卡姆丹克太陽能系統集團有限公司

Comtec Solar Systems Group Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code: 712

Annual Report
2012

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. John Zhang

Mr. Chau Kwok Keung

Mr. Shi Cheng Qi

Non-executive Directors

Mr. Donald Huang

(Note: Mr. Stephen Peel resigned on 24 April 2012 and Mr. Phen, Chun Shing Vincent resigned on 20 September 2012)

Independent non-executive Directors

Mr. Daniel DeWitt Martin

Mr. Kang Sun

Mr. Leung Ming Shu

COMPANY SECRETARY

Mr. Chau Kwok Keung (HKICPA, ACCA, CFA)

AUTHORISED REPRESENTATIVES

Mr. John Zhang

Mr. Chau Kwok Keung

AUDIT COMMITTEE

Mr. Leung Ming Shu *(Chairman)*

Mr. Daniel DeWitt Martin

Mr. Kang Sun

Mr. Donald Huang

NOMINATION COMMITTEE

Mr. John Zhang *(Chairman)*

Mr. Daniel DeWitt Martin

Mr. Kang Sun

Mr. Donald Huang

Mr. Leung Ming Shu

REMUNERATION COMMITTEE

Mr. Leung Ming Shu *(Chairman)*

Mr. John Zhang

Mr. Kang Sun

Mr. Donald Huang

Mr. Daniel DeWitt Martin

CORPORATE GOVERNANCE COMMITTEE

Mr. John Zhang *(Chairman)*

Mr. Chau Kwok Keung

Mr. Leung Ming Shu

Mr. Donald Huang

SIGNIFICANT PAYMENTS COMMITTEE

Mr. John Zhang *(Chairman)*

Mr. Chau Kwok Keung

Mr. Donald Huang

REGISTERED OFFICE

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

HEADQUARTER

16 Yuan Di Road
Nanhui Industrial Zone
Shanghai 201314
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 28
35/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Corporate Information

COMPANY'S WEBSITE

www.comtecsolar.com

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

PRINCIPAL BANKS

Agriculture Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

CAYMAN ISLANDS 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

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

Dear Shareholders,

On behalf of Comtec Solar Systems Group Limited, I am pleased to present the audited annual results of the Group for the year ended 31 December 2012. During the year, the worldwide excess capacity and the industry consolidation continued. It drove the selling price to decline across the value chain. These challenging commercial conditions adversely affected the operating results of every solar company. Despite the challenges facing the market, we still achieved year-on-year growth in the shipments, shifted the focus to our premium products "Super Mono Wafers", achieved reasonable profit margins, generated cash inflow from operating activities and maintained healthy financial position.

Here are some financial and business highlights for the year:

- Revenue for the year was approximately RMB1,025.6 million, representing a year-on-year increase of 0.9% from approximately RMB1,016.7 million for the year ended 31 December 2011;

- Gross profit for the year was approximately RMB83.5 million, representing a year-on-year drop of 9.8% from RMB92.5 million for the year ended 31 December 2011;

- Gross profit margin for the year was approximately 8.1%, representing a decreased of 1% from 9.1% for the year ended 31 December 2011;

- Net loss for the year was approximately RMB165.1 million, increased from the net loss of RMB46.3 million for the year ended 31 December 2011;

- Net loss margin for the year was approximately 16.1%, increased from 4.6% for the year ended 31 December 2011;

- Our loss per share for the year was RMB14.55 cents, increased from the loss per share of RMB4.09 cents for the year ended 31 December 2011;

- Adjusted net profit for the year was approximately RMB68.5 million by excluding the non-cash other losses of approximately RMB190.9 million which mainly included losses on redemption of convertible bonds and cancellation of warrants, net losses on fair value changes of warrants and other financial liabilities, net exchange losses and losses on disposal of property, plant and equipments, non-cash write-down of inventory of approximately RMB5.1 million, non-cash share-based payment expenses of approximately RMB20.3 million and non-cash accounting interest expenses in relation to convertible bonds before the repurchase of approximately RMB17.3 million;

- Adjusted earning per share for the year was approximately RMB6.04 cents by excluding the non-cash other losses of approximately RMB190.9 million which mainly included losses on redemption of convertible bonds and cancellation of warrants, net losses on fair value changes of warrants and other financial liabilities, net exchange losses and losses on disposal of property, plant and equipments, non-cash write-down of inventory of approximately RMB5.1 million, non-cash share-based payment expenses of approximately RMB20.3 million and non-cash accounting interest expenses in relation to convertible bonds before the repurchase of approximately RMB17.3 million;

- Overall shipment for the year was 561.7MW;

- The annualized production capacity was approximately 600MW during the year;

- Achieved cash inflow from operating activities of approximately RMB208.0 million during the year;

- Maintained cash and restricted cash balances of approximately RMB515.2 million and lowered net debt to equity ratio to approximately 2.8% as at 31 December 2012; and

- Raised funding of approximately HK$56.0 million and HK$203.8 million respectively on 17 December 2012 and 22 January 2013 respectively by issuing new Shares by way of placing.

Despite the challenges facing the market, we achieved notable shipment growth of approximately 152.9% from 222.1MW in the corresponding period in 2011 to 561.7MW in 2012. With the continuous decrease in the selling price of polysilicons and modules, our customers increasingly realized the benefits of buying high efficient products to assist them to reduce the overall system costs and to strengthen their competitive advantages. It strengthens the demand on high efficient solar products.

In an increasingly competitive market of solar products, we strive to differentiate ourselves by staying committed to offering value-added products with premium quality to our customers. During the year, we shifted our focus to production of premium product “Super Mono Wafers”. Based on the feedback from our major customer, the high efficient solar cell with our “Super Mono Wafers” can achieve an average conversion efficiency of approximately 23%. All of our existing 600MW capacity is qualified for the production of “Super Mono Wafers”. We keep working on the qualification process with other potential customers and target to commence pilot shipments to a Japan customer during first half of 2013. We expect to gradually replace the traditional P-type monocrystalline wafers by our “Super Mono Wafers”. We believe our ability to manufacture more advanced and efficient products would differentiate us in the market and strengthen the barrier to entry to our business.

Chairman's Statement

Further, our continual efforts to improve technology, manufacturing process and conversion efficiency of our wafers also enabled us to reduce our costs of production. Cost competitiveness driven by technical advancement would be crucial to the development of solar industry. Our origin as a manufacturer of semiconductor ingots and wafers since 1999 provided us with a strong technical background. We also benefited from the significant decrease in polysilicon prices in the market. During the year, we actively renegotiated with our major polysilicon suppliers and were able to lower our average cost of polysilicon to approximately RMB171.6 per kg, decreased from RMB327.4 per kg for the corresponding period in 2011. We will continue to focus on combining innovative products and manufacturing efficiency to respond to the fast growing and competitive landscape of solar industry.

We recorded cash inflow from operating activities of approximately RMB208.0 million during the year. Coupled with the sounding cash flow from our operating activities and our disciplined financial and operational initiatives, we lowered the net debt balance to approximately RMB41.5 million and the net debt to equity ratio to approximately 2.8% by the end of 2012. Our strong balance sheet positions us well to manage and mitigate the risks arising from the volatile and challenging industry environment.

During 2012, the Group maintained strict financial disciplines and continuously repaid outstanding debts. In March 2012, we repurchased 75% of the issued convertible bonds by paying approximately RMB491 million in cash and cancelled 75% of the issued warrants and issued new warrants of approximately HK$117 million with the initial exercise price at HK$1.24 per Share, subject to the agreed adjustment mechanism. As part of the repurchase, the investor agreed to consent to the level of borrowing of the Group relative to EBITDA exceeding the level specified in the original bonds instrument until 20 February 2013, to cancel 75% of outstanding originally issued warrants, to cancel the early redemption premium of 30% on the outstanding convertible bonds and to change the use of proceeds of the remaining outstanding amount of the original proceeds to general corporate purposes. We believed that it is a prudent step to take in view of the challenging industry environment the Group is facing. It allowed the Group to enjoy the benefits of reducing its debt levels with immediate effect, to pre-emptively avoid any risk of breaching the borrowings covenant during 2012, to avoid over-leveraging on debt-financing in a challenging industry environment and to obtain more flexibility on the use of proceeds.

On 9 November 2012, the Group sent a call option notice to Counterpounch, L.P. to exercise the call option under the repurchase deed to (i) repurchase all of the outstanding convertible bonds from the investor for an amount in cash equal to the aggregate principal amount of all these outstanding bonds, being RMB163,625,000, and (ii) cancel all of the outstanding original warrants for no additional consideration. The Group shall pay the amount for the repurchase of all the outstanding convertible bonds by instalments with the last payment due on 24 July 2013.

On 17 December 2012, Fonty, Mr. John Zhang, the Company and CCB International Capital Limited, as the placing agent, entered into a placing and subscription agreement pursuant to which the placing agent agreed to place, on best efforts basis, up to 50,000,000 existing Shares owned by Fonty to not fewer than six independent placees at the placing price of HK$1.15 per Share, and Fonty conditionally agreed to subscribe, and the Company agreed to allot and issue to Fonty for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$1.15 per Share. Details of these transactions are set out in the Company's announcement dated 17 December 2012. The subscription price for the Subscription represents a discount of 8.0% to the closing price of HK$1.25 per Share as stated in the Stock Exchange's daily quotations sheet on 17 December 2012. Approximately HK$56.0 million was raised from the subscription to fund the Group's capital expenditure and general working capital.

On 22 January 2013, Fonty, Mr. John Zhang, the Company and CCB International Capital Limited, Macquarie Capital Securities Limited and Guotai Junan Securities (Hong Kong) Limited, as the placing agents entered into a placing and subscription agreement pursuant to which the placing agents agreed to place, on best efforts basis, up to 120,000,000 existing Shares owned by Fonty to not fewer than six independent placees at the placing price of HK$1.74 per Share, and Fonty conditionally agreed to subscribe, and the Company agreed to allot and issue to Fonty for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$1.74 per Share. Details of these transactions are set out in the Company's announcement dated 22 January 2013. The subscription price for the Subscription represents a discount of 7.5% to the closing price of HK$1.88 per Share as stated in the Stock Exchange's daily quotations sheet on 22 January 2012. Approximately HK$203.8 million was raised from the subscription to fund the Group's capital expenditure and general working capital.

We expect the consolidation in the global solar industry would continue in 2013. We believe we are particularly well positioned with our strong financial position, competitive cost structure and our strong technical capabilities to benefit from the emerging opportunities. We are continuously evaluating the market environment and the equipment pricing to maximize our benefits from the consolidation of production capacity in the industry. We are planning to expand production capacity in Malaysia which would enable the Group to lower production costs and to increase our scale of operation. We are in the process of evaluating various opportunities from purchasing low costs second hand equipments and acquiring low costs existing production facilities in Malaysia. Due to the rapid changing market environment, the Group does not fix a capacity target upon a predetermined timeline and prefer to maintain flexibilities. We believe this strategy would maximise our benefits from the industry consolidation process.

During the year, there were further decreases in module and total system costs. It had accelerated the industry's progress towards grid-parity and the installation of PV systems becoming increasingly affordable. The cost of solar power is now below user-paid rates for increasing number of markets and user categories. We see a ramping up in PV adoption and planning in emerging markets in Africa, the Americas and the Middle East. We are also excited to see the increasing commitments from various Asia countries on solar power, such as China and Japan which continuously raised their target for solar power contribution to the national grid capacity.

Chairman's Statement

We are confident that we have the reputation, the top-tier suppliers and customers relationships and the capability to adapt to the new economics and competitive landscape of the solar industry. Looking ahead, we will remain focused on our core wafer business where we have demonstrated solid track records and established competitive advantages. We believe such focus will best position the Group in the fast growing and increasingly competitive market of solar products. We are confident to capture enormous opportunities during the industry consolidation process and to drive continued and healthy growth for the Group in the future.

On behalf of the Board, I would like to express my sincere gratitude to our Shareholders and business partners for their support and trust in us, and also to our management and employees for their hard work. We look forward to creating greater value and return for our Shareholders.

John Zhang
Chairman

Shanghai, 25 March 2013

BUSINESS REVIEW

The photovoltaics industry continued to experience pressure in 2012 due to supply-demand imbalance in the industry. This pressure was exacerbated by the uncertainties among the European economies and the potential international trade conflicts. It resulted in a challenging operating environment with decrease in selling prices of solar products which adversely affected the operating results of every solar company. Despite the challenges facing the market, we see progress of industry consolidation. Customers increasingly rely on tier-one suppliers and prefer to utilize high efficient products to minimize the PV system costs. Under a competitive pricing environment, only cost competitive companies can remain profitable and maintain healthy financial position to mitigate the risk during the industry consolidation process.

During the year, we achieved notable shipment growth of approximately 152.9% from approximately 222.1MW in the corresponding period in 2011 to approximately 561.7MW in 2012. With the continuous decrease in the selling price of polysilicons and modules, our customers increasingly realized the benefits of buying high efficient products to assist them to reduce the overall system costs and to strengthen their competitive advantages. It strengthens the demand on high efficient solar products.

In an increasingly competitive market of solar products, we strive to differentiate ourselves by staying committed to offering value-added products with premium quality to our customers. During the year, we shifted our focus to production of premium product “Super Mono Wafers”. Based on the feedback from our major customer, the high efficient solar cell with our “Super Mono Wafers” can achieve an average conversion efficiency of approximately 23%. All of our existing 600MW capacity is qualified for the production of “Super Mono Wafers”. We keep working on the qualification process with other potential customers and target to commence pilot shipments to a Japan customer during first half of 2013. We expect to gradually replace the traditional P-type monocrystalline wafers by our “Super Mono Wafers”. We believe our ability to manufacture more advanced and efficient products would differentiate us in the market and strengthen the barrier to entry to our business.

Our top five customers in 2012 represented approximately 85.7% of our total revenues, comparing to approximately 80.9% in the corresponding period last year. The sales to our largest customer in Philippines and Malaysia with the high quality “Super Mono Wafers” accounted for approximately 77.7% of our total revenues in 2012 as compared to approximately 31.4% in 2011 with traditional P-type wafer customer in the PRC. During 2012, our sales to Philippines and Malaysia represented approximately 77.7% of our total revenues, comparing to 31.4% in the corresponding period last year. The remaining of our sales in 2012 was mainly shipped to PRC. During the industry consolidation process, we would mainly focus on the limited number of prestige customers with sounding financial positions.

Management Discussion and Analysis

During the year, we continued to execute our cost reduction strategy. We have achieved continuous cost saving from our improvements in technology, manufacturing process and conversion efficiency of our wafers. Cost competitiveness driven by technical advancement would be crucial to the development of solar industry. Our origin as a manufacturer of semiconductor ingots and wafers since 1999 provides us with a strong technical background. We also benefited from the significant decrease in polysilicon prices 2012. During the year, we actively renegotiated with our major polysilicon suppliers and were able to lower our average cost of polysilicon to approximately RMB171.6 per kg, decreased from RMB327.4 per kg for the corresponding period in 2011. We will continue to focus on combining innovative products and manufacturing efficiency to respond to the fast growing and competitive industry environment.

We recorded cash inflow from operating activities of approximately RMB208.0 million during the year. Coupled with the sounding cash flow from our operating activities and our disciplined financial and operational initiatives, we lowered the net debt balance to approximately RMB41.5 million and the net debt to equity ratio to approximately 2.8% by the end of 2012. Our strong balance sheet positions us well to manage and mitigate the risks arising from the volatile and challenging industry environment.

During 2012, the Group maintained strict financial disciplines and continuously repaid outstanding debts. In March 2012, we repurchased 75% of the issued convertible bonds by paying approximately RMB491 million in cash and cancelled 75% of the issued warrants and issued new warrants of approximately HK$117 million with the initial exercise price at HK$1.24 per Share, subject to the agreed adjustment mechanism. As part of the repurchase, the investor agreed to consent to the level of borrowing of the Group relative to EBITDA exceeding the level specified in the original bonds instrument until 20 February 2013, to cancel 75% of outstanding originally issued warrants, to cancel the early redemption premium of 30% on the outstanding convertible bonds and to change the use of proceeds of the remaining outstanding amount of the original proceeds to general corporate purposes. We believed that it is a prudent step to take in view of the challenging industry environment the Group is facing. It allowed the Group to enjoy the benefits of reducing its debt levels with immediate effect, to pre-emptively avoid any risk of breaching the borrowings covenant during 2012, to avoid over-leveraging on debt-financing in a challenging industry environment and to obtain more flexibility on the use of proceeds.

On 9 November 2012, the Group sent a call option notice to Counterpounch, L.P. to exercise the call option under the repurchase deed to (i) repurchase all of the outstanding convertible bonds from the investor for an amount in cash equal to the aggregate principal amount of all these outstanding bonds, being RMB163,625,000, and (ii) cancel all of the outstanding original warrants for no additional consideration. The Group shall pay the amount for the repurchase of all the outstanding convertible bonds by instalments with the last payment due on 24 July 2013.

On 17 December 2012, Fonty, Mr. John Zhang, the Company and CCB International Capital Limited, as the placing agent entered into a placing and subscription agreement pursuant to which the placing agent agreed to place, on best efforts basis, up to 50,000,000 existing Shares owned by Fonty to not fewer than six independent placees at the placing price of HK$1.15 per Share, and Fonty conditionally agreed to subscribe, and the Company agreed to allot and issue to Fonty for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$1.15 per Share. Details of these transactions are set out in the Company's announcement dated 17 December 2012. The subscription price for the subscription represents a discount of 8.0% to the closing price of HK$1.25 per Share as stated in the Stock Exchange's daily quotations sheet on 17 December 2012. Approximately HK$56.0 million was raised from the subscription to fund the Group's capital expenditure and general working capital.

On 22 January 2013, Fonty, Mr. John Zhang, the Company and CCB International Capital Limited, Macquarie Capital Securities Limited and Guotai Junan Securities (Hong Kong) Limited, as the placing agents entered into a placing and subscription agreement pursuant to which the placing agents agreed to place, on best efforts basis, up to 120,000,000 existing Shares owned by Fonty to not fewer than six independent placees at the placing price of HK$1.74 per Share, and Fonty conditionally agreed to subscribe, and the Company agreed to allot and issue to Fonty for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$1.74 per Share. Details of these transactions are set out in the Company's announcement dated 22 January 2013. The subscription price for the subscription represents a discount of 7.5% to the closing price of HK$1.88 per Share as stated in the Stock Exchange's daily quotations sheet on 22 January 2012. Approximately HK$203.8 million was raised from the subscription to fund the Group's capital expenditure and general working capital.

We expect the consolidation in the global solar industry would continue in 2013. We believe we are particularly well positioned with our strong financial position, competitive cost structure and our strong technical capabilities to benefit from the emerging opportunities. We are continuously evaluating the market environment and the equipment pricing to maximize our benefits from the consolidation of production capacity in the industry. We are planning to expand production capacity in Malaysia which would enable the Group to lower production costs and to increase our scale of operation. We are in the process to evaluate various opportunities from purchasing low costs second hand equipments and acquiring low costs existing production facilities in Malaysia. Due to the rapid changing market environment, the Group does not fix a capacity target upon a predetermined timeline and prefer to maintain flexibilities. We believe this strategy would maximise our benefits from the industry consolidation process.

During the year, there were further decreases in module and total system costs. It had accelerated the industry's progress towards grid-parity and the installation of PV systems becoming increasingly affordable. The cost of solar power is now below user-paid rates for increasing number of markets and user categories. We see a ramping up in PV adoption and planning in emerging markets in Africa, the Americas and the Middle East. We are also excited to see the increasing commitments from various Asia countries on solar power, such as China and Japan which continuously raised their target for solar power contribution to the national grid capacity.

Management Discussion and Analysis

We are confident that the Group's solid financial position, advanced technological capabilities, and high-quality product offerings would best position us for long term success in the highly competitive landscape of solar industry. Looking ahead, we will remain focused on our core wafer business where we have demonstrated solid track records and established competitive advantages. We believe such focus will best position our Group to gain more market shares, to strengthen the barrier to entry to our business and to improve our profit margins.

FINANCIAL REVIEW

Revenue

Revenue increased by RMB8.9 million, or 0.9%, from RMB1,016.7 million for the year ended 31 December 2011 to RMB1,025.6 million for the year ended 31 December 2012, primarily as a result of the growth in our sales volume, which was partially offset by decrease in average selling price. Due to the increase in customer demand for our high quality monocrystalline solar products and our ramp up to 600MW by end of 2011, our sales volume increased by 152.9% from 222.1MW for the year ended 31 December 2011 to 561.7MW for the year ended 31 December 2012.

For the year ended 31 December 2012, sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 77.9% of total revenue and sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 5.1% of total revenue. In aggregate, solar wafer sales comprised 83.0% of our total sales, as compared to 95.9% for the year ended 31 December 2011.

Sales of monocrystalline solar wafers

Sales of 125 mm by 125 mm monocrystalline wafers

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers increased by RMB395.3 million, or 97.9%, from RMB403.9 million for the year ended 31 December 2011 to RMB799.2 million for the year ended 31 December 2012, primarily due to our change of focus on the sale of 125 mm by 125 mm "Super Mono Wafers" which resulting in an increase in our sales volume of 125 mm by 125 mm monocrystalline wafers by 220.2% from 96.8MW for the year ended 31 December 2011 to 310.0MW for the year ended 31 December 2012 but it was partially offset by a decrease in our average unit price for this product by 38.1% from RMB4.2 per watt for the year ended 31 December 2011 to RMB2.6 per watt for the year ended 31 December 2012.

Sales of 156 mm by 156 mm monocrystalline wafers

Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers decreased by RMB519.4 million, or 90.9%, from RMB571.6 million for the year ended 31 December 2011 to RMB52.2 million for the year ended 31 December 2012, primarily as a result of an decrease of sales volume by 76.4% from 120.1MW for the year ended 31 December 2011 to 28.4MW for the year ended 31 December 2012, plus a decrease in our average unit price for this product by 62.5% from RMB4.8 per watt for the year ended 31 December 2011 to RMB1.8 per watt for the year ended 31 December 2012.

Others

The remaining revenue of RMB174.2 million for the year ended 31 December 2012 was mainly generated from the sales of polysilicon and ingots. The sales volume was approximately 223.3MW. Such amount was not material in the corresponding period in 2011.

In relation to the analysis of our revenue by geographical market, approximately 77.7% of total revenue for the year ended 31 December 2012 was generated from our Philippines customer (2011: 31.4%). Remaining portion was mainly generated from our domestic sales in China.

Cost of sales

Cost of sales increased by RMB17.9 million, or 1.9%, from RMB924.3 million for the year ended 31 December 2011 to RMB942.2 million for the year ended 31 December 2012, primarily as a result of the increase in shipment volume and partially offset by a decrease in the average prices of polysilicon by 47.6% during the year ended 31 December 2012 to RMB171.6 per kg from the average prices of RMB327.4 per kg for the year ended 31 December 2011 as well as the improvement in production efficiency.

Gross profit

Gross profit decreased by RMB9.0 million, or 9.8%, from RMB92.5 million for the year ended 31 December 2011 to RMB83.5 million for the year ended 31 December 2012, primarily as a result of the above.

Other income

Other income increased by RMB8.0 million, or 19.9%, from RMB40.1 million for the year ended 31 December 2011 to RMB48.1 million for the year ended 31 December 2012. Other income primarily included the government grants and the interest income.

Other gains and losses, expenses and provision

Other losses increased by RMB129.5 million from RMB61.4 million for the year ended 31 December 2011 to RMB190.9 million for the year ended 31 December 2012 which was primarily due to the loss on repurchase of convertible bonds and cancellation of warrants of approximately RMB177.7 million during the year.

Distribution and selling expenses

The distribution and selling expenses increased by RMB3.0 million, or 166.7%, from RMB1.8 million for the year ended 31 December 2011 to RMB4.8 million for the year ended 31 December 2012, mainly due to the shift of focus to overseas customers on “Super Mono Wafers”.

Administrative and general expenses

Administrative and general expenses increased by RMB11.8 million, or 24.2%, from RMB48.8 million for the year ended 31 December 2011 to RMB60.6 million for the year ended 31 December 2012, mainly due to the non-cash share-based compensation in 2012 of approximately RMB20.3 million. Credit to the continuous efforts on reducing operating expenses, the administrative expenses excluding non-cash share-based compensations, decreased by RMB8.5 million for the year ended 31 December 2012.

Management Discussion and Analysis

Interest expenses

Interest expenses were approximately RMB39.0 million for the year ended 31 December 2012 and no material fluctuation from the amount incurred for the year ended 31 December 2011.

Loss before taxation

Loss before taxation of RMB163.8 million for the year ended 31 December 2012, increased from the loss before taxation of RMB18.0 million for the year ended 31 December 2011, as a result of the foregoing.

Taxation

Taxation decreased from RMB28.3 million for the year ended 31 December 2011 to RMB1.2 million for the year ended 31 December 2012. The decrease was mainly due to the decrease in our profit before taxation from the operating entities in China. Tax expenses were recognized in the period since the PRC operating subsidiaries recorded profits in the year ended 31 December 2012 and the loss before taxation was mainly resulted from the non-cash accounting loss from the repurchase of convertible bonds and cancellation of warrants, loss on fair value changes of other financial liabilities and share based payment expenses, etc., which are tax non-deductible items.

Loss for the year

The Group recorded a loss of RMB165.1 million, increased from the loss of RMB46.3 million for the year ended 31 December 2011, as a result of the foregoing. Net loss margin of 16.1% for the year ended 31 December 2012 increased from the net loss margin of 4.6% for the year ended 31 December 2011.

Inventory turnover days

The inventories of the Group mainly comprised of raw materials (namely polysilicon, crucibles and other auxiliary materials) for production requirements. There was a increase in inventories balance of 35.7% from RMB218.0 million for the year ended 31 December 2011 to RMB295.9 million. It was mainly due to a write down of inventory of approximately RMB66.0 million was made for the year ended 31 December 2011, the increase in our business scale after ramping up to 600MW in 2012 and our substantial increase in overseas sales which would require longer transportation lead time and high inventory level to ensure reliable delivery performance. The inventory turnover days as at 31 December 2012 were 115 days in total (2011: 86 days).

Trade receivable turnover days

The trade receivable turnover days as at 31 December 2012 totaled 58 days (2011: 26 days). For the year ended 31 December 2012, the Group has shifted the focus to “Super Mono Wafers” which were mainly sold to overseas customers. The credit period to overseas customers is approximately 60 days. The Group normally grants a credit period of 30 to 90 days to other customers. The average receivable turnover days was approximately 58 days which was within the credit periods of the Group grants to its customers.

Trade payable turnover days

The trade payable turnover days as at 31 December 2012 totaled 97 days (2011: 40 days). The increase in turnover days was mainly due to the challenging market environment in 2012 and the continuous supports from suppliers.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow from operating activities, bank borrowings and the proceeds from the share placings. As at 31 December 2012, the Group's current ratio (current assets divided by current liabilities) was 1.4 (31 December 2011: 2.6) and it was in a net debt position of approximately RMB41.5 million (2011: net cash of approximately RMB51.1 million). The Group's financial position remains healthy. As at 31 December 2012, the Group was in a net debt position of approximately RMB41.5 million (31 December 2011: net cash of approximately RMB51.1 million) which included cash and cash equivalent, other financial assets and pledged bank deposits of RMB541.7 million (31 December 2011: RMB789.8million), short-term bank loans of RMB470.1 million (31 December 2011: RMB318.2 million) and outstanding principal payments to repurchase of convertible bonds of RMB100.0 million (31 December 2011: RMB402.4 million) and long-term bank loans of RMB13.1 million (31 December 2011: RMB18.1 million).

During 2012, the Group maintained strict financial disciplines and continuously repaid outstanding debts. In March 2012, we repurchased 75% of the issued convertible bonds by paying approximately RMB491 million in cash and cancelled 75% of the issued warrants and issued new warrants of approximately HK$117 million with the initial exercise price at HK$1.24 per Share, subject to the agreed adjustment mechanism. As part of the repurchase, the investor agreed to consent to the level of borrowing of the Group relative to EBITDA exceeding the level specified in the original bonds instrument until 20 February 2013, to cancel 75% of outstanding originally issued warrants, to cancel the early redemption premium of 30% on the outstanding convertible bonds and to change the use of proceeds of the remaining outstanding amount of the original proceeds to general corporate purposes. We believed that it is a prudent step to take in view of the challenging industry environment the Group is facing. It allowed the Group to enjoy the benefits of reducing its debt levels with immediate effect, to pre-emptively avoid any risk of breaching the borrowings covenant during 2012, to avoid over-leveraging on debt-financing in a challenging industry environment and to obtain more flexibility on the use of proceeds.

On 9 November 2012, the Group sent a call option notice to the investor to exercise the call option under the repurchase deed to (i) repurchase all of the outstanding convertible bonds from the investor for an amount in cash equal to the aggregate principal amount of all these outstanding bonds, being RMB163,625,000, and (ii) cancel all of the outstanding original warrants for no additional consideration. The Group shall pay the amount for the repurchase of all the outstanding convertible bonds by instalments starting from 9 November 2012 and ending on 24 July 2013.

Management Discussion and Analysis

On 17 December 2012, Fonty, Mr. John Zhang, the Company and CCB International Capital Limited, as the placing agent entered into a placing and subscription agreement pursuant to which the placing agent agreed to place, on best efforts basis, up to 50,000,000 existing Shares owned by Fonty to not fewer than six independent placees at the placing price of HK$1.15 per Share, and Fonty conditionally agreed to subscribed, and the Company agreed to allot and issue to Fonty for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$1.15 per Share. Details of these transactions are set out in the Company's announcement dated 17 December 2012. The subscription price for the subscription represents a discount of 8.0% to the closing price of HK$1.25 per Share as stated in the Stock Exchange's daily quotations sheet on 17 December 2012. Approximately HK$56.0 million was raised from the subscription to fund the Group's capital expenditure and general working capital.

On 22 January 2013, Fonty, Mr. John Zhang, the Company and CCB International Capital Limited, Macquarie Capital Securities Limited and Guotai Junan Securities (Hong Kong) Limited, as the placing agents entered into a placing and subscription agreement pursuant to which the placing agents agreed to place, on best efforts basis, up to 120,000,000 existing Shares owned by Fonty to not fewer than six independent placees at the placing price of HK$1.74 per Share, and Fonty conditionally agreed to subscribed, and the Company agreed to allot and issue to Fonty for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$1.74 per Share. Details of these transactions are set out in the Company's announcement dated 22 January 2013. The subscription price for the subscription represents a discount of 7.5% to the closing price of HK$1.88 per Share as stated in the Stock Exchange's daily quotations sheet on 22 January 2012. Approximately HK$203.8 million was raised from the subscription to fund the Group's capital expenditure and general working capital.

We would implement a balanced financing plan to support the operation of our solar wafer business.

Capital Commitments

As at 31 December 2012, the Group had capital commitments of approximately RMB98.7 million (2011: RMB4.7 million). The increase is mainly due to the proposed expansion plan of the Group in Malaysia.

Contingent liabilities

As at 31 December 2012, there was no material contingent liability (2011: Nil).

Related Party Transactions

Other than remuneration that the Group paid to the Directors and key management, the Group did not have any related party transactions for the year ended 31 December 2012.

CHARGES ON GROUP ASSETS

During the year ended 31 December 2012, the Group entered into several arrangements with a commercial bank in the PRC pursuant to which the Group borrowed USD and Euro loans (2011: USD loans) from this bank for contractual period of one year (2011: one year) for settlement of its payables denominated in USD and Euro. At the same time, the Group (a) placed fixed deposits (in RMB amounts equivalent to the respective USD and Euro loans (2011: USD loans) plus fixed interest at rates ranging from 2.16% to 2.91% (2011: 3.25% per annum thereon) for the same contractual period to the same bank as security against the USD and Euro loans (2011: USD loans), and (b) entered into forward contracts with the bank to purchase USD and Euro (2011: USD) (in amounts equivalent to the USD and Euro loans (2011: USD loans) plus interests thereon) by HKD at predetermined forward rates.

As at 31 December 2012, fixed deposits denominated in RMB of approximately RMB172.9 million (2011: RMB17.3 million) and the USD and Euro loans of approximately USD17.0 million and Euro8.3 million, respectively, (equivalent to an aggregate amount of approximately RMB175.7 million) (2011: USD loans of approximately RMB16.3 million) are included in pledged bank deposits and bank loans, respectively.

As at 31 December 2012, other than the restricted cash of approximately RMB172.9 million, the Group pledged its buildings and prepaid lease payments having net book values of approximately RMB92.7 million (31 December 2011: RMB89.1 million) and approximately RMB14.6 million (31 December 2011: RMB14.9 million), respectively, to banks to secure banking facilities granted to the Group.

Save as disclosed above, as at 31 December 2012, no Group asset was under charge to any financial institution.

Acquisition of subsidiary

No subsidiary of the Company was acquired during the year ended 31 December 2012.

Disposal of subsidiary

Pursuant to a framework agreement dated 19 November 2012, Comtec New Energy Technology (Shanghai) Co., Ltd. would be disposed to an independent third party for a consideration of RMB28,500,000. Upon the completion of the transfer, Comtec New Energy Technology (Shanghai) Co., Ltd. will cease to be a subsidiary of the Group. For further details, please refer to the Company's announcement dated 19 November 2012.

Save as disclosed the above, no subsidiary of the Company was disposed during the year ended 31 December 2012.

Use of Proceeds

Apart from the capital raising activity mentioned below, the Company has not conducted any equity fund raising activities in the past 12 months from the date of this announcement.

Date of initial announcement	Capital raising activity	Use of net proceeds	Intended use of net proceeds not yet utilised
18 December 2012	Placing of up to 50,000,000 Shares at the placing price of HK$1.15	Approximately HK$28 million will be used to meeting capital expenditure of the Group and approximately HK$28 million will be used as general working capital of the Group	Approximately HK$22 million will be used for manufacturing expansion
22 January 2013	Placing of up to 120,000,000 Shares at the placing price of HK$1.74	Approximately HK$100 million will be used to meeting capital expenditure of the Group and approximately HK$100 million will be used as general working capital of the Group	Approximately HK$100 million will be used for manufacturing expansion and approximately HK$58 million will be used for working capital

Human resources

As at 31 December 2012, the Group had 807 (2011: 1,169) employees. The remuneration of the existing employee includes basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

Details of the future investment plans for material investment

The Group did not make any material expansion nor acquisition during the year. However, the Group is planning to expand production capacity in Malaysia which would enable the Group to lower production costs and to increase the scale of operation.

We are still in the process to evaluate various opportunities from purchasing low costs second hand equipments and acquiring low costs existing production facilities in Malaysia. Due to the rapid changing market environment, the Group prefers to maintain flexibilities throughout the expansion process and avoid to fix a capacity target upon a predetermined timeline. We believe this strategy would enable the Group to maximize its advantages from the industry consolidation process.

Exposure to fluctuations in exchange rates and any related hedges

The Group recognised net exchange losses of approximately RMB5.5 million, which mainly arose from monetary assets and liabilities of the group entities denominated in foreign currencies. Although the Group entered into foreign currency forward contracts, the Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. John Zhang, aged 50, is as an executive Director, the chairman of the Board and the chief executive officer of the Company, responsible for the overall strategy and operation of our Group. Mr. Zhang has accumulated over ten years of experience in the semiconductor and solar industries from both his founding and development of the Group and his prior professional experience. Prior to founding the Group, Mr. Zhang joined Silicon Systems Inc. which was a semiconductor technology company in California, U.S., in 1992 as an engineer and was responsible for developing and designing communication firmware used in silicon chips. Mr. Zhang graduated from 清華大學 (Tsinghua University) in July 1985 with a Bachelor's degree in Electrical Engineering and from Utah State University with a Master's degree in Electrical Engineering in August 1988.

Mr. Chau Kwok Keung, aged 36, is an executive Director, the chief financial officer of the Group and the company secretary of the Company, responsible for corporate financial and general management. He was appointed in May 2010 as a member of supervisory board of RIB Software AG, a software company in Germany and it was listed in Frankfurt Stock Exchange in February 2011. Prior to joining the Group, Mr. Chau served in various positions at China.com Inc., a company listed on the Stock Exchange (Stock Code: 8006) from October 2005 to October 2007, including vice president of the finance department, chief financial officer, company secretary and authorised representative. Prior to joining China.com Inc., he was the deputy group financial controller of China South City Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1668) from August 2003 to April 2005 and the financial controller of Shanghai Hawei New Material and Technology Co., Ltd. from June 2002 to August 2003. Mr. Chau Kwok Keung was employed by Andersen & Co. initially as an experienced staff accountant and then he was subsequently promoted to be a senior consultant in the Global Corporate Finance Division of Andersen & Co. in March 2002. Mr. Chau has been a fellow member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a Chartered Financial Analyst of CFA Institute since September 2003. Mr. Chau received a bachelor's degree in Business Administration from the Chinese University of Hong Kong in May 1998.

Mr. Shi Cheng Qi, aged 69, is an executive Director and the chief technology officer of the Group, responsible for production, technology and research and development. He is in charge of the production technology and equipment design of the Group. Mr. Shi has over 30 years of experience in semiconductor, solar and materials engineering, which was accumulated from the multiple engineering and management positions held by Mr. Shi in the production, technology and research and development departments of 上海半導體材料廠 (Shanghai Semiconductor Materials Factory) in the PRC from 1969 to 2000. He was accredited by 上海市有色金屬總公司 (Shanghai Non-Ferrous Metals Company) as a senior engineer in March 1993 based on the review and evaluation of 高級評委委員會 (senior appraisal committee) of Shanghai Non-Ferrous Metals Company.

NON-EXECUTIVE DIRECTOR

Mr. Donald Huang, aged 32, is a non-executive Director. He is a vice president at TPG Capital. He joined TPG Capital in 2005 in San Francisco and moved to Asia in 2008. He was previously involved in TPG Capital's investments in Alltel, Intergraph, Asciano, Wumart and China Renewable Energy. Prior to joining TPG Capital, he worked in the investment banking division of Goldman, Sachs & Company in the US, focusing on merger and acquisition.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Ming Shu, aged 37, is an independent non-executive Director. Mr. Leung is currently the chief financial officer and company secretary of China ITS (Holdings) Co., Ltd. He is also the independent non-executive director of 勝利油氣管道控股有限公司 (Shengli Oil & Gas Pipe Holdings Limited) , a company listed on the Stock Exchange (code: 1080), since 1 January 2011. Mr. Leung is experienced in the areas of corporate finance and accounting from his various roles detailed below. From November 2006 to January 2008, Mr. Leung served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd, a subsidiary of Beijing Lingtu Software Co., Ltd, a PRC digital mapping and navigation software company. From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd, a related party of 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd, a company listed on the Shanghai Stock Exchange) which is engaged in the development of a telecommunications standard and the manufacturer of telecommunications equipment. Prior to that, Mr. Leung spent approximately three years from February 2003 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc., a subsidiary of CDC Corporation and a company listed on the Stock Exchange. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, he also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operations. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. He is a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since March 2006.

Mr. Daniel DeWitt Martin, aged 74, is an independent non-executive Director. Mr. Martin was the executive vice president of Semiconductor Equipment & Materials International from 1998 to January 2012. During such period, Mr. Matin was mainly responsible for the global standards development activity, and leading Semiconductor Equipment & Materials International into the photovoltaic industry. From July 1984 to March 1996, he worked in Siltec Corporation (Mitsubishi Silicon America) as the vice president of operations, mainly responsible for manufacturing, process engineering, facilities engineering, facilities and equipment maintenance,etc. Mr. Martin graduated from Washington State University in June 1961 and received a bachelor degree in Physical Metallurgy.

Mr. Kang Sun, aged 58, is an independent non-executive Director. Mr. Sun is currently the president and chief executive officer of RayTracker Inc., Pasadena, California, USA and a venture partner of WI Harper Group, San Francisco, California USA. Prior to that, Mr. Sun worked from September 2007 to August 2008 as the president and chief operating officer of JA Solar Holding Ltd, China, a company listed on NASDAQ (Code: JASO), managing director of new business development at Applied Materials Inc., USA since 2005. Prior to that, in different periods of time between 1990 and 2005, he had served as the vice president of Microfabrica Inc., the vice president of Honeywell International Inc., USA and the general manager of Optical Devices Business, AlliedSignal Inc., USA, respectively. Mr. Sun received a Ph.D. degree in Materials Science from Brown University, USA in 1988, a M.S. degree in Physical Chemistry from University of Georgia, USA in 1983 and a B.S. degree in Polymer Chemistry from 南京大學 (Nanjing University), China in 1978.

SENIOR MANAGEMENT

Mr. Wu Cheng Xian, aged 65, is the vice general manager and the head of the manufacturing department of the Group. He is mainly responsible for stipulating and implementing manufacturing plan, supervising quality control, coordinating manufacturing and the operations of the other departments in our Group. He joined the Group in October 2008. Mr. Wu has approximately 40 years of experience in the related industry. Prior to joining the Group, Mr. Wu worked as the vice general manager in 麥斯克電子材料有限公司 (MCL Electronic Materials Co. Ltd.) from October 1999 to September 2008, responsible for daily manufacturing and sales, quality control and human resources management. He worked in 洛陽單晶硅廠 (Luoyang Monocrystalline Silicon Factory), which is now 洛陽單晶硅有限責任公司 (Luoyang Monocrystalline Silicon Co., Ltd.) from August 1968 to September 2008, as the manufacturing department head and then promoted to vice general manager in February 1994, responsible for daily manufacturing and sales of semiconductor materials, quality control and human resources management. Mr. Wu studied in 建德冶金工業學校 (Jiande Metallurgy Industrial School), which is now 嘉興學院 (Jiaxing Institute) since September 1963, majoring in Statistics and graduated in August 1968 with a secondary technical school degree. Mr. Wu received a junior college degree in Statistics in December 1988 by National self-taught examination. Mr. Wu was appraised as the senior economist in November 2006 by 中國有色金屬工業協會 (China Nonferrous Metals Industry Committee) according to nonferrous metals industry credential requirements.

Ms. Yi Xin, aged 37, is the head of the import and export department of the Group. She is mainly in charge of importing and exporting and keeping communication documents with customers. She joined us in July 2002. Ms. Yi has over five years of experience in the trading industry and she is in charge of our imports and exports. Prior to joining the Group, Ms. Yi Xin worked in the marketing department of 上海智率醫療器械有限公司 (Shanghai Intelligent Medical Apparatus Company Limited) responsible for market survey and analysis from February 2000 to July 2002. Ms. Yi received a junior college degree in economy and trading from 上海冶金高等專科學校 (Shanghai College of Metallurgy), which is now 上海應用技術學院 (Shanghai Institute of Technology) in July 1997.

Mr. Cheng Yu Wei, aged 61, is the head of the equipment department of the Group. He is mainly responsible for daily operation of electromechanical department and equipment maintenance. He joined us in October 2000. Mr. Cheng has approximately 15 years of experience in the electrical engineering industry. Prior to joining the Group, he worked in 中南地質勘查局實業公司 (Zhongnan Geological Prospecting Bureau Industrial Company) as an electrical engineer in 1992 and as a vice chief engineer in 1993. From June 1994 to December 1996, Mr. Cheng worked as an engineer in 中南金剛石工業公司 (Zhongnan Diamond Industry Co., Ltd.). Mr. Cheng majored in electrical engineering of 湖北廣播電視大學 (Hubei TV & Radio University) and graduated in July 1987.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of solar wafers and ingots, with a focus on high quality monocrystalline solar wafers.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2012 are set out in note 35 to the consolidated financial statements.

FINANCIAL STATEMENTS

The summary of the results, assets and liabilities of the Group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 48 to 134 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income.

The Board recommended that since the Company plans to reserve the cash for working capital requirement and any potential investment opportunities in the future, no dividend will be declared for the year ended 31 December 2012. The Company may consider its dividend policy in the future according to the financial results and performance of the Company, and the general industry and economic environment.

RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2012 are set out in the consolidated statement of changes in equity and note 30 to the financial statement, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB938,997,000. The amount of approximately RMB938,997,000 represents the Company's share premium account of approximately RMB1,050,798,000 which is offsetted by accumulated losses of approximately RMB111,801,000 in aggregate as at 31 December 2012, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE DONATIONS

The Company did not make any charitable and other donations during the year under review.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2012 are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND PREFERRED SHARE CAPITAL

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

DIRECTORS

The Directors during the financial year and as of the date of this annual report were:

Executive Directors
Mr. John Zhang *(Chairman)*
Mr. Chau Kwok Keung
Mr. Shi Cheng Qi

Non-Executive Director
Mr. Donald Huang (appointed on 17 June 2011)
(Note: Mr. Stephen Peel resigned on 24 April 2012 and Mr. Phen, Chun Shing Vincent resigned on 20 September 2012)

Independent Non-Executive Directors
Mr. Daniel DeWitt Martin
Mr. Kang Sun
Mr. Leung Ming Shu

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

In accordance with article 84 of the Company's articles of association, Mr. John Zhang, Mr. Leung Ming Shu and Mr. Kang Sun will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 19 to 21 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2012.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors of the Company has entered into a service contract with the Company for a specific term of two years commencing form the Listing Date and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The non-executive Director of the Company, Mr. Donald Huang has entered into a service contract with the Company for a specific term of two years commencing from 17 June 2011 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Mr. Stephen Peel resigned on 24 April 2012 as a non-executive Director and he confirmed that he has no disagreement with the Board and that there is no matter which it is necessary to bring to the attention to the Shareholders of the Company in respect of his resignation as non-executive Director of the Company.

Mr. Phen, Chun Shing Vincent resigned on 20 September 2012 as a non-executive Director and he confirmed that he has no disagreement with the Board and that there is no matter which it is necessary to bring to the attention to the Shareholders of the Company in respect of his resignation as non-executive Director of the Company.

Each of the independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term of two years commencing form the Listing Date and will automatically continue for another three years thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The above service contracts are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

As at 31 December 2012, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in the Company:

Name of Director	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. John Zhang[1]	Beneficiary of a trust, interest in a controlled corporation, interest of spouse and interest of children under 18	668,867,550	56.5%
Mr. Chau Kwok Keung	Beneficial owner	7,230,139	0.61%
Mr. Shi Chengqi[2]	Beneficial owner	660,000	0.06%
Mr. Kang Sun[3]	Beneficial owner	549,574	0.05%
Mr. Daniel DeWitt Martin[4]	Beneficial owner	499,659	0.04%
Mr. Leung Ming Shu[5]	Beneficial owner	362,787	0.03%

Notes:

(1) Mr. John Zhang legally owns the entire issued share capital of Fonty Holdings Limited, which beneficially owns 616,037,844 Shares. Mr. John Zhang is therefore deemed to be interested in all the Shares held by Fonty Holdings Limited. As the parent of Mr. Alan Zhang, Mr. John Zhang is also deemed to be interested in 47,829,706 Shares in which Mr. Alan Zhang is interested. These 47,829,706 Shares are owned by J.P. Morgan Trust Company of Delaware as the trustee of Zhang Trusts for Descendants, an irrevocable trust set up by Mr. John Zhang for the benefit of his descendants, of which Mr. Alan Zhang is a beneficiary. Mr. John Zhang is also deemed to be interested in the 5,000,000 Shares which may be issued to him upon the exercise of the Share Options granted to him on 28 June 2012.

(2) The 660,000 Shares in which Mr. Shi Chengqi is deemed to be interested represent 660,000 Shares which may be issued to him upon the exercise of the Share Options granted to him on 24 May 2010 and 28 June 2012.

(3) The 549,574 Shares in which Mr. Kang Sun is deemed to be interested represent 549,574 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009, 2 October 2009 and the Share Options granted to him on 27 December 2012.

(4) The 499,659 Shares in which Mr. Daniel DeWitt Martin is deemed to be interested represent 499,659 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009, 2 October 2009 and the Share Options granted to him on 27 December 2012.

(5) The 362,787 Shares in which Mr. Leung Ming Shu is deemed to be interested represent 362,787 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009, 2 October 2009 and the Share Options granted to him on 27 December 2012.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted a share option scheme on 2 June 2008 (the "Pre-IPO Share Option Scheme") for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 574,020 Shares (the "Underlying Shares") were granted to three independent non-executive Directors on 3 August 2009 and 2 October 2009, in respect of 230,000 Underlying Shares and 344,020 Underlying Shares, respectively. The exercise price per Share is HK$2.51, which is at a 19.5% premium to the final Offer Price in the Global Offering. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

All options granted under the Pre-IPO Share Option Scheme (the "Pre-IPO Share Options") can only be exercised in the following manner: (a) Shares representing 1/12th of the Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme shall vest on 1 November 2009; (b) from 1 November 2009 onwards, the remaining 11/12th of the Underlying Shares shall vest in equal quarterly instalments of 1/12th of the Underlying Shares at the end of each three-month period subject to continued employment with our Company during that period and all other terms and conditions as described in the Pre-IPO Share Option Scheme; and (c) all outstanding Pre-IPO Share Options shall lapse on the date falling 10 years from the offer date of the Pre-IPO Share Options.

Details of the exercise of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2012 are as follows:

Grantee	Date of Grant	Exercise price per Share	Balance as at 1 January 2012	Exercised during 2012	Balance as at 31 December 2012
Director					
Kang Sun	3 August 2009	HK$2.51	249,574	–	249,574
Daniel DeWitt Martin	3 August 2009	HK$2.51	199,659	–	199,659
Leung Ming Shu	3 August 2009	HK$2.51	62,787	–	62,787
Total			512,020	–	512,020

Saved as disclosed above, no Pre-IPO Share Options was granted, lapsed or cancelled for the year ended 31 December 2012.

Share Option Scheme

The Company has adopted the share option scheme (the "Share Option Scheme") on 2 October 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, that is, 100,000,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

Details of the share options granted, exercised and lapsed under the Share Option Scheme as at 31 December 2012 are as follows:

Date of grant	Grantee	Exercise price per Share	Balance as at 1 January 2012	Share options granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2012
27 December 2012	Mr. Kang Sun	HK$1.262	–	300,000	–	–	300,000
27 December 2012	Mr. Daniel DeWitt Martin	HK$1.262	–	300,000	–	–	300,000
27 December 2012	Mr. Leung Ming Shu	HK$1.262	–	300,000	–	–	300,000
27 December 2012	Other participants in aggregate	HK$1.262	–	23,000,000	–	–	23,000,000
28 June 2012	Mr. John Zhang	HK$0.98	–	5,000,000	–	–	5,000,000
28 June 2012	Mr. Chau Kwok Keung	HK$0.98	–	6,000,000	–	–	6,000,000
28 June 2012	Mr. Shi Cheng Qi	HK$0.98	–	360,000	–	–	360,000
28 June 2012	Other participants in aggregate	HK$0.98	–	8,480,000	–	(320,000)	8,160,000
24 May 2010	Mr. Shi Cheng Qi	HK$1.49	300,000	–	–	–	300,000
24 May 2010	Other participants in aggregate	HK$1.49	2,090,000	–	–	–	2,090,000
			2,390,000	43,740,000	–	(320,000)	45,810,000

Share options granted under the Share Option Scheme on 28 June 2012 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
On or after 28 June 2012	50% of the total number of Share Options granted
On or after 28 September 2012	12.5% of the total number of Share Options granted
On or after 28 December 2012	12.5% of the total number of Share Options granted
On or after 28 March 2013	12.5% of the total number of Share Options granted
On or after 28 June 2013	12.5% of the total number of Share Options granted

Share options granted under the Share Option Scheme on 27 December 2012 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
On or after 27 December 2012	50% of the total number of Share Options granted
On or after 27 March 2013	12.5% of the total number of Share Options granted
On or after 27 June 2013	12.5% of the total number of Share Options granted
On or after 27 September 2013	12.5% of the total number of Share Options granted
On or after 27 December 2013	12.5% of the total number of Share Options granted

During the year ended 31 December 2012, no options granted under the Share Option Scheme were cancelled.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of Share in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2012, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. John Zhang[1]	Beneficiary of a trust, interest in a controlled corporation, interest of spouse and interest of children under 18	668,867,550	56.5%
Fonty Holdings Limited	Beneficial owner	616,037,844	52.0%
Ms. Carrie Wang[2]	Spouse interest	668,867,550	56.5%

Notes:

(1) Mr. John Zhang legally owns the entire issued share capital of Fonty Holdings Limited, which beneficially owns 616,037,844 Shares. Mr. John Zhang is therefore deemed to be interested in all the Shares held by Fonty Holdings Limited. As the parent of Mr. Alan Zhang, Mr. John Zhang is also deemed to be interested in 47,829,706 Shares in which Mr. Alan Zhang is interested. These 47,829,706 Shares are owned by J.P. Morgan Trust Company of Delaware as the trustee of Zhang Trusts for Descendants, an irrevocable trust set up by Mr. John Zhang for the benefit of his descendants, of which Mr. Alan Zhang is a beneficiary. Mr. John Zhang is also deemed to be interested in the 5,000,000 Shares which may be issued to him upon the exercise of the Share Options granted to him on 28 June 2012.

(2) Ms. Carrie Wang is the spouse of Mr. John Zhang, therefore, pursuant to the SFO, she is deemed to be interested in all the Shares in which Mr. John Zhang is interested.

Save as disclosed above, as at 31 December 2012, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Other than the issue of 50,000,000 Shares pursuant to the placing and subscription agreement among Fonty, Mr. John Zhang, the Company and CCB International Capital Limited dated 17 December 2012 as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

USE OF PROCEEDS

Apart from the capital raising activity mentioned below, the Company has not conducted any equity fund raising activities in the past 12 months from the date of this circular.

Date of initial announcement	Capital raising activity	Use of net proceeds	Intended use of net proceeds not yet utilised
18 December 2012	Placing of up to 50,000,000 Shares at the placing price of HK$1.15	Approximately HK$28 million will be used to meeting capital expenditure of the Group and approximately HK$28 million will be used as general working capital of the Group	Approximately HK$22 million will be used for manufacturing expansion
22 January 2013	Placing of up to 120,000,000 Shares at the placing price of HK$1.74	Approximately HK$100 million will be used to meeting capital expenditure of the Group and approximately HK$100 million will be used as general working capital of the Group	Approximately HK$100 million will be used for manufacturing expansion and approximately HK$58 million will be used for working capital

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the year ended 31 December 2012.

NON-COMPETE UNDERTAKINGS

Each of the Controlling Shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Non-competition Deeds (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Non-competition Deeds have been complied with by the Controlling Shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2012 and up to and including the date of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the financial year under review.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2012.

CONNECTED TRANSACTION

The Company has not entered into connected transactions during the year ended 31 December 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code", together with the "Old Code", the "CG Code"). The New Code took effect on 1 April 2012.

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Except for the following deviations from code provision A.2.1 of both the Old Code and the New Code, during the period from 1 January 2012 to 31 March 2012, the Company has complied with the Old Code and the New Code for the period from 1 April 2012 to 31 December 2012. The Group's principal corporate governance practices are set out on pages 35 to 45 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Details of Directors' remuneration are set out in note 11 to the financial statements.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share Option Schemes" above and note 29 to the consolidated financial statements.

None of the directors waived any emoluments during the year ended 31 December 2012.

RETIREMENT BENEFITS SCHEMES

The Group participates in a defined contribution mandatory provident fund scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000 for eligible employees. Contributions by the Group, which are matched by the employees, are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements 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 and are invested in funds under the control of independent trustees. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute certain percentages of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the state-managed retirement benefits scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers during the year of 2012 were 77.7% and 85.7% of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers during the year of 2012 were 33.7% and 85.0% of the Group's total purchases respectively.

So far as is known to the Directors, at no time during the year did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers

AUDITOR

Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

AUDIT COMMITTEE

The audit committee of the Company had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing Date to 31 December 2012.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Group as at 31 December 2012 are set out in note 25 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2012 is set out on page 135 of this annual report.

On behalf of the Board
John Zhang
Chairman

Shanghai, 25 March 2013

CORPORATE GOVERNANCE CODE

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code", together with the "Old Code", the "CG Code"). The New Code took effect on 1 April 2012.

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Except for the following deviations from code provision A.2.1 of both the Old Code and the New Code and code provision A.6.7 of the New Code, during the period from 1 January 2012 to 31 March 2012, the Company has complied with the Old Code and the New Code for the period from 1 April 2012 to 31 December 2012.

Under provision A.2.1 of the Old Code and the New Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. John Zhang is the chairman and chief executive officer of the Group. He has extensive experience in solar wafer industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company.

Corporate Governance Report

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board comprises seven Directors, consisting of three executive Directors, Mr. John Zhang (the chairman of the Board), Mr. Chau Kwok Keung and Mr. Shi Cheng Qi, one non-executive Director, Mr. Donald Huang (Mr. Stephen Peel resigned on 24 April 2012 and Mr. Phen Chun Shing Vincent resigned on 20 September 2012), and three independent non-executive Directors, Mr. Kang Sun, Mr. Daniel DeWitt Martin and Mr. Leung Ming Shu. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed “Directors and Senior Management” of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors representing more than one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors’ securities transactions for the year ended 31 December 2012.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group’s performance. Their views carry significant weight in the Board’s decision, in particular, they bring an impartial view to bear on issues of the Group’s strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group’s business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Leung Ming Shu, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the New Code on continuous professional development during the period from 1 April 2012 to 31 December 2012:

	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
Name of Director	Read materials	Attend Seminars/ Briefings	Read materials	Attend Seminars/ Briefings
Executive Directors				
Mr. John Zhang	✔	✔	✔	✔
Mr. Chau Kwok Keung	✔	✔	✔	✔
Mr. Shi Cheng Qi	✔	✔	✔	✔
Non-executive Director				
Mr. Donald Huang	✔	✔	✔	✔
Independent non-executive Directors				
Mr. Daniel DeWitt Martin	✔	✔	✔	✔
Mr. Kang Sun	✔	✔	✔	✔
Mr. Leung Ming Shu	✔	✔	✔	✔

Corporate Governance Report

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications.

The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2012 is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)	Attendance/ Number of General Meeting(s)
Executive Directors		
Mr. John Zhang *(Chairman and chief executive officer)*	15/15	2/2
Mr. Chau Kwok Keung	15/15	2/2
Mr. Shi Cheng Qi	15/15	2/2
Non-executive Director		
Mr. Donald Huang	15/15	2/2
Independent non-executive Directors		
Mr. Kang Sun	15/15	2/2
Mr. Daniel DeWitt Martin	15/15	2/2
Mr. Leung Ming Shu	15/15	2/2

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Appointments, Re-election and removal of Directors

Each of the executive Directors of the Company has entered into a service contract with the Company for a specific term of two years commencing form the Listing Date and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The non-executive Director of the Company, Mr. Donald Huang has entered into a service contract with the Company for a specific term of two years commencing from 17 June 2011 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Mr. Stephen Peel resigned on 24 April 2012 as a non-executive Director and he confirmed that he has no disagreement with the Board and that there is no matter which it is necessary to bring to the attention to the Shareholders of the Company in respect of his resignation as non-executive Director of the Company.

Mr. Phen, Chun Shing Vincent resigned on 20 September 2012 as a non-executive Director and he confirmed that he has no disagreement with the Board and that there is no matter which it is necessary to bring to the attention to the Shareholders of the Company in respect of his resignation as non-executive Director of the Company.

Each of the independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term of two years commencing form the Listing Date and will automatically continue for another three years thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The above service contracts are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Committees

The Board has established (i) audit committee, (ii) remuneration committee; (iii) nomination committee and (iv) corporate governance committee, with defined terms of reference. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available on the website of the Company at www.comtecsolar.com and the website of the Stock Exchange at www.hkexnews.hk. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 October 2009. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their composition and written terms of reference are in line with the CG Code. The audit committee comprises of four members, namely, a non-executive Director, Mr. Donald Huang and three independent non-executive Directors, Mr. Leung Ming Shu, Mr. Daniel DeWitt Martin and Mr. Kang Sun. Mr. Leung Ming Shu is the chairman of the audit committee.

The Group's unaudited interim results for the six months ended 30 June 2012 and the audited annual results for the year ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the unaudited quarterly financials and the internal control of the Group during the year of 2012.

During the year ended 31 December 2012, five meetings were held by the audit committee. The individual record of each member of the audit committee at the meetings of the audit committee is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)
Mr. Donald Huang	5/5
Mr. Daniel DeWitt Martin	5/5
Mr. Kang Sun	5/5
Mr. Leung Ming Shu	5/5

Remuneration Committee

The Company established a remuneration committee on 2 October 2009 with written terms of reference. The primary duties of the remuneration committee to make recommendations to the Board on the remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors. Their composition and written terms of reference are in line with the CG Code. The remuneration committee comprises of five members, namely, Mr. John Zhang, an executive Director, Mr. Donald Huang, a non-executive Director, and three independent non-executive Directors, Mr. Daniel DeWitt Martin, Mr. Kang Sun, and Mr. Leung Ming Shu. Mr. Leung Ming Shu is the chairman of the remuneration committee.

During the year ended 31 December 2012, the remuneration Committee reviewed the remuneration packages of the Directors and the senior management.

During the year ended 31 December 2012, three meetings were held by the remuneration committee. The individual record of each member of the remuneration committee at the meeting of the remuneration committee is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)
Mr. John Zhang	3/3
Mr. Donald Huang	3/3
Mr. Daniel DeWitt Martin	3/3
Mr. Kang Sun	3/3
Mr. Leung Ming Shu	3/3

Nomination Committee

The Company established a nomination committee on 2 October 2009 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships. Their composition and written terms of reference are in line with the CG Code. The nomination committee comprises of five members, namely, Mr. John Zhang, an executive Director and the chairman of the Board, Mr. Donald Huang, a non-executive Director, and three independent non-executive Directors, Mr. Daniel DeWitt Martin, Mr. Kang Sun, and Mr. Leung Ming Shu. Mr. John Zhang is the chairman of the nomination committee.

The nomination committee reviewed the resignation of Mr. Stephen Peel and Mr. Phen, Chun Shing Vincent as the Directors, and reviewed the structure, size and composition of the Board, during the year of 2012.

During the year ended 31 December 2012, three meetings were held by the nomination committee. The individual record of each member of the nomination committee at the meeting of the nomination committee is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)
Mr. John Zhang	3/3
Mr. Donald Huang	3/3
Mr. Daniel DeWitt Martin	3/3
Mr. Kang Sun	3/3
Mr. Leung Ming Shu	3/3

Corporate Governance Committee

The Company's corporate governance function is carried out by the corporate governance committee established pursuant to a resolution of the Board passed on 30 March 2012. The duties of the corporate governance committee include: (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. The corporate governance committee of the Board comprises four Directors, namely Mr. John Zhang, an executive Director, Mr. Chau Kwok Keung, an executive Director, Mr. Donald Huang, a non-executive Director, and Mr. Leung Ming Shu, an independent non-executive Director. Mr. John Zhang is the Chairman of the corporate governance committee.

During the year of 2012, the corporate governance committee reviewed the Company's policies and practices on corporate governance and; reviewed the training and continuous professional development of the Directors and senior management of the Group; reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; reviewed the compliance manual applicable to employees of the Group and the Directors; and reviewed the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2012, two meetings were held by the nomination committee. The individual record of each member of the nomination committee at the meeting of the nomination committee is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)
Mr. John Zhang	2/2
Mr. Chau Kwok Keung	2/2
Mr. Donald Huang	2/2
Mr. Leung Ming Shu	2/2

Company Secretary

The secretary of the Company is Mr. Chau Kwok Keung, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report. Mr. Chau Kwok Keung has informed of the requirement of the Rule 3.29 of the Listing Rules. Mr. Chau Kwok Keung has informed the Company that he took approximately 20 hours of training covering corporate governance and accounting matters. The Company considers that the training of the company secretary is in compliance with the requirements under Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Deloitte Touche Tohmatsu, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

Auditor's Remuneration

The audit committee of the Board is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages Deloitte Touche Tohmatsu as its external auditors. Details of the fees paid/payable to Deloitte Touche Tohmatsu during the year ended 31 December 2012 are as follows.

	RMB'000
Audit services	1,094
Non-audit services	746
	1,840

Note: The non-audit services mainly covered tax advisory and interim review.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of Shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. Such review covered financial, compliance and operational controls as well as risk management mechanisms

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more member(s) of the Company ("Shareholder(s)") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 28, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after 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 do so 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.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Suite 28, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong or by email at catherine_siu@comtecsolar.com. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Constitutional documents

Apart from the adoption of the existing articles of association on 30 October 2009, there has been no significant change in the Company's constitutional documents during the year ended 31 December 2012.

Communications with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.comtecsolar.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF COMTEC SOLAR SYSTEMS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Comtec Solar Systems Group Limited and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 134, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as management of the Company determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 management, 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 financial position of the Group as at 31 December 2012 and of the Group's financial performance 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	NOTES	2012	2011
		RMB'000	*RMB'000*
Revenue	6	1,025,615	1,016,746
Cost of sales		(942,163)	(924,276)
Gross profit		83,452	92,470
Other income	7	48,015	40,062
Other gains and losses, expenses and provision	8	(190,931)	(61,375)
Distribution and selling expenses		(4,751)	(1,815)
Administrative expenses		(60,578)	(48,745)
Finance costs	9	(39,036)	(38,596)
Loss before taxation	10	(163,829)	(17,999)
Taxation	12	(1,220)	(28,328)
Loss and total comprehensive expense for the year, attributable to the owners of the Company		(165,049)	(46,327)
		RMB cents	*RMB cents*
Loss per share			
— Basic	14	(14.55)	(4.09)
— Diluted	14	(14.55)	(4.09)

Consolidated Statement of Financial Position

at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	15	796,195	855,626
Prepaid lease payments — non-current	16	20,556	40,143
Deposits paid for acquisition of property, plant and equipment		6,927	5,105
Advance to suppliers	17	355,137	396,425
Deferred tax assets	18	638	689
Other financial assets	21(C)	26,491	26,491
		1,205,944	1,324,479
Current assets			
Inventories	19	295,864	217,959
Trade and other receivables	20	295,567	213,987
Bills receivable	20	28,808	36,700
Advance to suppliers	17	70,186	82,249
Prepaid lease payments — current	16	458	854
Tax recoverable		3,690	15,156
Pledged bank deposits	21(A)	172,866	17,289
Bank balances and cash	21(B)	342,381	746,100
		1,209,820	1,330,294
Assets classified as held for sale	22	24,335	–
		1,234,155	1,330,294
Current liabilities			
Trade and other payables	23	384,666	198,692
Customers' deposits received	24	2,368	229
Short-term bank loans	25	470,100	318,230
Deferred revenue	27	287	–
		857,421	517,151
Liabilities associated with assets classified as held for sale	22	336	–
		857,757	517,151
Net current assets		376,398	813,143
Total assets less current liabilities		1,582,342	2,137,622

Consolidated Statement of Financial Position

at 31 December 2012

	NOTES	2012	2011
		RMB'000	*RMB'000*
Capital and reserves			
Share capital	28	1,039	999
Reserves		1,463,647	1,652,778
Total equity		1,464,686	1,653,777
Non-current liabilities			
Deferred tax liabilities	18	9,569	9,560
Long-term bank loans	25	13,112	18,134
Provision for onerous contracts	17	39,107	39,107
Warrants	26	39,400	14,600
Other financial liabilities	21(A)	11,024	–
Deferred revenue	27	5,444	–
Convertible bonds	26	–	402,444
		117,656	483,845
		1,582,342	2,137,622

The consolidated financial statements on pages 48 to 134 were approved and authorised for issue by the Board of Directors on 25 March 2013 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000* *(note c)*	Share options reserve *RMB'000*	Special reserve *RMB'000* *(note a)*	Statutory surplus reserve *RMB'000* *(note b)*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2011	998	1,004,667	–	1,184	11,012	48,725	444,757	1,511,343
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(46,327)	(46,327)
Exercise of share options	1	534	–	(155)	–	–	–	380
Recognition of equity component of convertible bonds and warrants	–	–	187,631	–	–	–	–	187,631
Recognition of equity-settled share-based payments	–	–	–	750	–	–	–	750
Transfer	–	–	–	–	–	24,934	(24,934)	–
At 31 December 2011	999	1,005,201	187,631	1,779	11,012	73,659	373,496	1,653,777
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(165,049)	(165,049)
Issue of ordinary shares	40	45,597	–	–	–	–	–	45,637
Redemption of convertible bonds and warrants	–	–	(187,631)	–	–	–	97,651	(89,980)
Recognition of equity-settled share-based payments	–	–	–	20,301	–	–	–	20,301
Transfer	–	–	–	–	–	10,924	(10,924)	–
At 31 December 2012	1,039	1,050,798	–	22,080	11,012	84,583	295,174	1,464,686

Notes:

a. Special reserve

This reserve arises on a group reorganisation which took place in the year ended 31 December 2007. The difference between the nominal value of the shares acquired and the acquisition consideration is treated as special reserve arising on group reorganisation and recorded in special reserve.

b. Statutory surplus reserve

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

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

c. Other reserve

The reserve, which arises on the issue of convertible bonds and warrants on 17 June 2011 (the "Issue"). The reserve represented the equity component of the convertible bonds outstanding at the end of each reporting period and the proportion of transaction costs incurred in the Issue related to the equity component of the convertible bonds. Details of transaction are set out in note 26.

Consolidated Statement of Cash Flows

for the tear Ended 31 December 2012

	2012 *RMB'000*	2011 *RMB'000*
Operating activities		
Loss before taxation	(163,829)	(17,999)
Adjustments for:		
Allowance for inventories	5,084	66,011
Interest income	(12,316)	(7,256)
Interest expenses	39,036	46,164
(Loss) gain on disposal of property, plant and equipment	4,878	(4,860)
Loss on fair value change of 2011 Warrants	9,800	(72,112)
Gain on fair value change of 2012 Warrants	(19,900)	–
Depreciation of property, plant and equipment	76,990	52,859
Share-based payment expenses	20,301	750
Release of prepaid lease payments	854	720
Loss on redemption of convertible bonds and cancellation of warrants	177,705	–
Loss on fair value change of other financial liabilities	11,024	–
Loss on fair value change of Call Option	1,965	–
Impairment losses recognised in respect of property, plant and equipment	–	89,133
Provision for onerous contracts	–	39,107
Impairment losses recognised in respect of advance to suppliers	–	7,149
Operating cash flows before movements in working capital	151,592	199,666
Increase in inventories	(82,989)	(36,167)
Increase in trade and other receivables	(81,966)	(58,520)
Decrease (increase) in bills receivable	7,892	(34,700)
Decrease (increase) in advance to suppliers	53,351	(129,144)
Increase in trade and other payables	147,644	40,963
Increase (decrease) in customers' deposits received	2,139	(13,541)
Cash generated from (used in) operations	197,663	(31,443)
Tax paid	(7,785)	(59,497)
Tax refunded	18,091	2,040
Net cash from (used in) operating activities	207,969	(88,900)

Consolidated Statement of Cash Flows

for the tear Ended 31 December 2012

	2012 *RMB'000*	2011 *RMB'000*
Investing activities		
Interest received	12,316	7,256
Receipt of government grants	5,731	–
Proceeds from disposals of property, plant and equipment	655	5,849
Placement of pledged bank deposits	(171,812)	(98,791)
Withdrawal of pledge bank deposits	16,235	81,502
Deposits paid and purchase of property, plant and equipment	(87,548)	(205,583)
Additions of prepaid lease payments	–	(19,786)
Purchase of other financial assets	–	(26,491)
Net cash used in investing activities	(224,423)	(256,044)
Financing activities		
Proceeds from issue of new shares	45,637	380
Bank loans raised	471,923	480,087
Interest paid	(21,730)	(15,101)
Repayment of bank loans	(325,075)	(313,723)
Payment for redemption of convertible bonds and cancellation of warrants	(554,492)	–
Payment of transaction costs attributable to the issue of convertible bonds and warrants	–	(8,776)
Proceeds from issuance of convertible bonds and warrants	–	654,500
Net cash (used in) from financing activities	(383,737)	797,367
(Decrease) increase in cash and cash equivalents	(400,191)	452,423
Cash and cash equivalents at beginning of the year	746,100	293,677
Cash and cash equivalents at end of the year, represented by bank balances and cash	345,909	746,100

Notes to the Consolidated Financial Statements

for the year ended 31 December 2012

1. GENERAL

The Company is a public limited company incorporated in the Cayman Island, and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 30 October 2009. Its parent company and ultimate holding company is Fonty Holdings Limited (“Fonty”) incorporated in the British Virgin Islands with limited liability. Its ultimate controlling party is Mr. John Zhang (“Mr. Zhang”). The addresses of the registered office and principal place of business of the Company are disclosed in the annual report.

The Company is an investment holding company. The principal activities of the Company’s subsidiaries are the manufacturing and sales of solar wafers and related products. The details of the Company’s subsidiaries are set out in note 35.

The consolidated financial statements are presented in Renminbi (“RMB”), the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”).

Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets
Amendments to IFRS 7	Financial Instruments: disclosures — Transfers of Financial Assets

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle[1]
Amendments to IAS 1	Presentation of Financial Statements[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

Amendments to IAS 1 Presentation of Financial Statements

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The directors anticipate that the amendments to IAS 1 will have no effect on the disclosure of the Group's consolidated financial statements.

Annual Improvements to IFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to IFRSs 2009–2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment and the amendments to IAS 32 Financial Instruments: Presentation.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

Annual Improvements to IFRSs 2009–2011 Cycle issued in June 2012 (continued)

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements as the Group's spare parts are inventory by nature.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The directors anticipate that the amendments to IAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors are of the opinion that it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC 13 Jointly Controlled Entities — Non-monetary Contributions by Venturers will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors do not anticipate that the application of the standards and amendments will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention except for certain financial instruments that are measured at fair values, and in accordance with the accounting policies set out below which are in conformity with IFRSs.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired (other than those acquired under business combinations involving entities under common control) or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Basis of consolidation (continued)

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

The business combinations under common control are accounted for in accordance with merger accounting. In applying merger accounting, the consolidated financial statements incorporate the financial statement items of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or administrative purposes (other than construction in progress) are stated in consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised in the consolidated statement of financial position as lease payments and are expensed in the consolidated statement of comprehensive income on a straight-line basis over the periods of the respective lease.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group would purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency(ies) (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss in the period in which they arise.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund are recognised as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxation (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Inventories

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— the intention to complete the intangible asset and use or sell it;

— the ability to use or sell the intangible asset;

— how the intangible asset will generate probable future economic benefits;

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group comprise those designated as at FVTPL upon initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Effective interest method *(continued)*

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

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

— it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreased and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points or received that form an integral part of the effective interest rate transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (continued)

Effective interest method *(continued)*

Financial liabilities (continued)

Financial liabilities at FVTPL *(continued)*

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the other gains and losses' line item in profit or loss and includes any interest paid on the financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, short-term and long-term bank loans are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

Convertible bonds issued by the Group that contain a liability component, a conversion option and an early redemption option (which are not closely related to the host liability component) are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash for fixed number of the Company's own equity instruments are classified as equity instruments. The early redemption option that is not closely related to the host liability component is classified as a derivative.

At the date of issue, the liability component and early redemption option are recognised at fair value. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds allocated to the issue of the convertible bonds and the aggregate sum of the fair value of the embedded derivative in respect of the early redemption feature and the liability component, which represents the conversion option for the holder to convert the bonds into the Company's ordinary shares, is included in equity (other reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in other reserve until the embedded conversion option are exercised. At the time when the conversion option is exercised, the amount previously recognised in other reserve will be transferred to share capital and share premium. Where the conversion options remain unexercised at the expiry date, the balance stated in other reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

The embedded derivative in respect of the early redemption feature is measured at fair value with changes in fair value recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (continued)

Effective interest method *(continued)*

Financial liabilities (continued)

Convertible bonds *(continued)*

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and embedded derivative in respect of the early redemption feature in proportion to their relative fair values. Transaction costs relating to the embedded derivative in respect of the early redemption feature are charged to profit or loss immediately. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Warrants

Warrants that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments are derivatives.

At the date of issue and in subsequent periods, the warrants are measured at fair value with changes in fair value recognised in profit or loss. Transaction costs relating to the warrants are charged to profit or loss immediately.

Equity instruments

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Provision for onerous contracts

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to the directors and employees of the Company

The fair values of services received in exchange for awards of share options determined by reference to the grant-date fair value of those share options is recognised as expense over the vesting period on a straight-line basis with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the original revision of the estimates of the number of share options during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve (for share options).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount of share options previously recognised in share options reserve will be transferred to retained profits.

At the time when the terms of share options are modified during the vesting period, the incremental fair value granted, which represents the excess of fair value of the share options immediately after modification over those of immediately before modification, is expensed over the remaining vesting period of the share options, in addition to the amount based on the grant date fair value of the original share options. At the time when the terms of share options are modified after the vesting period, the incremental fair value granted is recognised immediately in profit or loss.

At the time when the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share options reserve will be transferred to retained profits.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Share-based payment transactions (continued)

Equity-settled share-based payment transactions *(continued)*

Share options granted to consultants

Share options issued in exchange of services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other lay 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.

(a) *Impairment of property, plant and equipment*

In assessing the impairment of property, plant and equipment, the Group requires to estimate the recoverable amount of the cash-generating units or the underlying assets. The recoverable amount, which is determined by the value-in-use calculation, requires the Group to estimate the future cash flows expected to arise from the cash-generating units or the underlying assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2011, the Group carried out a review on the recoverable amount of the property, plant and equipment, and determined that an impairment loss of approximately RMB89,133,000 should be recognised in profit or loss. No impairment losses were considered necessary during the year ended 31 December 2012 after the Group reviewed its analysis performed. Details of the recoverable amount calculation and review are set out in note 15.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(b) *Impairment of advance to suppliers and provision for onerous contracts*

As detailed in note 17, the Group makes non-refundable advance payments to raw material suppliers under non-cancellable long-term and short-term purchase agreements which are to be offset against future purchases. In the event when the economic benefits expected to be received under these purchase agreements are less than the unavoidable costs of meeting the contractual obligations; or the financial conditions of these suppliers deteriorate, the Group would impair advance payments to these suppliers and make necessary provision for the present obligation under the agreements. The Group does not require collateral or other security against its advance to suppliers. The Group performs ongoing evaluation of impairment of advance to suppliers and provision for commitment that may become onerous due to a change of market conditions and the financial conditions of its suppliers. The evaluation takes into account the projected revenue, related expenses, capital spending and other costs. When the advance would not be settled as expected, the Group would impair the advance to suppliers and make necessary provision for the present obligation under the agreements. As discussed in note 17, during the year ended 31 December 2011, the Group recognised impairment loss in respect of advance to suppliers and provision of onerous contracts of RMB7,149,000 and RMB39,107,000, respectively, in profit or loss. No further impairment losses nor provision were considered necessary after the Group performed review on these focused areas. Details of the review are set out in note 17.

(c) *Write-down of inventories*

Inventories are valued at the lower of cost and net realisable value. The Group inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a net realisable value that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down of inventories in that year. During the year ended 31 December 2012, write-down of inventories to net realisable value of approximately RMB5,084,000 (2011: RMB66,011,000) was recognised.

(d) *Useful lives and residual value of property, plant and equipment*

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

At 31 December 2012, the carrying amount of property, plant and equipment amounted to approximately RMB796,195,000 (2011: RMB855,626,000).

5. FINANCIAL INSTRUMENTS

The Group's major financial instruments include other financial assets, trade and other receivables, bills receivable, pledged bank deposits, bank balances and cash, trade and other payables, bank loans, convertible bonds, other financial liabilities and warrants. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	2012 *RMB'000*	2011 *RMB'000*
Financial assets		
Trade and other receivables	171,547	80,515
Bills receivable	28,808	36,700
Pledged bank deposits	172,866	17,289
Bank balances and cash	345,909	746,100
Total loans and receivables	719,130	880,604
FVTPL	26,491	26,491
Financial liabilities		
Trade and other payables	369,939	182,436
Short-term bank loans	470,100	318,230
Long-term bank loans	13,112	18,134
Convertible bonds	–	402,444
Total liabilities measured at amortised costs	853,151	921,244
FVTPL	50,424	14,600

Currency risk

The primary economic environment which most of the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, these principal subsidiaries sometimes collect their trade receivables and settle their purchases of materials, machinery and equipment supplies and certain expenses in foreign currencies.

5. FINANCIAL INSTRUMENTS *(continued)*

Currency risk (continued)

Details of the Group's other financial assets, pledged bank deposits, bank balances and cash, trade and other receivables, trade and other payables and bank loans that are denominated in foreign currencies, mainly in Hong Kong dollars ("HK$"), United States dollars ("USD"), Japanese yen ("JPY") and European dollars ("Euro") as at 31 December 2012 and 31 December 2011 are set out in respective notes.

The Group had foreign currency denominated monetary assets and monetary liabilities amounting to approximately RMB609,242,000 and RMB198,593,000, respectively (31 December 2011: RMB232,726,000 and RMB104,649,000) as at 31 December 2012. In order to reduce foreign currency exposures, the Group entered into forward contracts. Details of transactions are set out in note 21(A).

Sensitivity analysis

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

	2012 *RMB'000*	2011 *RMB'000*
Euro impact		
— Euro strengthens against RMB	505	157
— Euro weakens against RMB	(505)	(157)
HK$ impact		
— HK$ strengthens against RMB	(8,108)	(93)
— HK$ weakens against RMB	8,108	93
USD impact		
— USD strengthens against RMB	7,796	3,311
— USD weakens against RMB	(7,796)	(3,311)
JPY impact		
— JPY strengthens against RMB	–	20
— JPY weakens against RMB	–	(20)

5. FINANCIAL INSTRUMENTS *(continued)*

Sensitivity analysis (continued)

For the foreign currency forward contracts, the sensitivity analysis has been estimated based on the contracts outstanding at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax loss for the year and a negative number below indicates an increase in post-tax loss for the year where the relevant foreign currency forward rate of the foreign currency of the Company's principal subsidiary, i.e. USD and Euro, change 5% against RMB.

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Euro impact		
— if Euro strengthens against RMB	(2,575)	–
— if Euro weakens against RMB	2,575	–
USD impact		
— if USD strengthens against RMB	(4,013)	(618)
— if USD weakens against RMB	4,013	618

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other financial assets as the assets have fixed interest rate at 5% per annum as at 31 December 2011. The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank loans (see notes 21(B) and 25 for details of these bank balances and bank loans) and variable-rate composite of other financial assets (see note 21(C) for details of other financial assets). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing bank balances and bank loans at the end of each reporting periods and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances and bank loans.

5. FINANCIAL INSTRUMENTS *(continued)*

Sensitivity analysis (continued)

A 10 basis points increase or decrease on variable-rate bank balances and variable-rate composite of other financial assets and 100 basis points increase or decrease on variable-rate bank loans are used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates.

If interest rates on bank balances and composite of other financial assets had been 10 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax loss for the year.

	2012	2011
	RMB'000	*RMB'000*
Decrease in post-tax loss for the year	272	571

The post-tax loss for the year would be increased by an equal and opposite amount if interest rate on bank balances and composite of other financial assets had been 10 basis points lower and all other variables were held constant.

If the interest rate on bank loans had been 100 basis points higher and all other variables were held constant, a negative number below indicates an increase in post-tax loss for the year.

	2012	2011
	RMB'000	*RMB'000*
Increase in post-tax loss for the year	(188)	(2,401)

The post-tax loss for the year would be decreased by an equal and opposite amount if interest rate on variable-rate bank loans had been 100 basis points lower and all other variables were held constant.

Credit risk

The Group's principal financial assets are trade and other receivables, bills receivable, pledged bank deposits, bank balances and cash and other financial assets. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the Group's consolidated statements of financial position.

5. FINANCIAL INSTRUMENTS *(continued)*

Credit risk (continued)

The Group's credit risk is primarily attributable to the trade and other receivables and bills receivable. In order to minimise the credit risk, the Group's management continuously monitors the credit quality and financial conditions of the customers and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

There is concentration of credit risk on bank balances, pledged bank deposits and other financial assets for the Company as at 31 December 2012 and 31 December 2011. As at 31 December 2012 and 2011, balances with one largest bank accounted for 52% (2011: 50%) of aggregate balance of bank balances, pledged bank deposits and other financial assets bank balances of the Group. The credit risk on liquid funds is limited because majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The credit risk of the Group is concentrated on trade receivables from one of the Group's customers, which was the Group's major customers engaged in the sales and manufacturing of solar cells and modules in Malaysia and Philippines at 31 December 2012 and 31 December 2011 which amounted to approximately RMB130,081,000 (2011: RMB59,618,000) and accounted for 79.4% (2011: 83.3%) of the Group's total trade receivables. This has good repayment history and credit quality with reference to the track records under internal assessment by the Group. In addition, the Group's credit risk on bills receivable was concentrated on counterparties which were reputable banks in the PRC. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers and banks to ensure that prompt actions will be taken to lower exposure.

Liquidity risk management

The directors of the Company have adopted an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by closely and continuously monitoring the Group's consolidated financial position. The directors of the Company maintain the sufficiency of cashflows with availability of unutilized banking facilities, internally generated funds and funds arose from financing activities, such as issue of convertible debts or equity instruments, if necessary. The directors of the Company also review the forecasted cashflows on an on-going basis to ensure that the Group will be able to meet its financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with creditors and changes on capital expansion plan will be made should the need arise.

5. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management (continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date in which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the discounted amount is derived from interest rate curve at the end of the reporting period:

	Weighted average effective interest rate	Less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2012							
Financial liabilities							
Non-interest bearing instruments	–	360,841	9,098	–	–	369,939	369,939
Fixed interest bearing instruments	4.74	288,155	185,823	–	–	473,978	458,207
Variable interest bearing instruments	2.20	9,593	2,792	5,585	9,003	26,973	25,005
		658,589	197,713	5,585	9,003	870,890	853,151
At 31 December 2011							
Financial liabilities							
Non-interest bearing instruments	–	182,436	–	–	–	182,436	182,436
Fixed interest bearing instruments	6.10	133,967	165,823	–	–	299,790	286,285
Variable interest bearing instruments	2.43	27,282	32,721	5,236	14,124	79,363	50,079
Convertible bonds	12.00	–	–	–	650,000	650,000	402,444
		343,685	198,544	5,236	664,124	1,211,589	921,244

Note: At 31 December 2012 and 31 December 2011, the weighted average effective interest rates were based on the variable interest rates of the bank loans outstanding at the end of each reporting period.

5. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management (continued)

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

In addition, the following table details of the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates and other input parameters as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of the derivatives.

	On demand or within one year	One to two years	Two to three years	Total undiscounted cash flows	Carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2012					
Foreign exchange forward contracts	–	–	11,024	11,024	11,024

The management estimated that the foreign exchange forward contracts would not result significant cash flows to the Group as at 31 December 2011.

In addition, the management did not estimate the cash inflows, if any, to be derived from the warrants of the Company as at 31 December 2012 and 31 December 2011 which would be valid till 16 June 2016 as the cash flows were not predictable with reference to interest rates and other input parameters.

Fair value

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

5. FINANCIAL INSTRUMENTS *(continued)*

Fair value (continued)

Fair value measurements recognised in the consolidated statement of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ("Level 2 measurements"); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) ("Level 3 measurements").

The other financial assets with carrying value of approximately RMB26,491,000 at 31 December 2012 and 31 December 2011 were Level 2 measurements.

The warrants and other financial liabilities with carrying value of approximately RMB39,400,000 (2011: RMB14,600,000) and RMB11,024,000 (2011: N/A) at 31 December 2012 were Level 3 and Level 2 measurements, respectively.

Reconciliation of level 3 fair value measurements of warrants and other financial liabilities

	Warrants	Call Option	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2011	–	–	–
Issue during the year	87,712	–	–
Gain on fair value change	(72,112)	–	–
At 31 December 2011	14,600	–	14,600
Issue during the year	59,300	2,077	61,377
Gain on fair value change	(10,100)	(1,965)	(12,065)
Cancellation during the year	(24,400)	(112)	(24,512)
At 31 December 2012	39,400	–	39,400

5. FINANCIAL INSTRUMENTS *(continued)*

Fair value (continued)

Reconciliation of level 3 fair value measurements of warrants and other financial liabilities *(continued)*

Fair value gain on warrants of approximately RMB10,100,000 (2011: RMB72,112,000) are included in other gains and losses for the year ended 31 December 2012.

There were no transfers between Level 1 and Level 2 in the year ended 31 December 2012 and 31 December 2011.

Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank loans, convertible bonds and other financial liabilities, and equity attributable to owners of the Company, which includes the share capital, share premium, special reserve and retained earnings, as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issuance of new shares as well as raising of bank loans.

6. SEGMENT INFORMATION

The Group is mainly operating in manufacturing and sales of solar wafers and related products. Mr. Zhang, the chief operating decision maker of the Group, regularly reviews revenue analysis and the results of the Group as a whole for the purposes of performance assessment and making decisions about resources allocation. Accordingly, the Group has only one operating and reporting segment for financial reporting purpose. The Group's segment loss is the loss before taxation of the Group.

Entity-wide disclosures

Revenue analysed by major products

The following table sets forth a breakdown of the Group's revenue from manufacturing and sales of solar wafers and related products for the year:

	2012	2011
	RMB'000	*RMB'000*
Manufacturing and sales of solar products:		
Monocrystalline solar wafers	851,397	975,466
Monocrystalline solar ingots	5,128	9,991
	856,525	985,457
Others *(note)*	169,090	31,289
Total revenue	1,025,615	1,016,746

Note: Included revenue mainly from sale of materials, such as monocrystalline silicon and recyclable silicon.

Revenue reported above represents revenue generated from external customers.

6. SEGMENT INFORMATION *(continued)*

Revenue and assets analysed by place of domicile of group entities

The analysis of the Group's revenue based on geographical location of external customers attributed to the country of domicile of the relevant group entities, which is the PRC, and to other foreign countries during the year is as follows:

	2012	2011
	RMB'000	*RMB'000*
Place of domicile of group entities:		
Mainland China	225,495	659,205
Other countries/places:		
Philipines and Malaysia	796,873	318,785
Other countries *(note)*	3,247	38,756
Total revenue	1,025,615	1,016,746

All of the Group's non-current assets, including property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment and advance to suppliers, are located in the group entities' country of domicile, the PRC, at the end of each reporting period.

Note: The customers located in other countries/places are mainly from other Asian countries, Germany and the United States of America.

Information about major customers

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

	2012	2011
	RMB'000	*RMB'000*
Customer A	*	258,190
Customer B	796,873	318,785

* Less than 10% of total revenue of the Group for the year.

7. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Government grant *(Note)*	35,437	32,806
Interest income	12,316	7,256
Others	262	–
	48,015	40,062

Note: The government grant represented the amount received from the local government by an operating subsidiary of the Group to encourage activities carried out by the Group in solar business and high-technology advancement. No specific conditions are attached to the grant.

8. OTHER GAINS AND LOSSES, EXPENSES AND PROVISION

	2012	2011
	RMB'000	*RMB'000*
Net foreign exchange losses	(5,459)	(2,958)
(Loss) gain on disposal of property, plant and equipment	(4,878)	4,860
Loss on fair value changes of other financial liabilities *(note 21(A))*	(11,024)	–
(Loss) gain on fair value changes of 2011 Warrants (defined in note 26)	(9,800)	72,112
Loss on fair value changes of Call Option (defined in note 26)	(1,965)	–
Gain on fair value changes of 2012 Warrants (defined in note 26)	19,900	–
Loss on redemption of convertible bonds and cancellation of warrants *(note 26)*	(177,705)	–
Impairment losses recognised in respect of property, plant and equipment *(note 15)*	–	(89,133)
Impairment losses recognised in respect of advance to suppliers *(note 17)*	–	(7,149)
Provision for onerous contracts *(note 17)*	–	(39,107)
	(190,931)	(61,375)

9. FINANCE COSTS

	2012 *RMB'000*	2011 *RMB'000*
Interest expense in relation to:		
— bank loans wholly repayable within five years	13,248	15,075
— factorised bills receivable	5,650	656
— arrangement of forward contracts *(Note 21(A))*	2,832	191
Effective interest expense on convertible bonds	17,306	23,495
Total borrowing costs	39,036	39,107
Less: amounts capitalised	–	(821)
	39,036	38,596

Borrowing costs capitalised during the year ended 31 December 2011 arose on the general borrowing pool are calculated by applying a capitalisation rate of 6.304% per annum to expenditure on qualifying assets.

10. LOSS BEFORE TAXATION

	2012	2011
	RMB'000	*RMB'000*
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note (i))*	7,171	3,889
Other staff costs	47,038	44,358
Other staff's retirement benefits scheme contributions	5,768	5,425
Share-based payments expense for other staff and consultants *(note (i))*	16,659	678
Total staff costs	76,636	54,350
Auditor's remuneration	1,094	1,487
Non-audit service	746	991
	1,840	2,478
Cost of inventories recognised as expense *(note (ii))*	942,163	924,276
Depreciation of property, plant and equipment	76,990	52,859
Release of prepaid lease payments	854	720
Research and development expenses	7,841	7,130
Operating lease rentals in respect of rented premises	1,522	1,564

Notes:

(i) During the year ended 31 December 2012, share-based payments expenses included in directors' remuneration, other staff costs and expenses to consultants which was recognised in administrative expenses in respect of share options of the Company recognised were approximately RMB20,301,000 (2011: RMB750,000). Details of transactions are set out in note 29.

(ii) Included in cost of inventories recognised as expense represented write-down of inventories of approximately RMB5,084,000 (2011: RMB66,011,000) to their net realisable values.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2012 RMB'000	2011 RMB'000
Non-executive directors		
— fees	–	–
— basic salaries and allowance	–	70
Independent non-executive directors		
— fees	832	846
— basic salaries and allowance	–	–
— share-based payments expense in relation to share options vested	382	207
Executive directors		
— fees	–	–
— basic salaries and allowance	2,686	2,684
— share-based payments expense in relation to share options	3,260	72
— Retirement benefits scheme contributions	11	10
	7,171	3,889

The emoluments paid or payable to each of the directors of the Company during the year were as follows:

	Fees RMB'000	Basic salaries and allowance RMB'000	Share-based payments expense RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2012					
Executive directors:					
Mr. Zhang	–	600	1,435	–	2,035
Mr. Chau Kwok Keung ("Mr. Chau")	–	1,920	1,722	11	3,653
Mr. Shi Cheng Qi ("Mr. Shi")	–	166	103	–	269
Non-executive directors:					
Mr. Vincent Phen Chun Shing ("Mr. Phen") *(Note 3)*					
Mr. Stephen Peel ("Mr. Peel") *(Note 1 and 2)*	–	–	–	–	–
Mr. Donald Huang ("Mr. Huang") *(Note 1)*	–	–	–	–	–
Independent non-executive directors:					
Mr. Leung Ming Shu ("Mr. Leung")	200	–	112	–	312
Mr. Daniel DeWitt Martin ("Mr. DeWitt")	316	–	129	–	445
Mr. Kang Sun ("Mr. Kang")	316	–	141	–	457
	832	2,686	3,642	11	7,171

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	Fees	Basic salaries and allowance	Share-based payments expense	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2011					
Executive directors:					
Mr. Zhang	–	600	–	–	600
Mr. Chau	–	1,920	–	10	1,930
Mr. Shi	–	164	72	–	236
Non-executive directors:					
Mr. Phen	–	–	–	–	–
Mr. Peel *(Note 1)*	–	35	–	–	35
Mr. Huang *(Note 1)*	–	35	–	–	35
Independent non-executive directors:					
Mr. Leung	200	–	45	–	245
Mr. DeWitt	323	–	72	–	395
Mr. Kang	323	–	90	–	413
	846	2,754	279	10	3,889

Mr. Zhang is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The five highest paid individuals included four (2011: three) directors and Chief Executive of the Company for the year ended 31 December 2012, details of whose emoluments are set out above. The emoluments of the remaining individual(s) during the years are as follows:

	2012	2011
	RMB'000	*RMB'000*
Employees		
— basic salaries and allowance	354	755
— retirement benefits scheme contributions	–	60
— share-based payments expense	103	98
	457	913

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The emoluments of the five highest paid individuals were within the following bands:

	2012	2011
Nil to HK$1,000,000	3	4
HK$2,000,000 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	1	–
HK$3,500,001 to HK$4,000,000	1	–

During the years ended 31 December 2012 and 31 December 2011, no discretionary bonus was paid or payable to the directors, the Chief Executive nor the other five highest paid individuals.

During the years ended 31 December 2012 and 31 December 2011, no emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. Neither the Chief Executive nor any of the directors waived any emoluments during the years ended 31 December 2012 and 31 December 2011.

Notes:

1. The director was appointed on 17 June 2011.
2. The director resigned on 24 April 2012.
3. The director resigned on 20 September 2012.

12. TAXATION

	2012	2011
	RMB'000	*RMB'000*
Current tax:		
Hong Kong Profits Tax	291	–
PRC Enterprise Income Tax		
— Current year	3,695	25,264
— Overprovision in prior years	(2,826)	(2,040)
	1,160	23,224
Deferred tax charge *(note 18)*:		
— Current year	60	5,104
	1,220	28,328

12. TAXATION *(continued)*

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2012. No Hong Kong Profits Tax was provided for the year ended 31 December 2011 as the group entities either had no relevant assessable profits or incurred tax losses.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

During the year ended 31 December 2012 and 31 December 2011, the applicable tax rate of Shanghai Comtec Solar Technology Co., Ltd. ("Comtec Solar") was 15% as it was qualified as a New High-Tech enterprise.

Upon the EIT Law, dividends paid out of the net profits derived by the Company's PRC operating subsidiaries to non-PRC residents shareholders for financial years since 1 January 2008 are subject to applicable PRC withholding tax in a rate of 10% or lower rates as provided in tax treaties in accordance with relevant tax laws in the PRC. Withholding tax has been provided for based on the anticipated dividends to be distributed by the PRC entities to non-PRC residents shareholders with relevant withholding tax rate of 10%.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

The taxation for the year is reconciled to loss before taxation as follows:

	2012 *RMB'000*	2011 *RMB'000*
Loss before taxation	(163,829)	(17,999)
Tax at domestic income tax rate (25%)	(40,957)	(4,500)
Tax effect of expenses not deductible for tax purpose	64,862	5,506
Tax effect of income not taxable for tax purpose	(4,975)	(18,029)
Tax effect of temporary difference not recognized	–	50,350
Utilisation of temporary difference previously not recognized	(14,437)	–
Effect of tax exemptions granted to a PRC subsidiary	(456)	(8,063)
Withholding income tax provision on dividends from the PRC	9	5,104
Overprovision in prior years	(2,826)	(2,040)
Taxation for the year	1,220	28,328

13. DIVIDENDS

No dividends were paid, declared or proposed during the year ended 31 December 2012 and 31 December 2011.

The directors of the Company do not recommend the payment of a final dividend.

14. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the following data:

	2012 *RMB'000*	2011 *RMB'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic loss per share	(165,049)	(46,327)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	1,134,574,932	1,133,820,471

The Company's outstanding convertible bonds did not have dilutive effect to the Company's loss per share during the year ended 31 December 2012 and 31 December 2011 because their potential conversion to ordinary shares would decrease the loss per share.

The Company's outstanding 2011 Warrants (defined in note 26) did not have dilutive effect to the Company's loss per share during the year ended 31 December 2012 and 31 December 2011 because the exercise prices of the 2011 Warrants (defined in note 26) were higher than the average market prices of the Company during the reporting period (2011: the period from the issue of the warrants of the Company, i.e. 17 June 2011, to 31 December 2011).

The Company's outstanding 2012 Warrants (defined in note 26) did not have dilutive effect to the Company's loss per share for the year ended 31 December 2012 since their exercise price was higher than the average market prices of the Company's shares during the period from the issue of the 2012 Warrants, i.e. 14 March 2012, to 31 December 2012.

The Company's outstanding share options did not have dilutive effect to the Company's loss per share during the year ended 31 December 2012 and 31 December 2011 as their exercise prices were higher than the average market prices of the Company during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2011	115,370	416,209	1,662	3,987	268,907	806,135
Additions	852	607	36	251	281,014	282,760
Transfers	117,087	345,366	108	–	(462,561)	–
Disposals/write-off	–	(1,565)	(4)	–	–	(1,569)
At 31 December 2011	233,309	760,617	1,802	4,238	87,360	1,087,326
Additions	276	480	13	265	23,350	24,384
Transfers	19,704	78,659	2	–	(98,365)	–
Disposals	–	(11,556)	–	(402)	–	(11,958)
Reclassified as held for resale	–	–	(3)	–	(1,290)	(1,293)
At 31 December 2012	253,289	828,200	1,814	4,101	11,055	1,098,459
DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	8,795	79,522	626	1,345	–	90,288
Provided for the year	6,746	45,205	190	718	–	52,859
Impairment losses recognised in profit or loss	23,484	57,762	–	–	7,887	89,133
Eliminated on disposals/ write-off	–	(576)	(4)	–	–	(580)
At 31 December 2011	39,025	181,913	812	2,063	7,887	231,700
Provided for the year	10,690	65,425	192	683	–	76,990
Eliminated on disposals	–	(6,192)	–	(233)	–	(6,425)
Eliminated on reclassification as held for sale	–	–	(1)	–	–	(1)
Transfers	7,887	–	–	–	(7,887)	–
At 31 December 2012	57,602	241,146	1,003	2,513	–	302,264
CARRYING VALUES						
At 31 December 2012	195,687	587,054	811	1,588	11,055	796,195
At 31 December 2011	194,284	578,704	990	2,175	79,473	855,626

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

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

Buildings	Over the shorter of the period of the respective land use rights which the buildings are erected on or 20 years
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The Group's buildings are located on land in the PRC which is under a lease term of 50 years.

As at 31 December 2012, the Group pledged its buildings having net book values of approximately RMB107,214,000 (2011: buildings of approximately RMB89,087,000 and construction in progress of approximately RMB14,886,000) to banks to secure banking facilities granted to the Group.

During the year ended 31 December 2011, as a result of severe and challenging market conditions in solar industry towards the end of 2011 which impacted average selling prices of the products of the industry, the Group carried out a review of the recoverable amount of the cash-generating unit. The recoverable amount of the cash-generating unit has been determined on the basis of their values in use which were cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using a discount rate of 11.0% that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit. The cash flows beyond the next five years are explorated using a declining growth rate based on the industry expectation. The review led to the recognition of an impairment loss of approximately RMB89,133,000 in profit or loss. During the year ended 31 December 2012, the Group performed analysis of sufficiency of impairment losses recognised in respect of property, plant and equipment with reference to the Group's financial budgets and market parameters. Changes in variables and assumptions used may result in changes in results of cash flow forecasts prepared by the management of the Group. In the opinion of the directors of the Company, no further impairment losses were recognised for the year ended 31 December 2012.

16. PREPAID LEASE PAYMENTS

	2012	2011
	RMB'000	*RMB'000*
Carrying values		
At beginning of the year	40,997	21,931
Additions during the year	–	19,786
Charged to profit or loss	(854)	(720)
At end of the year	40,143	40,997
Reclassified as held for sale *(note 22)*	(19,129)	–
Less: Amount to be amortised within one year	(458)	(854)
Non-current portion	20,556	40,143

The lease payments represent the land use rights situated in the PRC which are under medium-term leases. As at 31 December 2012 and 31 December 2011, the certificate of a land use right with carrying amount of approximately RMB19,129,000 (which is included in asset held for sale) and RMB19,700,000, respectively, was not granted. The directors of the Company believe that there are no foreseeable hurdles in obtaining the certificate.

17. ADVANCE TO SUPPLIERS/PROVISION FOR ONEROUS CONTRACTS

From time to time, the Group makes advance payments to raw material suppliers prior to delivery of raw materials by these suppliers. Except for purchase agreements with two major suppliers detailed below, the advance payments are for purchases in the next twelve months from the end of each reporting period and are therefore classified as current assets.

In prior years, the Group entered into several purchase agreements with two major suppliers, independent parties not related to the Group, whereby the Group is committed to purchase a minimum quantity of raw materials, mainly polysilicon virgins (to be used in the manufacture of its products) each year during the period from 1 January 2008 to 31 December 2018 (the "Supply Period") at pre-determined prices. According to the terms of the agreements, the Group made advances to these suppliers during the years ended 31 December 2012 and 31 December 2011. At 31 December 2012 and 31 December 2011, the Group had outstanding aggregate advance payments, net of allowance, of approximately RMB422,572,000 and RMB460,293,000, respectively, with these suppliers. The advances are unsecured, interest-free and will be offset with part of the invoiced amounts in the manner as discussed below, on an annual basis before expiry of the agreements in 2018.

17. ADVANCE TO SUPPLIERS/PROVISION FOR ONEROUS CONTRACTS *(continued)*

Pursuant to the terms of the agreements, during each year of the Supply Period, the amount of advances made in respect of the agreed contract quantity in that particular year would be utilised to reduce the invoice amount of purchases up to those annual agreed quantities. The total minimum amount of raw materials to be purchased by the Group from the two major suppliers during the Supply Period is approximately RMB5,807,625,000.

For the arrangement with one of the major suppliers, if the minimum purchase requirement is not met in a particular year, the advance made to that supplier in relation to the minimum purchase commitment would be forfeited. In addition, pursuant to terms of this purchase agreement, the Group granted to this supplier a continuing security interest in the raw materials supplied by such supplier and the proceeds of sale or insurance of such raw materials with the entire purchase of such raw materials and if applicable, all late payments, interest and expenses necessary to enforce such security interest. The supplier has the right to take all necessary measures to create, perfect, preserve and enforce the security interest. At 31 December 2012 and 31 December 2011, the Group did not have any outstanding trade payable with this supplier.

For the arrangement with the other major supplier, the Group is obliged to purchase at least the minimum amount as set out in the agreement. If the Group fails to accept deliveries for a certain number of times in any calendar year, the Group's payment obligations for the minimum purchase commitment may be accelerated in that particular year and the Group will be liable to pay to the supplier the difference between the actual purchase and the minimum purchase commitment in that year.

These purchase agreements do not expressly stipulate that the Group will be subject to any other liabilities should the Group fail to meet the minimum purchase commitment. The Group's minimum annual purchase commitment during the remaining Supply Period is as follows:

Year ending 31 December	Amount equivalent to *RMB'000*
2013	935,369
2014	1,349,312
2015	1,032,465
2016	629,278
2017	109,254
2018	97,702
	4,153,380

17. ADVANCE TO SUPPLIERS/PROVISION FOR ONEROUS CONTRACTS *(continued)*

At the end of each reporting period, the directors of the Company estimate the amount of advances that is expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months and classify it as current asset at the end of each reporting period. The remaining balance is classified as non-current asset in the consolidated statement of financial position.

Movement in the allowance for advance to suppliers:

	RMB'000
Balance at 1 January 2011	–
Impairment losses recognised in profit or loss	7,149
Balance at 31 December 2011, 1 January 2012 and 31 December 2012	7,149

Movement in the provision for onerous contracts:

	RMB'000
Balance at 1 January 2011	–
Provision recognised in profit or loss	39,107
Balance at 31 December 2011, 1 January 2012 and 31 December 2012	39,107

During the year ended 31 December 2011, the market conditions for solar industry have deteriorated. As a result, the Group performed evaluation on the Group's contracted quantity of raw materials, the Group's planned annualised production capacity, demand of the Group's products, forecasted selling prices of the products in the industry and other market conditions in the Supply Period, the Group recognised impairment losses in respect of advances to the two major suppliers of approximately RMB7,149,000 and made provision of onerous contracts of approximately RMB39,107,000. The provision of onerous contract and impairment losses recognised represented the estimated losses to be suffered and future payments that the Group is presently obliged to make under the above-mentioned non-cancellable operating contracts, after taking into account revenue expected to be earned and costs to be incurred in production, in certain calendar year(s) in the Supply Period. During the year ended 31 December 2012, the Group performed analysis of sufficiency of impairment losses recognised in respect of advance to suppliers and provision for onerous contracts with reference to the Group's budgeted annualised production capacity, recent market demand of the Group's products, updated forecasted selling prices of the products in the industry that reflected current market assessments. No further impairment losses and provisions were considered necessary.

18. DEFERRED TAX

The following is the deferred tax assets (liabilities) recognised by the Group and movements thereon during the year.

	Write-down of inventories	Allowance for doubtful debts	Withholding tax on undistributed dividends	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	127	562	(4,456)	(3,767)
Charge to profit or loss	–	–	(5,104)	(5,104)
At 31 December 2011	127	562	(9,560)	(8,871)
Charge to profit or loss	(41)	(10)	(9)	(60)
At 31 December 2012	86	552	(9,569)	(8,931)

The following is the analysis of the deferred tax balance for financial report presentation purposes.

	2012	2011
	RMB'000	*RMB'000*
Deferred tax assets	638	689
Deferred tax liabilities	(9,569)	(9,560)
	(8,931)	(8,871)

At 31 December 2012 and 31 December 2011, except for the deferred tax liabilities provided for the undistributed profits of certain PRC operating subsidiaries of approximately RMB97.3 million and RMB95.5 million, respectively, deferred tax liabilities have not been recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of the PRC operating subsidiaries of approximately RMB309.7 million and RMB275.5 million, respectively, as the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

18. DEFERRED TAX *(continued)*

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB143,652,000 (2011: RMB201,400,000). No deferred tax asset has been recognised in relation to such temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

19. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	177,870	105,163
Work-in-progress	45,038	34,147
Finished goods	72,956	78,649
	295,864	217,959

20. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	163,703	71,606
Utility deposits	5,903	4,219
Value-added-tax recoverable	116,939	133,472
Other receivables and prepayments	9,022	4,690
	295,567	231,987
Bills receivable	28,808	36,700

20. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

The Group requested prepayment from customers before delivery of goods and allows a credit period of 7 to 180 days on case-by-case basis. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012	2011
	RMB'000	*RMB'000*
Age		
0 to 30 days	43,054	52,607
31 to 60 days	78,031	10,909
61 to 90 days	17,464	8,090
91 to 180 days	21,554	–
Over 180 days	3,600	–
	163,703	71,606

Included In the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB3,600,000 which are past due as at the reporting date for which the Group has not provided for impairment losses as it has been substantially settled subsequent to 31 December 2012. The Group did not hold collateral over these balances. The average age of these receivables is 270 days. Majority of the balances are settled after the reporting period. At 31 December 2011, none of the Group's trade receivables are past due but not impaired.

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

	2012	2011
	RMB'000	*RMB'000*
Age		
0 to 30 days	16,344	29,165
31 to 60 days	3,075	4,585
61 to 90 days	7,000	–
91 to 180 days	2,389	2,950
	28,808	36,700

20. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

No interest is charged on the trade receivables and bills receivable. The Group has provided fully for all receivables over 365 days as historical experience indicates that such amount may not be recoverable. Trade receivables and bills receivable aged between 30 and 365 days are provided for based on estimated irrecoverable amounts from the sales of goods, determined by reference to subsequent settlement, past default experience and objective evidences of impairment.

At the end of each reporting period, the Group's trade receivables and bills receivable that are neither past due nor impaired for which the Group has not provided for as the debtors have no default history and of good credit quality.

Included in the Group's allowance for doubtful debts are individually impaired trade receivables with an aggregate carrying amount of approximately RMB2,744,000 as at 31 December 2012 and 31 December 2011 which are past due as at the end of each reporting period. The Group did not make any impairment losses during the year ended 31 December 2012 and 31 December 2011. The Group did not hold any collateral over the balance at the end of each reporting period.

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

The Group's trade and other receivables and bills receivable that were denominated in USD, foreign currencies of the relevant group entities, were re-translated in RMB and stated for financial reporting purposes as:

	2012 *RMB'000*	2011 *RMB'000*
Trade and other receivables denominated in USD	130,105	59,668

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/OTHER FINANCIAL ASSETS/OTHER FINANCIAL LIABILITIES

(A) Pledged bank deposits and forward contracts

Pledged bank deposits of the Group represent deposits placed in banks for the purposes to (1) arrange general banking facilities of the Group, and (2) arrange forward contracts as mentioned below.

Short-term contracts

During the year ended 31 December 2012, the Group entered into several arrangements with a commercial bank in the PRC pursuant to which the Group borrowed USD and Euro loans (2011: USD loans) from this bank for contractual period of one year (2011: one year) for settlement of its payables denominated in USD and Euro. At the same time, the Group (a) placed fixed deposits (in RMB amounts equivalent to the respective USD and Euro loans (2011: USD loans) plus fixed interest at rates ranging from 2.16% to 2.91% (2011: 3.25%) per annum thereon) for the same contractual period to the same bank as security against the USD and Euro loans (2011: USD loans), and (b) entered into forward contracts with the bank to purchase USD and Euro (2011: USD) (in amounts equivalent to the USD and Euro loans (2011: USD loans) plus interests thereon) by HKD at predetermined forward rates.

As at 31 December 2012, fixed deposits denominated in RMB of approximately RMB172,866,000 (2011: RMB17,289,000) and the USD and Euro loans of approximately USD17,027,000 and Euro8,254,000, respectively (equivalent to an aggregate amount of approximately RMB175,678,000) (2011: USD loans of approximately RMB16,285,000)are included in pledged bank deposits and bank loans, respectively.

The related interest income on the fixed deposits of approximately RMB4,926,000 (2011: RMB352,000) and unrealised exchange loss on USD and Euro loans of approximately RMB600,000 (2011: RMB512,000) are included in the other income and other gains and losses, respectively, while the interest expenses on USD and Euro loans of approximately RMB2,832,000 (2011: RMB191,000) are included in finance costs.

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/OTHER FINANCIAL ASSETS/OTHER FINANCIAL LIABILITIES *(continued)*

(A) Pledged bank deposits and forward contracts (continued)

Short-term contracts *(continued)*

Major terms of the net settled foreign currency forward contracts as at 31 December 2012 and 31 December 2011 are as follows:

Aggregate principal amount	Maturity	Forward exchange rate
As at 31 December 2012:		
Euro2,056,680	In March 2013	Buy Euro/Sell HKD at 10.3867
USD3,384,000	In March 2013	Buy USD/Sell HKD at 7.7604
Euro2,065,920	In April 2013	Buy Euro/Sell HKD at 10.4130
USD2,979,900	In April 2013	Buy USD/Sell HKD at 7.8970
Euro2,065,920	In May 2013	Buy Euro/Sell HKD at 9.9476
USD7,177,480	In May 2013	Buy USD/Sell HKD at 7.9128
Euro2,065,920	In July 2013	Buy Euro/Sell HKD at 9.4808
USD3,485,250	In July 2013	Buy USD/Sell HKD at 7.8156
As at 31 December 2011:		
USD2,585,000	In May 2012	Buy USD/Sell RMB at 6.3750

In the opinion of the directors of the Company, the fair values of the Group's foreign currency forward contracts do not have material impacts on the results and financial position of the Group.

Long-term contract

In addition, during the year ended 31 December 2012, the Group entered into an arrangement with a commercial bank in Hong Kong pursuant to which the Group would buy USD with RMB at exchange rate of 6.3205 from this bank for a contractual period of three years at principal amount of approximately USD63,444,000 (equivalent to approximately RMB401,000,000).

The contract will be settled net upon maturity date on 16 March 2015. As at 31 December 2012, loss on fair value change of this forward contract was estimated to be approximately RMB11,024,000. It was recognised in other financial liabilities in the consolidated statement of financial position and other gains and losses in the consolidated statement of comprehensive income.

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/OTHER FINANCIAL ASSETS/OTHER FINANCIAL LIABILITIES *(continued)*

(B) Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market rates ranging from 0.10% to 0.50% per annum and 0.10% to 0.50% per annum at 31 December 2012 and 31 December 2011, respectively.

The Group's bank balances and cash that were denominated in Euro, HKD and USD, foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	2012 *RMB'000*	2011 *RMB'000*
Bank balances and cash denominated in:		
Euro	2,591	10,091
HK$	43,559	64
USD	229,871	97,816
JPY	–	1,054

Certain bank balances and cash of approximately RMB66,360,000 and RMB637,075,000 at 31 December 2012 and 31 December 2011, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

(C) Other financial assets

	2012 *RMB'000*	2011 *RMB'000*
FVTPL	26,491	26,491

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/OTHER FINANCIAL ASSETS/OTHER FINANCIAL LIABILITIES *(continued)*

(C) *Other financial assets (continued)*

During the year ended 31 December 2011, the Group had a contract of principal-protected unsecured deposit with a bank for a period of five years. The significant terms and conditions relating to the financial assets as FVTPL were as follows:

Notional amount	Start date	Deposit end date	Interest rate	Fair value as at 31 December 2012 and 31 December 2011 *RMB'000*
USD4,000,000	18 July 2011	17 July 2016	variable	26,491

The deposit was a principal-protected deposit guaranteed by the relevant bank. In accordance with the relevant terms of the agreement, the yield rate is 5.00% per annum for the period from 18 July 2011 to 17 July 2012. The yield rate for the remaining four years ending 17 July 2016 will be the higher of 0.65% or a rate subject to the formulae below:

10% per annum * (Index (as defined below) at the end of each contractual period of the agreement — Index at 18 July 2012)/Index at 18 July 2012

Index refers to portfolio of financial instruments, related to forward and spot exchange rates of USD and HKD and interest rates, and can be extracted from Bloomberg.

The deposit was denominated in USD.

The deposit at 31 December 2012 and 31 December 2011 was designated at fair value through profit or loss upon initial recognition as the deposits formed part of contracts containing embedded derivatives. It was stated at fair values derived from discounted cash flow analysis based on the terms of the deposits and relevant market inputs, mainly forward and spot exchange rates of USD and HKD and interest rates on 31 December 2012 and 31 December 2011, which was provided by the counterparty financial institution.

In the opinion of the directors of the Company, changes in fair value of the above contract did not have material impact on the performance of the Group as at 31 December 2012 and 31 December 2011.

22. ASSETS CLASSIFIED AS HELD FOR SALE

In November 2012, the Group entered into an agreement with an independent third party to dispose of the entire equity interests in a subsidiary, Comtec New Energy (Shanghai) Limited, which principal asset is the prepaid lease payments for a parcel of land at a cash consideration of RMB28,500,000. The transaction has not yet been completed by the end of the reporting period.

	2012
	RMB'000
Prepaid lease payments *(Note 1)*	19,129
Other assets *(Note 2)*	5,206
	24,335
Liabilities directly associated with assets classified as held for sale *(Note 2)*	336

Notes:

(1) In the opinion of the directors of the Company, no impairment loss was recognised on reclassification on the land as held for sale nor at 31 December 2012 as its carrying amount is less than the estimated fair value less cost to sell.

(2) The major classes of assets and liabilities held by the disposing subsidiary at 31 December 2012 are as follows:

	RMB'000
Property, plant and equipment	1,292
Other receivables	386
Cash and bank balances	3,528
Assets, other than prepaid lease payments, classified as held for sale	5,206
Prepaid lease payments	19,129
	24,335
Other payables	(336)
Net assets classified as held for sale	23,999

23. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	249,221	100,679
Payables for acquisition of property, plant and equipment	20,415	81,757
Other payables and accrued charges	15,022	16,256
Outstanding Principal Payments (defined in note 26)	100,008	–
	384,666	198,692

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

	2012	2011
	RMB'000	*RMB'000*
Age		
0 to 30 days	59,454	28,248
31 to 60 days	40,436	21,930
61 to 90 days	46,787	30,651
91 to 180 days	77,720	17,768
Over 180 days	24,824	2,082
	249,221	100,679

The average credit period on purchases of goods is 30 days to 90 days and certain suppliers grant longer credit period on case-by-case basis.

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

	2012	2011
	RMB'000	*RMB'000*
Trade and other payables denominated in:		
Euro	–	73
USD	192,271	54,049
JPY	219	527

24. CUSTOMERS' DEPOSITS RECEIVED

Customers' deposits received are unsecured, interest-free and will be settled by the delivery of products by the Group.

25. BANK LOANS

	2012 *RMB'000*	2011 *RMB'000*
Bank loans		
— secured	130,000	146,285
— unsecured	353,212	190,079
	483,212	336,364
Carrying amounts repayable:		
Within one year	470,100	318,230
One to two years	4,978	4,990
More than two years, but not exceeding five years	8,134	13,144
	483,212	336,364
Less: Amounts due within one year shown under current liabilities	(470,100)	(318,230)
Amounts shown under non-current liabilities	13,112	18,134

During the current year, the Group obtained new bank loans amounting to RMB471,923,000 (2011: RMB480,087,000). The loans as at 31 December 2012 and 31 December 2011 carried interest at variable market rates benchmark to the interest rates of the People's Bank of China or London Interbank Offer Rate. The proceeds were used to finance the acquisition of property, plant and equipment and fund working capital for operation.

25. BANK LOANS *(continued)*

The amounts are based on scheduled repayment dates set out in the loan agreements.

The carrying amounts of the Group's fixed-rate borrowings and their relevant contractual maturity dates (or reset dates) are as follows:

	2012 *RMB'000*	2011 *RMB'000*
Fixed rate borrowings:		
Within one year	458,207	286,285

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2012 *RMB'000*	2011 *RMB'000*
Effective interest rate:		
Fixed-rate	2.16% to 6.56%	5.99% to 6.65%
Variable-rate	2.20% to 2.21%	2.28% to 3.40%

The Group's bank loans that were denominated in USD and Euro, foreign currencies of the relevant group entities, were re-translated in RMB and stated for financial reporting purposes as:

	2012 *RMB'000*	2011 *RMB'000*
Denominated in USD	21,484	18,573
Denominated in HKD	–	2,552
Denominated in Euro	16,050	5,830

26. CONVERTIBLE BONDS AND WARRANTS

For the year ended 31 December 2011

The Company issued RMB-denominated convertible bonds at a par value of RMB100,000 each with an aggregate principal amount of approximately RMB655 million on 17 June 2011 to an independent third party who is not related to the Group (the "Bondholder"). The convertible bonds would be matured in five years since issuance. The conversion price was fixed at HK$3.90 (at the fixed exchange rate of HK$1.1917494 = RMB1 as pre-determined).

The principal terms of the bonds were as follows:

(1) Denomination of the bonds — The convertible bonds were denominated in RMB.

(2) Maturity date — Five years from the date of issuance, which was 16 June 2016 ("Maturity Date").

(3) Interest — The bonds did not bear any interest.

(4) Conversion —

(A) Conversion price — The price was HK$3.90 per each new share to be issued upon conversion of the bonds ("Conversion Share"), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including subdivision or consolidation of shares of the Company, capitalisation of profits or reserves, capital distribution, issuance of options, rights or warrants, and certain other events.

(B) Conversion period — The Bondholder had the right to convert the bonds into shares at any time on or after the issue date of the bonds up to the close of business on the Maturity Date or if such bonds shall have been called or put for redemption at any time on or after the issue date, then up to the close of business on a date no later than five business days prior to the date fixed for redemption, which the events were discussed below.

(C) Number of Conversion Shares issuable — 200,000,000 Conversion Shares would be issued upon full conversion of the bonds based on the initial conversion price of HK$3.90 (translated at the fixed exchange rate of HK$1.1917494 = RMB1 as pre-determined).

(D) Rights — The Conversion Shares would rank pari passu in all respects with the shares of the Company then in issue on the relevant conversion date.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2011 (continued)

(5) Redemption —

(A) At the option of the Company:

(I) Redemption at maturity — The Company would redeem the bonds outstanding at an amount equivalent to the HK$ equivalent of the RMB principal amount on the Maturity Date.

(II) Redemption for tax reasons — The Company would redeem the bonds outstanding at an amount of HK$ equivalent of the RMB principal amount of the bonds if the Company would become obliged to pay additional amounts in accordance with changes or amendments of relevant taxation or statutory rules and regulations in the Cayman Islands or Hong Kong, which changes or amendments become effective on or after the date on which the bonds are first issued.

(B) At the option of the Bondholder:

(I) Redemption on change of control — Upon the occurrence of a Change of Control (as defined in announcement of the Company dated 19 April 2011), the Bondholder would have the right, at such holder's option, to require the Company to redeem in whole but not in part such holder's bonds on the Change of Control put date at the amount equal to 130% of the principal amount of the bonds.

(II) Redemption on delisting of the Company — Upon the occurrence of delisting of the Company's shares on the Stock Exchange, the Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem the bonds outstanding at the amount equal to 130% of the principal amount of the bonds.

(6) Transferability — The bonds and any Conversion Shares were freely transferable subject to the terms and conditions of the investment agreement entered into between the Company and the Bondholder on 17 June 2011.

(7) Voting right — The Bondholder would not be entitled to receive notice of or attend or vote at general meetings of the Company by reason only of being the holder of a bond. The Bondholder would not be entitled to participate in any distribution and/or offers of further securities made by the Company by reason only of being the holder of the bonds.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2011 (continued)

(8) Listing of the bonds — No application would be made for the listing of the bonds on the Stock Exchange or any other exchange.

(9) Collateral — The Bondholder did not hold any collateral over the bonds.

The convertible bonds at 17 June 2011 included fair value of the liability component, equity component and embedded derivative in respect of the early redemption feature of the convertible bonds. The fair value of the liability component and the equity component of the convertible bonds on initial recognition were approximately RMB378,949,000 and RMB188,839,000, respectively.

The equity component would remain in other reserve until the embedded conversion option was exercised. The embedded derivative in respect of the early redemption feature of the convertible bonds was measured at fair value with changes in fair value recognised in profit or loss. In the opinion of the directors of the Company, the fair value of the embedded derivative in respect of the early redemption feature was immaterial.

Subsequent to the initial recognition, the liability component of the convertible bonds was carried at amortised cost using effective interest method. The effective interest rate of the liability component of the convertible bonds was 12% per annum. The movement of the liability component of the convertible bonds for the year ended 31 December 2011 was set out below:

	RMB'000
Carrying amount at 17 June 2011	378,949
Interest charge	23,495
Carrying amount at 31 December 2011	402,444

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2011 (continued)

Concurrent with the issuance of the bonds, 95,121,951 fully detachable and transferrable warrants ("2011 Warrants") each to purchase one ordinary share of the Company were issued. The exercise price of the 2011 Warrants was HK$4.10 and would be expired in five years from the date of issuance. The principal terms of the warrants were as follows:

(A) Exercise price — Each 2011 Warrant carried the right to subscribe for one share. The exercise price at which a share would be issued upon exercise of a warrant, as adjusted from time to time, would initially be RMB3.4403 per share (translated at the fixed exchange rate of HKD1.1917494 = RMB1 as pre-determined and the exercise price would be settled in HKD) but would be subject to anti-dilutive adjustment in the manner provided in the warrant instrument, including subdivision or consolidation of shares of the Company, capitalisation of profits or reserves, capital distribution, issuance of options, rights or warrants, and certain other events.

(B) Exercisable period — At the option of the holder thereof, at any time on or after the date of the issue of each 2011 Warrant up to the close of business (at the place where the warrant certificate evidencing such 2011 Warrant is deposited for exercise) on the fifth anniversary of the date of issue of such 2011 Warrant, that was 16 June 2016 (the "Expiration Date"), (but in no event thereafter) (the "Exercise Period"). After the close of business on the Expiration Date, the exercise right shall lapse and each 2011 Warrant shall cease to be valid for any purpose.

(C) Rights — The 2011 Warrant would rank pari passu in all respects with one another.

(D) Transferability — The 2011 Warrants were freely transferable subject to the terms and conditions of the investment agreement entered into between the Company and the holder of the 2011 Warrants on 17 June 2011.

(E) Voting right — The holder of the 2011 Warrants would not be entitled to receive notice of or attend or vote at general meetings of the Company by reason only of being the holder of the 2011 Warrants. The holder of the warrants would not be entitled to participate in any distribution and/or offers of further securities made by the Company by reason only of being the holder of the 2011 Warrants.

(F) Listing of the 2011 Warrants — No application would be made for the listing of the 2011 Warrants on the Stock Exchange or any other exchange.

The fair value of the 2011 Warrants on 17 June 2011 was approximately RMB86,712,000. The 2011 Warrants were measured at fair value with changes in fair value recognised in profit or loss.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2011 *(continued)*

The fair values of the 2011 Warrants of the Company at 17 June 2011 and 31 December 2011 were calculated using the Binomial pricing model. The inputs into the model were as follows:

	17 June 2011	31 December 2011
Share price	HK$2.96	HK$1.08
Exercise price	HK$4.10	HK$4.10
Expected volatility	53.00%	62.73%
Warrant life	5 years	4.5 years
Risk-free interest rate	1.3928%	0.8270%

The risk-free interest rates were based on yield of Hong Kong government bonds at the dates of valuation. Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. Changes in variables and assumptions might result in changes in the fair values of the 2011 Warrants.

The movement of the fair value of the 2011 Warrants for the year ended 31 December 2011 was set out below:

	RMB'000
Carrying amount at 17 June 2011	86,712
Gain on change in fair value recognised in profit or loss *(note 8)*	(72,112)
Carrying amount at 31 December 2011	14,600

Transaction costs related to the issuance of the bonds and 2011 Warrants of approximately RMB8,776,000 have been recognised in the profit or loss or consolidated statement of changes in equity in accordance with the Group's accounting policy.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2012

On 20 January 2012 and 9 November 2012, the Company and the Bondholder entered into agreements ("Repurchase Deeds"), pursuant to which the Company agreed to repurchase, and the Bondholder (which also held the outstanding 2011 Warrants of the Company) agreed to sell, 75% ("Repurchase Transaction I") and 25% ("Repurchase Transaction II"), respectively, the convertible bonds and 2011 Warrants issued by the Company, in consideration for a cash payment of approximately RMB491 million and RMB164 million, respectively, which were equal to the aggregate principal amount of the bonds and 2011 Warrants.

Under the Repurchase Deed dated 20 January 2012, the Bondholder granted an option ("Call Option") to the Company to request the Bondholders to (i) to cancel of all remaining 2011 Warrants at no cost; and (ii) sell all (but not some only) of the outstanding bonds to the Company for an amount in cash equal to the aggregate principal amount of all such original bonds, at any time from the date of such Repurchase Deed to 31 January 2013. The Repurchase Transaction I was completed on 14 March 2012.

Under the Repurchase Deed dated 9 November 2012, the Company exercised the Call Option in full and the parties agreed that the Company shall pay the amount for the repurchase of all the outstanding bonds by instalments (each an "Outstanding Principal Payments"). The Company shall pay each Outstanding Principal Payments on the below relevant payment date:

Payment Date Outstanding	Principal Payment
Repurchase completion date, being 9 November 2012	RMB21,205,800
24 November 2012	RMB21,205,800
24 December 2012	RMB21,205,800
24 January 2013	RMB21,205,800
24 February 2013	RMB21,205,800
24 March 2013	RMB21,205,800
24 April 2013	RMB9,097,550
24 May 2013	RMB9,097,550
24 June 2013	RMB9,097,550
24 July 2013	RMB9,097,550

The Outstanding Principal Payments are unsecured and interest-free. As at 31 December 2012, the aggregate unsettled Outstanding Principal Payments were approximately RMB100,008,000.

The Repurchase Transaction II was completed on 9 November 2012.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

***For the year ended 31 December 2012** (continued)*

The Call Option was measured at fair value with changes in fair value recognised in profit or loss. The fair values of the Call Option on 14 March 2012 and 9 November 2012 were approximately RMB2,077,000 and RMB112,000, respectively. The fair values of the Call Option of the Company on 14 March 2012 and 9 November 2012 was calculated using the Binomial pricing model. The inputs into the model were as follows:

	14 March 2012	9 November 2012
Expected volatility	62.73%	67.36%
Call option life	4.3 years	3.6 years
Risk-free interest rate	0.571%	0.210%

The risk-free interest rates were based on yield of Hong Kong government bonds at the dates of valuation. Expected volatility was determined by using the historical volatility of the Company's share prices over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. Changes in variables and assumptions may result in changes in the fair values of the Call Option.

The movement of the fair values of the Call Option for the period from 14 March 2012 to 9 November 2012 was set out below:

	RMB'000
Carrying amount at 14 March 2012	2,077
Loss on fair value change recognised in profit or loss	(1,965)
Carrying amount at 9 November 2012	112

On 20 January 2012, the Company and the Bondholder also entered into a warrant subscription agreement, pursuant to which the Company agreed to issue new warrants to the Bondholder, in consideration for (i) repurchase by the Company of the bonds at par value and (ii) significant value-added services provided by the Bondholder to the Company in respect of new customers, production yields, financial planning and business development ("Warrants Issue Transaction"). The Company agreed to issue detachable and transferrable warrants ("2012 Warrants"), exercisable for a period of four years from the date of issue, to the Bondholder who was entitled to subscribe for up to 94,354,839 shares at a price of HK$1.24 per share. The Warrants Issue Transaction were completed on 14 March 2012.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2012 (continued)

The principal terms of the 2012 Warrants are as follows:

(A) Exercise price — Each 2012 Warrant carried the right to subscribe for one share. The exercise price at which a share would be issued upon exercise of a 2012 Warrant, as adjusted from time to time, will initially be RMB1.00874 per share (translated at the fixed exchange rate of HK$1.22926 = RMB1 as pre-determined and the exercise price will be settled in HKD) but would be subject to anti-dilutive adjustment in the manner provided in the warrant instrument, including subdivision or consolidation of shares of the Company, capitalisation of profits or reserves, capital distribution, issuance of options, rights or warrants, and certain other events.

(B) Exercisable period — At the option of the holder thereof, at any time on or after the date of the issue of each 2012 Warrant up to the close of business (at the place where the warrant certificate evidencing such warrant is deposited for exercise) on the forth anniversary of the date of issue of such warrant, that was 16 June 2016 (the “Expiration Date”), (but in no event thereafter). After the close of business on the Expiration Date, the exercise right shall lapse and each 2012 Warrant shall cease to be valid for any purpose.

(C) Rights — The 2012 Warrants would rank pari passu in all respects with one another.

(D) Transferability — The 2012 Warrants were freely transferable subject to the terms and conditions of the investment agreement entered into between the Company and the holder of the 2012 Warrants.

(E) Voting right — The holder of the 2012 Warrants would not be entitled to receive notice of or attend or vote at general meetings of the Company by reason only of being the holder of the warrants. The holder of the 2012 Warrants would not be entitled to participate in any distribution and/or offers of further securities made by the Company by reason only of being the holder of the 2012 Warrants.

(F) Listing of the 2012 Warrants — No application would be made for the listing of the 2012 Warrants on the Stock Exchange or any other exchange.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2012 (continued)

The fair values of the 2012 Warrants on 14 March 2012 and 31 December 2012 were approximately RMB59,300,000 and RMB39,400,000, respectively. The 2012 Warrants are measured at fair value with changes in fair value recognised in profit or loss. The fair values of the 2012 Warrants of the Company at 14 March 2012 and 31 December 2012 were calculated using the Binomial pricing model. The inputs into the model were as follows:

	14 March 2012	31 December 2012
Share price	HK$1.53	HK$1.22
Exercise price	HK$1.24	HK$1.24
Warrant volatility	62.73%	66.50%
Warrant life	4.3 years	3.6 years
Risk-free interest rate	0.485%	0.113%

The risk-free interest rates were based on yield of Hong Kong government bonds at the date of valuation. Expected volatility was determined by using the historical volatility of the Company's share prices over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. Changes in variables and assumptions may result in changes in the fair values of the 2012 Warrants.

The movement of the fair value of the 2012 Warrants for the year ended 31 December 2012 was set out below:

	RMB'000
Carrying amount at 14 March 2012	59,300
Gain on fair value change recognised in profit or loss	(19,900)
Carrying amount at 31 December 2012	39,400

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2012 (continued)

The directors of the Company considered that the Repurchase Transaction I and Warrants Issue Transaction are part of the same arrangement and Repurchase Transaction I would not have occurred without Warrants Issue Transaction and vice versa, and therefore should be considered as linked transactions (the "Linked Transaction"). The aggregate consideration for each of the Linked Transaction and the Repurchase Transaction II was analysed as follows:

	Linked Transaction *RMB'000*	Repurchase Transaction II *RMB'000*
Cash	490,875	–
Fair values of 2012 Warrants	59,300	–
Fair values of Call Option	(2,077)	112
Outstanding Principal Payments	–	163,625
	548,098	163,737

The movements of the liability component and equity component of the convertible bonds and 2011 Warrants during the year ended 31 December 2012 are set out below:

	Debt *RMB'000*	Equity *RMB'000*	2011 Warrants *RMB'000* *(Note)*	Total *RMB'000*
At 1 January 2012	402,444	188,839	14,600	605,883
Interest charged	9,712	–	–	9,712
Change in fair values	–	–	12,600	12,600
At 14 March 2012	412,156	188,839	27,200	628,195
Linked Transaction	(309,117)	(141,629)	(20,400)	(471,146)
Interest charged	7,594	–	–	7,594
Change in fair values	–	–	(2,800)	(2,800)
At 9 November 2012	110,633	47,210	4,000	161,843
Repurchase Transaction II	(110,633)	(47,210)	(4,000)	(161,843)
At 31 December 2012	–	–	–	–

Note: The fair values of the 2011 Warrants at 14 March 2012 and 9 November 2012 were calculated using the Binomial pricing model with the following inputs into the model.

26. CONVERTIBLE BONDS AND WARRANTS *(continued)*

For the year ended 31 December 2012 (continued)

	14 March 2012	9 November 2012
Share price	HK$1.53	HK$1.21
Exercise price	HK$4.10	HK$4.10
Expected volatility	62.73%	67.36%
Warrant life	4.3 years	3.6 years
Risk-free interest rate	0.485%	0.210%

The risk-free interest rates were based on yield of Hong Kong government bonds at the dates of valuation. Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. Changes in variables and assumptions might result in changes in the fair values of the 2011 Warrants.

27. DEFERRED REVENUE

	2012 *RMB'000*	2011 *RMB'000*
Government grants	5,731	–
Analysed for reporting purpose as:		
Current liabilities	287	–
Non-current liabilities	5,444	–
	5,731	–

In December 2012, the Group received certain government subsidies of approximately RMB5,731,000 which was related to compensation of acquisition of plant and equipment. The amount is treated as deferred revenue and amortised to income over the useful lives of related assets upon such assets are ready for their intended use and depreciation commences. During the year ended 31 December 2012, no income was recognised since the assets were not ready for intended use.

28. SHARE CAPITAL

The share capital of the Group at 31 December 2012 and 31 December 2011 represented the issued and fully paid capital of ordinary shares of the Company.

Authorised:	Number of shares	Amount
		HK$'000
Ordinary shares		
Ordinary shares of HK$0.001 each at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	7,600,000,000	7,600

Issued and fully paid:	Number of shares	Amount
		HK$'000
Ordinary shares		
Ordinary shares of HK$0.001 each at 1 January 2011	1,133,628,000	1,134
Exercise of share options *(note 1)*	262,000	2
Ordinary shares of HK$0.001 each at 31 December 2011	1,133,890,000	1,136
Issue of new shares *(note 2)*	50,000,000	50
Ordinary shares of HK$0.001 each at 31 December 2012	1,183,890,000	1,186

	2012	2011
	RMB'000	*RMB'000*
Presented as RMB:		
Ordinary shares	1,039	999

Notes:

(1) During the year ended 31 December 2011, the Company issued 200,000 and 62,000 new shares upon exercise of share options at the exercise price of HK$1.49 per share and HK$2.51 per share, respectively.

(2) In December 2012, the Company issued 50,000,000 ordinary shares of HK$0.001 each for a consideration of HK$1.15 per share. The allotment was in the form of private placement with shares subscribed by independent third parties not related to the Group.

28. SHARE CAPITAL *(continued)*

All the shares issued by the Company during the year ended 31 December 2012 and 31 December 2011 ranked pari passu with the then existing shares in all respects.

Subsequent to the end of the reporting period, the Company issued 120,000,000 ordinary shares of HK$0.001 each for a consideration of HK$1.74 per share in January 2013. The allotment was in the form of private placement with shares subscribed by independent third parties not related to the Group.

29. SHARE-BASED COMPENSATION

(a) Pre-IPO Share Option Scheme

The Company's share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2008 for the primary purpose of giving the grantees an opportunity to have personal stake in the Company and motivating the grantees to optimise their performance and efficiency, and retaining the grantees whose contributions are important to the Group's long-term growth and profitability. Under the Pre-IPO Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is not permitted to exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Option granted must be taken up within 30 days from the date of grant, upon payment of HK$1.00. Subject to the vesting as detailed below, options may be exercised at any time from the grant date of the share options to the 10th anniversary of the date of grant. The exercise price of the shares in the Company shall be a price determined by the board of directors of the Company with reference to future earnings potential of the Company and notified to the eligible participants.

(1) All options granted are at an exercise price of HK$2.51 per share.

(2) All holders of options granted may only exercise their options in the following manner:

   (i) 1/12th of the share options vested on 1 November 2009 and become exercisable; and

   (ii) from 1 November 2009 onwards, for the remaining 11/12th share options, every 1/12th of the granted share options will vest at the end of each three-month period on a quarterly basis.

(3) The options will be lapsed automatically and not be exercisable (to the extent not already exercised) when the grantees ceased to be employees of the Group.

29. SHARE-BASED COMPENSATION *(continued)*

(a) *Pre-IPO Share Option Scheme (continued)*

Set out below are details of movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the years ended 31 December 2012 and 31 December 2011:

	Number of options				
	Outstanding as at 1 January 2012	Issue during the year	Exercised during the year	Forfeited in the year	Outstanding as at 31 December 2012
Directors:					
Mr. Leung	63,000	–	–	–	63,000
Mr. DeWitt	200,000	–	–	–	200,000
Mr. Kang	249,020	–	–	–	249,000
	512,020	–	–	–	512,020
Exercisable at the end of the year	341,347				512,020
Weighted average exercise price (HK$)	2.51	N/A	N/A	N/A	2.51

	Number of options				
	Outstanding as at 1 January 2011	Issue during the year	Exercised during the year	Forfeited in the year	Outstanding as at 31 December 2011
Directors:					
Mr. Leung	125,000	–	(62,000)	–	63,000
Mr. DeWitt	200,000	–	–	–	200,000
Mr. Kang	249,020	–	–	–	249,020
	574,020	–	(62,000)	–	512,020
Exercisable at the end of the year	321,861				341,347
Weighted average exercise price (HK$)	2.51	N/A	2.51	N/A	2.51

29. SHARE-BASED COMPENSATION *(continued)*

(a) Pre-IPO Share Option Scheme (continued)

In respect of 62,000 share options which were exercised during the year ended 31 December 2011, the exercise price and weighted average share price at the date of exercise is HK$2.51 and HK$4.64 per share, respectively. No share options under the Pre-IPO Share Option Scheme were exercised during the year ended 31 December 2012.

At 31 December 2012, the number of shares in respect of which options under the Pre-IPO Share Option Scheme remained outstanding was 512,020 (2011: 512,020), representing 0.04% (2011: 0.05%) of the shares of the Company in issue at that date.

The Group recognised the total expense of approximately RMB59,000 (2011: RMB78,000) for the year ended 31 December 2012 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

(b) Share Option Scheme

The Company has adopted its share option scheme (the "Share Option Scheme") on 2 October 2009. The purpose of the Share Option Scheme is to motivate eligible persons to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. Additionally, the Company may, from time to time, grant share options to outside third parties in respect of services provided to the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 0.1% of the number of shares in issue unless approved by shareholders in general meeting.

Option granted must be taken up within 30 days from the date of grant, upon payment of HK$1.00. Subject to the vesting as detailed below, options may be exercised at any time from the grant date of the share options to the 10th anniversary of the date of grant. The subscription price of a share in respect of option granted under the Share Option Scheme will be determined by the board of directors provided that is shall not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the 5 business day immediately preceding the date of grant, and (iii) the nominal value of the shares.

29. SHARE-BASED COMPENSATION *(continued)*

(b) *Share Option Scheme (continued)*

Pursuant to a board resolution in 2010, the Company granted 5,180,000 share options to certain employees of the Company under the Share Option Scheme. Set out below were details of the outstanding options granted under the Share Option Scheme in 2010:

(1) All options granted were at an exercise price of HK$1.49 per share.

(2) All holders of options might only exercise their options in the following manner:

(i) half of the share options vested and exercisable on the grant date; and

(ii) the remaining balance of share options became vested and exercisable at 30 June 2011.

(3) The options would be lapsed or forfeited automatically and not be exercisable (to the extent not already exercised) to the earlier of the end of their exercisable periods or when the grantees ceased to be employees of the Group.

Pursuant to board resolutions dated 28 June 2012 and 27 December 2012, the Company granted 19,840,000 and 23,900,000, representing 1.68% and 2.02%, respectively, of the shares of the Company in issue at these dates, share options to certain directors, employees and consultants of the Company under the Share Option Scheme. Except for the expenses in relation to share options granted to certain consultants on 27 December 2012 which are fully charged to profit or loss upon their grant, the expenses of the other options granted under the Share Option Scheme on 28 June 2012 and 27 December 2012 will be accounted for in the consolidated statements over the vesting period as follows:

(4) Options granted on 28 June 2012 and 27 December 2012 were at an exercise price of HK$0.98 and HK$1.26 per share, respectively.

(5) All holders of options granted on 28 June 2012 and 27 December 2012 might only exercise their options in the following manner:

(i) half of the share options vested and exercisable on date of grant; and

(ii) the remaining 50% will be vested in 4 tranches, i.e. the first 12.5% from three months after the date of grant, the second 12.5% from six months from the date of grant, the third 12.5% from nine months from date of grant and the balance 12.5% from the anniversary of date of grant.

29. SHARE-BASED COMPENSATION *(continued)*

(b) Share Option Scheme (continued)

(6) The options will be lapsed or forfeited automatically and not be exercisable (to the extent not already exercised) to the earlier of the end of their exercisable periods or when the grantees ceased to be employees of the Group.

The estimated fair values of share options granted on 28 June 2012 and 27 December 2012 were RMB7,685,000 and RMB14,929,000, respectively. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

	28 June 2012	27 December 2012
Share price	HK$0.98	HK$1.25
Exercise price	HK$0.98	HK$1.26
Expected volatility	62.00%	62.33%
Expected life	2.4 years	2.5 years
Risk-free interest rate	0.966%	0.620%

The risk-free rate was based on market yield rate of Hong Kong Government Bond with maturity on 20 June 2022 and 27 December 2022 as of the date of valuation on 28 June 2012 and 27 December 2012. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Changes in variables and assumptions may result in changes in the fair values of the share options.

29. SHARE-BASED COMPENSATION *(continued)*

(b) *Share Option Scheme (continued)*

Set out below are details of movements of the outstanding options granted under the Share Option Scheme during the year ended 31 December 2012:

	Number of options				
	Outstanding as at 1 January 2012	Issue during the year	Exercised during the period	Forfeited during the period	Outstanding as at 31 December 2012
Director:					
Mr. Zhang	–	5,000,000	–	–	5,000,000
Mr. Chau	–	6,000,000	–	–	6,000,000
Mr. Shi	300,000	360,000	–	–	660,000
Mr. Leung	–	300,000	–	–	300,000
Mr. DeWitt	–	300,000	–	–	300,000
Mr. Kang	–	300,000	–	–	300,000
Employees	2,090,000	9,080,000	–	(320,000)	10,850,000
Consultants	–	22,400,000	–	–	22,400,000
	2,390,000	43,740,000	–	(320,000)	45,810,000
Exercisable at the end of the year	2,390,000				29,220,000
Weighted average exercise price (HK$)	1.49	1.13	N/A	1.49	1.37

29. SHARE-BASED COMPENSATION *(continued)*

(b) Share Option Scheme (continued)

	Number of options				
	Outstanding as at 1 January 2011	Issue during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2011
Director:					
Mr. Shi	300,000	–	–	–	300,000
Employees	2,290,000	–	(200,000)	–	2,090,000
	2,590,000	–	(200,000)	–	2,390,000
Exercisable at the end of the year	1,717,692				2,390,000
Weighted average exercise price (HK$)	1.49	N/A	1.49	N/A	1.49

In respect of 200,000 share options which were exercised during the year ended 31 December 2011, the weighted average share price at the date of exercise is HK$3.94 per share. During the year ended 31 December 2012, no share options under the share option scheme were exercised. During the year ended 31 December 2012, 320,000 (2011: N/A) share options previously granted by the Company were forfeited before vesting due to departure of employees.

At 31 December 2012, the number of shares in respect of which options under the Share Option Scheme remained outstanding was 45,810,000 (2011: 2,390,000), representing 3.87% (2011: 0.21%) of the shares of the Company in issue at that date.

The Group recognised the total expense of approximately RMB20,242,000 (2011: RMB672,000) for the year ended 31 December 2012 in relation to share options granted by the Company under the Share Option Scheme.

30. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 *RMB'000*	2011 *RMB'000*
Non-current assets		
Investments in subsidiaries and amounts due from subsidiaries	1,102,330	1,203,647
Current assets		
Other receivables	847	1,793
Amounts due from subsidiaries	4,073	4,083
Bank balances and cash	50	397,288
	4,970	403,164
Current liability		
Other payables	105,784	4,428
Net current (liabilities) assets	(100,814)	398,736
Total assets less current liabilities	1,001,516	1,602,383
Capital and reserves		
Share capital (see note 28)	1,039	999
Reserves *(note)*	961,077	1,184,340
Total equity	962,116	1,185,339
Non-current liability		
Convertible bonds *(note 26)*	–	402,444
Warrants *(note 26)*	39,400	14,600
	1,001,516	1,602,383

30. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(continued)

Note: Reserves

	The Company				
	Share premium	Other reserve	Share options reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	1,004,667	–	1,184	(5,414)	1,000,437
Loss and total comprehensive expense for the year	–	–	–	(4,857)	(4,857)
Exercise of share options	534	–	(155)	–	379
Recognition of equity component of convertible bonds and warrants	–	187,631	–	–	187,631
Recognition of equity-settled share-based payments	–	–	750	–	750
At 31 December 2011	1,005,201	187,631	1,779	(10,271)	1,184,340
Loss and total comprehensive expense for the year	–	–	–	(199,181)	(199,181)
Issue of ordinary shares *(note 28)*	45,597	–	–	–	45,597
Redemption of convertible bonds and warrants	–	(187,631)	–	97,651	(89,980)
Recognition of equity-settled share-based payments	–	–	20,301	–	20,301
At 31 December 2012	1,050,798	–	22,080	(111,801)	961,077

31. OPERATING LEASE COMMITMENTS

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

	2012	2011
	RMB'000	*RMB'000*
Within one year	895	744
In the second to fifth year inclusive	1,829	1,720
After five years	2,186	2,616
	4,910	5,080

Operating lease payments represented rentals payable by the Group for certain of its office properties and factory premises. Except for the lease for the Group's factory with a term of twenty years, leases are negotiated for an average term from one to two years.

32. CAPITAL COMMITMENTS

	2012	2011
	RMB'000	*RMB'000*
Capital expenditure in the consolidated financial statements in respect of the acquisition of property, plant and equipment		
— Contracted for but not provided	1,147	4,724
— Authorised but not contracted for	97,600	–
	98,747	4,724

33. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme in Hong Kong which was established under the Mandatory Provident Fund Ordnance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. For members of the MPF Scheme, the Group contributes 5%, with maximum of HK$1,250 per person of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 20% to 22% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

34. RELATED PARTY TRANSACTIONS

In the opinion of the directors of the Company, the Group did not have any outstanding balances with related parties at 31 December 2012 and 31 December 2011.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2012 *RMB'000*	2011 *RMB'000*
Basic salaries and allowances	4,454	4,942
Retirement benefits scheme contributions	145	120
Share-based payments expense	3,957	468
	8,556	5,530

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance to individual and market trends.

35. SUBSIDIARIES

Details of the wholly-owned Company's subsidiaries at 31 December 2012 and 31 December 2011 are as follows:

Name of company	Place and date of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital at the date of this report	Principal activities
Comtec Semiconductor (Cayman) Limited*	Cayman Islands 23 April 2007	US$2 *(Note)*	Investment holding
Comtec Semiconductor (Hong Kong) Limited	Hong Kong 12 October 2007	HK$2 *(Note)*	Investment holding
Comtec Solar (Cayman) Limited*	Cayman Islands 23 April 2007	US$2 *(Note)*	Investment holding
Comtec Solar (HK)	Hong Kong 12 October 2007	HK$2 *(Note)*	Investment holding, provision support services for group companies of sourcing, invoicing and
Comtec Solar (Jiangxi)#	PRC 22 March 2006	USD6,064,000 *(Note)*	Inactive
Comtec Semi#	PRC 21 December 1999	US$4,040,000 *(Note)*	Manufacturing and sales of semiconductors, solar wafers and related products
Comtec Solar#	PRC 5 July 2005	US$18,500,000 *(Note)*	Manufacturing and sales of solar wafers and related products
Comtec New Energy (Shanghai) Limited#	PRC 7 January 2011	US$16,000,000 *(Note)*	Manufacturing and sales of solar wafers and related products
Comtec Solar (Jiangsu) Co., Limited#	PRC 11 February 2011	US$35,500,000 *(Note)*	Manufacturing and sales of solar wafers and related products

* Directly held by the Company
\# Wholly foreign-owned enterprise

Note: The issued and fully paid share capital of the entity remained unchanged as at 31 December 2012 and 31 December 2011.

None of the subsidiaries has issued any debt securities at the end of the reporting period.

Five Years Summary

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
Results	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Turnover	762,103	506,876	1,021,371	1,016,746	**1,025,615**
(Loss) Profit before interest expenses and taxation	172,860	37,999	270,492	20,597	**(124,793)**
Interest expense	(6,295)	(6,669)	(7,401)	(38,596)	**(39,036)**
(Loss) Profit before taxation	166,565	31,330	263,091	(17,999)	**(163,829)**
Taxation	(35,086)	(6,389)	(40,151)	(28,328)	**(1,220)**
(Loss) Profit and total comprehensive income for the year, attributable to the owners of the Company	131,479	24,941	222,940	(46,327)	**(165,049)**

	As at 31 December				
	2008	2009	2010	2011	**2012**
Assets and liabilities	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	817,261	1,410,675	1,912,392	2,654,773	**2,440,099**
Total liabilities	(257,344)	(349,050)	(401,049)	(1,000,996)	**(975,413)**
Net assets	559,917	1,061,625	1,511,343	1,653,777	**1,464,686**

Definitions

In this report, unless the context otherwise requires, the following terms shall have the following meanings:

"Board" or "Board of Directors"	the board of Directors
"Company"	Comtec Solar Systems Group Limited
"Controlling Shareholders"	the controlling shareholders (as defined in the Listing Rules) of the Company, namely Mr. John Zhang and Fonty Holdings Limited
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules
"Directors(s)"	the director(s) of the Company
"Fonty"	Fonty Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 5 September 2007
"Global Offering" or "IPO"	the listing of the Shares on the Stock Exchange on 30 October 2009
"Group"	the Company and its subsidiaries
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Listing Date"	30 October 2009, the date on which dealings in the Shares first commenced on the Stock Exchange
"Model Code"	model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules
"PRC" or "China"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 19 October 2009
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Future Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company