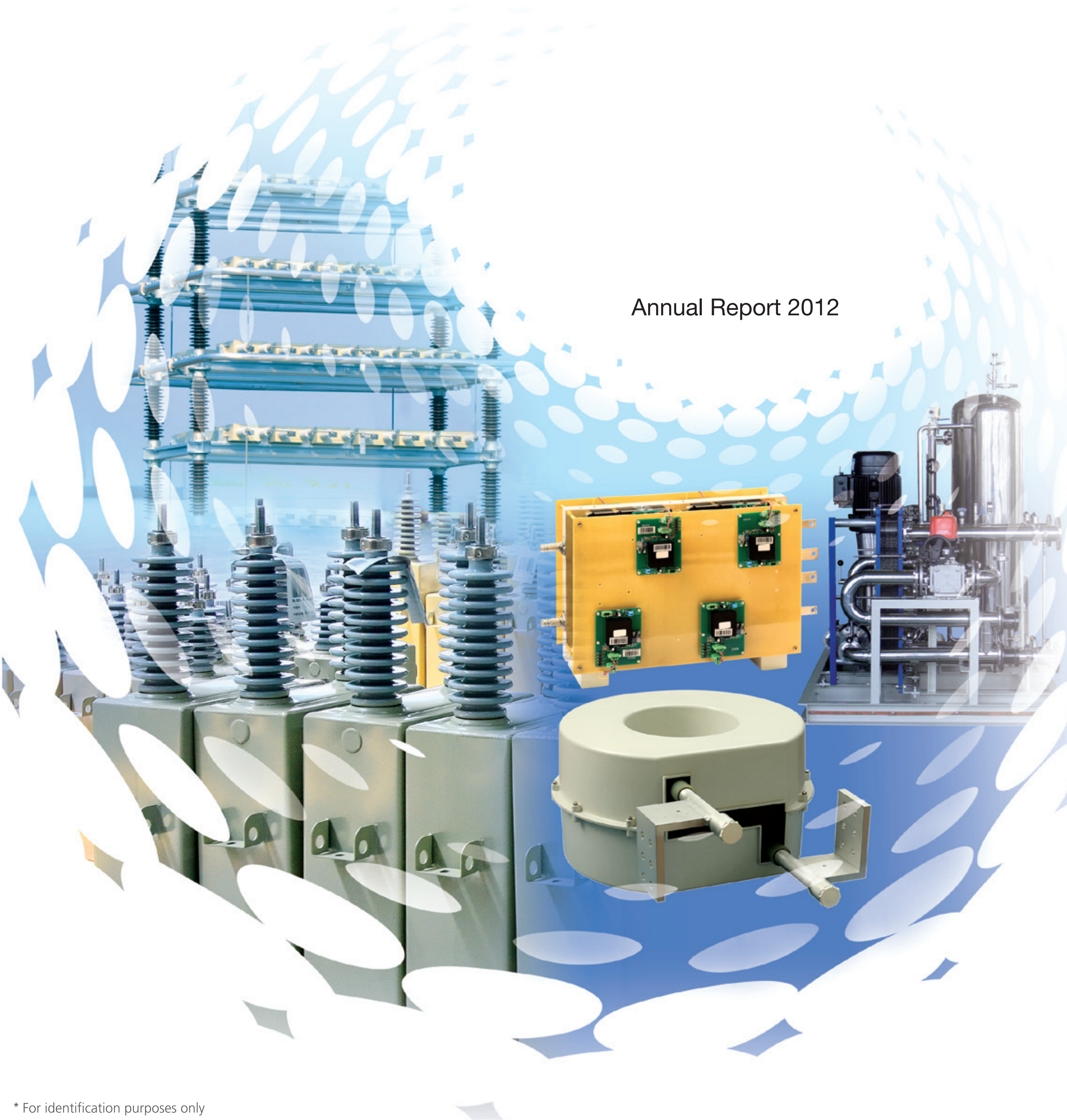
Sun.King Power Electronics Group Limited
賽晶電力電子集團有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 580



Annual Report 2012

* For identification purposes only

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CORPORATE INFORMATION

Executive Directors
Mr. Xiang Jie *(chairman of the Board)*
Mr. Gong Renyuan *(chief executive officer)*
Mr. Yue Zhoumin
Mr. Huang Xiangqian

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

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

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

Audit committee
Mr. Chen Shimin *(chairman of the audit committee)*
Mr. Wang Yi
Mr. Ye Weigang Greg

Remuneration committee
Mr. Wang Yi *(chairman of the remuneration committee)*
Mr. Wong Kun Kau
Mr. Li Fengling

Nomination committee
Mr. Li Fengling *(chairman of the nomination committee)*
Mr. Gong Renyuan
Mr. Chen Shimin

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

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

Legal adviser
Pang & Co. in association with Loeb & Loeb LLP

Auditors
Ernst & Young

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

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

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

Principal share registrar and transfer office
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

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

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

Listing exchange information
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Stock code: 580

Company's website
www.speg.hk

Dear Shareholders,

I am pleased to present on behalf of the Board (the "**Board**") of directors (the "**Directors**") of Sun.King Power Electronics Group Limited (the "**Company**") the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2012.

In 2012, the Group adhered to the vision of being the industry-leading electric power system solution integrator. The Group also continued to strengthen its capability in research and development ("**R&D**") of self-manufacturing technology and product innovation, improve operational efficiency and provide high-quality and diversified products. In 2012, the products offered by the Group continued to be widely recognised by customers among rail transportation sector, power transmission sector and industrial sector.

The joint-venture company formed by a subsidiary of the Group and Trainelec, S.L. and Traintic, S.L., subsidiaries of Construcciones y Auxiliar de Ferrocarriles (CAF), S.A. ("**CAF**"), was officially established in March 2012, and it engages in manufacturing and selling of electronic traction systems, train control and monitoring systems and auxiliary power supply systems. Through cooperating with other subsidiaries of the Company, the joint-venture company participates in a number of subway tendering and technical exchange activities, thus has accumulated valuable experience for its business expansion. In April 2012, the Group renewed the distributor agreement with ABB Switzerland Ltd Semiconductors ("**ABB Switzerland**") in relation to semiconductor products, for a term of five years commencing from 1 December 2011. The Group will seize opportunities for growth in terms of market share and revenue through the formation of long-term strategic alliance of business collaboration with selected partners, including China CNR Corporation Limited ("**CNR**"), ABB Switzerland and other large customers.

In 2012, a number of products offered by the Group, including anode saturable reactors, were successfully applied in several lines of ultra-high-voltage direct current ("**UHV DC**") transmission and high-voltage direct current ("**HVDC**") light power transmission projects, including the "Hami-Zhengzhou" Line. Meanwhile, the installation of on-site equipment for the construction of the "High Power Experimental System" laboratory under the "HVDC Converter Value Industrialisation" programme by Xian XD Power Systems Co., Ltd. undertaken by the Group was completed by the end of 2012. The above projects demonstrated the strong technical strength and excellent product quality of the Group in the field of UHV DC transmission and power system solution.

The Group is committed to exploring and tapping into the regional and overseas market. In 2012, the Group's products such as high power rectifiers, anode saturable reactors and high voltage power capacitors were successfully applied in a number of overseas projects, including Korea and Malaysia.

In 2012, the consolidated turnover of the Group amounted to approximately RMB573.52 million, representing a decrease of approximately RMB36.8 million as compared with the previous year. The net loss of the Group amounted to approximately RMB0.9 million, decreasing by approximately RMB52.38 million as compared with the previous year.

Looking forward into 2013, with the substantial increase of investment in rail transportation projects made by the government and local governments of the People's Republic of China (the "**PRC**"), the expectation that the power transmission sector, especially the UHV DC transmission sector, will develop rapidly and the recovery of the macro economy in the PRC, the Group is confident in the economic development of the PRC and the business performance of the Group in 2013. Meanwhile, the Group will continue to strengthen its R&D in technology and products, enhance its operational efficiency, product quality and product diversification in order to realise the rapid development plan of the Group.

Last but not least, the management of the Group is committed to dedicating its efforts to lead the entire team to promote the Group's development in order to maximise the benefits for the shareholders of the Company (the "**Shareholders**"). On behalf of the Board, I would like to take this opportunity to thank the members of our Board and our dedicated staff for their hard work and contributions as well as our business partners for their supports during the year.

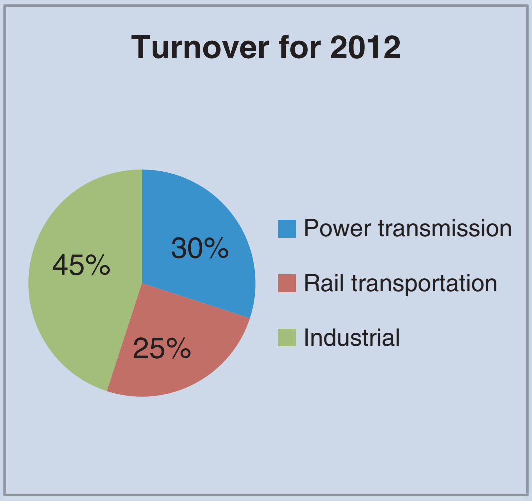
Xiang Jie
Chairman

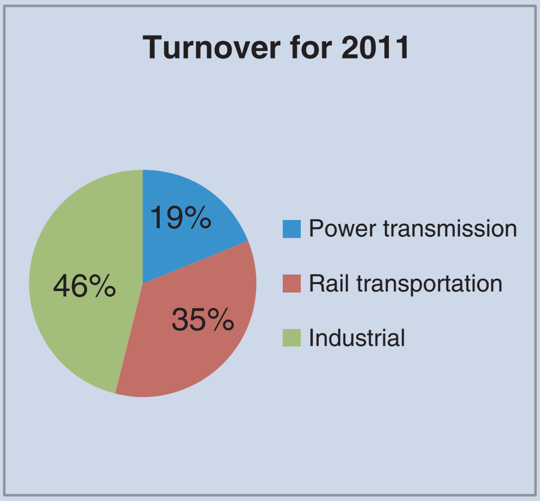
Hong Kong, 20 March 2013

BUSINESS REVIEW

The products offered by the Group are divided into, in terms of their applied industries, power transmission sector, rail transportation sector and industrial sector.

	Year ended 31 December			
	2012		2011	
Sectors	**Sales RMB'000,000**	**Gross profit margin %**	**Sales RMB'000,000**	**Gross profit margin %**
Power transmission	174.10	29	117.90	26
Rail transportation	144.33	21	214.56	8
Industrial	255.09	26	277.85	19
Total	**573.52**	**average 25**	**610.31**	**average 16**





Power transmission sector

In 2012, the Group recorded an operating income of approximately RMB174.10 million in the power transmission sector, representing a year-on-year increase of approximately 47.7%. The gross profit margin of sales increased to 29% for the year ended 31 December 2012 from 26% for the corresponding period in 2011.

- The Group's position as the only domestic supplier with the ability of manufacturing anode saturable reactors gave it considerable leverage in the commencement of various projects in the power transmission sector, such as several lines of UHV DC transmission and HVDC light power transmission. The Group also provides these direct current transmission projects with products such as insulated gate bipolar transistor ("**IGBT**") and laminated busbars, etc.

- In 2012, the Group's high-voltage power capacitors were included in the procurement lists of major domestic grid companies twice and the Group won both bids for the supply of the high-voltage power capacitors to such domestic grid companies. Since the power equipment industry emphasises on the operation qualities and application history of the products, winning the bids was a manifestation of the acceptance of the Group's power capacitor products by authoritative customers.

- Further, the installation of on site equipment for the construction of the "High Power Experimental System" laboratory under the "HVDC Converter Valve Industrialisation" programme of Xian XD Power Systems Co., Ltd. undertaken by the Group was completed by the end of 2012.

- The self-manufactured energy-saving products for power quality improvement, including static var compensations ("**SVCs**"), direct current ("**DC**") ice melting and static var compensators ("**TCScs**") etc., of the Group have been successfully applied in multiple power transmission projects such as DC ice melting on power grids in Yunnan and were well-received and widely-praised in the market.

Rail transportation sector

In 2012, the Group recorded an operating income of approximately RMB144.33 million in the rail transportation sector, representing a year-on-year decrease of approximately 32.7%. The gross profit margin of sales increased to 21% for the year ended 31 December 2012 from 8% for the corresponding period in 2011.

- The Group continued to maintain a strategic relationship with CNR in 2012, offering components and parts, among which were IGBT modules and laminated busbars, for traction converters on various types of electric locomotives.

- The Group's subsidiary has formed a joint-venture in the PRC with Trainelec, S.L. and Traintic, S.L., which are the subsidiaries of CAF. The joint-venture cooperated with other subsidiaries of the Group and had accumulated valuable experience through its participation in the tendering of several subway projects in cities such as Nanchang, Ningbo and Shenzhen and attending technical exchanges activities.

Industrial sector

In 2012, the Group recorded an operating income of approximately RMB255.09 million in industrial sector, representing a year-on-year decrease of approximately 8.2%. The gross profit margin of the sales increased to 26% for the year ended 31 December 2012 from 19% for the corresponding period in 2011.

Orders from industrial customers increased significantly in 2012 as compared to the corresponding period of last year. Having regard to the slowdown or distress in the development of certain industrial sectors in the PRC, the Group implemented stringent internal policies on customer assessment and account receivable management, and solely selected and executed orders placed by credible customers and with lower risks, so as to lower the Group's exposure to potential bad debts.

HUMAN RESOURCES

As at 31 December 2012, the Group employed 635 employees. Key components of the Group's remuneration packages included basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews on the performance of its employees and their salaries and bonuses are performance-based. The Group did not experience any significant problems with its employees or disruptions to its operations due to labor disputes, nor did it experience any difficulties in the recruitment and retention of experienced employees in 2012. The Group maintains a good relationship with its employees.

- In 2012, the Group keenly recruited high-caliber talents. The Group recruited talents, who were senior engineering professors and had prominent influence in the power capacitors industry and enjoy special government allowance granted by the State Council. The recruitment of high-calibre talents enables the Group to enhance its own product manufacturing technology.

- In April 2012, the Company granted share options to 72 management personnel and core staffs to subscribe for 21,950,000 ordinary shares of the Company in aggregate and granted share options to four executive Directors to subscribe for 20,000,000 ordinary shares of the Company in aggregate with exercise price of HK$0.55 per share.

FOREIGN CURRENCY EXPOSURE

As most of the principal subsidiaries of the Group operate in the PRC, their functional currency is Renminbi ("**RMB**"). However, certain purchases of the Group are denominated in Swiss Franc ("**CHF**"), United States Dollars ("**USD**"), European dollars ("**EUR**") and Hong Kong dollars ("**HKD**"), which are not the functional currency of the relevant Group entities and therefore the Group is exposed to foreign currency risk.

In light of the adverse effects on the Group's operations brought by the CHF exchange rate fluctuations in 2011, the Group has assiduously negotiated with ABB Switzerland, the Group's largest supplier, to reach an agreement on the flexibility of settlements in either CHF or USD in mid-2011. The Group implemented measures of swaps hedging in full on various import and export orders in 2012, in order to fully avoid exchange rate risks. The Board is of the view that the aforesaid measures enable the Group to avoid the adverse impacts arising from exchange rate fluctuations to the best extent.

The carrying amount of outstanding foreign currency forward contracts outstanding as at 31 December 2012 was approximately RMB1.4 million (as at 31 December 2011: approximately RMB(0.9) million).

PROSPECTS

Looking forward into 2013, the Group will continue to adhere to the target of being the industry-leading electric power system solution integrator. The Group will also continue to strengthen its capability in the R&D in technology and products, improve operational efficiency and product quality, promote product diversification, reinforce personnel training and talents introduction, in order to implement the rapid development plan of the Group.

In the next few years, power transmission industry in the PRC will be at its critical development stage, especially UHV DC transmission and HVDC light power transmission. As promulgated in the State Grid Social Responsibility Report, four ultra-high-voltage alternating current transmission lines and three UHV DC transmission lines will be built under the 2013 construction plan. Therefore, the Company is positive towards the future market development in the power transmission industry.

Based on the rail transportation projects approved by relevant authorities and local governments of the PRC in 2012, it is expected that the total investment in rail transportation projects, including subways will surpass RMB900 billion in the next five years. In addition, the total investment in railway projects in the PRC in 2013 will exceed RMB650 billion with over 5,200 km rails to be paved pursuant to the railway construction plan promulgated in the National Railway Work Conference. As a result, the products for rail transportation sector offered by the Group and the joint-venture formed with CAF shall embrace good development opportunities. Meanwhile, the Group will also attempt to develop the domestic and overseas rail transportation business with strategic partners and valued customers through various channels and by way of development projects.

The Group will continue to boost its R&D capability and launch new products. The laminated busbar, a new product introduced by the Group in 2012 which is used in the field of power conversion, was tested and its performance reached first-class level in the PRC. It was used by the customers and received positive responses. In view of the above, the sales of this type of products shall record significant growth and performance in 2013.

The Group will seize opportunities for growth in terms of market share and revenue through strategic alliance with strategic partners, mergers and acquisitions and formation of long term business collaboration with large customers and will gradually explore and develop both regional and overseas markets.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB36.8 million, or approximately 6.03%, from approximately RMB610.3 million for the year ended 31 December 2011 to approximately RMB573.5 million for the year ended 31 December 2012 primarily due to the decrease in the sales of products for industrial sector and rail transportation sector.

Cost of sales

Cost of sales decreased by approximately 16.3% from approximately RMB511.2 million for the year ended 31 December 2011 to approximately RMB427.8 million for the corresponding period in 2012. The decrease was primarily due to the measures taken by the Group to avoid exchange loss and the increase in efficiency of the Group's operation.

Gross profit margin

Gross profit increased by approximately RMB46.7 million, or approximately 47.1%, from approximately RMB99.1 million for the year ended 31 December 2011 to approximately RMB145.8 million for the corresponding period in 2012. The Group's gross profit margin increased from approximately 16.2% for the year ended 31 December 2011 to approximately 25.4% for the corresponding period in 2012. The increase was primarily due to the effective measures adopted by the Group against foreign currency risk exposure, which enabled the Group to control the cost of trading of power electronic components and certain raw materials which were denominated in CHF.

Selling and distribution costs

Selling and distribution costs which constituted approximately 7.8% (2011: approximately 7.6%) of the Group's total revenue decreased by approximately 3.5% to approximately RMB45.0 million (2011: approximately RMB46.6 million) primarily reflecting the Group's strict control on selling and distribution costs budget for the year ended 31 December 2012.

Administrative expenses

Administrative expenses decreased by approximately 13.4% to approximately RMB74.7 million for the year ended 31 December 2012 (2011: approximately RMB86.3 million) primarily due to the Group's strict control on administrative expenses budget for the year ended 31 December 2012. Administrative expenses constituted approximately 13.0% of the Group's total revenue for the year ended 31 December 2012 (2011: approximately 14.1%).

Other expenses

Other expenses decreased to approximately RMB8.7 million for the year ended 31 December 2012 (2011: approximately RMB24.7 million). The decrease was primarily due to the following changes in expenses incurred during the year ended 31 December 2012: (i) fair value losses on foreign currency forward contracts of the Group decreased to approximately RMB0.5 million (2011: approximately RMB5.1 million); and (ii) the impairment of trade and other receivables of the Group decreased to approximately RMB1.0 million (2011: approximately RMB5.2 million).

Interest on bank borrowings wholly repayable within five years

Interest on bank borrowings wholly repayable within five years increased to approximately RMB17.4 million for the year ended 31 December 2012 (2011: approximately RMB4.3 million) primarily due to the increase in interest-bearing bank loans and the increase in the statutory interest rates on interest-bearing bank loans. There was no interest capitalised during the financial year of 2012.

Profit before tax

The Group recorded a profit before tax of approximately RMB11.4 million for the year ended 31 December 2012, compared with loss before tax of approximately RMB50.5 million for the corresponding period in 2011 primarily due to the measures taken by the Group to avoid exchange loss and its strict control on costs and expenses.

Income tax expenses

Income tax expenses amounted to approximately RMB12.3 million was provided for the year ended 31 December 2012 as compared to the approximately RMB2.8 million for the corresponding period in 2011 due to an increase in profit before tax for the year ended 31 December 2012.

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

The Group's profit and total comprehensive income for the year attributable to owners of the Company amounted to approximately RMB0.4 million for the year ended 31 December 2012, when compared to loss and total comprehensive loss of approximately RMB59.4 million for the year ended 31 December 2011. The Group's net gain/(loss) margin, which is calculated as gain/(loss) attributable to owners of the Company for the year divided by total revenue, changed from a net loss margin of approximately 9.7% for the year ended 31 December 2011 to a net profit margin of approximately 0.08% for the corresponding period in 2012.

Inventories

The inventory balances decreased by approximately 26.1% to approximately RMB129.6 million as at 31 December 2012 (as at 31 December 2011: approximately RMB175.5 million) reflecting a strict control of the Group on inventories to reduce the cost of capital during the year ended 31 December 2012.

The average inventory turnover days increased to approximately 130.4 days for the year ended 31 December 2012 (2011: approximately 86.8 days).

Trade receivables

Trade receivables increased to approximately RMB306.3 million as at 31 December 2012 (as at 31 December 2011: approximately RMB286.9 million) and the average trade receivables turnover days increased to approximately 189.1 days for the year ended 31 December 2012 (2011: approximately 179.6 days). This was because of an increase in sales to a number of stated-owned or stated-controlled enterprises, which are subject to stringent internal settlement procedures, resulting in longer payment process time.

Trade and other payables

Trade and other payables increased to approximately RMB212.3 million as at 31 December 2012 (as at 31 December 2011: approximately RMB198.7 million) and the average turnover days for trade payables increased to approximately 130.8 days for the year ended 31 December 2012 (2011: approximately 106.7 days) primarily due to the Group's increase in purchase of raw materials as a result of the expected increase in sales in 2013.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sale of its products and bank borrowings. As at 31 December 2012, the Group's current ratio (current assets divided by current liabilities) was approximately 1.74 (as at 31 December 2011: approximately 2.05). As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB186.7 million (as at 31 December 2011: approximately RMB184.5 million), which were mainly denominated in RMB, CHF and USD, and interest-bearing bank loans of RMB268.4 million (as at 31 December 2011: approximately RMB227.1 million). The increase in interest-bearing bank loans was mainly for working capital purposes. As at 31 December 2012, the Group's gearing ratio measured on the basis of total interest-bearing bank loans to total equity was approximately 32.2%, as compared to approximately 27.5% as at 31 December 2011.

As at 31 December 2011 and 31 December 2012, all the Group's bank loans were at variable interest rates, mainly denominated in RMB, and had contractual maturity within one year from the end of the reporting year. The effective interest rates on the Group's fixed-rate bank borrowings were also equal to the weighted average contracted interest rates of approximately 6.28% per annum as at 31 December 2012 (as at 31 December 2011: approximately 5.48% per annum). During the year under review, there was no material change to the Group's funding and treasury policy.

The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

Contingent liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

Charges on group assets

As at 31 December 2012, none of the Group's bank deposits were pledged (2011: approximately RMB14.9 million).

In addition, the Group's bank borrowings were secured by certain trade receivables amounting to approximately RMB152.6 million as at 31 December 2012 (2011: approximately RMB96.1 million). Certain of the Group's bills payables were secured by the pledge of the Group's bills receivables of approximately RMB25.0 million (2011: Nil). None of the Group's prepaid lease payment and building was pledged to banks for the years ended 31 December 2011 and 31 December 2012.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not engage in any material acquisitions or disposals during the year ended 31 December 2012.

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 39, is an executive Director, founder of the Group and the chairman of the Board. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduating from the Shanghai Maritime University (上海海事大學) in international shipping management in 1995, Mr. Xiang obtained his master degree in business administration from the Maastricht School of Management, the Netherlands in 1999. Mr. Xiang has over 10 years of experience in the power electronic sectors.

Mr. Gong Renyuan, aged 42, is an executive Director, the president of the Group and the chief executive officer of the Company. Mr. Gong joined the Group in 2002, primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Before joining the Group, he has accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學). Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Group.

Mr. Yue Zhoumin, aged 42, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. He is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) with a bachelor degree in economics in 1994. Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. He is highly experienced in strategic management and has worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange (stock code: 1919).

Mr. Huang Xiangqian, aged 41, is an executive Director and a vice president of the Group. He is also the general manager of the Group's subsidiary, Wuxi Sunking Power Capacitor Co. Ltd.(無錫賽晶電力電容器有限公司) specialising in manufacturing power capacitors, primarily responsible for the overall operation of that subsidiary as well as overseeing the production and quality of the Group's products. Mr. Huang graduated from the Harbin University of Science and Technology (哈爾濱理工大學) with a bachelor degree in engineering in 1997 and received his internal auditor qualification from the Beijing Zhongdahuayuan Certification Centre (北京中大華遠認證中心) in 2004. Mr. Huang has rich experience in design and production of power capacitors. Before joining the Group in 2008, Mr. Huang worked in the technology department of Nissin Electric Wuxi Co. Ltd. (日新電機(無錫)有限公司) for a number of years and had vast expertise in product standardisation procedures of power capacitors and HVDC projects.

NON-EXECUTIVE DIRECTORS

Mr. Ye Weigang Greg, aged 43, is a certified public accountant in the United States of America (the "**United States**"). Mr. Ye was appointed as the non-executive Director in May 2010. Mr. Ye was awarded a bachelor degree in electronic engineering from the Shanghai JiaoTong University (上海交通大學) in 1990, a master degree in accountancy from the Northeast Missouri State University in 1993 and a master degree in business administration from the Harvard Business School in 2001. Mr. Ye has worked for PricewaterhouseCoopers in the United States and was a product marketing group director of Cadence Design Systems, Inc., a leading electronic design automation technology and engineering service company. Mr. Ye is currently a managing partner of NewMargin Ventures. Mr. Ye is also a director of Daqo New Energy Corp., a company listed on the New York Stock Exchange.

Mr. Wong Kun Kau, aged 52, was appointed as the non-executive Director in May 2010. Mr. Wong obtained his bachelor degree in social science from the University of Hong Kong in 1982. Mr. Wong has more than 25 years of experience in fund management, securities brokering and corporate finance and has been involving in securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganisations and other general corporate advisory activities. Mr. Wong is currently the managing partner of Bull Capital Partners Ltd., a fund management company specialising in direct investment in the Greater China region. Prior to joining Bull Capital Partners Ltd., Mr. Wong held senior management positions with several multinational financial institutions including BNP Paribas Capital (Asia Pacific) Limited and Peregrine Securities Limited. Mr. Wong is also an independent non-executive director of West China Cement Limited, a company listed on the Stock Exchange (stock code: 2233) and Auhui Conch Cement Company Limited, a company listed on the Stock Exchange (stock code: 0914) and Shanghai Stock Exchange (stock code: 600585). Mr. Wong is also a director of Lifestyle Properties Development Limited, a subsidiary of Lifestyle International Holdings Limited, a company listed on the Stock Exchange (stock code: 1212).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yi, aged 70, was appointed as an independent non-executive Director of the Company in July 2010. Mr. Wang graduated from the Beihang University (北京航空航天大學). Mr. Wang was the president of China Technology and Economy Investment Consulting Co., Ltd.(中技經投資顧問股份有限公司). Mr. Wang was the deputy director (副司長) of the Department of Foreign Economic Cooperation of the Office of the Economic and Trade of the State Council (國務院經濟貿易辦公室對外經濟合作司) and was also a director general (正司級巡視員) of the Department of Investment and Planning of the State Economic and Trade Commission of the PRC (國家經濟貿易委員會投資與規劃司). Mr. Wang is currently a general vice director (常務副主任委員) of the Enterprise Technology Improvement Working Committee of the China Enterprise Confederation (中國企業聯合會企業技術進步工作委員會). Mr. Wang has substantial working experience in the PRC government authorities including experience in policy planning and project approval. Mr. Wang is also an independent director and a member of the Remuneration and Appraisal Committee of China Garments Co., Ltd., an A-Share listed company on the Shenzhen Stock Exchange (stock code: 000902).

Mr. Li Fengling, aged 64, was appointed as an independent non-executive Director of the Company in July 2010. In 1975, Mr. Li completed the programme in power engineering (電力工程) organised by the Tsinghua University (清華大學). He subsequently obtained a master degree from the Tsinghua University in power system and automation (電力系統及自動化) in 1986. Mr. Li is currently the director (主任) of the management committee of the Xiushi Charity Foundation of the China Social Entrepreneur Foundation (中國友成企業家扶貧基金會修實公益基金管理委員會), an external director of Shougang Company (首鋼總公司) and Beijing Capital Tourism Group Co., Ltd. (北京首都旅遊集團有限責任公司), and an independent director of Beijing Kalends Science & Technology Company Limited (北京昆侖萬維科技股份有限公司). Mr. Li has profound knowledge in the area of power engineering. Mr. Li was the chairman of Beijing Energy Investment (Holding) Co., Ltd. (北京能源投資（集團）有限公司), a company established by the Beijing People's Government and engages in the electricity and energy saving related business in Beijing. Mr. Li held a number of positions with various companies prior to joining the Group. He was previously the president of Beijing International Power Development Investment Corporation (北京國際電力開發投資公司), the director of the management committee of the Beijing Economic and Technological Development Area (北京經濟技術開發區管理委員會) and the general manager of Beijing Economic and Technological Investment & Development Corporation (北京經濟技術投資開發總公司). Mr. Li was also the deputy district mayor (副區長) of the Haidian District of Beijing, the district mayor (區長) of the Chaoyang District of Beijing and a member of the Standing Committee of the People's Political Consultative Conference of China in Beijing (北京市政協常委).

Mr. Chen Shimin, aged 55, was appointed as an independent non-executive Director of the Company in August 2010. Mr. Chen is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree and a master degree in economics in 1983 and 1985, respectively. Mr. Chen then obtained a doctoral degree in philosophy from the University of Georgia in 1992. Mr. Chen is now a professor of accounting at China Europe International Business School (中歐國際工商學院), a guest professor and adjunct tutor to Ph.D. students (博士生合作指導教師) at the faculty of accounting in Nanjing University (南京大學) and the school of accounting of the Shanghai University of Finance and Economics. Mr. Chen has extensive education and research experience in domestic and overseas financial accounting and management accounting and teaching experience in numerous well-known universities. Mr. Chen is also an independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd., (中國高速傳動設備集團有限公司) a company listed on the Stock Exchange (stock code: 658); Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠（集團）股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600832); Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300113); and an external supervisor of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600000).

JOINT COMPANY SECRETARIES

Mr. Lau Lap Kwan, aged 63, was appointed as a joint company secretary of the Company in February 2011. Mr. Lau graduated from Northeast Heavy Machinery Institute (東北重型機械學院) (now known as Yanshan University (燕山大學)), majoring in heavy machinery, in 1975. Mr. Lau has accumulated over 35 years of experience in corporate management, administration and corporate finance both in the PRC and Hong Kong.

Ms. Ma Sau Kuen Gloria, aged 53, was appointed a joint company secretary and authorised representative of the Company in November 2010. Ms. Ma has over 30 years of experience in corporate secretarial work including acting as secretary for companies listed on the Stock Exchange, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. Ms. Ma also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma is a director and the head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

SENIOR MANAGEMENT

Mr. Jin Jiafeng, aged 40, is the chief financial officer of the Group. Mr. Jin joined the Group in 2008. In 1994, Mr. Jin completed the programme in finance and accounting (財務會計專科) organised by the College of International Business and Management, Shanghai University (上海大學國際商業及管理學院). Before joining the Group, Mr. Jin worked at KPMG as a supervisor. Mr. Jin also worked at NewMargin Venture Capital as an investment adviser until December 2003. Mr. Jin was designated as a senior international finance manager by the International Financial Management Association in March 2009 and has extensive experience in finance and mergers and acquisitions in a number of sectors.

Ms. Ren Jie, aged 35, has been a vice president of the Group since 2008 and is responsible for human resources management. In 1998, Ms. Ren completed the programme in English language (英語專業大學專科) organised by the Xi'an International Studies University (西安外國語學院). Ms. Ren joined the Group in 2002 as a sales manager of the Group's subsidiary, Beijing Sunking Electronic Technology Co., Ltd. (北京華瑞賽晶電子科技有限公司) and was promoted as its chief operating officer in 2004. Ms. Ren Jie is the spouse of Mr. Gong Renyuan, an executive Director and chief executive officer of the Company.

Mr. Michael Simon Geissmann, aged 35, is a vice president of the Group who is responsible for overseeing quality control and overseas business of the Group and reporting affairs and progress of the Group to the chief executive officer. Mr. Geissmann joined the Group in 2008. Mr. Geissmann graduated from the Swiss Federal Institute of Technology Zurich in 2003 with a diploma in electronic engineering. Before joining the Group, Mr. Geissmann worked at ABB Schweiz AG, Semiconductors where he was in charge of supplier qualification and quality control.

Ms. Bai Xing, aged 31, is a vice president of the Group and is responsible for the Group's overall procurement process and daily operation of the procurement department. Ms. Bai has joined the Group since 2002. Ms. Bai graduated from the University of International Business and Economics (對外經濟貿易大學) with a bachelor degree in international business and trade in 2007 and has over eight years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

Mr. Li Jinyan, aged 34, is a vice president of the Group and is responsible for the sales and marketing of the Group's products. Mr. Li has joined the Group after graduating from the University of Science and Technology Beijing (北京科技大學) with a bachelor degree in automation in 2004.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for the promotion of high standards of accountability, transparency and responsibility to the Shareholders.

For the period from 1 January 2012 to 31 March 2012, the Company adopted the Code on Corporate Governance Practices (the "**Old Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and for the period from 1 April 2012 to 31 December 2012, the Company adopted the code provisions (the "**Code Provisions**") included in the amendments made to the Old Code which took effect and renamed as Corporate Governance Code (the "**Corporate Governance Code**"), as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintain and improve high standards of corporate governance practices. Before 10 April 2012, the positions of the chairman of the Board and the chief executive officer of the Company were held by Mr. Xiang Jie. On 10 April 2012, Mr. Xiang Jie relinquished his role as the chief executive officer of the Company and Mr. Gong Renyuan was appointed as the chief executive officer. Save as disclosed above, during the year ended 31 December 2012, the Company has continued to apply the Code Provisions of the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standard against which the Directors must measure their conduct regarding transactions in securities of the Company. The Company confirms that, having made specific enquiry with all the Directors, the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2012.

BOARD

Responsibilities

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and financial performances. The chairman of the Board is responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Major corporate matters that are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

Composition

The composition of the Board reflects the necessary balance of skills and experience required for effective leadership and independence in the decision making of the Company. The Board currently comprises four executive Directors, namely Mr. Xiang Jie, Mr. Gong Renyuan, Mr. Yue Zhoumin and Mr. Huang Xiangqian; two non-executive Directors, namely Mr. Ye Weigang Greg and Mr. Wong Kun Kau; and three independent non-executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin. The biographies of the Directors are set out under the section headed "Biographies of Directors and senior management" in this annual report.

During the year ended 31 December 2012, the Board had at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. The Group appointed three independent non-executive Directors representing one-third of the Board members, including one independent non-executive Directors who possesses appropriate professional qualifications, or accounting or related financial management expertise. Therefore, the requirements of the Listing Rules were fully complied with.

Directors are required to declare regularly their underlying interests and assess of the Directors' personal interests in the Company to ensure that the members of the Board has no financial, business, family or other material/relevant relationship with each other, and to ensure that the independence of the independent non-executive Directors have fully comply with the requirements regarding the independence of an independent non-executive director as set out in Rule 3.13 of the Listing Rules.

Saved as disclosed above and in the "Biographies of Directors and Senior Management" of this annual report, there are no financial, business, family or other material/relevant relationships between Board members and between the chairman of the Board and the chief executive officer of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the Directors, including the independent non-executive Directors, are appointed for a term of three years and subject to retirement by rotation and eligible for re-election in accordance with the Company's articles of association. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is mainly responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board, and Mr. Gong Renyuan is the chief executive officer of the Company (formally effective from 10 April 2012). During 2012, one meeting without executive Directors was held between the chairman and the non-executive Directors (including the independent non-executive Directors).

NON-EXECUTIVE DIRECTORS

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

MEETINGS

The Board holds meetings regularly to discuss the overall strategies, operational and financial performance of the Group. The Directors can attend meetings in person or via electronic medium. During the year under review, a total of four meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at the Board meetings and Shareholders meetings during the year ended 31 December 2012 is set out as below:

		Attended/ Eligible to attend
	Board Meeting	Shareholders Meeting
Executive Directors		
Mr. Xiang Jie	3/4	1/1
Mr. Gong Renyuan	4/4	1/1
Mr. Yue Zhoumin	4/4	1/1
Mr. Huang Xiangqian	4/4	1/1
Non-executive Directors		
Mr. Ye Weigang Greg	4/4	1/1
Mr. Wong Kun Kau	4/4	1/1
Independent non-executive Directors		
Mr. Wang Yi	4/4	1/1
Mr. Li Fengling	4/4	1/1
Mr. Chen Shimin	4/4	1/1

In addition, four executive Directors' meetings were held during the year under review.

At least 14 days' notice of convening the regular Board meeting is given to all the Directors to invite them to participate in the course of discussion. All the Directors are provided with relevant information on the matters to be discussed at the meeting no less than three days before the holding of the meeting, so as to guarantee there is sufficient time for the Directors to review the information. The Directors have independent access to meet the senior management and the joint company secretaries of the Group at any time, and are entitled to seek independent and professional advice at the Company's expense. Material matters or matters that may lead to conflicts of interests will be dealt with during Board meetings instead of via circulation of written resolutions or by the Board committees.

BOARD COMMITTEES

The Board has established four committees, namely the audit committee, the remuneration committee, the nomination committee and the investment committee, to supervise various matters of the Group. To establish effective communication channels between each committees and the management, the Company established an internal coordination and support team to facilitate access to more independent and objective information for the Directors.

(i) Audit committee

The roles and functions of the audit committee are, among other things, to review and monitor the financial reporting process of the Group, internal control and the review of the financial statements of the Company. The audit committee meets the external auditors of the Company regularly and discusses the review process and accounting matters. The written terms of reference of the committee is in line with the Corporate Government Code and is published on the websites of the Company and the Stock Exchange.

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

The audit committee held six meetings during the financial year of 2012. During these meetings, the audit committee confirmed the appointment of Ernst & Young and fixed its remuneration, and reviewed the procedures of internal control of the Group. The committee also reviewed the interim and annual results of the Group for the financial year and the auditors' report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made.

Please refer to the table below for the attendance record of the meetings of the audit committee during the financial year of 2012:

Directors	**Attended/ Eligible to attend**
Mr. Chen Shimin *(Chairman of the audit committee)*	6/6
Mr. Wang Yi	6/6
Mr. Ye Weigang Greg	6/6

(ii) Remuneration committee

The remuneration committee was established on 19 August 2010 with the written terms of reference which was prescribed in accordance with the Listing Rules. The roles and functions of the remuneration committee are, among other things, to make recommendations on the remuneration package of the Directors and senior management, the execution of which is subject to the approval of the Board. In addition, the remuneration committee also evaluates the performance of the senior management of the Group and determines its remuneration structure. The written terms of reference of the committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The current members of the remuneration committee are Mr. Wang Yi (Chairman), Mr. Wong Kun Kau and Mr. Li Fengling.

The remuneration committee held four meetings during the financial year of 2012. During these meetings, the remuneration committee re-elected the independent non-executive Director, Mr. Wang Yi as the Chairman of the remuneration committee according to Rule 3.25 of the Listing Rules, determined the option incentive scheme, and made recommendation on the Directors' allowances, the remuneration of the senior management and assessment system, as well as the remuneration of the employees and employee reward scheme.

Please refer to the table below for the attendance record of the meetings of the remuneration committee during the financial year of 2012:

Directors	**Attended/ Eligible to attend**
Mr. Wang Yi *(Chairman of the remuneration committee, effective from 10 April 2012)*	4/4
Mr. Wong Kun Kau *(Chairman of the remuneration committee till 10 April 2012)*	4/4
Mr. Ye Weigang Greg	4/4

The biographies of members of the senior management team at the date of this annual report are disclosed in the section headed "Biographies of Directors and Senior Management" in this annual report. Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2012 is within the following bands:

	Number of individuals	
	2012	2011
RMB200,000 – RMB300,000	2	2
RMB300,001 – RMB400,000	2	2
RMB400,001 – RMB500,000	1	1

(iii) Nomination committee

The nomination committee was established on 19 August 2010. The roles and functions of the nomination committee are, among other things, to formulate of the policies on Director nomination for the Board's consideration and to implement the Director nomination policies approved by the Board, including the review of Board composition annually, identification of eligible persons for the position of Director, monitor the Directors' succession plans and assessment of the independence of the independent non-executive Directors. The written terms of reference of the committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The current members of the nomination committee are Mr. Li Fengling (Chairman), Mr. Gong Renyuan and Mr. Chen Shimin.

The nomination committee held three meetings during the financial year of 2012. During these meetings, the nomination committee proposed to the Board to re-elect retiring Directors and re-appointed Mr. Xiang Jie as the chairman of the Board, Mr. Huang Xiangqian as an executive Director and Mr. Wang Yi as an independent non-executive Director. The committee reviewed the independence of the independent non-executive Directors, determined the respective responsibilities of the chairman of the Board and the chief executive officer, proposed to re-elect the chairman of the remuneration committee, and determined the terms of reference of the nomination committee.

Please refer to the table below for the attendance record of the meetings of the nomination committee during the financial year of 2012:

Directors	**Attended/ Eligible to attend**
Mr. Li Fengling *(Chairman of the nomination committee)*	3/3
Mr. Chen Shimin	3/3
Mr. Gong Renyuan	3/3

(iv) Investment committee

Investment committee was established on 28 June 2011, and is responsible for advising the Board on investment of fixed assets (both tangible and intangible), equity, debt, financial securities, restructuring and joint ventures.

The investment committee comprises of two independent non-executive Directors, Mr. Li Fengling (Chairman) and Mr. Chen Shimin; two non-executive Directors, Mr. Ye Weigang Greg and Mr. Wong Kun Kau; and one executive Director, Mr. Xiang Jie.

The investment committee held three meetings during the financial year of 2012. During these meetings, the investment committee discussed the progress of important projects and work and the development prospect of major and acquisition and join-venture.

Please refer to the table below for the attendance record of the investment committee during the financial year of 2012:

Directors	**Attended/ Eligible to attend**
Mr. Li Fengling *(Chairman of the investment committee)*	3/3
Mr. Chen Shimin	3/3
Mr. Ye Weigang Greg	3/3
Mr. Wong Kun Kau	3/3
Mr. Xiang Jie	3/3

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed herein, for the year ended 31 December 2012 and up to the date of this report, there were no changes to information required to be disclosed regarding the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

INTERNAL CONTROL

The audit department of the Company conducted comprehensive audit on the internal control system of the Company and its subsidiaries and submitted the "2012 Annual Report on Internal Control" for the Board's review. The Board is responsible for the internal control system and reviewing its effectiveness and it also reviews the efficiency of the internal control system of the Group, which covers all material controls including financial, operational and compliance controls and risk management functions, to prevent unauthorised use or sale of assets, to ensure the proper filing of accounting records, to provide reliable financial information for internal use or for release, and to ensure that the applicable laws, regulations and rules are complied with. The procedure reasonably guarantees the non-occurrence of significant error, loss or fraud. Major procedures involved are as follows:

(1) the Group has a favorable internal central environment. Firstly, there is a well-defined and reasonable governance structure and organisational structure as well as a clear-cut strategic plan in the Company. Secondly, the Company's independent audit department conducts effective audit on the Company's operation; and lastly, the Company's sound human resource policies are in place to motivate employees to reach the goal of the Company.

(2) each business of the Company is carried out strictly according to the eight core principles of control, namely the control on the separation of roles among incompatible positions, authorisation and approval control, accounting system control, property protection control, production quality control, budget control, operation analysis control, and performance evaluation control. During the year of 2012, the Company focused on different aspects of its controlling subsidiaries such as management control and the management of account receivables of which effective control is realised as anticipated. Moreover, the Company paid special attention to the requirements of the Stock Exchange on insider dealings, and updated relevant Directors and senior management in a timely manner on the relevant rules.

(3) in order to raise the effectiveness of internal management and to increase the accuracy on the communication of information, the management has been carrying out evaluation of the existing office system and actively screening suppliers for improvement and updates of the office system.

(4) the internal audit department is responsible for the continuous assessment of the internal control of the Group. The internal audit department reviews the effectiveness of material internal control events of the Group with a risk-based auditing approach, and attaches significant importance on the prevention of fraud, risk-based so as to ensure that the risks in principal businesses and operations have been identified, evaluated and managed. The internal audit department will also actively improve performance evaluation system and the upgrades of the office system. The internal audit department has also reported to the Board in relation to the annual internal control audit findings and made recommendation for improvement.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for fulfilling corporate governance duties and responsibilities including:

(a) to develop and review the Company's policies and practices on corporate governance, such as the adoption of Old Code from 1 January 2012 to 31 March 2012 and the Code Provisions from 1 April 2012 to 31 December 2012;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; and

(d) to review the Company's compliance with the code and disclosure in this corporate governance report.

In order to comply with the requirements of the code provision A.6.5 of the Corporate Governance Code, all the Directors have participated in training in relation to continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements which 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 profit and cash flows for the year then ended and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITORS' REMUNERATION

In consideration of cost savings, the Company resolved to replace Deloitte Touche Tohmatsu with Ernst & Young to conduct audit work for the year 2012 by poll at a general meeting, and accepted an annual audit fee of RMB1.5 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures of accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 27. During the year ended 31 December 2012, other than the audit fee, RMB0.5 million was paid to Ernst & Young for its performance of interim review.

JOINT COMPANY SECRETARIES

Since November 2010, the Company has engaged Ms. Ma Sau Kuen Gloria, the director of KCS Hong Kong Limited, a company engages in the provision of corporate services and accounting services, as one of joint company secretaries and an authorised representative of the Company. Her primary corporate contact person at the Company is Mr. Lau Lap Kwan, the other joint company secretary. Mr. Lau Lap Kwan is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. During the year under review, the joint company secretaries have confirmed that each of them had taken no less than 15 hours on relevant professional training.

CONSTITUTIONAL DOCUMENTS

There were no changes in the Company's constitutional documents during the financial year of 2012.

SHAREHOLDER'S RIGHTS

Procedures for call for extraordinary general meeting and making recommendation

Pursuant to the articles of association of the Company, any shareholder holding one-tenth or more of the paid up capital of the Company as at the date of putting forward requisition has rights to call for extraordinary general meeting to address any issues as set out in relevant requisition by sending to the Board or company secretaries at the address of 25 Building, No. 99 Kechuang 14th Street, Beijing Economic-Technological Development Area Daxing District, Beijing, PRC a written requisition any time and the extraordinary general meeting shall be held within two months of the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may convene the above-mentioned meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

MAKING ENQUIRIES TO THE BOARD

Shareholders who would like to make enquiries regarding the Company to the Board may send such enquiry emails to: ir@sunking-tech.com.

INVESTOR RELATIONSHIP

The Company encourages two-way communications with its institutional and private investors. Extensive information about the Company's business is provided in the annual report and the interim report sent to the Shareholders. The Company will meet with investors after the announcement of financial results to explain the business, performance and future plan of the Company, in order to strengthen the public's understanding towards the Company. The annual general meetings provide a platform for direct communication between the Board and the Shareholders. The Company communicates with the media regularly, discloses financial and other information of the Group and its operation to the public to promote effective communication.

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are trading of power electronic components and manufacture of power electronic components.

Details of the principal activities of the Company's principal subsidiaries are set out in note 17 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and its financial position as at that date are set out in the consolidated financial statements from pages 28 to 87 of this annual report.

The Directors did not recommend payment of a final dividend for the year ended 31 December 2012.

USE OF PROCEEDS FROM LISTING

Net proceeds of approximately HK$593.0 million were raised from the listing of the Company's shares (the "**Listing**") on the Stock Exchange in October 2010.

As at 31 December 2012, out of the total net proceeds from the Listing, approximately RMB337.1 million was utilised for repayment of bank borrowings, land acquisition and construction of buildings for expansion of production capacity, building construction for research and development and working capital and general corporate expenses.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 88 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's issued share capital during the year are set out in note 28 to the consolidated financial statements.

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

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

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

Details of movements in the share options under the Share Option Scheme for the year ended 31 December 2012 and share options outstanding as at the beginning and the end of the year are set out below:

		Number of share options									
Name of grantees	Date of grant	As at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ Forfeited during the year	As at 31 December 2012	Exercise price per share *(HK$)*	Share price immediately before the grant date *(HK$ per share)*	Fair value of share options *(HK$ per share)*	Exercisable period
Mr. Xiang Jie *(Chairman, executive Director and substantial shareholder of the Company)*	26 April 2012	–	12,000,000	–	–	–	12,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
Mr. Gong Renyuan *(Chief executive officer and executive Director)*	27 April 2011	1,350,000	–	–	–	–	1,350,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
	26 April 2012	–	6,000,000	–	–	–	6,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
Mr. Yue Zhou Min *(Executive Director)*	27 April 2011	420,000	–	–	–	–	420,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
	26 April 2012	–	1,000,000	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
Mr. Huang Xiangqian *(Executive Director)*	27 April 2011	700,000	–	–	–	–	700,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
	26 April 2012	–	1,000,000	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
Ms. Ren Jie (senior *management and the spouse of Mr. Gong Renyuan)*	27 April 2011	420,000	–	–	–	–	420,000	1.83	1.72	0.81	27 April 2012 to 26 April 2017
	26 April 2012	–	1,000,000	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
		2,890,000	21,000,000	–	–	–	23,890,000				
Employees in aggregates	27 April 2011	7,600,000	–	–	–	(370,000)	7,230,000	1.83	1.72	0.79	27 April 2012 to 26 April 2017
	26 April 2012	–	20,950,000	–	–	(500,000)	20,450,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
Other grantees	27 April 2011	4,000,000	–	–	–	–	4,000,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
Total		14,490,000	41,950,000	–	–	(870,000)	55,570,000				

Further details of the Share Option Scheme are disclosed in note 29 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 31 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB400 million (2011: RMB401 million), of which nil dividend was proposed for the year. Under the Companies Law, the share premium account of the Company of approximately RMB399.9 million as at 31 December 2012 (2011: RMB400.5 million) is distributable to the Shareholders (subject to the provisions of its memorandum and articles of association) and provided that immediately following the date on which the dividend, if any, is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business. The Company's share premium account may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the year 2012 and up to the date of this report were:

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

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

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

In accordance with Article 84(1) of the Company's articles of association, Mr. Gong Renyuan, Mr. Ye Weigang Greg and Mr. Li Fengling will retire by rotation and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are set out on pages 9 to 11 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has first been appointed for a term of three years commencing from the date of the Listing. Subsequently in 2012, each of Mr. Xiang Jie and Mr. Huang Xiangqian entered into a supplemental service agreement dated 1 June 2012 under which his term of office would be three years from the date of the said supplemental agreement. Each of the non-executive Directors has been appointed for a term of three years commencing from the date of the Listing. The independent non-executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin, have first been appointed for a term of three years commencing from 1 July 2010, 1 July 2010 and 19 August 2010, respectively. Mr. Wang Yi then signed a supplemental letter of appointment dated 1 June 2012 under which his term of office would be three years from the date of the said supplemental letter of appointment.

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

DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the Shareholders at the annual general meeting each year. The remuneration of the executive Directors is subject to review by the remuneration committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the remuneration committee. Details of the emoluments of the Directors are set out in note 8 and the five highest paid individuals are set out in note 9 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

During the financial year of 2012, no Director had material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

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

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("**SFO**"), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interest	Number of ordinary shares	Number of underlying shares held under equity derivatives *(Note 3)*	Total	Approximate percentage of interest in the Company *(Note 4)*
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	421,182,347 *(Note 1)*	12,000,000	433,182,347	31.79%
Mr. Gong Renyuan	Beneficial owner and the interest of spouse	18,060,000	8,770,000 *(Note 2)*	26,830,000	1.97%
Mr. Yue Zhoumin	Beneficial owner	4,000,000	1,420,000	5,420,000	0.40%
Mr. Huang Xiangqian	Beneficial owner	6,000,000	1,700,000	7,700,000	0.57%

Notes:

1. As at 31 December 2012, out of these 421,182,347 shares, 5,554,000 shares were directly held by Mr. Xiang Jie ("Mr. Xiang") and the remaining 415,628,347 shares were held by Max Vision Holdings Limited ("Max Vision"), which in turn was wholly and beneficially owned by Mr. Xiang. Mr. Xiang is deemed under the SFO to be interested in the 415,628,347 shares held by Max Vision. On 14 January 2013, Mr. Xiang transferred 700,000 shares which was originally held by himself into Max Vision, and then transferred his interest in the entire share capital of Max Vision to Jiekun Limited which is wholly-owned by Emmanuel Services Limited. The issued share capital of Emmanuel Services Limited is wholly owned by a private trust, while Mr. Xiang is the founder and one of beneficiaries and BNP Paribas Singapore Trust Corporation Limited is the trustee. Ms. Meng Fankun, the spouse of Mr. Xiang, is one of beneficiaries of the private trust. After such transactions, the total interest of Mr Xiang in the Company remains unchanged, comprising 4,854,000 shares directly held by himself and the remaining 416,328,347 shares were held by the private trust.

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

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

4. There were 1,362,694,000 shares of the Company in issue as at 31 December 2012.

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

None of the Directors of the chief executives had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company or its associated corporations as at 31 December 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2012 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2012, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

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

Name of substantial Shareholder	Nature of interest	Total number of shares held	Approximate percentage of interest in the Company *(Note 5)*
Max Vision	Beneficial owner	415,628,347 *(Note 1)*	30.50%
Meng Fankun	Interest of spouse	433,182,347 *(Note 1, 2)*	31.79%
NewMargin Growth Fund L.P.	Beneficial owner	200,000,000	14.68%
Common Goal Holdings Limited ("**Common Goal**")	Beneficial owner	89,570,000	6.57%
Peregrine Greater China Capital Appreciation Fund, L.P. ("**Peregrine Greater China**")	Interest in controlled corporation	89,570,000 *(Note 3)*	6.57%
Bull Capital Partners GP Limited ("**Bull Capital**")	Interest in controlled corporation	89,570,000 *(Note 4)*	6.57%

Notes:

1. On 14 January 2013, Mr. Xiang Jie transferred 700,000 Shares which was originally held by himself into Max Vision, as a result the total Shares held by Max Vision became 416,328,347. Mr. Xiang then transferred his interest in the entire share capital of Max Vision to Jiekun Limited which is wholly-owned by Emmanuel Services Limited. The issued share capital of Emmanuel Services Limited is wholly owned by a private trust, while Mr. Xiang is the founder and one of beneficiaries and BNP Paribas Singapore Trust Corporation Limited is the trustee. Ms. Meng Fankun is one of beneficiaries of the private trust.

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

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

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

5. There were 1,362,694,000 Shares in issue as at 31 December 2012.

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

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under section 336 of the SFO.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling Shareholders, Mr. Xiang and Max Vision, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the above-mentioned undertaking and are of the view that Mr. Xiang and Max Vision have complied with the non-competition undertaking during the year ended 31 December 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company made the following purchases of its own shares which were cancelled subsequently on the Stock Exchange:

Month of purchase in 2012	No of shares purchased	Consideration Highest *HK$*	Consideration Lowest *HK$*	Aggregate consideration paid *HK$*
May	930,000	0.420	0.390	371,260
August	200,000	0.340	0.335	67,050
September	1,756,000	0.370	0.350	624,050

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company are set out in note 35 to the consolidated financial statements. With respect to the nature of (a) the amount due from Mr. Gong Renyuan during the year, it represented the out of pocket expenses for business activities which was paid to Mr. Gong Renyuan in advance for the performance of his services as the Company's chief executive officer and executive Director; and (b) the compensation of key management personnel of the Group during the year represented the benefits paid to the management for their respective employment services.

The entering into service arrangements with (a) Mr. Gong Renyuan as the executive Director and chief executive officer and (b) Ms. Ren Jie, the spouse of Mr. Gong Renyuan, each constitutes a continuing connected transaction, which is exempted from reporting, announcement and independent Shareholders' approval; whereas the entering into service arrangements with the senior management (other than Ms. Ren Jie) does not constitute a continuing connected transaction.

SUFFICIENCY OF PUBLIC FLOAT

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

DONATIONS

During the year ended 31 December 2012, charitable donations of RMB50,000 were made by the Group (2011: RMB50,000).

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's largest supplier accounted for approximately 43.0% (2011: 55.2%) of the Group's total purchases. The Group's five largest suppliers accounted for approximately 61.1% (2011: 68.1%) of the Group's total purchases.

In the year under review, the Group's sale to its five largest customers accounted for approximately 46.8% (2011: 48.0%) of the Group's total sale. The Group's largest customer accounted for approximately 23.4% (2011: 21.0%) of the Group's total sales.

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

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The audit committee was established with written terms of reference in compliance with the Listing Rules and responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of that auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgments therein; and reviewing the systems of financial control, internal control and risk management.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2012. The consolidated financial statements for the year ended 31 December 2012 have been audited by the Company's external auditors, Ernst & Young.

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders. For the period from 1 January 2012 to 31 March 2012, the Company adopted the Old Code as set out in Appendix 14 to the Listing Rules and for the period from 1 April 2012 to 31 December 2012, the Company adopted the Code Provisions included in the amendments made to the Old Code which took effect and renamed as Corporate Governance Code, as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintain and improve high standards of corporate governance practices. Before 10 April 2012, the positions of the chairman of the Board and the chief executive officer of the Company were held by Mr. Xiang Jie. On 10 April 2012, Mr. Xiang Jie relinquished his role as the chief executive officer of the Company and Mr. Gong Renyuan was appointed as the chief executive officer. Save as disclosed above, during the year ended 31 December 2012, the Company has continued to apply the Corporate Governance Code.

AUDITORS

During the year, Ernst & Young was appointed as the Company's external auditors.

The Company will put forward a resolution for the re-election of Ernst & Young as the Company's external auditors at the forthcoming annual general meeting.

On behalf of the Board

Xiang Jie
Chairman

Hong Kong, 20 March 2013

ERNST & YOUNG
安 永

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board 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. Our 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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

20 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	*5*	**573,517**	610,311
Cost of sales		**(427,761)**	(511,239)
Gross profit		**145,756**	99,072
Other income and gains	*5*	**12,023**	12,716
Selling and distribution costs		**(44,959)**	(46,573)
Administrative expenses		**(74,693)**	(86,294)
Other expenses		**(8,685)**	(24,691)
Finance costs	*7*	**(17,424)**	(4,339)
Share of loss of a jointly-controlled entity		**(652)**	(380)
PROFIT/(LOSS) BEFORE TAX	*6*	**11,366**	(50,489)
Income tax expense	*10*	**(12,269)**	(2,793)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(903)**	(53,282)
Attributable to:			
Owners of the parent	*11*	**443**	(59,360)
Non-controlling interests		**(1,346)**	6,078
		(903)	(53,282)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic		**RMB0.03 cents**	RMB(4.35) cents
Diluted		**RMB0.03 cents**	RMB(4.35) cents

	Notes	**2012 RMB'000**	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**299,833**	211,897
Prepaid land lease payments	*14*	**62,135**	56,387
Deposits for purchase of items of property, plant and equipment		**1,107**	8,908
Deposits paid for prepaid land lease payments		**–**	7,117
Goodwill	*15*	**40,357**	40,357
Other intangible assets	*16*	**25,109**	26,373
Club memberships		**2,534**	2,534
Investment in a jointly-controlled entity	*18*	**3,348**	–
Trade receivables	*20*	**46,688**	25,206
Deferred tax assets	*27*	**10,931**	4,341
Total non-current assets		**492,042**	383,120
CURRENT ASSETS			
Inventories	*19*	**129,638**	175,479
Trade and bills receivables	*20*	**472,947**	468,538
Prepayments, deposits and other receivables	*21*	**64,572**	43,087
Derivative financial instruments	*25*	**1,376**	–
Due from a director	*35*	**180**	–
Prepaid land lease payments	*14*	**1,401**	1,041
Pledged deposits	*22*	**17,933**	25,110
Cash and cash equivalents	*22*	**186,660**	184,452
Total current assets		**874,707**	897,707
CURRENT LIABILITIES			
Trade and bills payables	*23*	**161,103**	142,020
Other payables and accruals	*24*	**51,174**	56,725
Derivative financial instruments	*25*	**–**	886
Interest-bearing bank borrowings	*26*	**268,362**	227,130
Tax payable		**21,212**	12,193
Total current liabilities		**501,851**	438,954
NET CURRENT ASSETS		**372,856**	458,753
TOTAL ASSETS LESS CURRENT LIABILITIES		**864,898**	841,873

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**864,898**	841,873
NON-CURRENT LIABILITIES			
Deferred income		**18,382**	3,143
Deferred tax liabilities	*27*	**13,994**	11,649
Total non-current liabilities		**32,376**	14,792
Net assets		**832,522**	827,081
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	**117,137**	117,385
Reserves	*31*	**668,219**	663,899
		785,356	781,284
Non-controlling interests		**47,166**	45,797
Total equity		**832,522**	827,081

Xiang Jie
DIRECTOR

Yue Zhoumin
DIRECTOR

	Notes	Attributable to owners of the parent								Non-controlling interests RMB'000	Total equity RMB'000
		Issued capital RMB'000	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Retained profits/ (accumulated losses) RMB'000	Total RMB'000		
At 1 January 2011		117,425	400,692	–	–	11,375	248,886	54,754	833,132	1,500	834,632
Loss and total comprehensive loss for the year		–	–	–	–	–	–	(59,360)	(59,360)	6,078	(53,282)
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	(1,500)	(1,500)
Partial disposal of interest in a subsidiary		–	–	–	–	–	–	–	–	3,500	3,500
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	21,548	21,548
Disposal of a subsidiary		–	–	–	–	–	–	–	–	(23)	(23)
Share-based payments	*29*	–	–	5,253	–	2,480	–	–	7,733	–	7,733
Share award	*30*	–	–	–	–	–	–	–	–	14,694	14,694
Repurchase and cancellation of shares	*28*	(40)	(181)	–	40	–	–	(40)	(221)	–	(221)
At 31 December 2011 and at 1 January 2012		**117,385**	**400,511***	**5,253***	**40***	**13,855***	**248,886***	**(4,646)***	**781,284**	**45,797**	**827,081**
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**443**	**443**	**(1,346)**	**(903)**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(189)**	**–**	**(189)**	**(1,285)**	**(1,474)**
Share-based payments	*29*	**–**	**–**	**3,779**	**–**	**910**	**–**	**–**	**4,689**	**–**	**4,689**
Share award	*30*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,000**	**4,000**
Repurchase and cancellation of shares	*28*	**(248)**	**(623)**	**–**	**248**	**–**	**–**	**(248)**	**(871)**	**–**	**(871)**
At 31 December 2012		**117,137**	**399,888***	**9,032***	**288***	**14,765***	**248,697***	**(4,451)***	**785,356**	**47,166**	**832,522**

Notes:

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

(b) Other reserve mainly represents a certain waiver of loans and/or advances by Sunking BVI to the Group in prior years and the reserve arose from acquisition of a non-controlling interest.

* These reserve accounts comprise the consolidated reserves of RMB668,219,000 (2011: RMB663,899,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**11,366**	(50,489)
Adjustments for:			
Finance costs	*7*	**17,424**	4,339
Share of loss of a jointly-controlled entity		**652**	380
Interest income	*5*	**(1,707)**	(1,174)
(Gains)/losses on disposal of items of property, plant and equipment	*5*	**(218)**	206
Depreciation	*6*	**14,983**	11,939
Amortisation of intangible assets	*6*	**1,292**	7,397
Impairment of trade receivables and other receivables	*6*	**980**	5,157
Loss on fair value of foreign currency forward contracts, net	*6*	**522**	5,114
Changes in fair value of equity interests in investees		**–**	(403)
Gain on fair value changes of embedded derivatives		**–**	(31)
Loss on disposal of a subsidiary		**–**	9
Amortisation of prepaid land lease payments	*6*	**1,390**	960
Amortisation of deferred income		**(1,281)**	(381)
Net unrealised foreign exchange losses		**–**	1,649
Write-down of inventories to net realisable value	*6*	**4,051**	3,861
Share-based payment expense	*6*	**4,689**	7,733
Share award	*6*	**4,000**	14,694
		58,143	10,960
Decrease/(increase) in inventories		**41,790**	(11,488)
Increase in trade and bills receivables		**(26,356)**	(167,844)
Increase in prepayments, deposits and other receivables		**(22,000)**	(12,075)
Increase/(decrease) in trade and bills payables		**19,083**	(101,161)
Increase/(decrease) in other payables and accruals		**(5,551)**	10,557
Increase in derivative financial instruments		**(2,784)**	–
Increase in an advance to a director		**(180)**	–
Cash generated from/(used in) operations		**62,145**	(271,051)
Interest paid		**(17,424)**	(4,961)
Mainland China corporate income taxes paid		**(7,495)**	(13,599)
Net cash flows from/(used in) operating activities		**37,226**	(289,611)

(Continued)

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from/(used in) operating activities		**37,226**	(289,611)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,707**	1,174
Purchases of items of property, plant and equipment		**(94,384)**	(55,288)
Proceeds from disposal of items of property, plant and equipment		**591**	–
Deposits for purchase of items of property, plant and equipment		**(1,107)**	(8,908)
Deposits for prepaid land lease payments		**–**	(7,117)
Additions to club memberships		**–**	(800)
Additions to other intangible assets	*16*	**(28)**	(125)
Acquisition of subsidiaries		**–**	(51,694)
Additions to prepaid land lease payments		**(381)**	(627)
Decrease/(increase) in pledged deposits		**7,177**	(23,907)
Proceeds on disposal of a subsidiary		**–**	23
Repayment from a director		**–**	22
Investment in a jointly-controlled entity		**(4,000)**	–
Receipt of government grants		**16,520**	–
Net cash flows used in investing activities		**(73,905)**	(147,247)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**489,171**	609,338
Repayment of bank loans		**(447,939)**	(430,532)
Acquisition of non-controlling interests		**(1,474)**	(1,500)
Repurchase of own shares	*28*	**(871)**	(221)
Net cash flows from financing activities		**38,887**	177,085
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,208**	(259,773)
Cash and cash equivalents at beginning of year		**184,452**	446,016
Effect of foreign exchange rate changes, net		**–**	(1,791)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**186,660**	184,452
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**186,660**	184,452

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**515,623**	517,741
Total non-current assets		**515,623**	517,741
CURRENT ASSETS			
Prepayments, deposits and other receivables	*21*	**7**	193
Cash and cash equivalents	*22*	**1,157**	4,504
Total current assets		**1,164**	4,697
CURRENT LIABILITIES			
Due to subsidiaries		**–**	3,727
Total current liabilities		**–**	3,727
NET CURRENT ASSETS		**1,164**	970
Net assets		**516,787**	518,711
EQUITY			
Issued capital	*28*	**117,137**	117,385
Reserves	*31(b)*	**399,650**	401,326
Total equity		**516,787**	518,711

Xiang Jie
Director

Yue Zhoumin
Director

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the trading and manufacturing of power electronic components during the year.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Tax – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11, and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12– *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (2011)	*Employee Benefits*[2]
IAS 27 (2011)	*Separate Financial Statements*[2]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 cycle	Amendments to a number of IFRS issued in May 2012[2]

[1] Effective for annual periods beginning on or after 1 July, 2012
[2] Effective for annual periods beginning on or after 1 January, 2013
[3] Effective for annual periods beginning on or after 1 January, 2014
[4] Effective for annual periods beginning on or after 1 January, 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January, 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly-Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 27 and IAS 28 from 1 January, 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January, 2013.

Amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January, 2013.

IAS 19 (2011) introduce a number of changes in the accounting for pensions and other post-employment benefits that impact on the amount of net plan assets or liabilities for defined benefit pension plans and the results of entities with defined benefit pension plans. The standard also requires termination benefits outside of a wider restructuring to be recognised only when the offer becomes legally binding and cannot be withdrawn, and termination benefits under a wider restructuring to be recognised at the same time as the other restructuring costs. The Group expects to adopt the amendments to IAS 19 (2011) from 1 January, 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss of the statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entity is included in the profit or loss of consolidated statement of comprehensive income and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss of the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss of the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.8%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	4.8% to 18%
Furniture and fixtures	30%
Motor vehicles	9.0% to 23.8%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademark

Trademark with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and computer software

Patents and computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding ten years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and bills receivables, deposits and other receivables, derivative financial instruments and an amount due from a director.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss *(continued)*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables or available-for-sale financial investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The loss arising from impairment is recognised in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency forward contracts, to hedge its foreign currency risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss in the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The fair value of foreign currency forward contracts is determined using the rates quoted by the Group's bankers to terminate the contracts at the end of the reporting period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below; and

(c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share award scheme and a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton option pricing model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transactions, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB, which is also the functional and presentation currency of the Company and its subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 27.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of trade and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, the differences will impact on the carrying value of trade and other receivables and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment which is principally engaged in the manufacturing and trading of power electronic components.

Geographical information

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

Information about major customers

Revenue from major customers individually accounted for 10% or more of the Group's revenue is as follows:

	2012 **RMB'000**	2011 RMB'000
Customer A	**134,411**	125,870
Customer B*	**–**	84,377
Customer C*	**59,402**	–
Total	**193,813**	210,247

* *The sales to customer B was less than 10% of the Group's revenue for the year ended 31 December 2012. The sales to customer C was less than 10% of the Group's revenue for the year ended 31 December 2011.*

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts and an appropriate proportion of contract revenue of construction contracts during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Revenue		
Sale of goods	**573,517**	610,311
Other income		
Interest income	**1,707**	1,174
Government grants*	**7,828**	8,365
Commission income	**1,169**	2,958
Others	**511**	–
	11,215	12,497
Gains		
Gains/(losses) on disposal of items of property, plant and equipment, net	**218**	(206)
Others	**590**	425
	808	219
	12,023	12,716

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

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**423,710**	507,378
Write-down of inventories to net realisable value		**4,051**	3,861
Cost of sales		**427,761**	511,239
Auditors' remuneration		**1,500**	3,600
Depreciation	*13*	**14,983**	11,939
Amortisation of other intangible assets	*16*	**1,292**	7,397
Amortisation of land lease payments	*14*	**1,390**	960
Minimum lease payments under operating leases for land and buildings		**1,898**	2,680
Impairment of trade and other receivables*		**980**	5,157
Fair value losses on foreign currency forward contracts, net*		**522**	5,114
Foreign exchange differences, net*		**2,378**	2,991
Research and development costs*		**4,805**	6,929
Share award**	*30*	**4,000**	14,694
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**36,623**	29,903
Share-based payment expense		**4,689**	7,733
Pension scheme contributions***		**4,789**	4,042
		46,101	41,678

* *The impairment of trade and other receivables, net fair value losses on foreign currency forward contracts, foreign exchange differences, and research and development costs are included in other expenses in the consolidated statement of comprehensive income.*

** *The share award expense is included in selling and distribution costs in the consolidated statement of comprehensive income.*

*** *At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2011: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2012 RMB'000	2011 RMB'000
Interest on bank loans wholly repayable within five years	**17,424**	4,339

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	**864**	710
Other emoluments:		
Salaries, allowances and benefits in kind	**1,240**	1,026
Share-based payment expense	**1,185**	1,771
Pension scheme contributions	**155**	183
	2,580	2,980
	3,444	3,690

During the year and in the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2012	2011
	RMB'000	RMB'000
Mr. Wang Yi	**128**	130
Mr. Li Fengling	**128**	130
Mr. Chen Shimin	**128**	130
	384	390

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012					
Executive directors:					
Mr. Xiang Jie	**80**	**312**	**184**	**36**	**612**
Mr. Gong Renyuan	**80**	**311**	**332**	**36**	**759**
Mr. Yue Zhoumin	**80**	**271**	**375**	**36**	**762**
Mr. Huang Xiangqian	**80**	**346**	**294**	**47**	**767**
	320	**1,240**	**1,185**	**155**	**2,900**
Non-executive directors:					
Mr. Ye Weigang Greg	**80**	**–**	**–**	**–**	**80**
Mr. Wong Kun Kau	**80**	**–**	**–**	**–**	**80**
	160	**–**	**–**	**–**	**160**
	480	**1,240**	**1,185**	**155**	**3,060**

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011					
Executive directors:					
Mr. Xiang Jie	80	304	738	48	1,170
Mr. Gong Renyuan	80	292	326	48	746
Mr. Yue Zhoumin	80	180	309	40	609
Mr. Huang Xiangqian	80	250	398	47	775
	320	1,026	1,771	183	3,300
Non-executive directors:					
Mr. Ye Weigang Greg	–	–	–	–	–
Mr. Wong Kun Kau	–	–	–	–	–
	–	–	–	–	–
	320	1,026	1,771	183	3,300

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2011: two) non-director, highest paid employees for the year are as follows:

	Group 2012 RMB'000	Group 2011 RMB'000
Salaries, allowances and benefits in kind	**754**	880
Share-based payment expense	**658**	722
Pension scheme contributions	**36**	40
	1,448	1,642

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2012	Number of employees 2011
Nil to HK$1,000,000	**2**	2

During the year and in the prior year, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

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

Jiashan Sunking Power Equipment Technology Co., Ltd. ("Jiashan Sunking"), a subsidiary of the Company, was recognised as a wholly-foreign-owned enterprise under PRC law and was entitled to tax exemption from CIT for two years commencing from its first profit making year in 2007, followed by a 50% tax rate reduction for CIT for the subsequent three years. Therefore, the applicable CIT rate for Jiashan Sunking is 25% for the year ended 31 December 2012 (2011: 12.5%).

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

	2012 RMB'000	2011 RMB'000
Group:		
Current – Mainland China		
Charge for the year	**16,514**	7,558
Deferred *(note 27)*	**(4,245)**	(4,765)
Total tax charge for the year	**12,269**	2,793

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2012

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	**(10,015)**		**21,381**		**11,366**	
Tax at the statutory tax rate	**(1,652)**	**16.5**	**5,345**	**25.0**	**3,693**	**32.5**
Lower tax rates for specific provinces or enacted by local authority	**–**	**–**	**(5,551)**	**(26.0)**	**(5,551)**	**(48.8)**
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**–**	**–**	**2,394**	**11.2**	**2,394**	**21.1**
Effect on opening deferred tax of increase in rates	**–**	**–**	**(13)**	**(0.1)**	**(13)**	**(0.1)**
Loss attributable to a jointly-controlled entity	**–**	**–**	**163**	**0.8**	**163**	**1.4**
Expenses not deductible for tax	**–**	**–**	**3,782**	**17.7**	**3,782**	**33.3**
Tax losses not recognised	**1,652**	**(16.5)**	**6,149**	**28.8**	**7,801**	**68.6**
Tax charge at the Group's effective rate	**–**	**–**	**12,269**	**57.4**	**12,269**	**107.9**

Group – 2011

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Loss before tax	(13,926)		(36,563)		(50,489)	
Tax at the statutory tax rate	(2,298)	16.5	(9,140)	25.0	(11,438)	22.7
Lower tax rates for specific provinces or enacted by local authority	–	–	(138)	0.4	(138)	0.3
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	–	–	(936)	2.6	(936)	1.9
Tax effect of tax concession	–	–	(5,948)	16.3	(5,948)	11.8
Loss attributable to a jointly-controlled entity	–	–	95	(0.3)	95	(0.2)
Expenses not deductible for tax	–	–	13,454	(36.8)	13,454	(26.6)
Tax losses not recognised	2,298	(16.5)	5,406	(14.8)	7,704	(15.3)
Tax charge at the Group's effective rate	–	–	2,793	(7.6)	2,793	(5.5)

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB5,742,000 (2011: a loss of RMB27,190,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,364,767,660 (2011: 1,365,913,945) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012							
At 31 December 2011 and at 1 January 2012:							
Cost	109,469	2,206	49,249	12,546	11,367	48,279	233,116
Accumulated depreciation	(4,241)	(1,251)	(7,748)	(4,425)	(3,554)	–	(21,219)
Net carrying amount	105,228	955	41,501	8,121	7,813	48,279	211,897
At 1 January 2012, net of accumulated depreciation	105,228	955	41,501	8,121	7,813	48,279	211,897
Additions	514	–	629	3,090	2,428	96,631	103,292
Depreciation provided during the year	(4,650)	(225)	(4,918)	(2,819)	(2,371)	–	(14,983)
Transfers	11,399	–	16,063	1,080	–	(28,542)	–
Disposals	–	–	(111)	(178)	(84)	–	(373)
At 31 December 2012, net of accumulated depreciation	112,491	730	53,164	9,294	7,786	116,368	299,833
At 31 December 2012:							
Cost or valuation	121,382	1,124	65,579	16,212	13,438	116,368	334,103
Accumulated depreciation	(8,891)	(394)	(12,415)	(6,918)	(5,652)	–	(34,270)
Net carrying amount	112,491	730	53,164	9,294	7,786	116,368	299,833

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

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011							
At 1 January 2011:							
Cost	57,689	1,081	40,734	5,922	3,458	36,751	145,635
Accumulated depreciation	(1,099)	(812)	(3,600)	(2,078)	(1,856)	–	(9,445)
Net carrying amount	56,590	269	37,134	3,844	1,602	36,751	136,190
At 1 January 2011, net of accumulated depreciation	56,590	269	37,134	3,844	1,602	36,751	136,190
Additions	–	815	3,349	5,651	7,298	56,554	73,667
Acquisition of subsidiaries	11,320	310	1,097	735	800	–	14,262
Disposals	–	–	(113)	(4)	(89)	–	(206)
Disposal of a subsidiary	–	–	–	(77)	–	–	(77)
Depreciation provided during the year	(3,142)	(439)	(4,185)	(2,375)	(1,798)	–	(11,939)
Transfers	40,460	–	4,219	347	–	(45,026)	–
At 31 December 2011, net of accumulated depreciation	105,228	955	41,501	8,121	7,813	48,279	211,897
At 31 December 2011:							
Cost	109,469	2,206	49,249	12,546	11,367	48,279	233,116
Accumulated depreciation	(4,241)	(1,251)	(7,748)	(4,425)	(3,554)	–	(21,219)
Net carrying amount	105,228	955	41,501	8,121	7,813	48,279	211,897

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	**57,428**	37,352
Additions	**7,498**	627
Acquisition of subsidiaries	**–**	20,409
Recognised during the year	**(1,390)**	(960)
Carrying amount at 31 December	**63,536**	57,428
Current portion	**(1,401)**	(1,041)
Non-current portion	**62,135**	56,387

The leasehold lands are situated in Mainland China and are held under medium term leases.

15. GOODWILL

	Group 2012 RMB'000	2011 RMB'000
At 1 January:		
Cost	**40,357**	–
Accumulated impairment	**–**	–
Net carrying amount	**40,357**	–
Cost at 1 January, net of accumulated impairment	**40,357**	–
Acquisition of subsidiaries	**–**	40,357
Cost at 31 December, net of accumulated impairment	**40,357**	40,357
At 31 December:		
Cost	**40,357**	40,357
Accumulated impairment	**–**	–
Net carrying amount	**40,357**	40,357

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Jiujiang Rectifier – manufacture of rectifiers
- Wuhan Langde – development of online smart grid monitoring system

The recoverable amount of each of the above cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rates applied to the cash flow projections of Jiujiang Rectifier and Wuhan Langde are 14% and 27%, respectively, and cash flows beyond the five-year period are extrapolated using growth rates of 3% for both Jiujiang Rectifier and Wuhan Langde.

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	2012 RMB'000	2011 RMB'000
Jiujiang Rectifier	**37,159**	37,159
Wuhan Langde	**3,198**	3,198
	40,357	40,357

Assumptions were used in the value in use calculation of the above cash-generating units for 31 December 2012 and 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the years immediately before the budget year, increased for expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

16. OTHER INTANGIBLE ASSETS

Group

	Patents RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2012				
Cost at 1 January 2012, net of accumulated amortisation	**5,859**	**19,185**	**1,329**	**26,373**
Additions	**–**	**–**	**28**	**28**
Amortisation provided during the year	**(847)**	**–**	**(445)**	**(1,292)**
At 31 December 2012	**5,012**	**19,185**	**912**	**25,109**
At 31 December 2012:				
Cost	**6,353**	**19,185**	**1,993**	**27,531**
Accumulated amortisation	**(1,341)**	**–**	**(1,081)**	**(2,422)**
Net carrying amount	**5,012**	**19,185**	**912**	**25,109**

Group

	Patents RMB'000	Trademark RMB'000	Backlog RMB'000	Computer software RMB'000	Total RMB'000
31 December 2011					
At 1 January 2011:					
Cost	–	–	–	819	819
Accumulated amortisation	–	–	–	(258)	(258)
Net carrying amount	–	–	–	561	561
Cost at 1 January 2011, net of accumulated amortisation	–	–	–	561	561
Additions	–	–	–	125	125
Acquisition of subsidiaries	6,353	19,185	6,525	1,021	33,084
Amortisation provided during the year	(494)	–	(6,525)	(378)	(7,397)
At 31 December 2011	5,859	19,185	–	1,329	26,373
At 31 December 2011 and at 1 January 2012:					
Cost	6,353	19,185	6,525	1,965	34,028
Accumulated amortisation	(494)	–	(6,525)	(636)	(7,655)
Net carrying amount	5,859	19,185	–	1,329	26,373

17. INTERESTS IN SUBSIDIARIES

	Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**48,505**	48,505
Due from subsidiaries	**467,118**	469,236
	515,623	517,741

The amounts due from subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and the Company does not expect these loans to be repaid within the next 12 months. In the opinion of the Company's directors, these loans are considered as quasi-equity loans to the subsidiaries.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK$1	100%	Investment holding
Beijing Sunking Electronic Technology Co., Ltd.* 北京華瑞賽晶電子科技有限公司	The PRC/ Mainland China	RMB1,000,000	100%	Trading agent for various products and technologies
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Mainland China	US$76,500,000	100%	Sale, research and development, after sales service and production of electrical/electronic component and installation, including integrated gate bipolar transistor
Tianjin Sunking Xinglu Water Technology Co., Ltd.* 天津市華瑞賽晶興路水科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Environmental machinery, electronic facilities, new type of purification and water facilities, technology advisory, technology transfer, technology service, sale and distribution of environmental machinery

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Mainland China	US$28,000,000	100%	Production of electrical capacitors and its complete device, amorphous alloy transformer, DC current anode saturable dry-type reactors, FM voltage AC traction device; trading agent of various products and technologies
Jiangsu Sunking Power Equipment Co., Ltd.** 江蘇賽晶電氣設備有限公司	The PRC/ Mainland China	RMB50,000,000	100%	Manufacture and sale of capacitor
Jiashan Sunking Converter Technology Co., Ltd.** 嘉善華瑞賽晶變流技術有限公司	The PRC/ Mainland China	RMB14,000,000	57%	Manufacture and sale of transformers, capacitors and their ancillary equipment, electricity switch control equipment, power electronic components, and other power transmission and distribution and control equipment, and research and development of the aforesaid products
Wuxi Zhuofeng Information Technology Co., Ltd.** 無錫卓峰信息科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Manufacture and sale of computer software and hardware, research and development of network technology, technology advisory, technology transfer, technology service, computer system service, sale of electronic product, computer auxiliary equipments and office supplies, technology research and service of electronic product, enterprise management advisory, business advisory

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sudian Power Electronic Technology Co., Ltd.* 蘇電電力電子技術有限公司	The PRC/ Mainland China	US$6,000,500	100%	Technology research, technology transfer, technology advisory and technology detect service of power electronic equipment, computer software and hardware, high voltage electrical capacitors, high voltage power networks reactive–load compensation equipment
Wuhan Langde Electrics Co., Ltd.* 武漢朗德電氣有限公司	The PRC/ Mainland China	RMB5,000,000	61%	On-line smart grid monitoring system
Jiujiang Jiuzheng Rectifier Co., Ltd.** 九江九整整流器有限公司	The PRC/ Mainland China	RMB70,793,900	61%	Manufacture and sale of rectifiers
Zhejiang Saiying Power Technology Co., Ltd.** 浙江賽英電力科技有限公司	The PRC/ Mainland China	RMB15,000,000	72%	Research, development, production and sale of power electronics components power transmission and distribution equipment
Zhejiang Jiashan Keneng Power Equipment Co., Ltd.** 浙江嘉善科能電力設備有限公司	The PRC/ Mainland China	RMB37,500,000	72%	Production and sale, research and development of power equipment reactive power compensation devices
Beijing Sunking Power Electronic Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, components, import and export of goods and technologies

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Wuhan Angnai Information Co., Ltd.** 武漢昂耐資訊有限公司	The PRC/ Mainland China	RMB2,000,000	100%	Manufacture and sale of computer software and hardware, webpage design, graphic design, sale of high and low voltage electrical equipment

* *Registered as wholly-foreign-owned enterprises under PRC law.*

** *Registered as limited liability companies under PRC law.*

All the above investments in subsidiaries are indirectly held by the Company.

Except for Sunking Pacific Limited, the English names of all the above companies are direct transliterations of their Chinese registered names.

The statutory financial statements of the above subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2012	2011
	RMB'000	RMB'000
Share of net assets	**3,348**	–

Particulars of the jointly-controlled entity as at 31 December 2012 are as follows:

Name	Particulars of issued shares held	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Zhejiang Sunking Trainelec Traintic Electric Co., Ltd. 浙江賽晶強安易電氣有限公司	Registered capital of RMB1 each	The PRC/ Mainland China	70%	70%	70%	Manufacture and sale of electronic system for railroad and metro vehicles

The above investment in a jointly-controlled entity is indirectly held by the Company.

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY *(continued)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2012 RMB'000	2011 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**3,918**	–
Non-current assets	**13**	–
Current liabilities	**(583)**	–
Net assets	**3,348**	–
Share of the jointly-controlled entity's results:		
Revenue	**–**	22
Total expenses	**(652)**	(402)
Loss after tax	**(652)**	(380)

19. INVENTORIES

	Group 2012 RMB'000	 2011 RMB'000
Raw materials	**91,883**	115,525
Work in progress	**24,084**	33,640
Finished goods	**13,671**	26,314
	129,638	175,479

20. TRADE AND BILLS RECEIVABLES

	Group 2012 RMB'000	 2011 RMB'000
Trade receivables	**321,427**	301,542
Impairment	**(15,116)**	(14,651)
	306,311	286,891
Add: Bills receivables	**213,324**	206,853
Less: Amount shown as non-current	**(46,688)**	(25,206)
	472,947	468,538

20. TRADE AND BILLS RECEIVABLES *(continued)*

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

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

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

	Group	
	2012	2011
	RMB'000	RMB'000
Within 3 months	**132,753**	146,231
3 to 6 months	**35,544**	85,489
6 to 12 months	**91,178**	37,933
Over 1 year	**46,836**	17,238
	306,311	286,891

As at 31 December 2012 and 31 December 2011, all the Group's bills receivables aged within six months.

The movements in provision for impairment of trade receivables are as follows:

	Group
	2012
	RMB'000
At 1 January	14,651
Impairment losses recognised	465
At 31 December	15,116

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB15,116,000 (2011: RMB14,651,000) with a carrying amount before provision of RMB39,922,000 (2011: RMB35,532,000).

The individually impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

20. TRADE AND BILLS RECEIVABLES *(continued)*

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**391,124**	364,807
Less than 6 months past due	**73,732**	108,056
6 to 12 months past due	**27,956**	–
1 to 2 years past due	**1,836**	–
Over 2 years past due	**181**	–
	494,829	472,863

Receivables that were neither past due nor impaired relate to a large number of diversified 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, the directors of the Company are of the opinion that no provision for impairment 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.

As at 31 December 2012, certain trade receivables of the Group with an aggregate carrying amount of RMB152,627,000 (2011: RMB96,060,000) were pledged to banks to secure the bank loans granted to the Group (note 26).

At 31 December 2012, certain of the Group's bills receivables of approximately RMB25,000,000 (2011: Nil) were pledged to secure certain of the Group's bills payables (note 23).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**32,559**	14,103	**–**	–
Deposits and other receivables	**32,013**	28,984	**7**	193
	64,572	43,087	**7**	193

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**204,593**	209,562	**1,157**	**4,504**
Less: Pledged deposits for bank loans *(note 26)*	**–**	(14,857)	**–**	–
Pledged deposits for banking facilities	**(17,933)**	(10,253)	**–**	–
Cash and cash equivalents	**186,660**	184,452	**1,157**	4,504

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB183,550,000 (2011: RMB184,088,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	Group	
	2012	2011
	RMB'000	RMB'000
Within six months	**123,507**	136,327
Over six months	**37,596**	5,693
	161,103	142,020

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 days to 180 days.

As at 31 December 2012, certain of the Group's bills payables are secured by the pledge of the Group's bills receivables amounting to approximately RMB25,000,000 (2011: Nil).

24. OTHER PAYABLES AND ACCRUALS

	Group	
	2012	2011
	RMB'000	RMB'000
Advances from customers	**23,926**	38,079
Other payables and accruals	**27,248**	18,646
	51,174	56,725

Other payables are non-interest-bearing and have an average term of three months.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Foreign currency forward contracts	**1,376**	**–**	–	886

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are measured at fair value through profit or loss. Net fair value loss of these derivatives amounting to RMB522,000 (2011: loss of RMB5,114,000) was charged to other expenses in the consolidated statement of comprehensive income for the year ended 31 December 2012.

26. INTEREST-BEARING BANK BORROWINGS

Group

	2012			2011		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**5.60 – 5.88**	**2013**	**110,765**	6.41 – 6.71	2012	69,000
Bank loans – unsecured	**6.30 – 7.22**	**2013**	**157,597**	3.97 – 6.65	2012	158,130
			268,362			227,130
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**268,362**			227,130

Notes:

(a) As at 31 December 2012, certain of the Group's bank loans were secured by pledge of certain of the Group's trade receivables amounting to RMB152,627,000 (2011: RMB96,060,000) (note 20).

In addition, certain of the Group's bank loans at 31 December 2011 were secured by the pledge of certain of the Group's bank deposits amounting to RMB14,857,000 (note 22).

(b) As at 31 December 2012, except for a bank loan of RMB3,597,000 denominated in CHF, all other borrowings were denominated in RMB.

As at 31 December 2011, except for bank loans of RMB87,177,000 denominated in USD, all other borrowings were denominated in RMB.

27. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

Group

	Government grants RMB'000	**Withholding taxes** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2011	–	(5,250)	83	(5,167)
Acquisition of subsidiaries	–	–	(6,906)	(6,906)
Deferred tax credited to profit or loss during the year *(note 10)*	–	936	3,829	4,765
Deferred tax liabilities at 31 December 2011 and 1 January 2012	–	(4,314)	(2,994)	(7,308)
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	3,905	(2,394)	2,734	4,245
Deferred tax assets/(liabilities) at 31 December 2012	3,905	(6,708)	(260)	(3,063)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2012 **RMB'000**	2011 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**10,931**	4,341
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(13,994)**	(11,649)
	(3,063)	(7,308)

The Group has tax losses arising in Mainland China of RMB52,403,000 (2011: RMB27,807,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB23,942,000 (2011: RMB13,927,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares	2012 HK$'000	2011 HK$'000
Authorised:		
2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000

	2012		2011	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
1,362,694,000 (2011: 1,365,580,000) ordinary shares of HK$0.10 each	**136,269**	**117,137**	136,558	117,385

During the year, the movement in share capital was as follows:

(a) During the year ended 31 December 2012, the Company repurchased an aggregate of 2,886,000 shares at approximately HK$1,064,000 (equivalent to approximately RMB871,000). These repurchased shares were cancelled during the year ended 31 December 2012.

A summary of the transaction during the year with reference to the above movement in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2011	1,366,040,000	117,425	400,692	518,117
Repurchase and cancellation of shares	(460,000)	(40)	(181)	(221)
At 31 December 2011 and 1 January 2012	1,365,580,000	117,385	400,511	517,896
Repurchase and cancellation of shares (a)	(2,886,000)	(248)	(623)	(871)
At 31 December 2012	1,362,694,000	117,137	399,888	517,025

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

29. SHARE-BASED PAYMENTS TRANSACTIONS

Share award scheme

A share award scheme (the "Share Award Scheme") was adopted by Sunking BVI in 2008 for the primary purpose of providing incentives to officers, directors, consultants and employees of Sunking BVI and its then subsidiaries including the Group.

The following awarded shares were outstanding under the Share Award Scheme during the year:

	2012 Number of shares	2011 Number of shares
At 1 January	**216,137**	869,867
Forfeited during the year	**–**	(31,521)
Vested during the year	**(216,137)**	(622,209)
At 31 December	**–**	216,137

During the year ended 31 December 2012, share-based payment expense in respect of the awarded shares of RMB910,000 (2011: RMB2,480,000) was charged to profit or loss in the consolidated statement of comprehensive income.

Share option scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to directors, eligible employees of the Group and consultants of the Group. The Share Option Scheme became effective on 23 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, share options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million, based on the closing price of the Company's shares at the date of offer, must be approved in advance by the Company's shareholders.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period and ends on the date on which such options lapse or the date on which the Share Option Scheme expires, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

Share option scheme *(continued)*

The following share options were outstanding under the Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options ’000**	Weighted average exercise price HK$ per share	Number of options ’000
At 1 January	**1.83**	**14,490**	–	–
Granted during the year	**0.55**	**41,950**	1.83	21,280
Forfeited during the year	**1.09**	**(870)**	1.83	(6,790)
At 31 December	**0.88**	**55,570**	1.83	14,490

No share options under the Share Option Scheme were exercised during the years ended 31 December 2012 and 2011.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2012

Number of options ’000	**Exercise price* HK$ per share**	**Exercise period (dd-mm-yyyy)**
41,450	**0.55**	**26-04-2013 to 25-04-2018**
14,120	**1.83**	**27-04-2012 to 26-04-2017**
55,570		

2011

Number of options ’000	Exercise price* HK$ per share	Exercise period (dd-mm-yyyy)
14,900	1.83	27-04-2012 to 26-04-2017
14,900		

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company’s share capital.*

The fair values of the share options granted during the year ended 31 December 2012 were HK$0.23 for Mr. Xiang Jie and executives and HK$0.20 for non-executives, of which the Group recognised a share option expense of RMB1,344,000 for the year ended 31 December 2012.

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

Share option scheme *(continued)*

The fair values of the share options granted during the year ended 31 December 2011 were HK$0.79 for non-executives, HK$0.81 for executives and HK$0.83 for directors, shareholders and consultants, of which the Group recognised a share option expense of RMB2,435,000 and RMB5,253,000 for the years ended 31 December 2012 and 31 December 2011, respectively.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2012	2011
Dividend yield (%)	**0**	0
Expected volatility (%)	**59**	53
Historical volatility (%)	**59**	59
Risk-free interest rate (%)	**0.57-0.7**	2.01
Expected life of options (year)	**6**	6

The expected life of the options is determined with reference to the vesting term and original contractual term of the Share Option Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 55,570,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 55,570,000 additional ordinary shares of the Company and additional share capital of RMB4,506,000 and share premium of RMB34,929,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 55,570,000 share options outstanding under the Share Option Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

30. SHARE AWARD

For the year ended 31 December 2012

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

In the opinion of the directors of the Company, the contribution of unregistered technical know-how was regarded as a share-based payment by the Group for the expertise of the Sunking Converter NCI. The fair value of the share-based payment of approximately RMB4,000,000, which was determined referencing to the fair value of the Sunking Converter's equity at the date of capital contribution, was charged to selling and distribution costs in the consolidated statement of comprehensive income for the year ended 31 December 2012.

30. SHARE AWARD *(continued)*

For the year ended 31 December 2011

(i) Zhejiang Jiashan Keneng Power Equipment Co., Ltd. ("Keneng"), a subsidiary of the Company, was established in April 2011. As at 31 December 2011, the paid-in capital of Keneng was RMB29,625,000, of which 65% was held by the Group and 35% in aggregate was held by unrelated parties to the Group (the "Keneng NCIs"). During the year ended 31 December 2011, capital contributions in the form of unregistered technical know-how were made by two of the Keneng NCIs.

In the opinion of the directors of the Company, the contribution of unregistered technical know-how was regarded as a share-based payment by the Group for the expertise of the Keneng NCIs. The fair value of the share-based payment of approximately RMB10,500,000, which was determined referencing to the fair value of the Keneng's equity at the date of capital contribution, was charged to selling and distribution costs in the consolidated statement of comprehensive income for the year ended 31 December 2011.

(ii) Zhejiang Saiying Power Technology Co., Ltd. ("Saiying"), a subsidiary of the Company, was established in May 2011. As at 31 December 2011, the paid-in capital of Saiying was RMB15,000,000, of which 72% was held by the Group and 28% was held by an unrelated party to the Group (the "Saiying NCI"). During the year ended 31 December 2011, a capital contribution in the form of unregistered technical know-how was made by the Saiying NCI.

In the opinion of the directors of the Company, the contribution of unregistered technical know-how was regarded as a share-based payment by the Group for the expertise of the Saiying NCI. The fair value of the share-based payment of approximately RMB4,200,000, which was determined referencing to the fair value of the Saiying's equity at the date of capital contribution, was charged to selling and distribution costs in the consolidated statement of comprehensive income for the year ended 31 December 2011.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

31. RESERVES *(continued)*

(b) Company

	Notes	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011		400,692	–	–	2,904	42,519	(25,151)	420,964
Loss and total comprehensive loss for the year		–	–	–	–	–	(27,190)	(27,190)
Share-based payments	29	–	5,253	–	2,480	–	–	7,733
Repurchase and cancellation of shares	28	(181)	–	40	–	–	(40)	(181)
At 31 December 2011 and at 1 January 2012		**400,511**	**5,253**	**40**	**5,384**	**42,519**	**(52,381)**	**401,326**
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**(5,742)**	**(5,742)**
Share-based payments	29	**–**	**3,779**	**–**	**910**	**–**	**–**	**4,689**
Repurchase and cancellation of shares	28	**(623)**	**–**	**248**	**–**	**–**	**(248)**	**(623)**
At 31 December 2012		**399,888**	**9,032**	**288**	**6,294**	**42,519**	**(58,371)**	**399,650**

The employee share-based compensation reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.

32. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group 2012 RMB'000	2011 RMB'000
Within one year	**711**	533
In the second to fifth years, inclusive	**298**	49
	1,009	582

34. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	Group 2012 RMB'000	Group 2011 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**33,278**	22,117

35. RELATED PARTY TRANSACTIONS

(a) An amount due from a director

	Group 2012 RMB'000	Group 2011 RMB'000
Mr. Gong Renyuan	**180**	–

The balance is unsecured, interest-free and repayable on demand. The maximum outstanding balance due from Mr. Gong Renyuan during the year was RMB360,000.

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

	Group 2012 RMB'000	Group 2011 RMB'000
Short term employee benefits	**6,059**	6,069
Post employment benefits	**701**	838
Share-based payment expense	**3,713**	4,073
Total compensation paid to key management personnel	**10,473**	10,980

Further details of directors' emoluments are included in note 8 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012
Financial assets

	Group		
	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	519,635	519,635
Financial assets included in prepayments, deposits and other receivables	–	19,432	19,432
Derivative financial instruments	1,376	–	1,376
Due from a director	–	180	180
Pledged deposits	–	17,933	17,933
Cash and cash equivalents	–	186,660	186,660
	1,376	743,840	745,216

2012
Financial liabilities

	Group Financial liabilities at amortised cost RMB'000
Trade and bills payables	161,103
Financial liabilities included in other payables and accruals	20,586
Interest-bearing bank borrowings	268,362
	450,051

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

2011
Financial assets

	Group Loans and receivables RMB'000
Trade and bills receivables	493,744
Financial assets included in prepayments, deposits and other receivables	12,834
Pledged deposits	25,110
Cash and cash equivalents	184,452
	716,140

2011
Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	142,020	142,020
Financial liabilities included in other payables and accruals	–	15,005	15,005
Derivative financial instruments	886	–	886
Interest-bearing bank borrowings	–	227,130	227,130
	886	384,155	385,041

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

2012
Financial assets

	Company Loans and receivables RMB'000
Due from subsidiaries *(note 17)*	**467,118**
Financial assets included in prepayments, deposits and other receivables	**7**
Cash and cash equivalents	**1,157**
	468,282

2012
Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Due to subsidiaries	**–**

2011
Financial assets

	Company Loans and receivables RMB'000
Due from subsidiaries *(note 17)*	469,236
Financial assets included in prepayments, deposits and other receivables	193
Cash and cash equivalents	4,504
	473,933

2011
Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Due to subsidiaries	3,727

37. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

Fair value hierarchy

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

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

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

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

Assets measured at fair value:

Group

As at 31 December 2012

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Derivative financial instruments	**1,376**	**–**	**–**	**1,376**

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	–	–	–	–

Liabilities measured at fair value:

Group

As at 31 December 2012

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Derivative financial instruments	**–**	**–**	**–**	**–**

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	886	–	–	886

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash and bank balances and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank loans with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax RMB'000
2012		
CHF	**100**	**(8)**
RMB	**100**	**(1,031)**
CHF	**(100)**	**8**
RMB	**(100)**	**1,031**
2011		
USD	100	(319)
RMB	100	(598)
USD	(100)	319
RMB	(100)	598

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD exchange rate, CHF exchange rate, EUR exchange rate and HKD exchange rate with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit/(loss) before tax RMB'000
2012		
If RMB weakens against USD	**5**	**34**
If RMB strengthens against USD	**(5)**	**(34)**
If RMB weakens against CHF	**5**	**(154)**
If RMB strengthens against CHF	**(5)**	**154**
If RMB weakens against EUR	**5**	**55**
If RMB strengthens against EUR	**(5)**	**(55)**
If RMB weakens against HKD	**5**	**52**
If RMB strengthens against HKD	**(5)**	**(52)**
2011		
If RMB weakens against USD	5	(2,064)
If RMB strengthens against USD	(5)	2,064
If RMB weakens against CHF	5	(21)
If RMB strengthens against CHF	(5)	21
If RMB weakens against HKD	5	80
If RMB strengthens against HKD	(5)	(80)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans. In addition, banking facilities have been put in place for continuing purpose.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

		2012	
	On demand or less than 3 months RMB'000	**3 to less than 12 months RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**89,448**	**191,586**	**281,034**
Trade and bills payables	**153,079**	**8,024**	**161,103**
Other payables	**20,586**	**–**	**20,586**
	263,113	**199,610**	**462,723**

		2011	
	On demand or less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Interest-bearing bank borrowings	101,588	137,987	239,575
Trade and bills payables	142,020	–	142,020
Other payables	15,005	–	15,005
Derivative financial instruments	–	886	886
	258,613	138,873	397,486

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

The maturity profile of the Company's financial liabilities as at the end of reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2012		
	On demand or less than 3 months RMB'000	**3 to less than 12 months RMB'000**	**Total RMB'000**
Due to subsidiaries	–	–	–

	2011		
	On demand or less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Due to subsidiaries	3,727	–	3,727

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The Group's policy is to maintain the gearing ratio as low as possible. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2012 **RMB'000**	2011 RMB'000
Interest-bearing bank borrowings	**268,362**	227,130
Total equity	**832,522**	827,081
Gearing ratio	**32.2%**	27.5%

39. COMPARATIVE AMOUNTS

During the year ended 31 December 2012, the directors of the Company have reviewed the components of the gains and expenses and reclassified certain gains and expenses in the consolidated statement of comprehensive income. Accordingly, the corresponding comparative amounts have been revised to conform with the current year's presentation. In the opinion of the directors of the Company, the reclassification results in a more appropriate presentation of the Group's operating results.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2013.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and the prospectus of the Company dated 30 September 2010 and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**573,517**	610,311	427,996	261,704	249,521
PROFIT/(LOSS) BEFORE TAX	**11,366**	(50,489)	52,443	49,112	51,990
Income tax expense	**(12,269)**	(2,793)	(14,851)	(10,262)	(7,018)
PROFIT/(LOSS) FOR THE YEAR	**(903)**	(53,282)	37,592	38,850	44,972
Attributable to:					
Owners of the parent	**443**	(59,360)	37,592	38,850	44,972
Non-controlling interests	**(1,346)**	6,078	–	–	–
	(903)	(53,282)	37,592	38,850	44,972

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,366,749**	1,280,827	1,099,357	338,022	166,465
TOTAL LIABILITIES	**(534,227)**	(453,746)	(264,725)	(106,022)	(51,153)
NON-CONTROLLING INTERESTS	**(47,166)**	(45,797)	(1,500)	–	–
	785,356	781,284	833,132	232,000	115,312