011: approximately RMB20,149,000), compensation income on prepayment on acquisition of land use rights (2012: approximately RMB4,201,000; 2011: approximately RMB19,656,000), gain on change of estimated cash flows of convertible bonds (2012: Nil; 2011: approximately RMB19,355,000), dividend income from available-for-sale investments (2012: approximately RMB4,087,000; 2011: Nil), sales of scrap (2012: approximately RMB2,582,000; 2011: approximately RMB2,912,000), fair value gain on derivative financial instruments (2012: approximately RMB701,000; 2011: approximately RMB36,648,000), interest income on financial assets not at fair value through profit or loss (2012: approximately RMB539,000; 2011: approximately RMB898,000), government subsidy income (2012: approximately RMB666,000; 2011: approximately RMB344,000), gain on deemed disposal of an associate Langcheng (2012: Nil; 2011: approximately RMB8,101,000) and gain on a bargain purchase (2012: Nil; 2011: approximately RMB6,105,000). The significant decrease in other revenue and net income by approximately RMB78,241,000 was mainly due to several reasons, including gain on change of estimated cash flows of convertible bonds, gain on a bargain purchase arising from acquisition of Langcheng and gain on deemed disposal of an associate Langcheng recorded in previous year no longer recurred for the year ended 31 December 2012. In addition, fair value gain on derivative financial instruments and compensation income on prepayment on acquisition of land use rights decreased significantly in the year ended 31 December 2012.

Distribution Costs

Distribution costs mainly included 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 2012, which represented approximately 2% of the Group's total turnover, remained relatively stable when compared with that for the year ended 31 December 2011.

Administrative Expenses

Administrative expenses mainly included wages, salaries and welfare expenses, professional fees, depreciation expenses of office equipment, other taxation expenses, exchange losses and entertainment expenses. It increased by approximately 22% to approximately RMB66,739,000 for the year ended 31 December 2012 when compared with that of approximately RMB54,756,000 for the year ended 31 December 2011. The increase was mainly derived from exchange losses and increase in staff cost.

Other Operating Expenses

Other operating expenses for the year ended 31 December 2012 amounting to approximately RMB85,630,000 (2011: Nil) accounted for impairment of goodwill relating to the acquisition of Power Full Group Holdings Limited ("Power Full") and its subsidiaries, and the impairment loss on lease prepayments of diodes segment.

Finance Costs

Finance costs refer to interest expenses on bank and other loans obtained, promissory note and convertible bonds/note issued by the Group. It amounted to approximately RMB75,014,000 for the year ended 31 December 2012 while it amounted to approximately RMB82,682,000 for the year ended 31 December 2011.

Taxation

Taxation increased from approximately RMB8,570,000 for the year ended 31 December 2011 to approximately RMB11,420,000 for the year ended 31 December 2012. Such an increase was mainly derived from the deferred tax of approximately RMB6,374,000 regarding the temporary differences attributable to the aggregate undistributed profits of certain PRC subsidiaries.

Net (Loss)/Profit

The net loss for the year ended 31 December 2012 accounted for approximately RMB166,964,000 (2011: net profit of approximately RMB91,518,000). The net loss was mainly derived from an impairment of goodwill by approximately RMB78,946,000 regarding the acquisition of Power Full, and the deterioration of financial results of diodes manufacturing business and the drop in other revenue and net income. The financial results of diodes manufacturing business were aggravated by severe market competition, increase in production cost and provision of impairment loss on property, plant and equipment and lease prepayments by approximately RMB43,035,000. Among other revenue and net income, fair value gain on derivative financial instruments and compensation income on prepayment on acquisition of land use rights dropped by approximately RMB51,402,000 whereas the gain on change of estimated cash flows of convertible bonds, gain on a bargain purchase arising from acquisition of Langcheng and gain on deemed disposal of an associate Langcheng with a total amount of approximately RMB33,561,000 no longer recurred for the year ended 31 December 2012.

Net Current Assets

The net current assets of the Group as at 31 December 2012 decreased to approximately RMB126,443,000 compared with that of approximately RMB360,736,000 in 2011. The significant decrease was mainly due to convertible bonds/note and promissory note which was classified as non-current liabilities as at 31 December 2011 that will expire in the year 2013 was grouped into current liabilities as at 31 December 2012 with a total amount of approximately RMB291,474,000.

Liquidity and Financing

The cash and bank balances as at 31 December 2012 and 31 December 2011 amounted to approximately RMB164,531,000 (mainly comprised of approximately RMB145,506,000, USD773,000 and HKD17,454,000) and approximately RMB86,283,000, respectively.

Total borrowings of the Group as at 31 December 2012 amounted to approximately RMB637,054,000, representing an increase of approximately 32% when compared with approximately RMB483,598,000 as at 31 December 2011.

The Group repaid its debts mainly through the steady recurrent cash flows generated by its operations. The Group's gearing ratio slightly increased to approximately 69% as at 31 December 2012 from approximately 66% as at 31 December 2011. That ratio was calculated by dividing the Group's total liabilities by its total assets. During 2012, all of the Group's borrowings were settled in Renminbi ("RMB") and Hong Kong dollars ("HKD"). Approximately 90% of the Group's income was denominated in Renminbi and the remaining was denominated in Hong Kong dollars and United States dollars ("USD"). Other interest-free borrowings and interest-bearing borrowings were RMB70,000,000 and approximately RMB567,054,000 respectively. Among the interest-bearing borrowings of the Group, approximately RMB412,054,000 were fixed rate loans, while RMB155,000,000 were floating rate loans. The Group had not engaged in any currency hedging facility for the year ended 31 December 2012 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.

Conversion of Convertible Bonds

Pursuant to a subscription agreement between the Company and Advance Gain Enterprises Limited ("Advance Gain") dated 19 December 2010, Advance Gain agreed to subscribe for convertible bonds of the Company in the principal amount of USD18,580,000 in cash at 100% of their principal amount. Based on the initial conversion price of HKD1.50 per share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 95,996,666 ordinary shares may be allotted and issued.

In March 2012, conversion rights attached to convertible bonds in an aggregate principal 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. The outstanding principal amount of the convertible bonds was USD12,580,000 as at 31 December 2012. Further details of the convertible bonds are set out in the announcement of the Company dated 19 December 2010.

Non-listed Warrants

Pursuant to a placing agreement between the Company and Goldin Equities Limited (the "Placing Agent") dated 29 April 2011, warrants to subscribe for 150,000,000 ordinary shares of the Company at the initial subscription price of HKD1.60 per ordinary share (subject to adjustment) in aggregate were issued and allotted by the Company in May 2011.

The subscription rights attached to the warrants expired on 20 May 2012. Prior to the date of expiration of the warrants, 76,000,000 warrants had been exercised with gross proceeds of HKD121,600,000, and a total 76,000,000 ordinary shares had been issued. 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.

Termination of an Issuance of Convertible Bonds and Warrants

On 17 April 2012, the Company, TPG Rave Holdings, L.P (the "Lead Subscriber") and Diamond Era Holdings Limited ("Diamond Era") entered into a subscription agreement (the "Subscription Agreement"), pursuant to which the Lead Subscriber (and/or affiliates as it may nominate) has agreed to subscribe for 60% of a 8% United States dollar denominated convertible bond(s) in respect of the principal amount of USD100,000,000 (the "Bonds") and the non-listed warrants with an exercise value of USD25,000,000 (the "Warrants"), while Diamond Era (or its nominees) has agreed to subscribe for the remaining 40% of the Bonds and the Warrants, subject to the terms and conditions of the Subscription Agreement.

Diamond Era was a substantial shareholder and thus a connected person of the Company as at the date of the Subscription Agreement. The Subscription Agreement and the proposed issuance of Bonds to Diamond Era and its associates would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

On 18 September 2012, the Company, the Lead Subscriber and Diamond Era entered into a termination agreement, pursuant to which they have agreed to terminate the Subscription Agreement. Please refer to the announcements of the Company dated 26 April 2012, 29 June 2012 and 18 September 2012, respectively for further details.

Material acquisitions

Acquisition of interest in Hongsong

On 28 June 2012, the Company and Hongsong entered into a subscription agreement (the "Hongsong Subscription Agreement") with Hongsong, pursuant to which the Company has conditional agreed to subscribe from Hongsong, and Hongsong has conditionally agreed to issue to the Company a total of 520,000,000 shares in the share capital of Hongsong at a total consideration of RMB780,000,000 or RMB1.50 per share to be issued by Hongsong pursuant to the Hongsong Subscription Agreement.

On 24 October 2012, an indirectly wholly owned subsidiary of the Company, On Win Corporation Limited ("On Win") entered into a Capital Increment Agreement with Hongsong and existing shareholders of Hongsong pursuant to which certain terms of the original subscription were amended. Pursuant to the Capital Increment Agreement, On Win has conditionally agreed to subscribe from Hongsong, and Hongsong has conditionally agreed to issue to On Win, the subscription shares comprising 430,000,000 shares in the share capital of Hongsong at RMB1.50 per subscription share. The subscription shares, representing approximately 47.3% of the enlarged share capital of Hongsong, will be paid in cash by On Win at a total consideration of RMB645,000,000 or equivalent in foreign currencies. Upon completion of the subscription, together with the 27,727,754 shares of Hongsong owned by Chengde Beichen High New Technology Co., Ltd. prior to the capital injection, the Company, through its wholly owned subsidiaries, holds 457,727,754 shares in the total issued share capital of Hongsong, which represents approximately 50.3% share capital of Hongsong.

As one or more of 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 is or are greater than 100%, the said acquisition constitutes a very substantial acquisition for the Company pursuant to Chapter 14 of the Listing Rules.

The aforesaid acquisition was approved at the extraordinary general meeting of the Company on 27 November 2012 and was completed on 6 January 2013.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 21 September 2012, 24 October 2012, 31 October 2012, 12 November 2012, 27 November 2012 and 9 January 2013, respectively, and the circular of the Company dated 12 November 2012.

Acquisition of land use rights and properties involving issue of convertible note and promissory note

On 14 November 2012, Beichen Power Grid (as purchaser) entered into six acquisition agreements with Mr. Li Baosheng (as vendor), pursuant to which the purchaser conditionally agreed to acquire the land use rights for the lands and properties at an aggregate consideration of RMB280,000,000, which shall be satisfied by paying Mr. Li (or his nominee) in cash and issue to Mr. Li (or his nominee) promissory note and convertible note in the following way:—

Contract	Consideration	Location of the land/ properties
Land use rights transfer contract 1	RMB58,000,000 in cash (or its HKD equivalent) or promissory note in the principal amount of RMB58,000,000 (or its HKD equivalent)	Songshugou Village, Shuangtashan Town, Shuangluan District, Chengde City
Land use rights transfer contract 2	Convertible note in the principal amount of RMB41,000,000 (or its HKD equivalent)	Shiziyuen Village, Shuiquangou Town, Shuangqiao District, Chengde City

Contract	Consideration	Location of the land/ properties
Land use rights transfer contract 3	Convertible note in the principal amount of RMB13,000,000 (or its HKD equivalent)	No.65, Shiziyuen Village, Shuangqiao District, Chengde City
Property sale and purchase contract 1	Convertible note in the principal amount of RMB43,000,000 (or its HKD equivalent) and (i) a sum of RMB17,000,000 in cash (or its HKD equivalent); or (ii) promissory note in the principal amount of RMB17,000,000 (or its HKD equivalent)	Songshugou Village, Shuangtashan Town, Shuangluan District, Chengde City
Property sale and purchase contract 2	Convertible note equivalent to RMB53,000,000 (or its HKD equivalent)	Shizigou Village, Shuiquanggou Town, Shuangqiao District, Chengde City
Property sale and purchase contract 3	Convertible note equivalent to RMB55,000,000 (or its HKD equivalent)	Jiangjiagou, Shuiquangou, Toudao Pailou, Shuangqiao District, Chengde City

Completion of the transactions under the aforesaid contracts are inter-conditional. The aforesaid convertible note in an aggregate principal amount of RMB205,000,000 (or its HKD equivalent) may be converted into ordinary shares of the Company at an initial conversion price of HKD1.5 per ordinary share (subject to adjustment).

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the acquisition are higher than 25% but below 100%, the acquisition constitutes a major 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, and is therefore a connected person 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 not yet completed as at the date of this report.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 14 November 2012, 5 December 2012 and 31 January 2013, respectively.

Pledge of assets

As at 31 December 2012, the Group had pledged land and building with net book values of approximately RMB7,595,000 (2011: approximately RMB12,554,000) 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.

In July 2012, conversion rights attached to convertible note in an aggregate principal amount of HKD48,300,000 were exercised at a conversion price of HKD1.00 per share, resulting in the issue of 48,300,000 ordinary shares of the Company. The outstanding principal amount of the convertible note was HKD58,700,000 as at 31 December 2012.

Upon the issuance of convertible bonds in the principal amount of USD18,580,000 in December 2010 to 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 2012 and as at 31 December 2011, the Group had no material contingent liabilities.

Employees

As at 31 December 2012, the Group had approximately 2,000 full-time employees (2011: approximately 2,200 employees) in Hong Kong and the PRC, comprising approximately 700 employees from the power-related business and approximately 1,300 employees from the business of diodes manufacturing. For the year ended 31 December 2012, the relevant employee costs (including the Directors' remuneration) were approximately RMB96,471,000 (2011: approximately RMB93,194,000). 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

As at the date of this report, the Board comprises seven Directors, among whom four are executive Directors and the remaining three are independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Li Baosheng（李保勝）, aged 48, is the chairman of the Company and an executive Director. He is also the chairman of the nomination committee of the Company. 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 Technology 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 is a director of, and a beneficial owner of 77.78% of the share capital in, Diamond Era, a substantial shareholder of the Company interested in 291,300,000 shares, representing approximately 29.90% of the issued share capital of the Company, and 58,700,000 shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD58,700,000 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 45, is the chief executive officer of the Company and an executive Director. He is also the authorised representative of the Company, a member of each of the remuneration committee and nomination committee of the Company. He was appointed as an executive Director on 7 July 2010.

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

Mr. Zhang is 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 291,300,000 shares, representing approximately 29.90% of the issued share capital of the Company, and 58,700,000 shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD58,700,000 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 46, is an executive Director. Mr. Xu is a director, legal representative and general manager of Galaxy Electrical, Chang Zhou Galaxy Hi-New Electric Parts Co., Ltd. ("Galaxy Hi-New"), Taizhou Galaxy Huan Yu Semiconductor Co. Ltd. ("Galaxy Huanyu") and Changzhou Galaxy Seimconductor Co., Ltd. ("Galaxy Semiconductor"), each a subsidiary of the Company. Mr. Xu is also a director of all subsidiaries incorporated in BVI and Hong Kong of Sun Light Planet Limited, an intermediate holding 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.

Mr. Ning Zhongzhi（寧忠志）, aged 49, is an executive Director. Mr. Ning is a director, the chairman of the board and the authorised representative of Hongsong which is an indirect non-wholly-owned subsidiary of the Company since 6 January 2013. Mr. Ning was appointed as an executive Director on 28 January 2013.

Mr. Ning was graduated from Huabei Electric Workers Intermediate Specialized College（華北電業職工中等專業學校）and Hebei Radio and TV University（河北廣播電視大學）in labour and remuneration in October 1984 and in human relation management in July 1988 respectively. Mr. Ning was qualified as a senior economist by the Senior Specialty and Technology Qualification Judging Committee of the State Power Corporation of China（國家電力公司高級專業技術資格評審委員會）in April 2001. Mr. Ning was the head of employment and human relation department of Chengde Power Supply Company（承德供電公司）and he had then become the head of human resources department since March 2006.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yong（張勇）, aged 47, was appointed as a non-executive Director on 4 January 2011 and resigned on 29 January 2013. 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 51, is an independent non-executive Director, the chairman to the audit committee of the Company and a member of each of the remuneration committee and nomination 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 over 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 AVIC International Holdings Limited.

Mr. Qu Weidong（屈衛東）, aged 46, is an independent non-executive Director and a member of each of the audit committee, remuneration committee and nomination 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 44, is an independent non-executive Director, the chairman to the remuneration committee and a member of each of the audit committee and nomination 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 38, is an authorised representative and the company secretary of the Company, and has over 15 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 49, 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 current member of the Group since 1997 and has over 15 years working experience in the industry of power grid.

Mr. Li Baomin（李寶民）, aged 43, 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.

Mr. Lu Qiang（盧強）, aged 34, 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 current member of the Group since 2005.

Mr. Qu Shaofeng（屈少峰）, aged 36, 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 organisation 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 current member of the Group in 2009.

Mr. Cui Yi（崔毅）, aged 46, 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 current member of the Group in 2007.

Mr. Zhang Pengfei（張鵬飛）, aged 46, 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 current member of 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 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the principal activities of the Group are power grid construction and consultation, design, development, manufacturing and sales of diodes and production of wind turbine blades. 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 2012 are set out in the consolidated income statement on page 58 of this report.

PROPOSED FINAL DIVIDEND

The Directors did not recommend the payment of dividends for the year ended 31 December 2012.

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 150 of this report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment in the amount of approximately RMB14,794,000 (2011: approximately RMB15,605,000) and had provision of impairment of approximately RMB36,351,000 (2011: approximately RMB2,637,000). Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

NON-LISTED WARRANTS

Pursuant to a placing agreement between the Company and Goldin Equities Limited (the "Placing Agent") dated 29 April 2011, warrants to subscribe for 150,000,000 ordinary shares of the Company at the initial subscription price of HKD1.60 (subject to adjustment) in aggregate were issued and allotted by the Company in May 2011.

The subscription rights attached to the warrants expired on 20 May 2012. Prior to the date of expiration of the warrants, 76,000,000 warrants had been exercised with gross proceeds of HKD121,600,000, and a total 76,000,000 ordinary shares had been issued.

CONVERSION OF CONVERTIBLE BONDS

Pursuant to the subscription agreement between the Company and Advance Gain Enterprises Limited ("Advance Gain") dated 19 December 2010, Advance Gain agreed to subscribe for convertible bonds of the Company in the principal amount of USD18,580,000 in cash at 100% of their principal amount. Based on the initial conversion price of HKD1.50 per share to be allotted and issued upon exercise of the conversion rights attached to the said convertible bonds, a maximum number of 95,996,666 of ordinary shares may be allotted and issued.

In March 2012, conversion rights attached to convertible bonds in an aggregate amount of USD6,000,000 were exercised at a conversion price of HKD1.50 per share, resulting in an issue of 31,000,000 ordinary shares of the Company. The outstanding principal amount of the convertible bonds was USD12,580,000 as at 31 December 2012.

CONVERSION OF CONVERTIBLE NOTE

Pursuant to the conditional agreement dated 1 April 2010 between the Company (as purchaser), Brown Beauty Business Limited (as vendor) and Mr. Riley M Chung (as guarantor), the Company agreed to acquire, and Brown Beauty Business Limited agreed to dispose of, the entire issued share capital of Power Full Group Holdings Limited ("Power Full") for a total consideration of HKD830 million, which including issuance of convertible note in the principal amount of HKD155 million to Diamond Era Holdings Limited ("Diamond Era") upon completion of the acquisition on 7 July 2010. Based on the initial conversion price of HKD1 per share to be allotted and issued upon exercise of the conversion rights attached to the said convertible note, a maximum number of 155,000,000 ordinary shares may be allotted and issued.

In July 2012, the conversion rights attached to the convertible note in an aggregate principal amount of HKD48,300,000 have been exercised from the outstanding principal amount of HKD107,000,000. Accordingly, 48,300,000 ordinary shares have been issued. The outstanding principal amount of convertible note was HKD58,700,000 as at 31 December 2012.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 33 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 33 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 2012 amounted to approximately RMB325,603,000.

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. Ning Zhongzhi (appointed on 28 January 2013)

Non-executive Director

Mr. Zhang Yong (resigned on 29 January 2013)

Independent non-executive Directors

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

Mr. Ning Zhongzhi has been appointed as an executive Director with effect from 28 January 2013 and Mr. Zhang Yong has tendered his resignation as a non-executive Director with effect from 29 January 2013.

In accordance with Article 112 of the Company's Articles of Association, Mr. Ning Zhongzhi shall retire at the forthcoming annual general meeting of the Company.

In accordance with Article 108(a) of the Company's Articles of Association, Mr. Li Baosheng and Mr. Qu Weidong 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 commencing from May 2012 and, with each of Mr. Li Baosheng and Mr. Zhang Zhixiang, both an executive Director, for a term of three years commencing from July 2010, subject to the termination provisions therein. Mr. Ning Zhongzhi was appointed as an executive Director and has entered into service agreement with the Company with a term of three years commencing from January 2013, subject to the termination provisions therein.

Each of Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin, being all the independent non-executive Directors, has entered into a service agreement with the Company for a term of two years from May 2012, December 2012 and 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, 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

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 in issue at the date of approval of the share option scheme ("General Scheme Limit"), i.e. 40,000,000 shares, which represented approximately 4.1% of the issued share capital of the Company as at the date of this report. The Company may refresh 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 2012.

Particulars of the Company's Share Option Scheme are set out in note 31 to the consolidated financial statements.

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 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

As at 31 December 2012, save as disclosed below, 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, Chapter 571 of the Laws of Hong Kong (the "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 of the Company 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	168,724,279	Beneficial owner *(Note 1)*	17.32%
	350,000,000	Interest of controlled corporation *(Note 2)*	35.92%
Zhang Zhixiang	77,777,000	Interest of controlled corporation *(Note 2)*	7.98%

Notes:

1. On 14 November 2012, Beichen Power Grid (as purchaser) entered into six acquisition agreements with Mr. Li Baosheng (as vendor), pursuant to which Beichen Power Grid conditionally agreed to acquire the land use rights for the lands and properties at an aggregate consideration of RMB280,000,000. Pursuant to the said agreements, convertible note in an aggregate principal amount of RMB205,000,000 (or its HKD equivalent) would be issued by the Company to Mr. Li. For illustration purpose only, assuming the exchange rate of HKD1.00 to RMB0.81, 168,724,279 Shares may be allotted and issued to Mr. Li at the initial conversion price of HKD1.5 per share (subject to adjustment).

2. 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 2012, Diamond Era was interested in (i) 291,300,000 Shares, and (ii) 58,700,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD58,700,000 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

As at 31 December 2012, save as disclosed below, 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 as recorded in the register required to be kept by the Company pursuant to section 336 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
Central Huijin Investment Ltd. *(Note 1)*	430,496,666	Interest of controlled corporation	44.18%
China Construction Bank Corporation *(Note 1)*	430,496,666	Interest of controlled corporation	44.18%
CCB International Group Holdings Limited *(Note 1)*	430,496,666	Interest of controlled corporation	44.18%
CCBI Financial Holdings Limited *(Note 1)*	430,496,666	Interest of controlled corporation	44.18%
CCB International (Holdings) Limited *(Note 1)*	430,496,666	Interest of controlled corporation	44.18%
Diamond Era Holdings Limited *(Note 2)*	350,000,000	Beneficial owner	35.92%
CCB International Asset Management Limited *(Note 1)*	258,496,666	Interest of controlled corporation	26.53%
Advance Gain Enterprises Limited *(Note 1)*	258,496,666	Beneficial owner	26.53%
CCBI Investments Limited *(Note 1)*	172,000,000	Interest of controlled corporation	17.65%
Chance Talent Management Limited *(Note 1)*	172,000,000	Beneficial owner	17.65%

Notes:

1. To the Directors' best knowledge, information and belief, as at 31 December 2012, Chance Talent Management Limited ("Chance Talent") was interested in 172,000,000 Shares, comprising its interest in 172,000,000 shares held by or to be issued to Diamond Era by virtue of share charge executed by Diamond Era in favour of Chance Talent dated 23 December 2012; pursuant to the said share charge, Diamond Era has pledged 153,300,000 shares held by Diamond Era, and 18,700,000 shares to be issued upon exercise of the conversion rights in respect of HKD18,700,000 out of the entire outstanding principal amount of HKD58,700,000 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 in favour of Chance Talent to secure the Company's indebtedness and Advance Gain was interested in 258,496,666 Shares, comprising, among others, (i) its interest in 64,996,666 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 178,000,000 Shares held by or to be issued to Diamond Era by virtue of a share charge executed by Diamond Era in favour of Advance Gain dated 21 December 2010; pursuant to the said share charge, Diamond Era has pledged 138,000,000 Shares held by Diamond Era 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 HKD58,700,000 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 in favour of Advance Gain to secure the Company's obligations under the Convertible Bonds.

Chance Talent is wholly-owned by CCBI Investments Limited, which in turn is wholly-owned by CCB International (Holdings) Limited, which in turn is wholly-owned by CCB Financial Holdings Limited, which in turn is wholly-owned by CCB International Group Holdings Limited, which in turn is wholly owned by China Construction Bank Corporation. Central Huijin Investment Ltd. is a controlling shareholder of China Construction Bank Corporation having approximately 57.15% interest in China Construction Bank Corporation.

Advance Gain is wholly-owned by CCB International Asset Management Limited, which in turn is wholly-owned by CCB Financial Holdings Limited, which in turn is wholly-owned by CCB International Group Holdings Limited, which in turn is wholly owned by China Construction Bank Corporation. Central Huijin Investment Ltd. is a controlling shareholder of China Construction Bank Corporation having approximately 57.15% interest in China Construction Bank Corporation.

The interest in 430,496,666 Shares by these companies relates to the same block of Shares held by Chance Talent and Advance Gain.

2. As at 31 December 2012, Diamond Era was interested in (i) 291,300,000 Shares, and (ii) 58,700,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD58,700,000 attached to the convertible note in the principal amount of HKD155,000,000 issued by the Company on 7 July 2010.

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

CONNECTED TRANSACTIONS

Acquisition of land use rights and properties involving issue of convertible note and promissory note

On 14 November 2012, Beichen Power Grid (as purchaser) entered into six acquisition agreements with Mr. Li Baosheng (as vendor), pursuant to which the purchaser conditionally agreed to acquire the land use rights for the lands and the properties at an aggregate consideration of RMB280,000,000, which shall be satisfied by paying Mr. Li in cash and issue to Mr. Li (or his nominee) promissory note and convertible note in the following way:—

Contract	Consideration	Location of the land/properties
Land use rights transfer contract 1	RMB58,000,000 in cash (or its HKD equivalent) or promissory note in the principal amount of RMB58,000,000 (or its HKD equivalent)	Songshugou Village, Shuangtashan Town, Shuangluan District, Chengde City
Land use rights transfer contract 2	Convertible note in the principal amount of RMB41,000,000 (or its HKD equivalent)	Shiziyuen Village, Shuiquangou Town, Shuangqiao District, Chengde City
Land use rights transfer contract 3	Convertible note in the principal amount of RMB13,000,000 (or its HKD equivalent)	No. 65, Shiziyuen Village, Shuangqiao District, Chengde City

Contract	Consideration	Location of the land/properties
Property sale and purchase contract 1	Convertible note in the principal amount of RMB43,000,000 (or its HKD equivalent) and (i) a sum of RMB17,000,000 in cash (or its HKD equivalent); or (ii) promissory note in the amount of RMB17,000,000 (or its HKD equivalent)	Songshugou Village, Shuangtashan Town, Shuangluan District, Chengde City
Property sale and purchase contract 2	Convertible note equivalent to RMB53,000,000 (or its HKD equivalent)	Shizigou Village, Shuiquanggou Town, Shuangqiao District, Chengde City
Property sale and purchase contract 3	Convertible note equivalent to RMB55,000,000 (or its HKD equivalent)	Jiangjiagou, Shuiquangou, Toudao Pailou, Shuangqiao District, Chengde City

Completion of the transactions under the aforesaid contracts are inter-conditional. The aforesaid convertible note in an aggregate principal amount of RMB205,000,000 (or its HKD equivalent) may be converted into ordinary shares of the Company at an initial conversion price of HKD1.5 per ordinary share (subject to adjustment).

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the acquisition are higher than 25% but below 100%, the acquisition constitutes a major 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, and is therefore a connected person 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 not yet completed as at the date of this report.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 14 November 2012, 5 December 2012 and 31 January 2013, respectively.

Save as otherwise disclosed in this report, all the related party transactions in 2012 as disclosed in notes 22 and 37 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with the relevant reporting, announcement or independent shareholders' approval requirements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2012, 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	22.91%
— five largest customers	34.90%
— the largest supplier	3.23%
— five largest suppliers	11.43%

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 29 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 31 to the consolidated financial statements and the paragraph headed "Share Options" in this Directors' Report.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

ACQUISITIONS AND DISPOSALS

Acquisition of interest in Hongsong

On 28 June 2012, the Company and Hongsong entered into the Hongsong Subscription Agreement in relation to the subscription of the 520,000,000 new shares in the share capital of Hongsong at a consideration of RMB780,000,000.

On 24 October 2012, the indirectly wholly owned subsidiary of the Company, On Win Corporation Limited ("On Win"), entered into a Capital Increment Agreement with Hongsong and existing shareholders of Hongsong pursuant to which certain terms of the original subscription were amended. Pursuant to the Capital Increment Agreement, On Win has conditionally agreed to subscribe from Hongsong, and Hongsong has conditionally agreed to issue to On Win, the subscription shares comprising 430,000,000 shares in the share capital of Hongsong at RMB1.50 per subscription share. The subscription shares, representing approximately 47.3% of the enlarged share capital of Hongsong, will be paid in cash by On Win at a total consideration of RMB645,000,000 or equivalent in foreign currencies. Upon completion of the subscription, together with the 27,727,754 shares of Hongsong owned by Chengde Beichen High New Technology Co., Ltd. prior to the capital injection, the Company, through its wholly owned subsidiaries, hold 457,727,754 shares in the total issued share capital of Hongsong, which represents approximately 50.3% share capital of Hongsong.

The aforesaid acquisition was approved at the extraordinary general meeting of the Company on 27 November 2012 and was completed on 6 January 2013.

Further details of the aforesaid acquisition are set out in the announcements of the Company dated 21 September 2012, 24 October 2012, 31 October 2012, 12 November 2012, 27 November 2012 and 9 January 2013, respectively, and the circular of the Company dated 12 November 2012.

For the year ended 2012, the Group had made financial assistance to Mr. Zhang Zhixiang. Such financial assistance constitute connected transaction of the Company but was exempt pursuant to Rule 14A.65(2) of the LIsting Rules.

Apart from the transactions disclosed and as set out in the paragraph headed "Connected Transactions" in this report, there was no other material acquisition and disposal of subsidiaries and associated companies by the Group from 1 January 2012 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

The accounts for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-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.

The accounts for the years ended 31 December 2010 and 2011 were audited by HLB Hodgson Impey Cheng. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

CHANGE OF PRINCIPAL PLACE OF BUSINESS

The principal place of business in Hong Kong of the Company has been changed to Unit 2607, 26th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong with effect from 28 June 2012.

EVENTS AFTER THE REPORTING PERIOD

Completion of Acquisition in Hongsong

Save as disclosed in the paragraph headed "Acquisitions and Disposals" in this Directors' Report, the aforesaid acquisition was approved at the extraordinary general meeting of the Company on 27 November 2012 and was completed on 6 January 2013. Further details of the approval of the capital increment of Hongsong are set out in the announcement of the Company dated 9 January 2013. Upon the date of this report, RMB129,000,000 was paid for the paid up capital of Hongsong which was equivalent to 20% of the consideration.

Appointment of Executive Director and Resignation of Non-executive Director

Mr. Ning Zhongzhi has been appointed as the chairman of Hongsong since 2010 and an executive Director with effect from 28 January 2013 and Mr. Zhang Yong has tendered his resignation as a non-executive Director with effect from 29 January 2013. Further details of the said appointment and resignation are set out in the announcement of the Company dated 28 January 2013.

Updated Development of Hongsong

Hongsong has completed the construction of Phase 8 Project – Shanyuan Project in October 2012, and it successfully went on-grid in December 2012. The total capacity of Hongsong has reached 348.9MW in February 2013, and the project has completely gone on-grid and commenced commercial operation, further increasing the wind power assets of the Company significantly.

On 24 January 2013, Hongsong Phase 9 Project – Yuanhui Project ("Yuanhui Project") was officially approved by Hebei Development and Reform Commission. On 1 February 2013, Hongsong received the construction commencement permit of the project. The designed installed capacity of the project was 49.5MW, with a total investment of approximately RMB370,000,000. The Company is expected to have an additional capacity of 100,000,000 kWh per annum.

The Yuanhui Project is expected to complete and commence production by the end of September 2013. By then, the total installed capacity of the project will reach 398.4MW, and it is expected that the related income from the Company's wind power business will be increased significantly.

Further details of the updated development of Hongsong are set out in the announcement of the Company dated 6 February 2013.

Proposed Change of Company Name

On 26 March 2013, the Board proposed to change the English name of the Company from "China Ruifeng Galaxy Renewable Energy Holdings Limited" to "China Ruifeng Renewable Energy Holdings Limited" and to change the Chinese name of the Company from "中國瑞風銀河新能源控股有限公司" to "中國瑞風新能源控股有限公司".

The proposed change of Company's name is subject to (i) the passing of a special resolution by the Shareholders at the Annual General Meeting of the Company approving the proposed change of the Company's name; and (ii) the Registrar of Companies in the Cayman Islands granting approval for the change of Company's name.

Further details of the proposed change of Company's name are set out in the announcement of the Company dated 26 March 2013.

On behalf of the Board

Li Baosheng
Chairman

Hong Kong

26 March 2013

CORPORATE GOVERNANCE

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

Corporate Governance Practices

The Company has fully complied throughout the year 2012 with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Director's securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. 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 and the aforesaid code of conduct adopted by the Company for the year ended 31 December 2012.

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information, inside 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. No incident of non-compliance of the Model Code by relevant senior management members was noted by the Company during the year under review.

THE BOARD OF DIRECTORS

Board Responsibility and Delegation

The Board is collectively responsible for the formulation of all commercial policies and strategies in relation to 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 business on a timely basis and to make further inquiries 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, consisting of executive Directors along with other senior management of the Group, is delegated with the responsibilities to carry out policies set by the Board from time to time and supervises the day-to-day management of the Group. The management of the Group meet regularly to review the business performance of the Group as a whole, co-ordinate overall resources and make financial and operational decisions.

The Board has delegated some of its functions to the board committees, details of which are set out below. Matters specifically reserved for the Board include but not limited to approval of financial statements, dividend policy, significant changes in accounting policies, material contracts or transactions, significant appointments such as Company Secretary and external auditor, terms of reference of board committees, as well as major corporate policies such as code of conduct and whistle-blowing policy.

The Company has arranged directors and officers liability and company reimbursement insurances for its directors and officers.

The Board is responsible for performing the corporate governance functions set out in code provision D3.1 of the Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Code disclosures requirements.

COMPOSITION AND APPOINTMENT

Composition

As at 31 December 2012, the Board comprises seven Directors, of whom three are executive Directors, one is non-executive Director and three are independent non-executive Directors.

Executive Directors

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

Non-executive Director

Mr. Zhang Yong *(resigned on 29 January 2013)*

Independent Non-executive Directors

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

Note: Mr. Ning Zhongzhi, an executive Director, was appointed on 28 January 2013.

The details of the biographies of the existing Directors are set out in the section headed "Biographies of Directors and Senior Management" on page 28 to page 31 of this report.

The Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules. During the year ended 31 December 2012, there were three independent non-executive Directors in the Board and the number of independent non-executive Directors represents at least one-third of the Board. The Company has also complied with Rule 3.10(2) of the Listing Rules, which stipulates that one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial management expertise. The Board considers that the independent non-executive Directors are all independent persons with appropriate qualifications or expertise and the Company has complied with the relevant requirements of the Listing Rules.

The Company has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to the requirements under the Listing Rules. The Company considers all independent non-executive Directors have satisfied the independence requirement under Rule 3.13 of the Listing Rules.

As at 31 December 2012, 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 29.90% of the issued share capital of the Company, Diamond Era is also interested in 58,700,000 Shares to be issued upon exercise of the conversion rights in respect of an outstanding principal amount of HKD58,700,000 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) between the Board members or other major events or relevant matters that were required to be disclosed.

Board Meetings

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 2012, 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 91% and 100%.

For the year ended 31 December 2012, the Board has complied the following statistics:

Director's name	Attendance Rate for Board meetings		Attendance Rate for general meetings	
	Attendance/ Number of Meeting	Percentage (%)	Attendance/ Number of Meeting	Percentage (%)
Mr. Li Baosheng	10/11	91	0/2	0
Mr. Zhang Zhixiang	12/12	100	2/2	100
Mr. Xu Xiaoping	13/14	93	0/2	0
Mr. Zhang Yong *(Note)*	14/14	100	0/2	0
Ms. Wong Wai Ling	14/14	100	1/2	50
Mr. Qu Weidong	13/14	93	0/2	0
Ms. Hu Xiaolin	13/14	93	0/2	0

Note: Mr. Zhang Yong resigned as a non-executive Director on 29 January 2013.

During the year ended 31 December 2012, the term of appointment of the non-executive Director and the independent non-executive Directors is 2 years.

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 comments and records respectively. Directors are entitled to inspect the minutes at any time.

INDUCTION AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he or she has a proper understanding of the Company's operations and businesses as well as his or her responsibilities under the relevant statutes, laws, rules and regulations.

During the year under review, Directors are provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all directors are encouraged to participate in continuous professional development. The Company updates directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. In particular, training sessions covering topics including the new Corporate Governance Code and the disclosure of inside information had been held during the year.

According to the records provided by the Directors, a summary of training received by the Directors since 1 April 2012 up to 31 December 2012 is as follows:

Name of Directors	Reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements	Attending briefing sessions
Executive Directors		
Mr. Li Baosheng	✓	✓
Mr. Zhang Zhixiang	✓	✓
Mr. Xu Xiaoping	✓	
Non-executive Director		
Mr. Zhang Yong (resigned on 29 January 2013)	✓	
Independent non-executive Directors		
Ms. Wong Wai Ling	✓	
Mr. Qu Weidong	✓	
Ms. Hu Xiaolin	✓	

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the positions of the Chairman and the Chief Executive Officer were held separately in compliance with Code provision A.2.1.

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

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, the amount of fee paid or payable to the auditors of the Group was as follows:

Type of service	Auditors HLB Hodgson Impey Cheng Limited
Audit services	HKD1,548,000

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 2012, 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 yearly 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 Auditor's Report on pages 56 to 57 of this report.

The accounts for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. The audit committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed 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 on 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 ended 31 December 2012, the audit committee comprised all the three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin, and Ms. Wong Wai Ling is the chairman of the audit committee.

The role and function of the audit committee include, inter alia, making recommendation to the Board on the appointment, reappointment and removal of external auditor, reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, developing and implementing policy on the engagement of an external auditor to supply non-audit services and monitoring integrity of financial statements of the Company and the Company's annual report and accounts, interim report and significant financial reporting judgments contained in them. The terms of reference of the Audit Committee was revised on 29 March 2012 and is available on the website of the Stock Exchange and the Company to comply with the provisions of the Code.

The audit committee has held 2 meetings for the year ended 31 December 2012 The attendance rates of every member of the audit committee were as follows:

Name of member	Attendance Rate for audit committee meetings: Attendance/ Number of meetings	Percentage (%)	Title
Ms. Wong Wai Ling (Chairman)	2/2	100	Independent non-executive Director
Mr. Qu Weidong	2/2	100	Independent non-executive Director
Ms. Hu Xiaolin	1/2	50	Independent non-executive Director

The audit committee has reviewed the audit performance, internal controls and audited accounts for the year ended 31 December 2012 and a report has been complied on how the audit committee met its responsibilities in its review of the half-yearly and annual results and internal control system, and its other duties under the Code. The audit committee has also reviewed this report and confirmed that 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 Director's emoluments. During the year ended 31 December 2012, the remuneration committee comprised one executive Director and all the three independent non-executive Directors.

The role and function of the remuneration committee include, inter alia, making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing policy on such remuneration, reviewing and determining the remuneration packages for all executive Directors and senior management, making recommendations to the Board of the remuneration of non-executive Directors, reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and reviewing and approving the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment. The terms of reference of the remuneration committee was revised on 29 March 2012 and is available on the website of the Stock Exchange and the Company to comply with the Code.

The remuneration committee held 2 meetings for the year ended 31 December 2012, 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:

Name of member	Attendance rate for remuneration committee meetings Attendance / Number of meetings	 Percentage (%)	Title
Ms. Hu Xiaolin *(as member from 1 January 2012 to 28 February 2012; and appointed as Chairman on 29 February 2012)*	1/2	50	Independent non-executive Director
Mr. Zhang Zhixiang *(as Chairman from 1 January 2012 up to 28 March 2012; and as a member since 29 February 2012)*	2/2	100	Executive Director
Ms. Wong Wai Ling	2/2	100	Independent non-executive Director
Mr. Qu Weidong	2/2	100	Independent non-executive Director

Under Rule 3.25 of the Listing Rules, the remuneration committee should be chaired by an 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, an executive Director, with effect from 29 March 2012 and Mr. Zhang Zhixiang remained as a member of remuneration committee.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Group paid or accrued total Directors' remuneration amounts of approximately RMB1,328,000, RMB1,358,000, RMB844,000, RMB500,000, RMB98,000, RMB80,000 and RMB81,000 to Mr. Li Baosheng, Mr. Zhang Zhixiang, Mr. Xu Xiaoping, Mr. Zhang Yong, Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin respectively, for the year ended 31 December 2012.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2012, there was no arrangement in which the Directors waived their remuneration.

Senior management's remuneration payment of the Group in the year ended 31 December 2012 falls within the following bands:

	Number of Individuals
RMB500,000 or below	6
RMB500,001 to RMB1,000,000	1
RMB1,000,001 to RMB1,500,000	0

NOMINATION COMMITTEE

The Appointment and Re-Election of Directors

The Company has established a nomination committee with specific terms of reference with effect from 29 March 2012. The nomination committee comprised two executive Directors and all the three independent non-executive Directors during the year ended 31 December 2012.

The role and function of the nomination committee include, inter alia, reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board, identifying individuals suitably qualified to become Directors, assessing the independence of the independent non-executive directors, making recommendations to the Board on the appointment or re-appointment of directors and succession planning of directors, determining the policy for nomination of directors and reviewing its own performance, constitution and terms of reference.

The nomination committee held 1 meeting in the year ended 31 December 2012. The attendances of the meeting of the nomination committee are as follows:

	Attendance rate for nomination committee meeting		
Name of member	Attendance/ Number of meeting	Percentage (%)	Title
Mr. Li Baosheng (Chairman)	1/1	100	Chairman of the Board and executive Director
Mr. Zhang Zhixiang	1/1	100	Executive Director
Ms. Wong Wai Ling	0/1	0	Independent non-executive Director
Mr. Qu Weidong	1/1	100	Independent non-executive Director
Ms. Hu Xiaolin	0/1	0	Independent non-executive Director

On 28 January 2013, the nomination committee nominated Mr. Ning Zhongzhi as an executive Director. 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.

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

Mr. Cheng Koon Kau, Alfred has been appointed as the company secretary of the Company (the "Company Secretary") with effect from 22 January 2008. The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and 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 disclosable 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.

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

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.

During the year ended 31 December 2012, the Company did not make any significant changes in its memorandum and articles of association.

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 websites. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

China Ruifeng Galaxy Renewable Energy Holdings Limited
Unit 2607, 26th Floor, China Merchants Tower,
Shun Tak Centre, 168-200 Connaught Road Central,
Hong Kong
Email: alfred.cheng@c-ruifeng.com
Tel No.: +852 2598 5188
Fax No.: +852 2598 5288

Procedures for putting forward proposals at general meetings by Shareholders

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transactions of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) may do so in the same manner.

Pursuant to Article 113 of the Articles of Association, no person (other than a retiring Director), shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The period for lodgment of the notices required under the Articles of Association will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA RUIFENG GALAXY RENEWABLE ENERGY HOLDINGS LIMITED
(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 58 to 149, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
Jonathan T. S. Lai
Practising Certificate Number: P04165

Hong Kong, 26 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Turnover	4	**582,987**	750,328
Cost of sales		**(534,391)**	(610,853)
Gross profit		**48,596**	139,475
Other revenue and net income	5	**36,070**	114,311
Distribution costs		**(12,824)**	(16,155)
Administrative expenses		**(66,739)**	(54,756)
Other operating expenses		**(85,630)**	—
(Loss)/Profit from operations		**(80,527)**	182,875
Finance costs	6(a)	**(75,014)**	(82,682)
Share of profits less losses of associates		**(3)**	(105)
(Loss)/Profit before taxation	6	**(155,544)**	100,088
Income tax	7	**(11,420)**	(8,570)
(Loss)/Profit for the year		**(166,964)**	91,518
Attributable to:			
Equity shareholders of the Company	10	**(166,964)**	91,518
Non-controlling interests		**—**	—
(Loss)/Profit for the year		**(166,964)**	91,518
(Loss)/Earnings per share			
Basic (RMB)	11	**(0.183)**	0.112
Diluted (RMB)	11	**(0.183)**	0.076

The notes on pages 65 to 149 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
(Loss)/Profit for the year	**(166,964)**	91,518
Other comprehensive income		
Exchange differences on translation of financial statements of operations outside the PRC	**(792)**	(1,393)
Other comprehensive income for the year (net of tax)	**(792)**	(1,393)
Total comprehensive income for the year	**(167,756)**	90,125
Total comprehensive income attributable to:		
Equity shareholders of the Company	**(167,756)**	90,125

The notes on pages 65 to 149 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	14	**182,340**	223,878
Lease prepayments	16	**10,866**	17,750
Goodwill	15	**4,060**	83,006
Investment in an associate	18	**5,103**	5,106
Available-for-sale investments	19	**46,184**	46,184
Deferred tax assets	32(b)	**3,379**	3,201
		251,932	379,125
Current assets			
Inventories	20	**30,328**	48,034
Trade and other receivables	21	**667,720**	506,427
Lease prepayments	16	**249**	401
Pledged bank deposits	24	**4,151**	3,627
Cash and cash equivalents	25	**160,380**	82,656
		862,828	641,145
Current liabilities			
Trade and other payables	27	**112,532**	162,792
Derivative financial instruments	26	**1,528**	1,027
Borrowings	28	**614,054**	105,400
Current taxation	32(a)	**8,271**	11,190
		736,385	280,409
Net current assets		**126,443**	360,736
Total assets less current liabilities		**378,375**	739,861
Non-current liabilities			
Borrowings	28	**23,000**	378,198
Deferred tax liabilities	32(b)	**15,114**	12,247
		38,114	390,445
Net assets		**340,261**	349,416
Capital and reserves	33		
Share capital		**9,002**	7,740
Reserves		**331,259**	341,676
Total equity		**340,261**	349,416

Approved and authorised for issue by the board of Directors on 26 March 2013.

Li Baosheng
Director

Zhang Zhixiang
Director

The notes on pages 65 to 149 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

	Note	2012 *RMB'000*	2011 *RMB'000*
Non-current assets			
Investments in subsidiaries	*17*	**415,289**	415,289
Current assets			
Other receivables	*21*	**24,337**	1,680
Amounts due from subsidiaries	*17*	**251,022**	110,217
Cash and cash equivalents	*25*	**11,714**	2,427
		287,073	114,324
Current liabilities			
Other payables	*27*	**1,564**	9,071
Amount due to a subsidiary	*17*	**39**	39
Borrowings	*28*	**378,654**	—
Derivative financial instruments	*26*	**1,528**	1,027
		381,785	10,137
Net current (liabilities)/assets		**(94,712)**	104,187
Total assets less current liabilities		**320,577**	519,476
Non-current liabilities			
Borrowings	*28*	**—**	316,198
Deferred tax liabilities	*32(b)*	**932**	4,439
		932	320,637
Net assets		**319,645**	198,839
Capital and reserves	*33*		
Share capital		**9,002**	7,740
Reserves		**310,643**	191,099
Total equity		**319,645**	198,839

Approved and authorised for issue by the board of Directors on 26 March 2013.

Li Baosheng
Director

Zhang Zhixiang
Director

The notes on pages 65 to 149 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 note reserve	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 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 and 1 January 2012		7,740	700,328	(91,284)	13,118	31,477	(771)	3,558	37,683	(352,433)	349,416
Changes in equity for 2012:											
Transfer to statutory reserves		–	–	–	4,142	–	–	–	–	(4,142)	–
Conversion of the convertible bonds	28	251	27,474	–	–	–	–	–	–	–	27,725
Exercise of warrants		616	99,670	–	–	–	–	(1,800)	–	–	98,486
Conversion of the convertible note	28	395	47,613	–	–	–	–	–	(17,010)	–	30,998
Lapse of warrants		–	–	–	–	–	–	(1,758)	–	1,758	–
Realisation of deferred tax liabilities in respect of conversion of the convertible note	32	–	–	–	–	–	–	–	1,392	–	1,392
Total comprehensive income for the year		–	–	–	–	–	(792)	–	–	(166,964)	(167,756)
Balance at 31 December 2012		**9,002**	**875,085**	**(91,284)**	**17,260**	**31,477**	**(1,563)**	**–**	**22,065**	**(521,781)**	**340,261**

The notes on pages 65 to 149 form part of these financial statements.

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
(Loss)/Profit before taxation		**(155,544)**	100,088
Adjustments for:			
Depreciation		**17,860**	19,735
(Gain)/Loss on disposal of property, plant and equipment		**(127)**	787
Impairment loss on property, plant and equipment		**36,351**	2,637
Impairment loss on lease prepayments		**6,684**	—
Impairment loss on trade and other receivables		**218**	6,360
Impairment of goodwill		**78,946**	—
Amortisation of lease prepayments		**402**	338
Interest income		**(539)**	(898)
Share of profits less losses of associates		**3**	105
Interest expenses		**75,014**	82,682
Fair value gain on derivative financial instruments		**(701)**	(36,648)
Dividend income from available-for-sale investments		**(4,087)**	—
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 on trading securities		**—**	38
Operating profit before changes in working capital		**54,480**	141,313
Decrease/(Increase) in inventories		**17,706**	(759)
Increase in trading securities		**—**	(38)
Increase in trade and other receivables		**(31,786)**	(28,905)
Increase in amounts due from Directors		**(725)**	—
Decrease in amounts due from related companies		**—**	458
Decrease in amount due from an associate		**—**	9,620
Decrease in trade and other payables		**(52,550)**	(108,983)
Increase/(Decrease) in amounts due to Directors		**2,002**	(880)
Decrease in amounts due to related companies		**—**	(18,334)
Cash used in operations		**(10,873)**	(6,508)
PRC Enterprise Income Tax paid		**(10,274)**	(2,541)
Interest paid		**(17,089)**	(16,954)
Net cash used in operating activities		**(38,236)**	(26,003)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 *RMB'000*	2011 *RMB'000*
Investing activities			
Payments for the purchase of property, plant and equipment		**(14,794)**	(15,605)
Payments for the purchase of lease prepayments		**(50)**	—
Payments for deposit for acquisition of a subsidiary		**(129,000)**	—
Payments for acquisition of subsidiaries		**—**	(78,637)
Payments for acquisition of an associate		**—**	(5,000)
Dividend received from available-for-sale investments		**4,087**	—
Interest received		**539**	898
Proceeds from disposal of property, plant and equipment		**2,251**	7,047
Proceeds from sales of lease prepayments		**—**	532
Net cash used in investing activities		**(136,967)**	(90,765)
Financing activities			
Proceeds from new bank and other loans		**294,080**	258,800
Proceeds from issue of shares upon exercise of warrants		**98,486**	—
Proceeds from issue of warrants		**—**	3,558
Repayment of bank and other loans		**(115,900)**	(241,400)
Interest expense of promissory note		**(16,200)**	—
Interest expense of convertible bonds		**(6,324)**	(9,339)
(Increase)/Decrease in pledged bank deposits		**(524)**	23,270
Net cash generated from financing activities		**253,618**	34,889
Net increase/(decrease) in cash and cash equivalents		**78,415**	(81,879)
Cash and cash equivalents at 1 January		**82,656**	181,990
Effect of foreign exchange rate changes		**(691)**	(17,455)
Cash and cash equivalents at 31 December	*25*	**160,380**	82,656

The notes on pages 65 to 149 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Group and the Group's interest in an associate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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 39.

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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).

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates *(continued)*

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).

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill *(continued)*

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)).

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 in accordance with the policy set out in note 2(v)(v). 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation 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	10-30 years	3% to 10%
— Leasehold improvement	5 years	—
— Plant and machinery	3-10 years	3% to 10%
— Equipment, furniture and fixtures	3-10 years	0% to 10%
— Motor vehicles	4-8 years	3% to 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

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).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

— 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.

— 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

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

(ii) Impairment of other assets

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

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

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

— 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).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 receivables". Amounts received before the related work is performed are presented as "Advance from customers" under "Trade and other payables".

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Convertible notes *(continued)*

(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.

(p) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Provisions and contingent liabilities *(continued)*

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) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

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

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(vi) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Translation of foreign currencies *(continued)*

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.

(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.

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)*

(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.

(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 several amendments to HKFRSs 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:

- Amendments to HKFRS 7, *Financial instrument: Disclosures – Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

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

Amendments to HKFRS 7, Financial instrument: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group did not have any significant deferred tax relating to investment properties in previous periods or the current period which require remeasure in the current accounting period under the amendments.

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:

	2012	2011
	RMB'000	*RMB'000*
Sales of goods	**311,720**	424,169
Revenue from construction contracts	**269,352**	317,683
Processing income	**1,915**	8,476
	582,987	750,328

5 OTHER REVENUE AND NET INCOME

	2012	2011
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**539**	898
Government subsidy income	**666**	344
Sales of scrap	**2,582**	2,912
Dividend income from available-for-sale investments	**4,087**	—
Net losses on trading securities	**—**	(38)
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	**4,201**	19,656
Fair value gain on derivative financial instruments	**701**	36,648
Gain on change of estimated cash flows of convertible bonds	**—**	19,355
Rental income from operating leases relating to plant and machinery	**22,930**	20,149
Others	**364**	181
	36,070	114,311

6 (LOSS)/PROFIT BEFORE TAXATION

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

		2012	2011
		RMB'000	*RMB'000*
(a)	**Finance costs:**		
	Interest on bank and other loans wholly repayable within five years	**17,377**	16,954
	Interest expenses on convertible bonds *(note 28)*	**30,611**	38,236
	Interest expenses on convertible note *(note 28)*	**12,914**	13,280
	Interest expenses on promissory note *(note 28)*	**14,112**	14,212
	Interest expenses on financial liabilities not at fair value through profit or loss	**75,014**	82,682
(b)	**Staff costs (including Directors' remuneration)#:**		
	Contributions to defined contribution retirement plans	**5,010**	4,790
	Salaries, wages and other benefits	**91,461**	88,404
		96,471	93,194
(c)	**Other items:**		
	Amortisation of lease prepayments	**402**	338
	Impairment losses:		
	— trade and other receivables *(note 21)* (included in administrative expenses)	**218**	6,360
	— property, plant and equipment *(note 14)* (included in cost of sales)	**36,351**	2,637
	— goodwill *(note 15)* (included in other operating expenses)	**78,946**	—
	— lease prepayments *(note 16)* (included in other operating expenses)	**6,684**	—
	Depreciation for property, plant and equipment#	**17,860**	19,735
	Net foreign exchange loss/(gain)	**1,806**	(14,413)
	Auditors' remuneration		
	— audit services	**1,257**	987
	Operating lease charges		
	— minimum lease payments in respect of property rentals#	**1,530**	1,897
	Cost of inventories# *(note 20)*	**308,458**	366,050
	Gain on disposal of lease prepayments	**—**	(350)
	(Gain)/Loss on disposal of property, plant and equipment	**(127)**	787

Cost of inventories includes approximately RMB52,850,000 (2011: approximately RMB60,228,000) 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:

	2012	2011
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	**7,868**	14,913
Over-provision in respect of prior years	**(513)**	(3,432)
Deferred tax		
Origination and reversal of temporary differences	**4,065**	(2,911)
	11,420	8,570

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 (2011: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.

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 is 25% in 2012.

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 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 Double Taxation Agreement, 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 (loss)/profit at applicable tax rates:

	2012	2011
	RMB'000	*RMB'000*
(Loss)/Profit before taxation	**(155,544)**	100,088
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in PRC of 25%	**(38,886)**	25,022
Tax effect of non-deductible expenses	**31,664**	7,568
Tax effect of non-taxable income	**(7,423)**	(17,857)
Tax effect of unused tax loss not recognised	**—**	(295)
Tax effect of tax losses not recognised	**20,395**	2,231
Tax effect of tax concessions in the PRC	**(649)**	(1,756)
Tax effect on withholding tax of retained earnings in the PRC subsidiaries	**2,767**	—
Over-provision in prior years	**(513)**	(3,432)
Others	**4,065**	(2,911)
Actual tax expense	**11,420**	8,570

8 DIRECTORS' REMUNERATION

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

Year ended 31 December 2012

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	2012 Total *RMB'000*
Executive Directors					
Li Baosheng *(Chairman)*	—	1,220	108	—	1,328
Zhang Zhixiang *(Chief Executive Officer)*	—	1,347	—	11	1,358
Xu Xiaoping	—	800	—	44	844
Non-executive Director					
Zhang Yong (resigned on 29 January 2013)	—	500	—	—	500
Independent non-executive Directors					
Wong Wai Ling	97	1	—	—	98
Qu Weidong	80	—	—	—	80
Hu Xiaolin	80	1	—	—	81
	257	3,869	108	55	4,289

8 DIRECTORS' REMUNERATION *(continued)*

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 *(Chairman)*	—	1,242	108	—	1,350
Zhang Zhixiang *(Chief Executive Officer)*	—	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

Notes:

(i) 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 the Directors of the Company. The details of the share option scheme are set out in note 31 to the consolidated financial statements.

(ii) 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 (2011: Nil). There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 31 December 2012 (2011: Nil).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: three) were Directors of the Company whose emoluments are disclosed in note 8 above. The aggregate of the emolument in respect of the remaining one (2011: two) individual is as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other benefits	**740**	1,222
Retirement scheme contributions	**11**	27
	751	1,249

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

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

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of approximately RMB37,950,000 (2011: a profit of approximately RMB115,175,000) which has been dealt with in the financial statements of the Company.

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB166,964,000 (2011: profit of approximately RMB91,518,000) and the weighted average of approximately 912,114,000 ordinary shares (2011: 819,000,000 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2012	2011
	'000	*'000*
Issued ordinary shares at 1 January	**819,000**	819,000
Effect of exercise of warrants	**45,044**	—
Effect of conversion of convertible note	**22,830**	—
Effect of conversion of convertible bonds	**25,240**	—
Weighted average number of ordinary shares at 31 December	**912,114**	819,000

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB166,964,000 (2011: profit of approximately RMB77,665,000) and the weighted average number of ordinary shares of approximately 912,114,000 ordinary shares (diluted) (2011: approximately 1,025,762,000 ordinary shares), calculated as follows:

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

	2012	2011
	RMB'000	*RMB'000*
(Loss)/Profit attributable to ordinary equity shareholders	**(166,964)**	91,518
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)
(Loss)/Profit attributable to ordinary equity shareholders (diluted)	**(166,964)**	77,665

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

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

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

	2012	2011
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**912,114**	819,000
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	**912,114**	1,025,762

For the year ended 31 December 2012, 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 2012 (2011: 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 in the PRC.

13 SEGMENT REPORTING *(continued)*

— 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 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 Directors' and auditors' remuneration and other head office or corporate administration costs.

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

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 2012 and 2011 is set out below.

13 SEGMENT REPORTING *(continued)*

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

	Production of diodes		Construction contracts		Production of wind turbine blades		Wind farm operation		Sub-total		Un-allocated		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**311,720**	380,875	**269,352**	317,683	**1,915**	51,770	**–**	–	**582,987**	750,328	**–**	–	**582,987**	750,328
Reportable segment profit/ (loss)	**8,750**	18,466	**32,557**	72,109	**(3,201)**	4,084	**451**	12,665	**38,557**	107,324	**704**	56,045	**39,261**	163,369
Impairment losses on:														
– Goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(78,946)**	–	**(78,946)**	–
– Property, plant and equipment	**(36,351)**	(2,637)	**–**	–	**–**	–	**–**	–	**(36,351)**	(2,637)	**–**	–	**(36,351)**	(2,637)
– Lease prepayments	**(6,684)**	–	**–**	–	**–**	–	**–**	–	**(6,684)**	–	**–**	–	**(6,684)**	–
Central administrative costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(14,899)**	5,084	**(14,899)**	5,084
Finance costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(57,925)**	(65,728)	**(57,925)**	(65,728)
(Loss)/Profit before taxation													**(155,544)**	100,088
Income tax													**(11,420)**	(8,570)
(Loss)/Profit for the year													**(166,964)**	91,518

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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**12,195**	14,241	**4,875**	4,784	**860**	871	**111**	46	**18,041**	19,942	**221**	131	**18,262**	20,073
Interest income	**482**	800	**38**	47	**4**	4	**12**	6	**536**	857	**3**	41	**539**	898
Share of profits less losses of associates	**(3)**	86	**–**	–	**–**	–	**–**	–	**(3)**	86	**–**	(191)	**(3)**	(105)
Assets	**251,572**	312,801	**402,985**	396,436	**20,675**	37,222	**394,609**	183,223	**1,069,841**	929,682	**39,816**	85,482	**1,109,657**	1,015,164
Associate	**5,103**	5,106	**–**	–	**–**	–	**–**	–	**5,103**	5,106	**–**	–	**5,103**	5,106
Reportable segment assets	**256,675**	317,907	**402,985**	396,436	**20,675**	37,222	**394,609**	183,223	**1,074,944**	934,788	**39,816**	85,482	**1,114,760**	1,020,270
Additions to non-current segment assets during the year	**4,319**	11,406	**9,626**	548	**–**	16	**50**	3,513	**13,995**	15,483	**849**	122	**14,844**	15,605
Reportable segment liabilities	**(95,437)**	(87,669)	**(185,009)**	(195,647)	**(9,106)**	(21,060)	**(102,644)**	(27,615)	**(392,196)**	(331,991)	**(382,303)**	(338,863)	**(774,499)**	(670,854)

(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.

(c) Information about a major customer

For the year ended 31 December 2012, revenue of approximately RMB135,691,000 was made to a single customer attributable to the construction contracts segment comprising approximately 23% of the total revenue of the Group.

For the year ended 31 December 2011, there was no single customer contributing over 10% of the total revenue of the Group.

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 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 and 1 January 2012	36,787	381	111,082	31,895	13,000	115,426	308,571
Additions	26	42	11,938	2,093	695	—	14,794
Exchange adjustments	—	3	—	1	—	—	4
Transfer	—	—	136	—	—	(136)	—
Disposals	—	(384)	(4,367)	(3,444)	(334)	—	(8,529)
At 31 December 2012	36,813	42	118,789	30,545	13,361	115,290	314,840
Accumulated depreciation and impairment:							
At 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 and 1 January 2012	8,459	95	49,773	20,603	5,763	—	84,693
Impairment loss	10,659	—	22,675	3,013	4	—	36,351
Charge for the year	1,619	43	10,274	3,826	2,098	—	17,860
Exchange adjustments	—	1	—	—	—	—	1
Written back on disposal	—	(134)	(3,098)	(2,873)	(300)	—	(6,405)
At 31 December 2012	20,737	5	79,624	24,569	7,565	—	132,500
Net book value:							
At 31 December 2012	**16,076**	**37**	**39,165**	**5,976**	**5,796**	**115,290**	**182,340**
At 31 December 2011	28,328	286	61,309	11,292	7,237	115,426	223,878

14 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2012, the Group has pledged its buildings with carrying values of approximately RMB4,345,000 (2011: approximately RMB10,476,000) to secure its bank loans (note 29).

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 ended 31 December 2012, the Group experienced a significant drop in demand for its diodes and related products under the prevailing market environment. The Directors considered that the existence of the above conditions indicated that non-current assets of Galaxy Electrical, Galaxy Semiconductor, Galaxy Hi-New and Taizhou Galaxy Huan Yu Semiconductor Co., Ltd. ("Galaxy Huan Yu") may be impaired. In view of this, the Directors prepared a cash flow projection to estimate the recoverable amounts of these assets and recognised an impairment loss of approximately RMB33,420,000 (included in "cost of sales") against the property, plant and equipment for the year.

During the year ended 31 December 2012 and 2011, 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 amounts were written down by approximately RMB2,931,000 (2011: approximately RMB2,637,000) (included in "cost of sales") at 31 December 2012. The estimates of recoverable amounts 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 2011	725,946
Addition	4,060
At 31 December 2011 and at 31 December 2012	730,006
Accumulated impairment losses:	
At 1 January 2011	647,000
Impairment loss	—
At 31 December 2011 and at 1 January 2012	647,000
Impairment loss	78,946
At 31 December 2012	725,946
Carrying amount:	
At 31 December 2012	**4,060**
At 31 December 2011	83,006

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:

	2012	2011
	RMB'000	*RMB'000*
Construction and processing services in the PRC	**—**	78,946
Wind farm operation in the PRC	**4,060**	4,060
	4,060	83,006

15 GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill *(continued)*

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% (2011: 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 22.10% (2011: approximately 28.73%). 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 2012 and 2011 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% (2011: 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 20.72% (2011: 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:

	2012	2011
	RMB'000	*RMB'000*
Land in PRC:		
Medium term lease	**17,799**	18,151
Less: Impairment loss	**(6,684)**	—
	11,115	18,151

Analysed for reporting purpose as:

	2012	2011
Current assets	**249**	401
Non-current assets	**10,866**	17,750
	11,115	18,151

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

At 31 December 2012, the Group has pledged its lease prepayments with a carrying value of approximately RMB3,250,000 (2011: approximately RMB2,078,000) to secure its bank loans (note 29).

During the year ended 31 December 2012, the Group experienced a significant drop in demand for its diodes and related products under the prevailing market environment. The Directors considered that the existence of the above conditions indicated that non-current assets of Galaxy Electrical, Galaxy Semiconductor, Galaxy Hi-New and Galaxy Huan Yu may be impaired. In view of this, the Directors prepared a cash flow projection to estimate the recoverable amounts of these assets and recognised an impairment loss of approximately RMB6,684,000 (included in "other operating expenses") against the lease prepayments for the year.

17 INTEREST IN SUBSIDIARIES

	2012 RMB'000	2011 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	**251,022**	110,217
Amount due to a subsidiary	**(39)**	(39)
	666,272	525,467

Notes:

(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 were unsecured, interest free and repayable on demand.

(c) Details of subsidiaries at 31 December 2012 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 Directly	Attributable equity interest held by the company Indirectly	Principal activities
Changzhou Galaxy Semiconductor Co., Ltd* 常州銀河半導體有限公司	PRC	PRC	Registered capital USD1,500,000	—	100%	Manufacturing and 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 share USD1	—	100%	Investment holding
Gold And Goal Limited 金機有限公司	BVI	HK	Ordinary shares USD2	—	100%	Investment holding

17 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the company		Principal activities
				Directly	Indirectly	
Profit Champ Limited 盈冠有限公司	BVI	HK	Ordinary shares USD2	—	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
Dai Tak Trading Company Limited 大得貿易有限公司	HK	HK	Ordinary share 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 share 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 share HKD1	—	100%	Inactive
Conway Holdings Limited 康威集團有限公司	HK	HK	Ordinary share HKD1	—	100%	Investment holding
Beijing Chengrui Xianghai Renewable Energy Technology 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 Beichen 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
Chengde Beichen High New Technology Co., Ltd.*** 承德北辰高新科技有限公司	PRC	PRC	Registered capital RMB 46,900,000	—	100%	Investment holding

17 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the company		Principal activities
				Directly	Indirectly	
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)
Leading Win Resources Limited 領達資源有限公司	BVI	HK	Ordinary share USD1	100%	—	Inactive
Fortune View Alliance Limited	BVI	HK	Ordinary share USD1	100%	—	Inactive
Team Mega Limited 集泓有限公司	HK	HK	Ordinary share HKD1	—	100%	Inactive
On Win Corporation Limited 進盈有限公司	HK	HK	Ordinary share HKD1	—	100%	Investment holding

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

18 INTEREST IN AN ASSOCIATE

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Share of net assets	**5,103**	5,106

Details of the associate as at 31 December 2012 and 2011 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
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

* private limited liability company

Summary of financial information on the associate

	Assets	**Liabilities**	**Equity**	**Revenue**	**Loss**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
2012					
100 per cent	**26,765**	**14,008**	**12,757**	**27,332**	**(7)**
The Group's effective interest	**10,706**	**5,603**	**5,103**	**10,933**	**(3)**

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

19 AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Unlisted equity securities, at cost	**46,184**	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	Registered capital RMB480,000,000	5.77%	Wind farm operation in the PRC

20 INVENTORIES

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**6,661**	9,054
Work in progress	**10,347**	17,567
Finished goods	**13,320**	21,413
	30,328	48,034

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

	2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**308,458**	366,050
	308,458	366,050

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**216,527**	280,721	**—**	—
Less: allowance for doubtful debts	**(19,615)**	(19,397)	**—**	—
	196,912	261,324	**—**	—
Other receivables	**76,966**	53,776	**23,529**	1,680
Note receivables	**22,718**	32,132	**—**	—
Amount due from a Director *(note 22)*	**725**	—	**649**	—
Loans and receivables	**297,321**	347,232	**24,178**	1,680
Prepayments and deposits	**163,936**	66,172	**159**	—
Deposit for acquisition of a subsidiary	**129,000**	—	**—**	—
Gross amount due from customers for contract work *(note 23)*	**77,463**	93,023	**—**	—
	667,720	506,427	**24,337**	1,680

All of the trade and other receivables (including note receivables and amount due from a Director) are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts of approximately RMB19,615,000 (2011: approximately RMB19,397,000) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within three months	**130,077**	226,049
More than three months but within one year	**41,718**	24,086
More than one year	**25,117**	11,189
At 31 December	**196,912**	261,324

Trade receivables are due within 15–90 days from the date of billing.

21 TRADE AND OTHER RECEIVABLES *(continued)*

(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 follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**19,397**	15,198
Impairment loss recognised	**218**	6,360
Uncollectible amounts written off	**—**	(2,161)
At 31 December	**19,615**	19,397

At 31 December 2012, trade receivables of the Group amounting to approximately RMB19,615,000 (2011: approximately RMB19,397,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 90 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.

(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	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**120,944**	219,895
Past due but not impaired		
— Less than three months past due	**34,292**	28,243
— More than three months but within one year past due	**32,297**	8,010
— More than one year past due	**9,379**	5,176
	196,912	261,324

21 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Trade receivables that are not impaired *(continued)*

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 AMOUNT DUE FROM A DIRECTOR

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mr. Zhang Zhixiang *(note i)*	**725**	—	**649**	—

The maximum amounts outstanding during the year were as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mr. Zhang Zhixiang	**725**	—	**649**	—

Note:

(i) The amount was unsecured, bore interest at 5% per annum and repayable within twelve months after 31 December 2012.

23 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 2012 is approximately RMB553,291,000 (2011: approximately RMB582,596,000).

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 2012 is approximately RMB5,783,000 (2011: approximately RMB2,621,000).

24 PLEDGED BANK DEPOSITS

The amounts are pledged to banks as securities for certain bank guarantees granted to independent third parties.

25 CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**129,380**	68,656	**11,714**	2,427
Time deposits	**31,000**	14,000	**—**	—
Cash and cash equivalents in the statements of financial position and the consolidated statement of cash flows	**160,380**	82,656	**11,714**	2,427

26 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group and the Company	
	2012	2011
	RMB'000	*RMB'000*
Derivative financial liabilities:		
Derivative component of convertible bonds *(note 28(b)(ii))*	**1,528**	1,027

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 ("RHL"), using the binomial option pricing model.

27 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**76,297**	110,896	**—**	—
Other payables	**20,080**	34,909	**1,564**	9,071
Advance from customers	**10,440**	14,613	**—**	—
Amounts due to Directors *(note i)*	**2,722**	720	**—**	—
Financial liabilities measured at amortised cost	**109,539**	161,138	**1,564**	9,071
Gross amount due to customers for contract work *(note 23)*	**2,993**	1,654	**—**	—
	112,532	162,792	**1,564**	9,071

Note:

(i) The amounts were unsecured, interest free and repayable on demand.

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

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within three months	**51,408**	70,545
More than three months but within one year	**17,799**	32,064
More than one year	**7,090**	8,287
	76,297	110,896

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

28 BORROWINGS

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans *(note 29)*	**185,000**	165,000	**—**	—
Convertible bonds *(note 28(b)(ii))*	**78,125**	82,843	**78,125**	82,843
Convertible note *(note 28(b)(i))*	**41,954**	59,845	**41,954**	59,845
Promissory note *(note 28(b)(iii))*	**171,395**	173,510	**171,395**	173,510
Other loans *(note 28(b)(iv))*	**160,580**	2,400	**87,180**	—
	637,054	483,598	**378,654**	316,198
Analysis as:				
Current	**614,054**	105,400	**378,654**	—
Non-current	**23,000**	378,198	**—**	316,198
	637,054	483,598	**378,654**	316,198

All of the non-current borrowings, except for the non-current bank loans of RMB23,000,000 (2011: RMB62,000,000), are carried at amortised cost. None of the non-current borrowings is expected to be settled within one year.

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

(i) 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. 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. The residual amount was assigned as the equity component and included in shareholders' equity.

28 BORROWINGS *(continued)*

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

(i) 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)

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.

In July 2012, convertible note in aggregate amounts of HKD48,300,000 was converted into ordinary shares, creating a total of 48,300,000 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.

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 2011	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
Interest expenses *(note 6(a))*	12,914	—	12,914
Conversion of convertible note	(30,998)	(17,010)	(48,008)
Realisation of deferred tax liabilities in respect of conversion of convertible note	—	1,392	1,392
Exchange adjustment	193	—	193
At 31 December 2012	**41,954**	**22,065**	**64,019**

28 BORROWINGS *(continued)*

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

(i) 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 Group and the Company	
	2012	2011
	RMB'000	*RMB'000*
Liabilities component analysed for reporting purposes:		
Convertible note		
— non-current liabilities	**—**	59,845
— current liabilities	**41,954**	—
	41,954	59,845

(ii) 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.

28 BORROWINGS *(continued)*

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

(ii) 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%.

28 BORROWINGS *(continued)*

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

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

In March 2012, convertible bonds in aggregate amounts of USD6,000,000 were 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.

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 and at 1 January 2012	82,843	1,027	83,870
Change in fair value	—	(701)	(701)
Conversion of convertible bonds	(28,930)	1,205	(27,725)
Cash settled	(6,324)	—	(6,324)
Interest expenses *(note 6(a))*	30,611	—	30,611
Exchange adjustment	(75)	(3)	(78)
At 31 December 2012	**78,125**	**1,528**	**79,653**

28 BORROWINGS *(continued)*

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

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

	The Group and the Company	
	2012	2011
	RMB,000	*RMB'000*
Liabilities component analysed for reporting purposes:		
Convertible bonds		
— non-current liabilities	**—**	82,843
— current liabilities	**78,125**	—
	78,125	82,843

(iii) 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.

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 and was 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 notes is calculated using the effective interest method by applying the effective interest rate of 8.49% to the liability component.

28 BORROWINGS *(continued)*

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

(iii) Promissory note issued in July 2010 in respect of the Acquisition *(continued)*

	The Group and the Company	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**173,510**	176,017
Interest expenses *(note 6(a))*	**14,112**	14,212
Settlement during the year	**(16,200)**	(8,107)
Exchange adjustment	**(27)**	(8,612)
At 31 December	**171,395**	173,510

(iv) Other loans

As 31 December 2012, the other loans were as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Secured *(note a)*	**62,855**	—	**62,855**	—
Guaranteed *(note b)*	**26,725**	2,400	**24,325**	—
Unsecured				
— Interest-bearing loan *(note c)*	**1,000**	—	**—**	—
— Interest-free loans *(note d)*	**70,000**	—	**—**	—
	160,580	2,400	**87,180**	—

Notes:

(a) At 31 December 2012, the Group and the Company had the other loan of USD10 million (equivalent to approximately RMB62,855,000) was guaranteed by Mr. Li Baosheng, an executive Director of the Company, and secured by 153,300,000 issued ordinary shares of the Company held by Diamond Era Holdings Limited ("Diamond Era"); and the zero coupon convertible note due 6 July 2013 issued by the Company to Diamond Era on 7 July 2010 with the outstanding principal amount of HKD18.7 million. The loan bore interest at 18% per annum.

28 BORROWINGS *(continued)*

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

(iv) Other loans (continued)

Notes: (continued)

(b) At 31 December 2012, the Group and the Company had the other loan of HKD30 million (equivalent to approximately RMB24,325,000) was guaranteed by Mr. Zhang Zhixiang, an executive Director of the Company and key management of the Group, bore interest at 6% per annum and was fully settled on 8 January 2013.

At 31 December 2012, the Group had the other loan of RMB2,400,000 (2011: RMB2,400,000) was guaranteed by Mr. Zhang Yong, a non-executive Director of the Company, bore interest at 14.4% per annum and was repayable on 20 June 2013.

(c) At 31 December 2012, the unsecured other loan of RMB1,000,000 bore interest at 24% per annum and was repayable on 10 May 2013.

(d) At 31 December 2012, the unsecured other loans of RMB70,000,000 were interest free and repayable on demand.

29 BANK LOANS

At 31 December 2012, the bank loans were repayable as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 1 year or on demand	**162,000**	103,000
After 1 year but within 2 years	**—**	62,000
After 2 years but within 5 years	**23,000**	—
	185,000	165,000

As 31 December 2012, the bank loans were secured and guaranteed as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Bank loans		
— secured *(note a)*	**160,000**	130,000
— guaranteed *(note b)*	**25,000**	35,000
	185,000	165,000

29 BANK LOANS *(continued)*

Notes:

(a) The secured bank loans of RMB160,000,000 as at 31 December 2012 were secured by the Group's buildings with a carrying value of approximately RMB4,345,000 (2011: approximately RMB10,476,000) and lease prepayments with a carrying value of approximately RMB3,250,000 (2011: approximately RMB2,078,000). At 31 December 2012 and 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 8.47% (2011: approximated 9.72%) per annum.

(b) As at 31 December 2012, the unsecured bank loans of RMB25,000,000 (2011: RMB35,000,000) 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）.

The average effective interest rate on unsecured, guaranteed bank loans approximated 11.48% (2011: approximated 9.67%) per annum.

(c) As at 31 December 2012 and 31 December 2011, all of the bank loans are denominated in RMB.

30 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 HKD25,000 (HKD20,000 prior to June 2012). 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 RMB5,010,000 (2011: approximately RMB4,790,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

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

The subscription price of a Share under the Share Option Scheme will be a price solely determined by the Board and shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five 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 2012.

32 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

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

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**11,190**	2,250
Provision for PRC Enterprise Income Tax for the year	**7,868**	14,913
Over provision in respect of prior years	**(513)**	(3,432)
PRC Enterprise Income Tax paid	**(10,274)**	(2,541)
At 31 December	**8,271**	11,190

(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	Withholding tax on future dividend income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:						
At 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)
Credited/(Charged) to						
— income statement	64	—	114	2,131	(6,374)	(4,065)
— reserve	—	—	—	1,392	—	1,392
Exchange adjustment	—	—	—	(16)	—	(16)
At 31 December 2012	**3,094**	**(7,808)**	**285**	**(932)**	**(6,374)**	**(11,735)**

32 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 2011	6,911
Credited to income statement	(2,190)
Exchange adjustment	(282)
At 31 December 2011 and at 1 January 2012	4,439
Credited to income statement	(2,131)
Credited to reserve	(1,392)
Exchange adjustment	16
At 31 December 2012	**932**

(iii) Reconciliation to the consolidated statement of financial position

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Net deferred tax assets recognised on the consolidated statement of financial position	**3,379**	3,201
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(15,114)**	(12,247)
	(11,735)	(9,046)

32 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 RMB9,435,000 (2011: approximately RMB8,874,000) available for offset against future profits that may be carried forward five years after they are incurred. 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.

At 31 December 2012, deferred tax liabilities of approximately RMB6,374,000 (2011: Nil) has been provided for in the consolidated financial statements in respect of the temporary differences attributable to the undistributed profits of certain PRC subsidiaries.

At 31 December 2012, deferred tax liabilities of approximately RMB4,362,000 (2011: approximately RMB12,763,000) has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the undistributed profits of other 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.

33 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	Share premium	Translation reserve	Convertible note reserve	Warrants reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	7,740	700,328	(9,682)	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 and 1 January 2012	7,740	700,328	(15,115)	37,683	3,558	(535,355)	198,839
Conversion of the convertible bonds *(note 33(b))*	251	27,474	—	—	—	—	27,725
Exercise of warrants *(note 33(b))*	616	99,670	—	—	(1,800)	—	98,486
Conversion of the convertible note *(note 33(b))*	395	47,613	—	(17,010)	—	—	30,998
Lapse of warrants	—	—	—	—	(1,758)	1,758	—
Realisation of deferred tax liabilities in respect of conversion of the convertible note *(note 32)*	—	—	—	1,392	—	—	1,392
Total comprehensive income for the year	—	—	155	—	—	(37,950)	(37,795)
At 31 December 2012	**9,002**	**875,085**	**(14,960)**	**22,065**	**—**	**(571,547)**	**319,645**

33 CAPITAL AND RESERVES *(continued)*

(b) Share capital

	2012		2011	
	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**	819,000	7,740
Conversion of the convertible bonds in March 2012 *(note i)*	**31,000**	**251**	—	—
Exercise of warrants during the year *(note ii)*	**76,000**	**616**	—	—
Conversion of the convertible note in July 2012 *(note iii)*	**48,300**	**395**	—	—
At 31 December	**974,300**	**9,002**	819,000	7,740

Notes:

(i) In March 2012, convertible bonds with aggregate principal amount of USD6,000,000 were converted at the conversion price of HKD1.50 per share, resulting in the issue of 31,000,000 ordinary shares of HKD0.01 each.

(ii) During the year ended 31 December 2012, 76,000,000 warrants were exercised at the subscription price of HKD1.60 per share, resulting in the issue of 76,000,000 ordinary shares of HKD0.01 each.

(iii) In July 2012, convertible note with aggregate principal amount of HKD48,300,000 was converted at the conversion price of HKD1.00 per share, resulting in the issue of 48,300,000 ordinary shares of HKD0.01 each.

(iv) 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.

33 CAPITAL AND RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Special reserve

The special reserve represented:

— The differences between the aggregate nominal value of the registered capital of Galaxy Electrical 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 three 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.

(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.

33 CAPITAL AND RESERVES *(continued)*

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

(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 note reserve

The convertible note reserve comprises the amount allocated to the unexercised equity component of convertible note issued by the Company recognised in accordance with the accounting policy adopted for convertible 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. During the year ended 31 December 2012, 76,000,000 warrants were exercised at the subscription price of HKD1.60 per share, resulting in the issue of 76,000,000 ordinary shares of HKD0.01 each. In addition, 74,000,000 warrants were lapsed during the year and the relevant warrants reserve was transferred to accumulated losses.

(d) Distributability of reserves

As at 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB325,603,000 (2011: approximately RMB206,214,000).

(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. During the year ended 31 December 2012, the Group's strategy remained unchanged from 2011.

33 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 2012 and 2011 were as follows:

	2012	2011
	RMB'000	*RMB'000*
Borrowings:		
Current portion	**614,054**	105,400
Non-current portion	**23,000**	378,198
Total borrowings *(note 28)*	**637,054**	483,598
Less: Cash and cash equivalents *(note 25)*	**(160,380)**	(82,656)
Net debt	**476,674**	400,942
Total equity	**340,261**	349,416
Gearing ratio	**140%**	115%

34 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.

34 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 15 to 90 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 12% (2011: 14%) and 28% (2011: 36%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2012 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.

34 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

2012

	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	**95,808**	**—**	**—**	**95,808**	**78,125**
Convertible note	**47,597**	**—**	**—**	**47,597**	**41,954**
Promissory note	**178,387**	**—**	**—**	**178,387**	**171,395**
Bank loans	**173,530**	**2,263**	**24,201**	**199,994**	**185,000**
Other loans	**163,463**	**—**	**—**	**163,463**	**160,580**
Trade and other payables (excluding advance from customers)	**102,092**	**—**	**—**	**102,092**	**102,092**
	760,877	**2,263**	**24,201**	**787,341**	**739,146**

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

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

(b) Liquidity risk *(continued)*

The Company

2012

	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	**95,808**	**—**	**—**	**95,808**	**78,125**
Convertible note	**47,597**	**—**	**—**	**47,597**	**41,954**
Promissory note	**178,387**	**—**	**—**	**178,387**	**171,395**
Other payables	**1,564**	**—**	**—**	**1,564**	**1,564**
Amount due to a subsidiary	**39**	**—**	**—**	**39**	**39**
Other loans	**89,814**	**—**	**—**	**89,814**	**87,180**
	413,209	**—**	**—**	**413,209**	**380,257**

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
Amount due to a subsidiary	39	—	—	39	39
	34,663	406,576	—	441,239	325,308

34 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 and other borrowings. 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 and the Company'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			
	2012		2011		**2012**		2011	
	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**	**78,125**	50.53	82,843	**50.53**	**78,125**	50.53	82,843
Convertible note	**9.49**	**41,954**	9.49	59,845	**9.49**	**41,954**	9.49	59,845
Promissory note	**8.49**	**171,395**	8.49	173,510	**8.49**	**171,395**	8.49	173,510
Other loans	**8.32**	**160,580**	14.40	2,400	**14.65**	**87,180**	—	—
Bank loans								
Short term loan	**5.04**	**30,000**	6.00	13,000	**—**	**—**	—	—
		482,054		331,598		**378,654**		316,198
Variable rate borrowings:								
Bank loans								
Long term loan	**9.84**	**23,000**	10.64	62,000	**—**	**—**	—	—
Short term loan	**9.58**	**132,000**	9.61	90,000	**—**	**—**	—	—
		155,000		152,000		**—**		—
Total net borrowings		**637,054**		483,598		**378,654**		316,198
Net fixed rate borrowings as a percentage of total net borrowings		**76%**		69%		**100%**		100%

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

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and accumulated losses by approximately RMB1,163,000 (2011: decreased/increased the Group's profit after taxation and increased/decreased accumulated losses by approximately RMB1,140,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after taxation (and accumulated losses) 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 loss after taxation (and accumulated losses) 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.

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

(d) Currency risk *(continued)*

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

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.

	2012	2011	**2012**	2011
	USD'000	*USD'000*	***HKD'000***	*HKD'000*
The Group				
Trade and other receivables	**1,971**	2,369	**908**	697
Amounts due from Directors	**—**	—	**1,500**	—
Cash and cash equivalents	**773**	445	**17,454**	4,389
Trade and other payables	**(111)**	(42)	**(1,886)**	(726)
Convertible bonds	**(12,672)**	(13,293)	**—**	—
Convertible note	**—**	—	**(51,740)**	(73,819)
Promissory note	**—**	—	**(211,377)**	(214,023)
Other short term loans	**(10,000)**	—	**(30,000)**	—
Overall exposure arising from recognised assets and liabilities	**(20,039)**	(10,521)	**(275,141)**	(283,482)
The Company				
Amounts due from Directors	**—**	—	**1,500**	—
Amounts due from subsidiaries	**—**	—	**184,680**	13,535
Cash and cash equivalents	**—**	—	**14,444**	2,992
Other payables	**(39)**	—	**(1,411)**	(1,020)
Convertible bonds	**(12,672)**	(13,293)	**—**	—
Convertible note	**—**	—	**(51,740)**	(73,819)
Promissory note	**—**	—	**(211,377)**	(214,023)
Other short term loans	**(10,000)**	—	**(30,000)**	—
Overall exposure arising from recognised assets and liabilities	**(22,711)**	(13,293)	**(93,904)**	(272,335)

34 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 (loss)/profit after taxation (and accumulated losses) 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

	2012			2011		
	Increase/ (Decrease) in foreign exchange rates	**Effect on loss after taxation** *RMB'000*	**Effect on accu-mulated losses** *RMB'000*	Increase/ (Decrease) in foreign exchange rates	Effect on profit after taxation *RMB'000*	Effect on accu-mulated losses *RMB'000*
UNITED STATES DOLLARS	**5%/(5%)**	**6,298/ (6,298)**	**6,298/ (6,298)**	5%/(5%)	(3,342)/ 3,342	3,342/ (3,342)
HONG KONG DOLLARS	**5%/(5%)**	**11,155/ (11,155)**	**11,155/ (11,155)**	5%/(5%)	(11,613)/ 11,613	11,613/ (11,613)

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 taxation 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 2011.

(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.

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

(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.

2012

	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	**—**	**1,528**	**—**	**1,528**

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

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 (2011: 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 2012 and 2011.

34 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.

	At 31 December 2011	**At date of conversion on 9 March 2012**	**At 31 December 2012**
Fair value of conversion options and assumptions			
Share price	**HKD1.58**	**HKD1.90**	**HKD1.60**
Initial conversion price	**HKD1.50**	**HKD1.50**	**HKD1.50**
Expected volatility	**44.075%**	**44.327%**	**33.190%**
Option life	**1.5 years**	**1.31 years**	**0.5 year**
Risk-free interest rate	**0.20%**	**0.26%**	**0.14%**

	At 31 December 2011	At date of conversion on 9 March 2012	At 31 December 2012
Fair value of redemption options and assumptions			
	Early redemption price	Early redemption price	Early redemption price
Exercise price	HKD1.50	HKD1.50	HKD1.50
Option life	1.5 years	1.31 years	0.5 year
Risk-free interest rate	0.20%	0.26%	0.14%

(ii) Borrowings

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

35 ACQUISITION OF SUBSIDIARIES

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

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**

35 ACQUISITION 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 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 for the year ended 31 December 2011.

36 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

The Group

	2012	2011
	RMB'000	*RMB'000*
Acquisition of a subsidiary		
— Contracted for	**516,000**	—
Acquisition of property, plant and equipment and land use rights		
— Contracted for	**453,678**	11,385
	969,678	11,385

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**1,631**	1,025
After 1 year but within 5 years	**1,085**	445
More than 5 years	**828**	827
	3,544	2,297

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.

37 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
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
Mr. Li Baosheng 李保勝 ("Mr. Li")	An executive Director

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

(a) Transactions with related parties

		2012	2011
		RMB'000	*RMB'000*
Micro-Electronics	Purchase of goods	**—**	5,496
Mr. Li	Interest expenses	**—**	180

(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:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**4,974**	5,884
Post-employment benefits	**66**	66
Salaries and other emoluments	**5,040**	5,950

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

38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Acquisition of 河北紅松風力發電股份有限公司 (transliterated as Hebei Hongsong Wind Power Co., Ltd.)

In January 2013, the Group announced Hongsong was obtained the approval of the capital increment of Hongsong and filed on record from all relevant governmental departments (including approvals for Hongsong to become a sino-foreign equity joint venture company). Further details are disclosed in the Company's announcement dated 9 January 2013. The principal activity of Hongsong is developing and operating wind farms in Hebei Province in the PRC. At the date of approval of these consolidated financial statements, the management of the Group was still in the midst of determining the financial effect of the aforesaid acquisition.

39 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.

39 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(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.

(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 23 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.

39 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(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.

(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 2012, deferred tax liabilities of approximately RMB4,362,000 have not been recognised on the distributable profits of certain 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.

(i) Going concern basis of preparation

The consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration all relevant available information about the future of the Group, including business forecasts and cash flow projections for the year ending 31 December 2013. Such forecasts and projections about the future inherently involve uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis not appropriate.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 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 HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income	1 July 2012
Amendments to HKFRS 1, Government loans	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
Amendments to HKFRS10, HKFRS 11 and HKFRS 12, Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: Transition guidance	1 January 2013
Annual improvements to HKFRSs 2009-2011 cycle	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 19 (2011), Employee benefits	1 January 2013
HKAS 27 (2011), Separate financial statements	1 January 2013
HKAS 28 (2011), Investments in associates and joint ventures	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
Amendments to HKFRS10, HKFRS 12 and HKAS 27 (2011), Investment entities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(continued)*

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 consolidated financial statements except for the following:

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. HKFRS 13 is effective as from 1 January 2013, but retrospective adoption is not required. The Group estimates that the adoption of HKFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 financial statements.

Five Years' Financial Summary

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**582,987**	750,328	804,183	425,742	387,541
(Loss)/Profit from operations	**(80,527)**	182,875	(532,765)	16,527	30,573
(Loss)/Profit before taxation	**(155,544)**	100,088	(558,124)	11,314	21,083
(Loss)/Profit for the year	**(166,694)**	91,518	(573,750)	12,577	18,713
Attributable to:					
Equity holders of the Company	**(166,694)**	91,518	(573,750)	12,577	18,713
Non-controlling interests	**—**	—	—	—	—
	(166,694)	91,518	(573,750)	12,577	18,713
Assets and liabilities					
Total assets	**1,114,760**	1,020,270	973,433	550,592	487,919
Total liabilities	**(774,499)**	(670,854)	(717,700)	(238,441)	(219,574)
Net assets	**340,261**	349,416	255,733	312,151	268,345
Equity					
Share capital	**9,002**	7,740	7,740	4,785	4,080
Reserves	**331,259**	341,676	247,993	307,366	264,265
Total equity attributable to equity shareholders of the Company	**340,261**	349,416	255,733	312,151	268,345
Non-controlling interests	**—**	—	—	—	—
Total equity	**340,261**	349,416	255,733	312,151	268,345

Note:

1 The results for the year ended 31 December 2012, and the assets and liabilities as at 31 December 2012 have been extracted from the consolidated income statement and consolidated statement of financial position as set out on pages 58 to 60 respectively, of the consolidated financial statements.