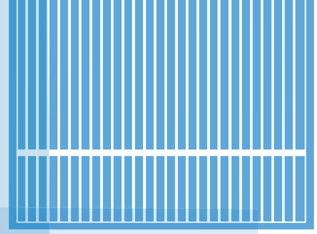
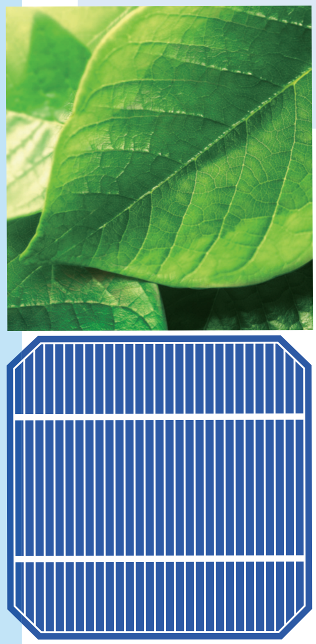


We will make all efforts to the

LOW-CARBON ENVIRONMENT



2012
ANNUAL REPORT

SF-PV 順風光電國際有限公司
Shunfeng Photovoltaic International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 01165

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shi Jianmin *(Vice Chairman)*
Mr. Gao Zhan *(appointed on 29 March 2012 and resigned from 11 December 2012)*
Mr. Lu Jianqing *(resigned from 29 March 2012)*
Mr. Qian Kaiming *(resigned from 7 February 2013)*
Mr. Wang Yu *(appointed on 28 November 2012)*
Mr. Lu Bin *(appointed on 29 March 2013)*

Non-executive Directors

Mr. Tang Guoqiang *(Chairman)* *(re-designated on 29 March 2013)*
Mr. Chen Shi *(appointed on 29 March 2013)*
Mr. Yue Yang *(appointed on 29 March 2013)*

Independent Non-executive Directors

Mr. Tao Wenquan
Mr. Zhao Yuwen
Mr. Ge Ming *(resigned from 7 February 2013)*
Mr. Jiang Bin *(appointed on 7 February 2013)*

AUDIT COMMITTEE

Mr. Jiang Bin *(Chairman)*
Mr. Tao Wenquan
Mr. Zhao Yuwen

REMUNERATION COMMITTEE

Mr. Jiang Bin *(Chairman)*
Mr. Tang Guoqiang
Mr. Tao Wenquan
Mr. Zhao Yuwen

NOMINATION COMMITTEE

Mr. Tang Guoqiang *(Chairman)*
Mr. Jiang Bin
Mr. Zhao Yuwen

COMPANY SECRETARY

Mr. Tse, Man Kit Keith

AUTHORIZED REPRESENTATIVES

Mr. Tang Guoqiang
Mr. Tse, Man Kit Keith

REGISTERED OFFICE

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

HEADQUARTER

99 Yanghu Road
Wujin Hi-tech Industrial Development Zone
Changzhou City
Jiangsu 213164, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Portion B, 30/F
Bank of China Tower
1 Garden Road, Central
Hong Kong

CORPORATE INFORMATION (CONTINUED)

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

As to Hong Kong law and U.S. law
Baker & McKenzie

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
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

COMPANY WEBSITE

www.sf-pv.com

STOCK CODE

01165

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present to the Shareholders the audited consolidated annual results of the Group for the year ended 31 December 2012.

The continuing uncertainty of economy followed by anti-dumping and countervailing investigations launched by the United States and the European Union have adversely affected the solar energy industry and resulted in a decrease in pricing of solar products in 2012. The Group recorded a revenue of RMB1,059.5 million in 2012, representing a 46% decrease as compared with RMB1,971.5 million in 2011. The Group recorded a net loss of RMB271.3 million due to the recognition of impairment loss on property, plant and equipment of RMB187.7 million and impairment loss on trade and other receivables of RMB21.5 million and achieved cash inflow from operating activities of RMB239.6 million in 2012. Our shipment volume of solar cells for the Year was approximately 373.4 MW, which represents an increase of 10.7% from 337.4 MW in 2011. Our shipment volume of solar modules slightly decreased to approximately 13.4 MW from 14.3 MW in 2011. Even during such unfavourable business environment resulting from global economic uncertainties, demand for our products by our customers was still sustainable. We believe this sustainability was attributable to our strong track record of product quality and superior branding.

The "Shunfeng Photovoltaic" brand is synonymous with quality. We maintain the strength of our brand by executing a stringent manufacturing process, tailoring our products to meet our customers' needs and leveraging our extensive track record of superior product quality.

Our Board and management team have confidence in the prospects of the solar energy industry. The National Development and Reform Commission of the PRC has recently announced that the cumulative solar PV target for year 2015 could reach approximately 35 GW under China's Twelfth Five-Year Plan. We believe governments of various countries will continue to invest in solar and other kinds of clean energy with the objective to achieve economic recovery, to create employment opportunities and, at the same time, to establish a low-carbon emission environment. With our reputation and our stable and well-managed relationships with suppliers and customers, I am confident that the Group has the capability to adapt to the new economic and competitive landscapes in the solar energy industry, and with the support of our Board and management team, I strongly believe that our business will continue to develop in a steady and healthy manner.

The Group had a solar cell production capacity of approximately 420 MW in 2012. In order to implement vertical integration to capture additional profit along the value chain and have greater achievement, we invested in the coordinated expansion of our silicon wafer production to realize the benefits of vertical integration. By the end of 2012, we had an annual silicon wafers production capacity of 200 MW installed, of which 66.7 MW has been started for production, and an annual solar module production capacity of 60 MW.

The Group will continue to strive to improve product quality and minimize production cost to further strengthen our competitive advantages. As disclosed in the section headed "Risks relating to our business and industry" of the prospectus dated 30 June 2011 issued by the Company, we must relocate our facilities originally in Xueyan Town, Changzhou City, Jiangsu Province to Wujin Hi-Tech Industrial Zone, Changzhou City, Jiangsu Province by no later than 31 December 2012. The above relocation had been completed before 31 December 2012. At present, the Group is refining its existing business strategies and identifying potential business opportunities proactively with the aim of capturing the enormous opportunities in the upcoming era of clean and economy solar energy, which will enable us to create the greatest reward for our Shareholders.

On 31 December 2012, the Company and the largest Shareholder, Peace Link Services Limited, entered into a subscription agreement in respect of the issue of the convertible bond in the principal amount of HK$449,400,000. The convertible bond had been successfully issued as at 28 February 2013. We consider that the issue of the convertible bond will provide (i) the Company with immediate funding without immediate dilution of the shareholding of the existing Shareholders; and (ii) an opportunity for the Company, if the conversion rights attached to the convertible bond are exercised, to enlarge and strengthen its capital base. Having considered that the convertible bond bear no interest and the relative long maturity date of the convertible bond, we considered the issue of the convertible bond is an appropriate means of funding raising of the Company to strengthen our working capital.

Lastly, for and on behalf of the Board, I would like to acknowledge the dedications and efforts made by the management team and our staff during the past year and express my gratitude to our Shareholders and business partners for their continuous support and trust.

Tang Guoqiang
Chairman
Jiangsu, the PRC

28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overall, the Group's existing business remains challenging and there are no clear visibility amidst the continuing global economic uncertainties. Concerns over global economic uncertainties, followed by anti-dumping and countervailing investigations launched by the United States and the European Union, have adversely affected the overall demand for and the price for solar products.

In long term, we believe that once the global economic uncertainties are cleared, the solar energy industry prospects will be promising. With respect to the global PV markets, countries including Germany, Spain and Italy are currently the major end markets. China, the United States, Japan, India, Australia and Brazil are emerging markets with substantial potential in the future. These countries either have policies that offer, or plan to introduce policies that offer substantial incentives in the form of direct subsidies for solar power system installations, or rebates for electricity produced from solar power. These policies would speed up the development of the PV manufacturing industry, as increasing government support would drive up demand for solar power.

In the meantime, the economic downturn has also created new opportunities for us. Our customers have realized the value of buying high-quality solar cells from a reputable and well-established producer with the indispensable strength and stability, like us, to support their long term development.

Our shipment volume for the Year was 386.8 MW, which was approximately 10.0% higher than that of approximately 351.7 MW in 2011. This indicated that even during the Year when the solar energy industry was severely threatened by anti-dumping and countervailing investigations launched by the United States and the European Union, we still secured sustainable demand for our products.

Our top 5 customers during the Year represented approximately 41.3% of our total revenue as compared with approximately 50.0% in 2011. Our largest customers accounted for approximately 26.9% of our total revenue for the Year while it represented approximately 27.6% in 2011. These changes were mainly due to our continuing efforts to optimise the customer base. We believe product quality and cost advantage will be crucial in the upcoming era of solar energy.

We have been able to gradually increase the number of customers, as well as expand our geographic coverage during 2012. In addition to our strong solar module manufacturers customer base in the PRC, we were able to expand our customer base to include leading solar cell and module manufacturers in other parts of the world.

During 2012, our sales to PRC based customers represented approximately 87.1% of our total revenue, as compared with approximately 95.5% in 2011. Our sales to overseas customers represented approximately 12.9% of our total revenue in 2012, as compared with approximately 4.5% in 2011. Our strong track record for product quality, advanced proprietary technology, and efforts to reduce production costs, have contributed to our reputation and thus our success in optimising our customer base. We believe such strategic moves will continue to contribute to a sustainable demand for our products.

Our ability to manufacture high quality solar cells (in terms of industry metrics) reflects on the conversion efficiency and quality of our products. Through utilising our competitive advantages, we strive to maintain our high quality standard in the production of solar cells.

We plan to devote substantial resources in research and development to enhance our manufacturing processes, reduce our production costs, and improve our product quality and performance. We believe these efforts, together with the industry experience of our management team, will enable us to continue to improve production efficiency and enhance product quality. These, we believe, will in turn help to promote our reputation in product innovation within the solar market.

In order to meet the anticipated growth in demand for our solar products, we have our solar cell production capacity of approximately 420 MW during 2012. While we plan to maintain our primary focus on solar cells, we also invested in the coordinated expansion of our silicon wafer production to realize the benefits of vertical integration. By the end of the Year, we had an annual silicon wafers production capacity of 200 MW installed, of which 66.7 MW has been started for production, and an annual solar module production capacity of 60 MW.

The intention of our diversified procurement strategy is to minimize potential disruptions to our operation in the event that any of our suppliers is unable to satisfy our order in a timely manner. We will continuously adhere to this strategy and diversify our supply source even when a supplier offers wafers at a more competitive unit price than other suppliers in the market. To ensure a successful implementation of this strategy, we will develop strategic alliances with our key suppliers, continue to maintain existing relationships, and expand our network of suppliers to, among others, emerging suppliers who are able to provide us with high-quality wafers.

Despite the adverse impacts by anti-dumping and countervailing investigations launched by the United States and the European Union, we have successfully taken effective steps to mitigate the relevant risks on our business resulting from the volatile and difficult economic environment in 2012 and in the coming future.

FINANCIAL REVIEW

Revenue

Revenue decreased by RMB912.0 million, or 46.3%, from RMB1,971.5 million for the year ended 31 December 2011 to RMB1,059.5 million for the Year, primarily as a result of a decrease in the average selling price of our solar products, partially offset by an increase in our sales volume. The decrease in the average selling price of our solar products was generally due to the significant fall in the market prices for solar products, which was caused by anti-dumping and countervailing investigations launched by the United States and the European Union. The increase in our sales volume was generally due to the increase in customer demand for our multicrystalline solar products. The shipment volume of our solar products increased by 10.0% from 351.7 MW for the year ended 31 December 2011 to 386.8 MW for the Year. Inter-segment sales of wafers of approximately 68.1 MW and solar cells of approximately 16.9 MW amounting to RMB119.6 million and RMB49.8 million, respectively, have been eliminated in the revenue of the Year.

For the Year, sales of monocrystalline solar cells and multicrystalline solar cells accounted for 34.6% and 59.8% of the total revenue, respectively, while sales of solar modules accounted for 5.2% of the total revenue.

Sales of 156 mm by 156 mm monocrystalline solar cells

Revenue from sales of 156 mm by 156 mm monocrystalline solar cells decreased by RMB1,036.4 million, or 75.6%, from RMB1,371.8 million for the year ended 31 December 2011 to RMB335.4 million for the Year, primarily as a result of a decrease in shipment volume by 54.6% from 234.6 MW for the year ended 31 December 2011 to 106.5 MW for the Year and a decrease in our average unit price for this product by 44.8% from RMB5.8 per watt for the year ended 31 December 2011 to RMB3.2 per watt for the Year.

Sales of 156 mm by 156 mm multicrystalline solar cells

Revenue from sales of 156mm by 156mm multicrystalline solar cells increased by RMB466.6 million, or 280.1%, from RMB166.6 million for the year ended 31 December 2011 to RMB633.2 million for the Year, primarily as a result of an increase in shipment volume by 489.2% from 43.7 MW for the year ended 31 December 2011 to 257.5 MW for the Year which was partially offset by a decrease in our average unit price for this product by 34.2% from RMB3.8 per watt from the year ended 31 December 2011 to RMB 2.5 per watt for the Year.

Sales of 125 mm by 125 mm monocrystalline solar cells

Revenue from sales of 125 mm by 125 mm monocrystalline solar cells decreased by RMB309.9 million, or 90.8%, from RMB341.2 million for the year ended 31 December 2011 to RMB31.3 million for the Year, primarily as a result of a decrease in our average unit price for this product by 41.4% from RMB5.8 per watt for the year ended 31 December 2011 to RMB3.4 per watt for the Year and a decrease in our shipment volume by 84.1% from 59.1 MW for the year ended 31 December 2011 to 9.4 MW for the Year.

Sales of solar modules

Revenue from sales of solar module decreased by RMB37.2 million, or 40.5%, from RMB91.9 million for the year ended 31 December 2011 to RMB54.7 million for the Year, primarily as a result of a decrease in our average unit price for this product by 37.5% from RMB6.4 per watt for the year ended 31 December 2011 to RMB4.0 per watt for the Year and a decrease in our shipment volume by 5.6% from 14.3 MW for the year ended 31 December 2011 to 13.5 MW for the Year.

Geographic markets

In terms of geographic markets from which our revenue was generated, approximately 87.1% of the total revenue for the Year was generated from sales to our PRC customers, as compared with 95.5% for the year ended 31 December 2011. The remaining portion was generated from the sales to our overseas customers, who are mainly based in Canada and certain European countries.

Cost of sales

Cost of sales decreased by RMB766.7 million, or 43.5%, from RMB1,761.2 million for the year ended 31 December 2011 to RMB994.5 million for the Year, primarily as a result of a decrease in our procurement cost partly offset by the increase in our shipment volume.

Gross profit

Gross profit decreased by RMB145.3 million, or 69.1%, from RMB210.3 million for the year ended 31 December 2011 to RMB65.0 million for the Year, primarily as a result of the aforesaid reasons.

Other income

Other income increased by RMB19.5 million, or 175.6%, from RMB11.1 million for the year ended 31 December 2011 to RMB30.5 million for the Year, primarily due to an increase in bank interest income, the government grants and subcontract processing fee.

Other gains and losses

Other gains and losses decreased by RMB135.9 million, or 182.1% from net loss of RMB74.6 million for the year ended 31 December 2011 to net loss of RMB210.5 million for the Year, which was primarily due to an increase in impairment loss on property, plant and equipment and impairment recognised on trade and other receivables, partially offset by a decrease in legal and professional fees.

Research and development expenses

Research and development expenses increased by RMB11.5 million, or 281.9%, from RMB4.1 million for the year ended 31 December 2011 to RMB15.6 million for the Year, primarily due to enhancing our manufacturing process, reducing our production costs and improving our product quality and performance.

Distribution and selling expenses

Distribution and selling expenses increased by RMB0.7 million, or 10.5% from RMB6.9 million for the year ended 31 December 2011 to RMB7.6 million for the Year, primarily due to the increase in our shipment volume from 351.7 MW for the year ended 31 December 2011 to 387.6 MW for the Year.

Administrative expenses

Administrative increased by RMB5.8 million, or 10.9%, from RMB52.8 million for the year ended 31 December 2011 to RMB58.6 million for the Year, primarily as a result of increased in sewages charges and legal and professional fee.

Finance costs

The Group had bank loans carrying variable interest rates based on the benchmark interest rates issued by the People's Bank of China and also had fixed rate borrowings. Interest expenses in relation to bank loans and obligations under the finance lease increased by RMB26.2 million, or 54.1%, from RMB48.5 million for the year ended 31 December 2011 to RMB74.7 million for the Year, primarily as a result of an increase in the amount of bank loans borrowed.

(Loss) Profit before taxation

Profit before taxation decreased by RMB305.9 million, or 889.2%, from a profit of RMB34.4 million for the year ended 31 December 2011 to a loss of RMB271.5 million for the Year, as a result of the reasons stated above.

Income tax credit (expense)

Income tax expense decreased from RMB10.7 million for the year ended 31 December 2011 to a tax credit of RMB0.2 million for the Year, primarily as a result of the recognition of deferred tax which arose from the asset-related government grants received for the Year and over provision in prior year PRC Enterprise Income Tax.

On 8 November 2011, Shunfeng Technology obtained "High Technology Enterprise" status for 3 years that entitles Shunfeng Technology a preferential tax rate of 15% until year 2013 according to the PRC tax law. Shunfeng Technology was subject to 15% tax rate for the Year.

The remaining subsidiaries of the Company established in the PRC are subject to PRC enterprise income tax rate of 25%.

(Loss) Profit for the Year

Net profit decreased by RMB295.1 million, or 1,242.3%, from a profit of RMB23.8 million for the year ended 31 December 2011 to a loss of RMB271.3 million for the Year, as a result of the reasons stated above. Net profit margin decreased from 1.2% for the year ended 31 December 2011 to –25.6% for the Year.

Inventory turnover days

The inventories of the Group mainly comprised raw materials, work-in-progress and finished goods. The decrease in inventories was mainly due to the decrease on procurement cost of the Group. Included in the balance of the inventories as at 31 December 2012 was a write-down of inventories of RMB7.2 million (31 December 2011: RMB3.6 million), which was mainly due to the continuous fall in the prices of raw material and product selling prices caused by the global economic slowdown. The inventory turnover days as at 31 December 2012 was 20.3 days (31 December 2011: 11.6 days). Unless we received attractive offers from suppliers, the optimal inventory level should be around one month of our sales volume to meet the Group's production requirements.

Trade receivables turnover days

The trade receivables turnover days as at 31 December 2012 was 75.3 days (31 December 2011: 28.8 days). The increase in turnover days was mainly due to the change in the general market environment and even with such increase, the trade receivables turnover days as at 31 December 2012 was still within the credit period (normally 15 to 180 days) which the Group grants to its customers.

Trade payables turnover days

The trade payables turnover days as at 31 December 2012 was 68.7 days (31 December 2011: 23.9 days). Given the established relationship and the change in general market environment, our suppliers allowed the Group to have a reasonable payment period throughout the Year.

Indebtedness, liquidity, gearing ratio and capital structure

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings and the proceeds from the Global Offering. As at 31 December 2012, the Group's current ratio (current assets divided by current liabilities) was 0.4 (31 December 2011: 0.8) and it was in a negative net cash position. The Group has always adopted a prudent treasury management policy. The Group places strong emphasis on having funds readily available and accessible and is in a strong liquidity position with sufficient funds in standby banking facilities to cope with daily operations and meet our future development demands for capital. As at 31 December 2012, the Group was in a negative net cash position of RMB885.9 million (31 December 2011: RMB610.1 million) which included cash and cash equivalent of RMB17.3 million (31 December 2011: RMB120.1 million) and short-term bank and other borrowings of RMB903.2 million (31 December 2011: RMB730.2 million).

The Group's borrowings were denominated in RMB while its cash and bank balances, restricted bank deposits and pledged bank deposits were denominated in RMB, HKD, EURO and JPY. The Group's net debt to equity ratio (net debt divided by shareholders' equity) increase from 125.1% as at 31 December 2011 to 205.4% as at 31 December 2012.

The Group has budgeted RMB182.0 million for its production capacity expansion, which will be funded by proceeds from the Global Offering, our cash flows from operations and/or bank loans.

During 2012, the Group did not entered into any financial instrument for hedging purposes nor did the Group have any currency borrowings and other hedging instruments to hedge against foreign exchange rate risks (31 December 2011: Nil).

Contingent liabilities and guarantees

As at 31 December 2012, the Group did not provide any guarantees for any third party and had no significant contingent liabilities (31 December 2011: Nil).

Charges on the Group's assets

As at 31 December 2012, the Group had pledged certain trade receivable and bills receivables with aggregate carrying amount of approximately RMB73,428,000 (31 December 2011: RMB52,250,000) and certain property, plant and equipment and land use rights with aggregate carrying amount of approximately RMB180,446,000 (31 December 2011: nil) to various banks for securing loans and general credit facilities granted to the Group.

During 2012, the Group obtained other borrowing from an independent third party amounting to RMB35,000,000 (2011: nil), which was unsecured, bearing interest at fixed interest rate of 6.1% per annum and repayable within one year.

Save as disclosed above, as at 31 December 2012 and 31 December 2011, no other assets of the Group was under charge in favor of any financial institution.

Exposure to the fluctuation in exchange rates

Certain bank balances and cash, restricted bank deposits and pledged bank deposits, trade and other receivables and trade and other payables are denominated in currencies other than RMB, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy but the Directors monitor foreign exchange exposure by closely monitoring the foreign exchange risk profile by way of arrangement of foreign currency forward contracts and will consider hedging significant foreign currency exposure should the need arise.

Significant investments held and material acquisitions or disposals

There was no significant investment in, and no material acquisition or disposal of subsidiaries and associated companies by the Group during the Year.

Human resources

As at 31 December 2012, the Group had 1,107 employees (31 December 2011: 1,107). Total staff cost (including Directors' remuneration) amounted to approximately RMB90,422,000 (2011: RMB66,423,000). The remuneration packages for the existing employee include basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

Final dividend

The Board has resolved not to declare a final dividend for the Year.

Use of net proceeds from the listing

The Shares were listed on the Main Board of the Hong Kong Stock Exchange on 13 July 2011 with net proceeds from the Global Offering of approximately HK$416.4 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the Global Offering as at 31 December 2012 was as follows:

Use	Percentage of net proceeds	Amount of net proceeds (in HK$ million)	Amount remaining (in HK$ million)	Amount utilised (in HK$ million)
Expansion of solar cell production capacity	45%	187.4	187.4	—
Expansion of silicon wafer production capacity	45%	187.4	121.8	65.6
Expansion of solar module production capacity	8%	33.3	33.3	—
Working capital	2%	8.3	8.3	—
	100%	416.4	350.8	65.6

The Directors intend to apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 30 June 2011.

FIVE-YEAR STATISTICS

Year	2008	2009	2010	2011	2012
Financial performance					
Turnover growth (%)	131.1%	(32.8%)	64.4%	216.5%	(46.3%)
Gross profit margin (%)	12.0%	19.2%	20.9%	10.7%	6.1%
Net profit margin (%)	9.8%	14.1%	12.9%	1.2%	(25.6%)
EBITDA (in RMB thousands)	66,555	69,339	111,446	128,459	(115,833)
Adjusted EBITDA (in RMB thousands)	66,764	68,578	124,487	199,870	86,124
Adjusted EBITDA margin (%) *	11.8%	18.1%	20.0%	10.1%	8.1%
EPS (in RMB cents)	4.73	4.57	6.88	4.22	(11.95)
Adjusted EPS (in RMB cents) **	5.71	5.86	10.64	14.76	5.52
Total indebtedness (in RMB thousands)	38,048	–	294,500	999,187	903,217
Gearing ratio (%)	15.0%	–	43.1%	55.6%	62.9%
Interest coverage (times)	14.8	46.8	27.0	1.7	(2.6)
Trade receivable turnover (in days)	–	5.5	16.9	28.8	75.3
Trade payable turnover (in days)	2.4	13.1	19.7	23.9	68.7
Inventory turnover (in days)	25.8	38.8	20.0	11.6	20.3
Operation performance					
Shipment volume					
Monocrystal line solar alls					
156mm by 156mm	0.1MW	1.9MW	7.3MW	234.6MW	106.5MW
125mm by 125mm	24.3MW	39.3MW	64.6MW	59.1MW	9.4MW
Multicrystalline solar alls					
156mm by 156mm	—	—	—	43.7MW	257.5MW

* Adjusted EBITDA excluded other gains and losses and bank interest income

** Adjusted EPS calculated by Adjusted EBITDA over weighted average number of ordinary shares

CORPORATE GOVERNANCE REPORT

Good corporate governance is conducive to enhancing overall performance, transparency and accountability and is essential in modern corporate administration. The Board continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

CORPORATE GOVERNANCE CODE

The Company has complied with all applicable code provisions under the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) for the period from 1 January 2012 to 31 March 2012 and Corporate Governance Code (the new edition of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules) for the period from 1 April 2012 to 31 December 2012, except for the following deviation:

According to Code A.1.8 of the Corporate Governance Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. The Company is negotiating with the relevant insurance agents about the liability insurance for the Directors and will arrange such insurance cover in due course.

In accordance with the requirement of the Listing Rules, the Company has established an audit committee with defined terms of reference and appointed a chief financial officer to oversee the financial reporting procedures and internal control of the Group. The Company has also established a nomination committee and a remuneration committee with defined terms of reference.

(a) Corporate Governance Functions

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) To develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) To review and monitor the training and continuous professional development of Directors and senior management;

(iii) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

(iv) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

(v) To review the Group's compliance with Corporate Governance Code and disclosure requirements in the corporate governance report.

(b) 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.

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

As at the date of this annual report, the Board comprised a total of nine Directors, including three executive Directors, namely, Mr. Shi Jianmin (General manager), Mr. Wang Yu and Mr. Lu Bin; three non-executive Directors, namely, Mr. Tang Guoqiang (Chairman), Mr. Chen Shi and Mr. Yue Yang; and three independent non-executive Directors, namely, Mr. Tao Wenquan, Mr. Zhao Yuwen and Mr. Jiang Bin. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

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, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the Year.

Chairman and General Manager

Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman of the Board and the general manager should be separate and should not be performed by the same individual. The Company has complied with the requirement of separation of these two roles under the Corporate Governance Code with Mr. Tang Guoqiang acting as the chairman of the Board and Mr. Shi Jianmin acting as the general manager of the Company. To the best knowledge of the Company, there is no other financial, business or family relationship between the members and chairman of the Board and the general manager.

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.

During the Year, the Board had three independent non-executive Directors with one of them, Mr. Ge Ming (resigned from 7 February 2013) and Mr. Jiang Bin (appointed on 7 February 2013) possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (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. The Company considers that all the independent non-executive Directors are independent in accordance with 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 businesses and the statutory regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills.

According to the records maintained by the Company, the 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 Corporate Governance Code on continuous professional development during the Year:

		Corporate Governance/Updates on laws, rules and regulations	
	Notes	**Read materials**	**Attend workshops**
Executive Directors			
Mr. Tang Guoqiang		1/1	1/1
Mr. Shi Jianmin		1/1	1/1
Mr. Gao Zhan	1	1/1	1/1
Mr. Lu Jianqing	2	1/1	1/1
Mr. Qian Kaiming		1/1	1/1
Mr. Wang Yu	3	1/1	1/1
Independent non-executive Directors			
Mr. Tao Wenquan		1/1	1/1
Mr. Zhao Yuwen		1/1	1/1
Mr. Ge Ming		1/1	1/1

Notes:

1. Resigned from 11 December 2012.
2. Resigned from 29 March 2012.
3. Appointed on 28 November 2012.

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 number of the meetings held and the attendance of each Director at these meetings for the year ended 31 December 2012 have been set out as follows:

	Board Meeting
No. of meetings held	5
No. of meetings attended	
Executive Directors	
Mr. Tang Guoqiang	5/5
Mr. Shi Jianmin	5/5
Mr. Gao Zhan[1]	4/5
Mr. Lu Jianqing[2]	1/5
Mr. Qian Kaiming[3]	5/5
Mr. Wang Yu[4]	2/5
Independent Non-Executive Directors	
Mr. Tao Wenquan	5/5
Mr. Zhao Yuwen	5/5
Mr. Ge Ming	5/5

Notes:

1. appointed on 29 March 2012 and resigned from 11 December 2012.
2. resigned from 29 March 2012.
3. resigned from 7 February 2013.
4. appointed on 28 November 2012.

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 of the Company and the company secretary 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 and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and reelection 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; and (iii) nomination 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 upon request. The board committees are provided with sufficient resources to perform 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 audit committee was established in May 2011 with written terms of reference. The primary duties of the audit committee are to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and develop and implement policy on engaging an external auditor to supply non-audit services. Their written terms of reference are in line with the Corporate Governance Code provisions. During the Year, the audit committee consisted of three members, namely, Mr. Ge Ming (resigned from 7 February 2013), Mr. Tao Wenquan and Mr. Zhao Yuwen, all of whom are independent non-executive Directors. Mr. Ge Ming was the chairman of the audit committee upon his resignation. Mr. Jiang Bin is the chairman of the audit committee since from 7 February 2013.

The audit committee monitors the integrity of financial statements of the Company and its annual report and accounts, and has reviewed the Group's consolidated financial statements for the year ended 31 December 2012, including the accounting principles and practice adopted by the Group.

During the Year, two meetings were held by the audit committee. At the meeting, the annual report for the year ended 31 December 2011 and the interim report for the six months ended 30 June 2012 were reviewed.

The attendance record of the committee members at the meeting was as follows:

	Meeting
No. of meetings held	2
No. of meetings attended	
Mr. Ge Ming	2/2
Mr. Tao Wenquan	2/2
Mr. Zhao Yuwen	2/2

Remuneration Committee

The remuneration committee was established in May 2011 with written terms of reference. The primary duties of the remuneration committee are to make recommendations to the Board on the Company's policies and structure for all remuneration of Directors and senior management and make recommendations to the Board of the remuneration of non-executive Directors. Their written terms of reference are in line with the Corporate Governance Code provisions. During the Year, the remuneration committee consisted of four members, namely, Mr. Tang Guoqiang (executive Director), Mr. Tao Wenquan (independent non-executive Director), Mr. Zhao Yuwen (independent non-executive Director) and Mr. Ge Ming (independent non-executive Director). Mr. Ge Ming was the chairman of the remuneration committee (resigned from 7 February 2013). Mr. Jiang Bin is the chairman of the remuneration committee since from 7 February 2013.

During the Year, the remuneration committee held one meeting to discuss the remuneration policy and annual remuneration package of each Director and senior management of the Company.

	Meeting
No. of meetings held	1
No. of meetings attended	
Mr. Tang Guoqiang	1/1
Mr. Tao Wenquan	1/1
Mr. Zhao Yuwen	1/1
Mr. Ge Ming	1/1

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration of the members of senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band	**No. of individuals**
Nil to HKD1,000,000	3
HKD1,000,001 to HKD1,500,000	1
HKD1,500,001 to HKD2,000,000	1

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the consolidated financial statements.

Nomination Committee

The Company established a nomination committee on 28 March 2012 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board at least annually and identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. 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 written terms of reference are in line with the Corporate Governance Code provisions. During the Year, the nomination committee consisted of three members, namely, Mr. Tang Guoqiang (executive Directors) (re-designated as a non-executive Director on 29 March 2013), Mr. Ge Ming (independent non-executive Director) and Mr. Zhao Yuwen (independent non-executive Director). Mr. Tang Guoqiang is the chairman of the nomination committee.

During the Year the nomination committee held two meetings to discuss about the appointment of Mr. Gao Zhan and Mr. Wang Yu as the Company's executive Directors.

	Meeting
No. of meetings held	2
No. of meetings attended	
Mr. Tang Guoqiang	2/2
Mr. Zhao Yuwen	2/2
Mr. Ge Ming	2/2

(c) Financial Reporting

The Directors, supported by the chief financial officer and the finance department, acknowledge their responsibility 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 Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue to operate on a going concern basis.

The responsibility of the Board is to present a balanced, clear and comprehensive assessment of the Group's performance, position and prospects, and extends to the annual and interim reports of the Group, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirement.

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.

External Auditor's Remuneration

The Company engaged Deloitte Touche Tohmatsu as its external auditor. Details of the fees paid/payable to Deloitte Touche Tohmatsu during the Year are as follows:

	RMB'000
Audit services	1,500

(d) 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, and in particular, considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and the training programs and budget.

(e) Shareholders' Rights

Communications with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the Shareholders receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes the corporate correspondence on the Company's website www.sf-pv.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 would 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 would be declared at the meeting and published on the websites of the Hong Kong Stock Exchange and the Company respectively.

Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available through the following means:

By post:
Portion B, 30/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong

By telephone:(852) 2363 9138

By email: ir@sf-pv.com

One general meeting was held during the Year. In respect of code provision A.6.7 of the Corporate Governance Code, the following lists out the individual attendance of each Director to the annual general meeting of the Company which was held on 8 June 2012:

	Meeting
No. of meetings held	1
No. of meetings attended	
Executive Directors	
Mr. Tang Guoqiang	1/1
Mr. Shi Jianmin	1/1
Mr. Gao Zhan	0/1
Mr. Qian Kaiming	1/1
Independent non-executive Directors	
Mr. Tao Wenquan	0/1
Mr. Zhao Yuwen	0/1
Mr. Ge Ming	0/1

Procedures for Shareholders to Convene an Extraordinary General Meeting of the Company ("EGM")

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company 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 secretary of the Company, 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 2 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 for Shareholders to Put Forward Proposals at a General Meeting

There are no provision allowing Shareholders to move new resolution at general meetings under the Cayman Islands Companies Law (2012 revision) or the articles of association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding section headed "Procedures for Shareholders to convene an EGM".

Procedures for Shareholders to Propose a Person for Election as a Director

Details of the procedures had been made available online in the website of the Company (http://www.sf-pv.com).

(f) Constitutional Documents

Pursuant to the amended Listing Rules effective 1 April 2012, the Company had published online its articles of association (the "M&A") that was resolved and adopted by the Shareholders on 23 May 2011 in the websites of the Company and the Hong Kong Stock Exchange. During the Year, no amendment to the M&A was made therein.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Shi Jianmin, aged 45, is an executive Director, the vice chairman of the Board and the general manager of the Company. He has been a deputy general manager of Shunfeng Technology since 1 April 2010. Mr. Shi is responsible for financial management of the Company. Mr. Shi has over 26 years of working experience, over 10 years of which is management experience. Mr. Shi obtained a diploma in business administration through an online four year degree program from E-learning College, Shanghai Jiao Tong University on 1 July 2007. He obtained a qualification certificate of specialty and technology in financial economics approved and issued by Ministry of Personnel of China on 7 November 1999. Mr. Shi worked in Changzhou Branch of Industrial and Commercial Bank of China ("**ICBC**") from November 1985 to January 2007. Mr. Shi was previously the president of Changzhou Guanghua Sub-branch of ICBC from January 2002 to January 2006 and the general manager of the electronic bank department of Changzhou Branch of ICBC from February 2006 to January 2007. Mr. Shi was the deputy general manager of Zhenjiang Runfeng Real Estate Development Co., Ltd. from June 2007 to March 2010.

Mr. Wang Yu, aged 42, is an executive Director. Mr. Wang has over 16 years of management experience. Mr. Wang studied in Renmin University of China majoring in economics from September 1988 to October 1990 and studied in Florida State University majoring in finance from March 1991 to July 1993. Mr. Wang obtained an IEMBA degree from Hong Kong University of Science and Technology in 2003. Mr. Wang worked as the general manager assistant of treasury department of Hong Kong CADTIC (Group) Co., Ltd. from October 1993 to May 1995. He worked as the general manager of investment and management department of Shenzhen Yangguang Fund Management Co., Ltd. from January 1996 to May 1998. He worked as the president of Shenzhen Fenghua Telecom Co., Ltd. from June 1998 to May 2005, a director of Shenzhen New Top Founder Fund Management Co., Ltd. from May 2005 to December 2011, a vice general manager of Hong Kong Huangshan Company Anhui Co., Ltd. from August 2005 to October 2012 and a partner of Tianjin Jasmine Fund Management Co., Ltd. since July 2012.

Mr. Lu Bin, aged 43, is an executive Director. Mr. Lu has over 17 years of working experience. Mr. Lu obtained a bachelor degree in English and American literature from Shanghai International Studies University in July 1991, a master degree in teaching English as a foreign language from Reading University in December 1996 and a master degree in business administration from Webster University in October 1999. Mr. Lu also obtained a bachelor degree in commerce (double major in financing and accounting) from Auckland University in September 2005 and a graduate diploma in commerce from Auckland University in September 2006. Mr. Lu is a chartered accountant of New Zealand Institute of Chartered Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lu worked as a teacher of Shanghai International Studies University from July 1991 to June 2002. He worked as an investigator of Inland Revenue Department of New Zealand from August 2006 to May 2011. He worked as a director of China Energy Oil Investment Limited from June 2011 to February 2013.

Non-executive Directors

Mr. Tang Guoqiang, aged 55, is an executive Director and the chairman of the Board. He has been a director of Shunfeng Technology since 1 April 2010. He has over 18 years of working experience, around 18 years of which is management experience. Mr. Tang obtained a high school diploma from Jiangsu Province Liyang Middle School in 1977. Mr. Tang was previously the general manager of Liyang Economic Development Corporation, a company primarily engaged in the wholesale of metals and metallic ores, from May 1990 to August 1996. He was previously the deputy general manager of Liyang City Qingfeng Fine Chemicals Co., Ltd., a company primarily engaged in the manufacturing and sale of pharmaceutical chemicals, from September 1996 to November 2003. He was previously an executive director of Zhenjiang Runfeng Real Estate Development Co., Ltd., a company primarily engaged in real estate development, property management and related information consultancy services, from November 2003 to April 2007.

Mr. Chen Shi, aged 52, is a non-executive Director. Mr. Chen has over 23 years of working experience. Mr. Chen obtained a bachelor degree and a master degree in economics from Wuhan University in August 1982 and July 1985, respectively. He obtained a doctorate degree in economics from Graduate School of Chinese Academy of Social Sciences in July 1989. Mr. Chen worked as a deputy head and then the head of policy division of social and economic research centre of the People' s Government of Hainan Province from July 1989 to November 1994. He worked as a deputy general manager of Yat Chau Holdings Limited from December 1994 to February 1998. He worked as a deputy general manager of Cityford Dyeing & Printing Industrial Limited from March 1998 to December 2001. He served as the president of Caricom Limited from January 2002 to February 2013. He is a director of Mountain China Resorts (Holdings) Limited (a company listed in TSX Venture Exchange in Canada) since February 2012 and a director of Sunshine Partners Financial Holdings Limited since November 2012.

Mr. Yue Yang, aged 60, is a non-executive Director. Mr. Yue has over 28 years of working experience. Mr. Yue studied at Beijing Railway No. 1 Middle School from 1967 to 1970. Mr. Yue worked as an assistant to general manager and a vice chairman of Beijing Youth Travel Service Co., Ltd. from January 1985 to January 2012. He worked as a senior consultant of Caricom Limited from February 2012 to February 2013.

Independent Non-Executive Directors

Mr. Tao Wenquan, aged 74, is an independent non-executive Director. Mr. Tao completed undergraduate studies in power machinery engineering from Xi'an Jiaotong University in August 1962 and postgraduate studies in heat transfer science from Xi'an Jiaotong University on 26 December 1966. Mr. Tao has been an academician of the Chinese Academy of Science since 2005. In addition, Mr. Tao is currently a member of the Advisory Board of Numerical Heat Transfer, an associate editor of International Journal of Heat &Mass Transfer and an associate editor of International Communications in Heat & Mass Transfer. Mr. Tao has been an independent director of THT Heat Transfer Technology, Inc. (a company listed on the Nasdaq Stock Market) since 25 September 2009.

Mr. Zhao Yuwen, aged 73, is an independent non-executive Director. Mr. Zhao completed undergraduate studies in electrochemistry production engineering from the chemical engineering department of Tianjin University in July 1964. He is a vice-president of China Solar Energy Association, which changed its name to Chinese Renewable Energy Society in 2007, and the director of its Photovoltaic Solar Committee. Mr. Zhao represented Beijing Solar Energy Research Institute to participate in the World Conference on Photovoltaic Energy Conversion ("WCPEC") as a member of the advisory committee. In 2005, Mr. Zhao was awarded the International Photovoltaic Science and Engineering Achievement Award at the 15th International Photovoltaic Conference. He has also been granted the State Council Special Allowance for Experts in recognition of his immense contribution to scientific research and development in China in 1998 and was certified as a qualified professional researcher in 1994. Mr. Zhao has been an independent director of JA Solar (a company listed on the Nasdaq Stock Market) since 19 October 2009.

Mr. Jiang Bin, aged 42, is an independent non-executive Director. Mr. Jiang has over 15 years of professional experiences in accounting, auditing and financial consulting. Mr. Jiang obtained a bachelor degree in economics from Renmin University of China in July 1993. He obtained a master degree in money and banking from Graduate School of Chinese Academy of Social Sciences in April 1999. He obtained the qualification of Chinese Certified Public Accountant in 1999. Mr. Jiang worked as an assistant accountant, chief accountant and assistant general manager in Beijing North Star International Economy Technical Collaboration Company (北辰國際經濟技術合作公司) from August 1993 to January 1996. He worked as an assistant auditor, project manager, senior project manager and audit manager in Beijing ZhongHua Certified Public Accountants (中華會計師事務所) from January 1996 to October 2000. He worked as a department manager of the audit department, deputy general manager and vice chief accountant in Beijing Office of RSM China Certified Public Accountants (中瑞岳華會計師事務所有限公司) from October 2000, and has been a partner since 2007.

SENIOR MANAGEMENT

Mr. Shi Jianmin is the general manager of the Company. Please refer to the paragraph headed "Directors" in this section for his biography.

Mr. Qu Hui (former name being Mr. Qu Fan (瞿凡)), aged 33, is a deputy general manager of the Company. Mr. Qu has been a deputy general manager of Shunfeng Technology since 1 January 2007. Mr. Qu is responsible for production quality and technological management of the Company. He has over seven years of working experience, over five years of which is management experience in the solar power industry. Mr. Qu obtained a bachelor's degree in physics from Nanjing University on 30 June 2002. He was previously a technician of Wuxi Suntech Power Co., Ltd. from 1 August 2004 to 31 July 2006.

Ms. Tong Caixia, aged 33, is the head of the technological department of the Company. Ms. Tong has been the head of the technological department of Shunfeng Technology since 1 January 2007. Ms. Tong is responsible for technology and research and development of the Company. She has over eight years of working experience, over five years of which is management and research and development experience in the solar power industry. Ms. Tong obtained a bachelor's degree in science, majoring in microelectronic technology, from Hefei University of Technology on 27 June 2002. Ms. Tong was previously a technician of Wuxi Suntech Power Co., Ltd..

Mr. Tse, Man Kit Keith, aged 39, is the chief financial officer and company secretary of the Company since 9 September 2010. Mr. Tse has around 14 years of working experience, over nine years of which is financial management experience. Mr. Tse obtained a bachelor's degree in commerce, majoring in accountancy and finance, from University of Wollongong, NSW, Australia on 16 July 1997. He was previously a staff accountant from 27 October 1997 to 30 September 2000, a senior accountant from 1 October 2000 to 30 September 2002 and a manager from 1 October 2002 to 22 October 2002 in the department of assurance and advisory business services in the Hong Kong office of Ernst & Young Business Services Ltd. and a manager in the department of assurance and advisory business services in Ernst & Young Hua Ming Shanghai Branch from 23 October 2002 to 28 December 2004. He was a manager in the assurance department in PricewaterhouseCoopers Ltd. from 10 January 2005 to 18 October 2005, a manager in the assurance division in Grant Thornton from 12 December 2005 to 21 January 2007, a director of corporate accounting in Flash Electronics, Inc. from 25 January 2007 to 26 January 2008 and a senior qualified accountant in Shanghai Fosun High Technology (Group) Co., Ltd. from 15 February 2008 to 15 August 2010 with concurrent appointment as the qualified accountant of Fosun International Limited (Hong Kong stock code: 656) from 12 March 2008 to 15 August 2010. Mr. Tse has been a member of Certified Practicing Accountant of CPA Australia since 17 July 2001 and a member of Hong Kong Institute of Certified Public Accountants since 26 February 2002.

REPORT OF THE DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements for the Year.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in manufacturing and sales of solar cells, solar modules and solar wafers.

PRINCIPAL 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 profit 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 39 to 96 of this annual report.

DIVIDENDS

The Board has resolved not to declare a final dividend for the Year.

RESERVES

Details of movements in reserves of the Group are set out in the consolidated statement of changes in equity on page 42.

DISTRIBUTABLE RESERVES OF THE COMPANY

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 RMB306,450,000. This amount represents the Company's share premium account of approximately RMB320,283,000 and accumulated losses of approximately RMB18,282,000 in aggregate as at 31 December 2012.

OPERATING RESULTS

The operating results of the Group is set out in the consolidated statement of comprehensive income on page 39 of this annual report.

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

Details of the movements in share capital of the Company during the Year are set out in note 27 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Shi Jianmin *(Vice Chairman)*
Mr. Lu Jianqing *(resigned from 29 March 2012)*
Mr. Gao Zhan *(appointed on 29 March 2012 and resigned from 11 December 2012)*
Mr. Qian Kaiming *(resigned from 7 February 2013)*
Mr. Wang Yu *(appointed on 28 November 2012)*
Mr. Lu Bin *(appointed on 29 March 2013)*

Non-executive Directors

Mr. Tang Guoqiang *(Chairman) (re-designated on 29 March 2013)*
Mr. Chen Shi *(appointed on 29 March 2013)*
Mr. Yue Yang *(appointed on 29 March 2013)*

Independent Non-executive Directors

Mr. Tao Wenquan
Mr. Zhao Yuwen
Mr. Ge Ming *(resigned from 7 February 2013)*
Mr. Jiang Bin *(appointed on 7 February 2013)*

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.

Pursuant to Article 83(3) of the Articles, Mr. Wang Yu, Mr. Jiang Bin, Mr. Lu Bin, Mr. Chen Shi and Mr. Yue Yang who were appointed as a Director pursuant to Article 83(3) of the Articles will retire at the annual general meeting. Both of them, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 23 to 25 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

During the Year, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

During the Year, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

During the Year, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance in relation to the Company's business entered into or proposed to be entered into with the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors in the Board has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 January 2011 other than Mr. Wang Yu, Mr. Jiang Bin, Mr. Lu Bin, Mr. Chen Shi and Mr. Yue Yang who entered into a service contract with the Company commencing from 28 November 2012, 7 February 2013, 29 March 2013, 29 March 2013 and 29 March 2013 respectively, 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. 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.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code were as follows:

Name of Director	Capacity	Number of Shares held	Approximate percentage of interest in total issued share capital of the Company
Mr. Tang Guoqiang	Interest of controlled corporation (Note 1)	226,161,000	14.50%
Mr. Qian Kaiming	Interest of controlled corporation (Note 2)	54,990,000	3.53%

Notes:

1. Coherent Gallery International Limited is wholly owned by Mr. Tang Guoqiang, an executive Director. Mr. Tang Guoqiang is deemed to be interested in the 226,161,000 Shares held by Coherent Gallery International Limited for the purposes of the SFO.

2. Mr. Qian Kaiming is the beneficial owner of 44.78% shareholding in Witty Yield Development Limited. Mr. Qian Kaiming is deemed to be interested in the 54,990,000 Shares held by Witty Yield Development Limited for the purposes of the SFO.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2012, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

No arrangements to which the Company, its subsidiary, its holding company or a subsidiary of its holding company is or was a party to enable the Directors and the chief executive of the Company to acquire benefits by means of acquisitions of shares in or debentures of the Company or any other body corporate subsisted at the end of the year or at any time during the Year.

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

As at 31 December 2012, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors and the chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares, which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	Capacity	Number of Shares held	Approximate percentage of interest in total issued share capital of the Company
Peace Link Services Limited	Beneficial owner (Note 1)	2,562,501,000 (long position)	164.26%
Endless Rocket International Limited	Beneficial owner (Note 2)	274,248,000 (long position)	17.58%
Coherent Gallery International Limited	Beneficial owner (Note 3)	226,161,000 (long position)	14.50%
Smart Portrait International Limited	Beneficial owner (Note 4)	152,100,000 (long position)	9.75%
Faithsmart Limited	Interest of controlled corporation (Note 5)	2,562,501,000 (long position)	164.26%
Triocean Investments Limited	Interest of controlled corporation (Note 6)	274,248,000 (long position)	17.58%
Mr. Cheng Kin Ming	Interest of controlled corporation (Note 7)	2,562,501,000 (long position)	164.26%
Mr. Zhang Ying	Interest of controlled corporation (Note 8)	274,248,000 (long position)	17.58%
Mr. Lam Chit Wing	Interest of controlled corporation (Note 9)	274,248,000 (long position)	17.58%
Mr. Lu Jianqing	Interest of controlled corporation (Note 10)	152,100,000 (long position)	9.75%

Notes:

1. Peace Link Services Limited is wholly owned by Faithsmart Limited which is in turn wholly owned by Mr. Cheng Kin Ming. 2,100,000,000 Shares will be allotted and issued to Peace Link Services Limited upon the exercise in full of the conversion rights attaching to the convertible bonds to be subscribed by Peace Link Services Limited pursuant to the subscription agreement dated 31 December 2012 entered into between the Company and it.

2. Endless Rocket International Limited is wholly owned by Triocean Investments Limited which is owned as to 52% by Mr. Zhang Ying and as to 48% by Mr. Lam Chit Wing.

3. Coherent Gallery International Limited is wholly owned by Mr. Tang Guoqiang, an executive Director.

4. Smart Portrait International Limited is wholly owned by Mr. Lu Jianqing, an ex-Director.

5. Faithsmart Limited is the beneficial owner of 100% shareholding in Peace Link Services Limited and, therefore, Faithsmart Limited is deemed to be interested in 2,562,501,000 Shares held by Peace Link Services Limited for the purposes of the SFO.

6. Triocean Investments Limited is the beneficial owner of 100% shareholding in Endless Rocket International Limited and, therefore Triocean Investments Limited is deemed to be interested in 274,248,000 Shares held by Endless Rocket International Limited for the purposes of the SFO.

7. Mr. Cheng Kin Ming is the beneficial owner of 100% shareholding in Faithsmart Limited. In turn, Faithsmart Limited is the beneficial owner of 100% shareholding in Peace Link Services Limited. Therefore, Mr. Cheng Kin Ming is deemed to be interested in 2,562,501,000 Shares held by Peace Link Services Limited for the purposes of the SFO.

8. Mr. Zhang Ying is the beneficial owner of a 52% shareholding in Triocean Investments Limited. In turn, Triocean Investments Limited is the beneficial owner of 100% shareholding in Endless Rocket International Limited. Therefore, Mr. Zhang Ying is deemed to be interested in 274,248,000 Shares held by Endless Rocket International Limited for the purposes of the SFO.

9. Mr. Lam Chit Wing is the beneficial owner of a 48% shareholding in Triocean Investments Limited. In turn, Triocean Investments Limited is the beneficial owner of 100% shareholding in Endless Rocket International Limited. Therefore, Mr. Lam Chit Wing is deemed to be interested in 274,248,000 Shares held by Endless Rocket International Limited for the purposes of the SFO.

10. Mr. Lu Jianqing is the beneficial owner of 100% shareholding in Smart Portrait International Limited and, therefore, Mr. Lu Jianqing is deemed to be interested in 152,100,000 Shares held by Smart Portrait International Limited for the purposes of the SFO.

Save as the disclosed above, to the best knowledge of the Directors, as at 31 December 2012, no person (other than the Directors or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTION

On 31 December 2012, the Company and the largest Shareholder, Peace Link Services Limited, entered into a subscription agreement in respect of the issue of the convertible bond in the principal amount of HK$449,400,000, details of which are set out in the announcement and circular of the Company dated 31 December 2012 and 21 January 2013, respectively.

Peace Link Services Limited, as the subscriber of the convertible bonds, holds an aggregate of 462,501,000 Shares, representing approximately 29.65% of the entire issued share capital of the Company. Accordingly, Peace Link Services Limited is a connected person of the Company under the Listing Rules and the issue of the convertible bond constitutes a non-exempted connected transaction on the part of the Company under the Listing Rules.

We consider that the issue of the convertible bond will provide (i) the Company with immediate funding without immediate dilution of the shareholding of the existing Shareholders; and (ii) an opportunity for the Company, if the conversion rights attached to the convertible bond are exercised, to enlarge and strengthen its capital base. Having considered that the convertible bond bear no interest and the relative long maturity date of the convertible bond, we considered the issue of the convertible bond is an appropriate means of funding raising of the Company to strengthen our working capital.

The disclosed related party transactions in the auditors' report were not continuing connected transactions or connected transactions as defined by Chapter 14A of the Listing Rules. The transaction mentioned in this section was a connected transaction as defined by Chapter 14A of the Listing Rules.

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

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

CONTRACTS WITH THE SINGLE LARGEST SHAREHOLDER

Save for a subscription agreement in respect of the issue of the convertible bond in the principal amount of HK$449,400,000 entered into between the Company and Peace Link Services Limited on 31 December 2012, during the Year, no contract of significance has been entered into between the Company or any of its subsidiaries and Mr. Tang Guoqiang, who through Peace Link Services Limited (a company which is wholly owned by him), the single largest Shareholder of the Company or Mr. Cheng Kin Ming since 26 November 2012, who through Faithsmart Limited (a company wholly owned by him) acquired entire issued share capital of Peace Link Services Limited from Mr. Tang Guoqiang and then became the single largest Shareholder of the Company.

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 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of Cayman Islands where the Company is incorporated which oblige the Company to offer pre-emptive rights of new shares to existing shareholders on their shareholding proportion.

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.

None of the Directors waived any emoluments during the Year.

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 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 were approximately 26.9% and approximately 41.3% of the Group's total sales, respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were approximately 10.1% and approximately 30.5% of the Group's total purchases, respectively.

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 reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

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 during the Year.

BORROWINGS

The details of borrowings of the Group for the Year are set out in note 25 to the consolidated financial statements.

ENTRUSTED DEPOSIT AND MATURED TIME DEPOSIT

As at 31 December 2012, the Company had not held any deposits under trust or any time deposit in any financial institution in the PRC which could not be withdrawn upon maturity.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all applicable code provisions under the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) for the period from 1 January 2012 to 31 March 2012 and Corporate Governance Code (the new edition of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules) for the period from 1 April 2012 to 31 December 2012, except for the following deviation:

According to Code A.1.8 of the Corporate Governance Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company is negotiating with the relevant insurance agents about the liability insurance for the Directors and will arrange such insurance cover in due course.

COMPLIANCE WITH THE 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, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the Year.

AUDIT COMMITTEE

Details of the audit committee of the Company are set out in the Corporate Governance Report on page 18 of this annual report.

PRODUCTION CAPACITY

The expected production capacity of solar cells, silicon wafers and solar modules for the Year set out in the prospectus of the Company dated 30 June 2011 is 660 MW, 500 MW and 300 MW respectively and the actual production capacity of solar cells, silicon wafers and solar modules as of the date of this annual report is 420 MW, 200 MW and 60 MW respectively.

With reference to the challenging market environment, the Board considered it would be in the best interests of the Company to defer the original expansion plan until we observe clear improvements in the general market conditions.

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 97 of this annual report.

EVENT AFTER THE YEAR

On 14 January 2013, the Company entered into an agreement to acquire 45.45% equity interest in Shunfeng Materials from New Capability Limited, a substantial shareholder of Shunfeng Materials, at a consideration of RMB72,000,000. Upon completion of above acquisition, Shunfeng Materials will become an indirect wholly-owned subsidiary of the Company and the financial results of Shunfeng Materials will continue to be consolidated into the accounts of the Company. The Company is optimistic on the business prospects of Shunfeng Materials and the Group as a whole once the overall solar energy market rebounds and when Shunfeng Materials starts to operate in full scale. The Group could secure a reliable source of silicon wafer at lower costs without consideration of any price concerns concerned raised or to be raised by other shareholder of Shunfeng Materials.

On 25 March 2013, the Company has entered into a letter of intent with Hainan Tibetan Autonomous Prefectural People's Government in Qinghai Province ("Tibetan Autonomous Prefectural People's Government") to establish a photovoltaic industrial park by using plateau ecological and organic agriculture technologies in Hainan Tibetan Autonomous Prefecture in Qinghai Province (the "Possible Cooperative Investment"). Hainan Tibetan Autonomous Prefectural in Qinghai Province has abundant sunshine and land resources, and the local government could provide certain preferential tax treatment for the establishment of a photovoltaic industrial park by using plateau ecological and organic agriculture technologies. Subject to the entering of the formal agreement, Tibetan Autonomous Prefectural People's Government will provide the Company with certain preferential treatment including, among other things, land and preferential tax treatment, in addition to its preferential treatment under the Western Region Development policies. The Company will make investment of not less than RMB10 billion within ten years and be responsible for the overall implementation of the Possible Cooperative Investment. The Possible Cooperative Investment will help the Company to take advantage of its strength in solar photovoltaic technologies to make investment in Hainan Tibetan Autonomous Prefecture in Qinghai Province.

by order of the Board
Tang Guoqiang
Chairman
Jiangsu, the PRC

28 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF SHUNFENG PHOTOVOLTAIC INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shunfeng Photovoltaic International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 96, 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.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of its results 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
28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	6	1,059,489	1,971,530
Cost of sales		(994,507)	(1,761,244)
Gross profit		64,982	210,286
Other income	7	30,529	11,076
Other gains and losses and other expenses	8	(210,479)	(74,605)
Research and development expense		(15,584)	(4,081)
Distribution and selling expenses		(7,645)	(6,919)
Administrative expenses		(58,591)	(52,841)
Finance costs	9	(74,733)	(48,506)
(Loss) profit before tax	10	(271,521)	34,410
Income tax credit (expense)	12	185	(10,657)
(Loss) profit and total comprehensive (expense) income for the year		(271,336)	23,753
(Loss) profit and total comprehensive (expense) income attributable to:			
Owners of the Company		(186,347)	57,182
Non-controlling interests		(84,989)	(33,429)
		(271,336)	23,753
		RMB cents	RMB cents
(Loss) earnings per share — Basic	13	(11.95)	4.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	15	1,265,832	1,285 ,558
Prepaid lease payments — non-current	16	50,218	51,340
Deposits for acquisition of property, plant and equipment		17,763	30,318
Deposits for acquisition of land use rights		11,271	19,060
Deferred tax assets	17	11,514	11,829
Other receivable due after one year	19	8,317	—
		1,364,915	1,398,105
Current assets			
Inventories	18	32,905	74,307
Trade and other receivables	19	241,238	525,014
Value-added tax recoverable		84,220	112,384
Prepayments to suppliers		19,335	10,610
Prepaid lease payments — current	16	1,122	1,122
Tax recoverable		3,463	—
Pledged bank deposits	20	10,695	148,506
Restricted bank deposits	20	276,437	236,075
Bank balances and cash	20	17,280	120,122
		686,695	1,228,140
Current liabilities			
Trade and other payables	21	600,449	785,982
Customers' deposits received	22	12,512	4,704
Obligations under finance leases	23	27,215	25,105
Tax liabilities		—	2,260
Other financial liabilities	24	—	7,758
Borrowings	25	903,217	730,187
		1,543,393	1,555,996
Net current liabilities		(856,698)	(327,856)
Total assets less current liabilities		508,217	1,070,249

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	NOTES	As at 31 December 2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	27	12,892	12,892
Reserves		477,656	664,003
Equity attributable to owners of the Company		490,548	676,895
Non-controlling interests		(59,256)	25,733
Total equity		431,292	702,628
Non-current liabilities			
Borrowings	25	—	269,000
Obligations under finance leases	23	21,545	48,656
Deferred income	26	55,380	49,965
		76,925	367,621
		508,217	1,070,249

The consolidated financial statements on pages 39 to 96 were approved and authorized for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

DIRECTOR
Tang Guoqiang

DIRECTOR
Shi Jianmin

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Paid-in capital/ Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Retained earnings (losses) RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2011	1	—	203,964	10,064	72,510	286,539	29,411	315,950
Profit and total comprehensive income for the year	—	—	—	—	57,182	57,182	(33,429)	23,753
Issue of new share	3,223	354,526	—	—	—	357,749	—	357,749
Capitalization issue of new shares (note 27(b))	9,668	(9,668)	—	—	—	—	—	—
Transaction costs attributable to issue of shares	—	(24,575)	—	—	—	(24,575)	—	(24,575)
Capital contribution from a non-controlling shareholder of Changzhou Shunfeng Photovoltaic Materials Co., Ltd. ("Shunfeng Materials")	—	—	—	—	—	—	29,751	29,751
Transfers	—	—	—	14,910	(14,910)	—	—	—
At 31 December 2011	12,892	320,283	203,964	24,974	114,782	676,895	25,733	702,628
Loss and total comprehensive expense for the year	—	—	—	—	(186,347)	(186,347)	(84,989)	(271,336)
At 31 December 2012	12,892	320,283	203,964	24,974	(71,565)	490,548	(59,256)	431,292

Notes:

a. Special reserve arose on a group reorganization which took place in the year ended 31 December 2011 as detailed in note 1. The shareholders of the Company made a contribution of an aggregate amount of approximately RMB233,968,000 to the Company for the purpose to acquire the entire equity interests of Jiangsu Shunfeng Photovoltaic Technology Co., Ltd. 江蘇順風光電科技有限公司 ("Shunfeng Technology"). The difference between the acquisition consideration paid and the paid-in capital and capital reserve of Shunfeng Technology acquired of approximately RMB30,004,000 is regarded as special reserve arising on group reorganization.

b. In accordance with 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 relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") to the statutory surplus reserve. Appropriation to statutory surplus reserve shall be approved by the shareholders and may cease if the balance of the statutory surplus reserve has reached 50% of the relevant PRC subsidiaries' registered capital.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Operating activities		
(Loss) profit before tax	(271,521)	34,410
Adjustments for:		
Interest income	(7,936)	(3,194)
Finance costs	74,733	48,506
Impairment loss recognized in respect of property, plant and equipment	187,708	63,652
Depreciation of property, plant and equipment	79,833	44,598
Release of prepaid lease payments	1,122	945
Release of deferred income related to government grants	(4,358)	(1,614)
Release of deferred income related to sales and leaseback arrangement	(2,331)	(582)
Change in fair values of foreign currency forward contracts	3,006	7,758
(Gain) loss on disposal of property, plant and equipment	(7)	1
Allowance for inventories	7,223	3,627
Impairment loss on trade and other receivables	21,494	—
Impairment loss on prepayment to suppliers	762	—
Operating cash flows before movements in working capital	89,728	198,107
Decrease (increase) in inventories	34,179	(43,482)
Decrease (increase) in trade and other receivables	250,312	(397,541)
Decrease (increase) in value-added tax recoverable	28,164	(63,160)
(Increase) decrease in prepayments to suppliers	(9,487)	25,545
(Decrease) increase in trade and other payables	(145,128)	622,763
Increase (decrease) in customers' deposits received	7,808	(53,642)
Settlement of foreign currency forward contracts	(10,764)	—
Cash generated from operations	244,812	288,590
Income taxes paid	(5,223)	(22,694)
Net cash from operating activities	239,589	265,896

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Investing activities		
Withdrawal of restricted bank deposits	958,481	350,548
Withdrawal of pledged bank deposits	170,129	66,358
Receipt from government grants	12,104	38,202
Interest income received	7,936	3,194
Deposits refunded (paid) in respect of purchase of land use rights	7,789	(42,652)
Advance to a third party	—	(32,650)
Placement of pledged bank deposits	(32,318)	(197,219)
Placement of restricted bank deposits	(998,843)	(586,623)
Payments for acquisition of property, plant and equipment	(266,899)	(885,001)
Proceeds on disposal of property, plant and equipment	125	—
Net cash used in investing activities	(141,496)	(1,285,843)
Financing activities		
New bank borrowings raised	974,394	1,291,495
Capital contribution from a non-controlling shareholder of Shunfeng materials	—	29,751
Proceeds from sale and leaseback arrangement	—	80,000
Proceeds from issue of shares	—	357,749
Payment of transaction costs attributable to issue of new shares	—	(24,575)
Repayment to a director	—	(859)
Interest paid	(79,964)	(54,642)
Repayment of bank borrowings	(1,070,364)	(586,808)
Repayment of obligations under finance leases	(25,001)	(7,474)
Net cash (used in) from financing activities	(200,935)	1,084,637
Net (decrease) increase in cash and cash equivalents	(102,842)	64,690
Cash and cash equivalents at beginning of the year	120,122	55,432
Cash and cash equivalents at end of the year, represented by bank balances and cash	17,280	120,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands and the shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 July 2011. The addresses of registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Portion B, 30/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong, respectively. The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 35.

Pursuant to the group reorganization as disclosed in section headed "History and Corporate Structure — Restructuring" to the prospectus dated 30 June 2011 issued by the Company (the "Prospectus") (the "Group Reorganization"), the Company became the holding company of the Group on 26 September 2011 by interspersing the Company and Shunfeng Photovoltaic Holdings Limited 順風光電控股有限公司 ("Shunfeng HK") between Shunfeng Technology and Shunfeng Technology's then existing shareholders immediately before the Group Reorganization and accordingly, Shunfeng HK became a direct wholly-owned subsidiary of the Company and Shunfeng Technology became an indirect wholly-owned subsidiary of the Company.

The Group comprising the Company and its subsidiaries resulting from the Group Reorganization is regarded as a continuing entity. The consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of Shunfeng HK and Shunfeng Technology throughout the year ended 31 December 2011.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

As at 31 December 2012, the Group's current liabilities exceeded its current assets by approximately RMB856,698,000. The directors of the Company are confident that the Group will be able to meet its financial obligations in full when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The directors of the Company target to maintain the sufficiency of cashflows with availability of unutilized banking facilities, internally generated funds, issuance of convertible bonds and funds arose from other financing activities, if required. The Group obtained banking facilities of approximately RMB2,656,447,000 as at 31 December 2012, included in which approximately RMB868,217,000 were utilized and approximately RMB1,788,230,000 were unutilized as at 31 December 2012. The directors of the Company believe that banking facilities amounting to RMB1,400,000,000 will continue to be available and will not be withdrawn within the next twelve months from the end of the reporting period. In addition, the Group received a proceed of RMB364,374,000 from the issuance of convertible bond subsequent to 31 December 2012 (note 34(b)). Also, the directors of the Company review the forecasted cashflows on an on-going basis to ensure that the Group will have sufficient capital for operations and expansion. Changes on capital expansion plan will be made should the need arise.

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 Asset; and
Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

Amendments to IFRS 7 Disclosures — Transfers of Financial Assets

The Group has applied for the first time, the amendments to IFRS 7 *Disclosures — Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transaction involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has discounted bills receivables to banks with full recourse, and transferred bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers with full recourse. The Group has derecognized these bills receivables and the payables to suppliers in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers under the relevant PRC practice, rule and regulations. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

In accordance with the transition provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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

Except as described above, the application of the other 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 these consolidated financial statements.

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 IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and 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[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
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.

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.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

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.

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 IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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.

The directors of the Company anticipate that the application of other new or revised IFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements 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.

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from the sale of goods is recognized 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.

Service income is recognized when services are provided.

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate 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.

Property, plant and equipment

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

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, 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 recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized 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 assets and is recognized 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

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when 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 recognized on the consolidated statement of financial position as “prepaid lease payments” and are amortized over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than its functional currency (foreign currency) are recorded in the respective functional currency (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 retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

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 capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income 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 recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 “loss before tax” 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 recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary difference 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 are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 realized, 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 recognized in profit or loss.

Impairment losses on tangible and intangible assets

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets (Continued)

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 recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized in 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument 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 and 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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, restricted bank deposits, pledged bank deposits and bank balances) are carried at amortized 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 considered to be impaired when there is objective evidence that, as a result of one or 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 re-organization.

For financial assets carried at amortized cost, the amount of impairment loss recognized 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 recognized 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.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt 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 and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized 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 paid or received that from 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 recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, finance leases obligation and borrowings are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Group derecognizes 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 recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes 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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND 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 judgments, estimates and assumption 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 on-going basis. Revisions to accounting estimates are recognized 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.

(a) Useful lives and residual values of property, plant and equipment

The directors of the Company determine the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment. These estimates are based on the historical experience of the actual residual values and useful lives of plant and equipment of similar nature and functions. In addition, the directors of the Company assess impairment whenever events or changes in circumstances and technical innovation of solar products indicate that the carrying amount of an asset may not be recoverable. As at 31 December 2012, the carrying amount of the Group's property, plant and equipment is approximately RMB1,265,832,000 (31 December 2011: RMB1,285,558,000).

(b) 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 and/or fair value less cost to sell, 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 2012, the Group carried out a review on the recoverable amount of the property, plant and equipment, and determined that an impairment loss of RMB187,708,000 (2011: RMB63,652,000) should be recognized in profit or loss. Details of the recoverable amount calculation are set out in note 15.

(c) Impairment of trade and other receivables

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of trade and other receivables is approximately RMB249,555,000 (31 December 2011: RMB525,014,000).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(d) Write-down of inventories

Inventories are valued at the lower of cost and net realizable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down inventories in that period. As at 31 December 2012, the carrying amount of the Group's inventories is approximately RMB32,905,000 (net of allowance for inventories of RMB7,223,000) (31 December 2011: carrying amount of RMB74,307,000, net of allowance for inventories of RMB3,627,000).

(e) Impairment of prepayments to suppliers

The Group makes prepayments to suppliers in accordance with the purchase contracts entered into with the suppliers. These prepayments are to be offset against future purchases.

The Group does not require collateral or other security against its prepayments to suppliers. The Group performs ongoing evaluation of impairment of prepayments to suppliers due to a change of market conditions and the financial conditions of its suppliers. The evaluation also takes into account the quality and timeframe of the products to be delivered to the Group. When the prepayments would not be recovered as expected and the credit quality of the suppliers changed, the Group would impair the prepayments to suppliers.

As at 31 December 2012, the carrying amounts of prepayments to suppliers is approximately RMB19,335,000 (31 December 2011: RMB10,610,000).

(f) Deferred taxation

Deferred tax assets relating to certain deductible temporary differences are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables:		
Trade and other receivables	239,540	512,311
Pledged bank deposits	10,695	148,506
Restricted bank deposits	276,437	236,075
Bank balances and cash	17,280	120,122
Total loans and receivables	543,952	1,017,014
Financial liabilities		
Liabilities measured at amortized costs:		
Trade and other payables	596,134	781,259
Obligations under finance leases	48,760	73,761
Borrowings	903,217	999,187
Total liabilities measured at amortized costs	1,548,111	1,854,207
Fair value through profit or loss:		
Derivative financial instruments (note 24)	—	7,758

Note: The carrying amount of the derivative financial instruments at 31 December 2011 was measured using quoted forward exchange rates matching maturities of the foreign currency forward contracts.

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and other payables, obligations under finance leases, other financial liabilities and borrowings. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Currency risk

The primary economic environment which the principal subsidiary of the Company operates is the PRC and its functional currency is RMB. However, certain transactions of the principal subsidiary including sales of goods and purchases of machinery and equipment are denominated in foreign currencies.

Details of trade and other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and other payables and borrowings that are denominated in foreign currencies, mainly in United States Dollars ("USD"), Hong Kong Dollars ("HKD"), Japanese Yen ("JPY") and European dollars ("Euro") are set out in notes 19, 20 and 21, respectively.

The Group currently does not have a foreign currency hedging policy but the directors of the Company monitor foreign exchange exposure by closely monitoring the foreign exchange risk profile by way of arrangement of foreign currency forward contracts and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Assets		
USD	7,566	16,270
HKD	366	7,780
JPY	—	17
Euro	35,051	33,320
Liabilities		
USD	(7,612)	(10,097)
HKD	(1,394)	(1,964)
JPY	(11,819)	(45,826)
Euro	(12,585)	(144,264)

The Group is mainly exposed to foreign currency risk between Euro/RMB, USD/RMB, HKD/RMB and JPY/RMB.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Sensitivity analysis

This sensitivity analysis details the 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 for a 5% change in foreign currency rates. A negative (2011: positive) number below indicates a decrease (2011: increase) in post-tax loss (2011: post-tax profit) for the year and a positive (2011: negative) number below indicates an increase (2011: decrease) in post-tax loss (2011: post-tax profit) for the year where the relevant foreign currencies change 5% against RMB.

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
USD impact		
— if USD strengthens against RMB	2	275
— if USD weakens against RMB	(2)	(275)
HKD impact		
— if HKD strengthens against RMB	51	259
— if HKD weakens against RMB	(51)	(259)
JPY impact		
— if JPY strengthens against RMB	591	(2,042)
— if JPY weakens against RMB	(591)	2,042
Euro impact		
— if Euro strengthens against RMB	(1,123)	(4,944)
— if Euro weakens against RMB	1,123	4,944

No foreign currency contracts were held by the Group as at 31 December 2012. For the foreign currency forward contracts held by the Group as at 31 December 2011, 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 an increase in post-tax profit for the year and a negative number below indicates a decrease in post-tax profit for the year where the relevant foreign currency forward rate, i.e. Euro and JPY, change 5% against RMB.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Sensitivity analysis (Continued)

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Euro impact		
— if Euro strengthens against RMB	—	(4,357)
— if Euro weakens against RMB	—	4,357
JPY impact		
— if JPY strengthens against RMB	—	(1,326)
— if JPY weakens against RMB	—	1,326

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 ended 31 December 2011.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, restricted bank deposits and bank borrowings (see notes 20 and 25 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, restricted bank deposits, bank balances, obligations under finance leases and variable-rate borrowings (see notes 20, 23 and 25 for details). The directors of the Company monitor 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 financial instruments (including pledged bank deposits, restricted bank deposits, bank balances, obligations under finance leases and borrowings) at the end of the reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of pledged bank deposits, restricted bank deposits, bank balances, obligations under finance leases and borrowings.

10 basis points (2011: 1 basis point) increase or decrease on variable-rate pledged bank deposits, restricted bank deposits and bank balances, and 100 basis points (2011: 100 basis points) increase or decrease on obligations under finance leases and variable-rate borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates on variable-rate pledged bank deposits, restricted bank deposits and bank balances had been 10 basis points (2011: 1 basis point) higher/lower and all other variables were held constant, the post-tax loss for the year would decrease/increase by RMB27,000 (2011: post-tax profit for the year would increase/decrease by RMB21,000).

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis (Continued)

If the interest rate on obligations under finance leases and variable-rate borrowings had been 100 basis points (2011: 100 basis points) higher/lower and all other variables were held constant, the post-tax loss for the year would increase/decrease by RMB4,151,000 (2011: the post-tax profit would decrease/increase by RMB4,689,000).

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group include (i) failure to discharge an obligation by the counterparties from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and (ii) issuing banks fail to settle the bills transferred to collecting banks or suppliers through discounting the bills to collecting banks or endorsing the bills to suppliers with full recourse as described in note 19a.

The Group's credit risk is primarily attributable to the trade and other receivables. In order to minimize the credit risk, the directors of the Company continuously monitor the credit quality and financial conditions of the customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2012, the credit risk of the Group is concentrated on trade receivables from ten (31 December 2011: ten) of the Group's customers, all of which were the Group's major customers engaged in the sales and manufacturing of solar cells and modules in the PRC, which amounted to approximately RMB131,592,000 (2011: RMB208,083,000) and accounted for approximately 87% (31 December 2011: 78%) of the Group's total trade receivables . These customers have good repayment history and credit quality under internal assessment by the Group. In order to minimize the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial conditions and credit qualities of its customers and banks to ensure that prompt actions will be taken to lower exposure.

There is concentration of credit risk on pledged bank deposits, restricted bank deposits and bank balances and cash for the Group as at 31 December 2012 and 2011. As at 31 December 2012, balances deposited at four banks accounted for 86% (31 December 2011: 79%) of the total pledged bank deposits, restricted bank deposits and bank balances and cash 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 Group's credit risk on trade receivables is concentrated in the PRC. However, the exposure spread over a large number of counterparties and customers.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short-term and long-term 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 and internally generated funds. 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.

The following tables detail the 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, include both principal and interest, on financial liabilities based on the earliest date in which the Group can be required to pay. The following tables also detail the Group's liquidity analysis for its derivative financial instruments, which are prepared based on the contractual maturities and undiscounted gross cash flows as the directors of the Company consider that the contractual maturities and undiscounted gross cash flows are essential for an understanding of the timing and impact of the cash flows of derivatives.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

	Weighted average interest rate	On demand or less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 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							
Trade and other payables		596,134	—	—	—	596,134	596,134
Obligations under finance leases	6.77	14,857	14,858	22,286	—	52,001	48,760
Borrowings							
— Fixed-rate	6.56	332,109	107,062	—	—	439,171	427,217
— Variable-rate	6.48	243,373	249,280	—	—	492,653	476,000
		1,186,473	371,200	22,286	—	1,579,959	1,548,111

In addition to the amounts shown in the above table as at 31 December 2012, the Group may also be required to settle the maximum exposure to loss arising from discounted bills and endorsed bills arrangements with full recourse which were derecognized by the Group as detailed in note 19a in the next six months, amounting to RMB207,758,000 and RMB78,551,000, respectively.

	Weighted average interest rate	On demand or less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 years	Total undiscounted cash flows	Carrying amounts
At 31 December 2011							
Financial liabilities							
Trade and other payables		781,259	—	—	—	781,259	781,259
Obligations under finance leases	7.32	14,950	14,951	29,901	22,425	82,227	73,761
Borrowings							
— Fixed-rate	4.85	439,174	—	—	—	439,174	436,479
— Variable-rate	6.60	214,604	107,410	284,283	—	606,297	562,708
		1,449,987	122,361	314,184	22,425	1,908,957	1,854,207
Derivative — gross settlement							
Foreign exchange forward contracts (note a)							
— outflow		137,645	6,672	—	—	144,317	note a
— inflow (note b)		(144,685)	(7,505)	—	—	(152,190)	note a

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

Notes:

a. The carrying amount of foreign currency forward contracts at 31 December 2011 was approximately RMB7,758,000.

b. The negative number above represented undiscounted cash inflows of the Group based on the relevant contractual maturities at foreign currency exchange rates prevailing at the end of the reporting period.

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

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair values of the foreign currency forward contracts have been arrived at using the forward rates of similar instruments as at the end of the reporting period; and

- the fair values of other financial assets and financial liabilities (excluding derivative financial instruments) 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 of the Group recorded at amortized cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognized in the consolidated statement of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value, 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 or 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 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).

The derivative financial instruments with carrying amount of approximately RMB7,758,000 at 31 December 2011 is grouped into Level 2.

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

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during reporting period.

The capital structure of the Group consists of pledged bank deposits, restricted bank deposits, cash and cash equivalents, obligations under finance leases, borrowings and equity which includes capital, special reserve and retained earnings.

The directors of the Company review the capital structure regularly. The directors of the Company consider 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, issue of convertible bonds, issue of capital as well as raising and repayment of bank borrowings.

6. REVENUE AND SEGMENT INFORMATION

The Group has been operating in one reportable segment, being the manufacturing and sales of solar cells, solar modules and solar wafers. The chief executive officer who is also a director of the Company, being the chief operating decision maker, regularly reviews revenue analysis by major products and the Group's loss for the year to make decisions about resources allocation and performance assessment. No segment information is presented other than entity-wide disclosures as no other discrete financial information is available for the assessment of performance and resources of the Group's business activities.

Entity-wide disclosures

Revenue analyzed by major products

The Group has been engaged in manufacturing and sales of solar cells, solar modules and solar wafers.

The following table sets forth a breakdown of the Group's revenue for the year ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Monocrystalline solar cells	366,723	1,713,053
Multicrystalline solar cells	633,233	166,563
Solar modules	54,710	91,914
Solar wafers	4,823	—
Total	1,059,489	1,971,530

6. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

Revenue from external customers, based on locations of customers, attributable to the Group by geographic areas is as follows:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
The PRC (country of domicile)	922,895	1,883,131
Canada	36,506	—
Germany	39,882	14,800
Spain	20,581	27,073
Switzerland	—	13,249
Other countries (note)	39,625	33,277
Total	1,059,489	1,971,530

All the Group's non-current assets, including property, plant and equipment, prepaid lease payments, deposits for acquisition of property, plant and equipment and deposits for acquisition of land use rights are located in the PRC at the end of the reporting period.

Note: The customers located in other countries are mainly from certain Asian and other European countries.

Information about major customers

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Customer A	285,843	544,813

7. OTHER INCOME

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Bank interest income	7,936	3,194
Government grants (note)	13,565	3,563
Gain on sales of raw and other materials	1,868	3,167
Subcontract processing fee	5,332	—
Others	1,828	1,152
	30,529	11,076

Note: The government grants represent the amount received from the local government by the PRC operating entities of the Group. Government grants of approximately (a) RMB7,657,000 (2011: RMB1,099,000) represents incentive received in relation to activities carried out by the Group; (b) RMB4,358,000 (2011: RMB1,614,000) represents subsidy on acquisition of land use rights and machineries amortized to profit or loss and (c) RMB1,550,000 (2011: RMB850,000) represents grants in recognition of the Group's successful listing in the Stock Exchange in year 2011.

8. OTHER GAINS AND LOSSES AND OTHER EXPENSES

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Other gains and losses:		
Gain (loss) on disposal of property, plant and equipment	7	(1)
Foreign exchange gains	739	9,284
Change in fair values of foreign currency forward contracts	(3,006)	(7,758)
Release of gain on a sale and leaseback arrangement	2,331	582
	71	2,107
Other expenses:		
Legal and professional fees (note)	—	(13,060)
Impairment loss on property, plant and equipment (note 15)	(187,708)	(63,652)
Impairment loss on prepayment to suppliers	(762)	—
Impairment loss on trade and other receivables	(21,494)	—
Others	(586)	—
	(210,550)	(76,712)
Total	(210,479)	(74,605)

Note: The amount mainly represented legal and professional expenses incurred for the preparation of the listing of the Company's shares in the Stock Exchange.

9. FINANCE COSTS

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Interest on bank borrowings wholly repayable within five years	46,584	44,849
Finance charges on factoring of bills receivable	32,062	4,919
Interest on finance leases wholly repayable within five years	4,808	1,235
Total borrowing costs	83,454	51,003
Less: amounts capitalized	(8,721)	(2,497)
	74,733	48,506

Borrowing costs capitalized during the year ended 31 December 2012 arose on the general borrowing pool and are calculated by applying a capitalization rate of 6.71% (2011: 6.52%) per annum to expenditure on qualifying assets.

10. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
(Loss) profit before tax has been arrived at after charging:		
Directors' remuneration (note 11)	2,008	1,487
Other staff costs	82,544	61,191
Other staff's retirement benefits scheme contributions	5,870	3,745
Total staff costs	90,422	66,423
Auditor's remuneration	1,504	1,777
Cost of inventories recognized as expense (note)	994,507	1,761,244
Depreciation of property, plant and equipment	79,833	44,598
Release of prepaid lease payments	1,122	945
Operating lease rentals in respect of rented premises	2,194	1,924

Note: Included in cost of inventories recognized as expense were write-down of inventories to net realizable values of approximately RMB7,223,000 (2011: RMB3,627,000).

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2011: seven) directors of the Company were as follows:

	Fees RMB'000	Basic salaries and allowance RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
For the year ended 31 December 2012				
Executive directors:				
Mr. Lu Jianqing ("Mr. Lu") (note i)	—	—	—	—
Mr. Qian Kaiming ("Mr. Qian")	—	542	23	565
Mr. Tang Guoqiang ("Mr. Tang")	—	195	—	195
Mr. Shi Jianmin ("Mr. Shi") (note ii)	—	590	23	613
Mr. Gao Zhan (note iii)	—	130	—	130
Mr. Wang Yu (note iv)	—	16	—	16
Independent non-executive directors:				
Mr. Tao Wenquan ("Mr. Tao")	163	—	—	163
Mr. Zhao Yuwen ("Mr. Zhao")	163	—	—	163
Mr. Ge Ming ("Mr. Ge")	163	—	—	163
	489	1,473	46	2,008
For the year ended 31 December 2011				
Executive directors:				
Mr. Lu (note i)	—	376	12	388
Mr. Qian	—	299	15	314
Mr. Tang	—	197	—	197
Mr. Shi (note ii)	—	88	5	93
Independent non-executive directors:				
Mr. Tao	165	—	—	165
Mr. Zhao	165	—	—	165
Mr. Ge	165	—	—	165
	495	960	32	1,487

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Notes:

(i) Mr. Lu was appointed on 6 August 2010 and resigned on 29 Mar 2012. He was also the Chief Executive of the Company until his resignation. His emoluments during the year ended 31 December 2011 disclosed above include those for services rendered by him as the Chief Executive.

(ii) Mr. Shi was appointed on 1 September 2011. He is also the Chief Executive of the Company starting from 29 March 2012 and his emolument during the year ended 31 December 2012 disclosed above include those for service rendered by him as Chief Executive.

(iii) The director was appointed on 29 March 2012 and resigned on 11 December 2012.

(iv) The director was appointed on 28 November 2012.

(b) Employees' emoluments

The five highest paid individuals of the Group included two (2011: one) director(s) and chief executives of the Company during the year ended 31 December 2012. Details of whose emoluments are set out above. The emoluments of the remaining three (2011: four) individuals during the year ended 31 December 2012 and 2011 are as follows:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Employees		
— basic salaries and allowances	2,518	1,624
— performance-related incentive bonuses	413	300
— retirement benefit scheme contributions	57	62
	2,988	1,986

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

	Year ended 31 December	
	2012	2011
HKD Nil to HKD1,000,000	3	5
HKD1,000,001 to HKD1,500,000	1	—
HKD1,500,001 to HKD2,000,000	1	—

During the year ended 31 December 2012 and 2011, no emoluments were paid by the Group to the five highest paid individuals (including directors, chief executive and employees) 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 year ended 31 December 2012 and 2011.

12. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Current tax:		
PRC Enterprise Income Tax	–	22,486
Over provision in prior year:		
PRC Enterprise Income Tax	(500)	–
	(500)	22,486
Deferred taxation (note 17):	315	(11,829)
Tax (credit) charge	(185)	10,657

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, Shunfeng Technology is exempted from PRC enterprise income tax for two years starting from first profit-making year, followed by a 50% reduction for the next three years. As a result, Shunfeng Technology was exempted from enterprise income tax for two years, starting from its first profitable year, which were 2007 and 2008, and was then entitled to a 50% reduction in enterprise income tax for three years thereafter from year 2009 to 2011. Shunfeng Technology was subject to 12.5% tax rate for the year ended 31 December 2011.

On 8 November 2011, Shunfeng Technology obtained "High Technology Enterprise" status for 3 years that entitles Shunfeng Technology a preferential tax rate of 15% for year 2012 and 2013 according to PRC Tax law. Shunfeng Technology was therefore subject to 15% tax rate in year 2012. No provision for taxation has been made in respect of Shunfeng Technology as it has no taxable profit generated in current year.

The remaining subsidiaries of the Company established in the PRC are subject to PRC enterprise income tax rate of 25%. No provision for taxation has been made in respect of these subsidiaries as there was no taxable profit generated in current year.

12. INCOME TAX (CREDIT) EXPENSE (Continued)

The tax (credit) charge for the year is reconciled to (loss) profit before tax per the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
(Loss) profit before tax	(271,521)	34,410
Tax at the PRC tax rate of 25% (2011: 25%)	(67,880)	8,603
Temporary differences or losses not recognized	60,426	16,656
Tax effect of expenses not deductible for tax purpose	2,821	6,153
Reversal of temporary difference previously recognized	3,947	—
Tax effect of income not taxable for tax purpose	—	(66)
Tax effect of concessions granted to a PRC subsidiary	1,001	(3,423)
Effect on a 50% tax reduction granted to a PRC subsidiary	—	(17,266)
Over provision in respect of prior year	(500)	—
Tax (credit) charge for the year	(185)	10,657

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the consolidated loss attributable to the owners of the Company and on the number of 1,560,000,000 shares in issue (2011: weighted average member of 1,353,780,822 shares on the assumption that the Group Reorganization and capitalization issue as detailed and disclosed in note 1 and 27 have been effective on 1 January 2011).

The over-allotment option of the Company did not have a dilutive effect to the Company's earnings per share during the year ended 31 December 2011 because the exercise price of such option was higher than the average market prices of the Company's shares during the period when the option was exercisable. The dilute loss per share is the same as basic loss per share, as there were no potential dilutive ordinary shares outstanding in year 2012.

14. DIVIDENDS

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: nil).

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2011	45,926	293,612	2,063	1,469	169,897	512,967
Additions	815	9,832	1,412	924	900,755	913,738
Transfer	38,212	457,513	—	—	(495,725)	—
Disposals	—	—	—	(10)	—	(10)
At 31 December 2011	84,953	760,957	3,475	2,383	574,927	1,426,695
Additions	—	26,237	385	870	220,441	247,933
Transfer	60,588	69,771	—	—	(130,359)	—
Disposals	—	(145)	(131)	(12)	—	(288)
At 31 December 2012	145,541	856,820	3,729	3,241	665,009	1,674,340
DEPRECIATION						
At 1 January 2011	3,017	28,085	1,026	768	—	32,896
Provided for the year	2,130	41,542	519	407	—	44,598
Impairment loss recognized in profit or loss	7,106	20,398	—	—	36,148	63,652
Eliminated on disposals	—	—	—	(9)	—	(9)
At 31 December 2011	12,253	90,025	1,545	1,166	36,148	141,137
Provided for the year	4,780	73,977	623	453	—	79,833
Impairment loss recognized in profit or loss	35,649	54,058	—	160	97,841	187,708
Eliminated on disposals	—	(41)	(118)	(11)	—	(170)
At 31 December 2012	52,682	218,019	2,050	1,768	133,989	408,508
CARRYING VALUES						
At 31 December 2012	92,859	638,801	1,679	1,473	531,020	1,265,832
At 31 December 2011	72,700	670,932	1,930	1,217	538,779	1,285,558

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 after taking into account the residual values:

Buildings	Over the shorter of the period of the respective lease or 20 years
Plant and machinery	10 years
Motor vehicles	4–5 years
Furniture, fixtures and equipment	3–5 years

The above buildings are located on land leases in the PRC which are under medium-term lease.

The net book value of property and machinery of approximately RMB638,801,000 (2011: RMB670,932,000) includes an amount of approximately RMB78,082,000 (2011: RMB79,645,000) in respect of assets held under finance leases.

During the year, as a result of severe and challenging market conditions in solar industry towards the end of 2012 which impacted the selling prices of the products of the industry, the Group carried out a review of the recoverable amount of related cash generating units. The recoverable amount of the cash generating units have 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 12.0% (2011: 11.0%) that reflects current market assessments of the time value of money and the risks specific to the cash generating units. The cash flows beyond the next five years are extrapolated using zero (2011: zero) growth rate based on the industry expectation. Accordingly, an impairment loss of RMB187,708,000 (2011: RMB63,652,000) is recognized in profit or loss.

16. PREPAID LEASE PAYMENTS

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Analyzed for reporting purpose as:		
Non-current assets	50,218	51,340
Current assets	1,122	1,122
	51,340	52,462

The land use rights in the PRC are under medium-term lease.

17. DEFERRED TAX

The following is the deferred tax assets and liabilities recognized and movements thereon for the year ended 31 December 2012 and 2011:

	Write-down of inventories RMB'000	Allowance for receivable RMB'000	Deferred income RMB'000 (note)	Change in fair value of other financial liabilities RMB'000	Finance lease RMB'000	Total RMB'000
At 1 January 2011	—	—	—	—	—	—
Credit (charge) to profit or loss	618	—	10,176	1,164	(129)	11,829
At 31 December 2011	618	—	10,176	1,164	(129)	11,829
Credit (charge) to profit or loss	(253)	3,338	(2,365)	(1,164)	129	(315)
At 31 December 2012	**365**	**3,338**	**7,811**	**—**	**—**	**11,514**

Note: It represents deferred tax arose from the asset-related government grants received by the PRC operating subsidiaries of the Company in the year ended 31 December 2012 and 2011.

At the end of the reporting period, the Group has unused tax losses of RMB50,348,000 (31 December 2011: RMB1,448,000) available for offset against future profits. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams. Tax losses of RMB1,448,000 and RMB50,348,000 (2011: RMB1,448,000 and nil) will expire in 2016 and 2017, respectively.

At the end of the reporting period, the Group has deductible temporary differences of RMB272,319,000 (2011: RMB65,175,000) not been recognized as deferred tax assets as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Under the Law of the People's Republic of China on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB184 million (31 December 2011: RMB216 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Raw materials	16,800	26,209
Work-in-progress	3,868	22,646
Finished goods	12,237	25,452
	32,905	74,307

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Trade receivables	172,006	265,267
Less: Allowance for doubtful debts	(21,494)	—
	150,512	265,267
Bills receivable	47,972	210,399
Other receivables and prepayments (note)	51,071	49,348
	249,555	525,014
Less: Amount due for settlement within one year shown under current assets	(241,238)	(525,014)
Amount shown under non-current assets	8,371	—

Note: The Group entered into an agreement (the "Original Agreement") with an independent party which is not related to the Group and is engaged in the building of photovoltaic power generation plant. According to the terms of the Original Agreement, the Group advanced an amount of Euro4,000,000 (approximately RMB33,271,000) to the counterparty during the year ended 31 December 2011 for the building of a photovoltaic power generation project. In March 2012, the parties involved signed a supplementary agreement and mutually agreed that the advance will be repayable in one year since the date of the Original Agreement with interest at a rate of 5% per annum. In December 2012, the parties involved signed another supplement agreement and mutually agreed that the advance is charged with interest at 6% per annum and will be repayable in the following manner:(i) Euro1,000,000 to be paid before 15 May 2013, (ii) Euro1,000,000 to be paid in July 2013, (iii) Euro1,000,000 to be paid in September 2013 and (iv) Euro1,000,000 and all outstanding interest payment to be paid in February 2014. The amount is also guaranteed by the owner of the counterparty. The management of the Group considers that the credit quality of the counterparty is good and no impairment loss is recognized. As an amount of Euro1,000,000 (equivalent to RMB8,317,000) is repayable after one year and is therefore classified as non-current assets.

19. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows credit period up to 180 days (2011: up to 180 days) to its trade customers on a case by case basis. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	As at 31 December	
Age	2012 RMB'000	2011 RMB'000
0 to 30 days	23,326	143,397
31 to 60 days	46,218	92,021
61 to 90 days	29,140	5,758
91 to 180 days	16,353	24,091
181 to 360 days	28,423	—
Over 360 days	7,052	—
	150,512	265,267

The following is an aged analysis of the Group's bills receivable presented based on issue date at the end of the reporting period:

	As at 31 December	
Age	2012 RMB'000	2011 RMB'000
0 to 30 days	5,226	41,372
31 to 60 days	8,517	8,000
61 to 90 days	11,480	145,927
91 to 180 days	22,749	15,100
	47,972	210,399

No interest is charged on the Group's trade receivables and bills receivable. The Group did not hold any collateral over these balances. Before accepting any new customers, the Group assesses the potential customers' credit quality and defines credit limits by customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB92,689,000 (31 December 2011: RMB37,791,000) which are past due at the reporting date. The directors of the Company have considered the credit quality of the relevant customers and subsequent settlements and concluded that the Group is not required to provide for impairment loss. The average age of these receivables is 124 days (2011: 103 days).

19. TRADE AND OTHER RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired

	2012 RMB'000	2011 RMB'000
Age		
0 to 30 days	55,504	614
31 to 60 days	21,008	11,827
61 to 90 days	6,192	1,359
91 to 180 days	8,235	23,991
181 to 365 days	1,024	—
1 to 2 years	726	—
	92,689	37,791

Movement in the allowance for doubtful debts

	2012 RMB'000	2011 RMB'000
1 January	—	—
Impairment losses recognized on trade receivables	21,494	—
31 December	21,494	—

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB21,494,000 (31 December 2011: nil) which have been placed under liquidation or in severe financial difficulties.

Trade and other receivables that were denominated in USD, HKD and Euro, foreign currencies of the relevant group entities, were retranslated to RMB and stated for reporting purpose as:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
USD	7,477	16,270
HKD	334	1,192
Euro	34,522	32,650

19A. TRANSFERS OF FINANCIAL ASSETS

As discussed in note 2, as at 31 December 2012, the Group has discounted certain bills receivables to banks and transferred certain bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers, both with full recourse. The Group has derecognized these bills receivables and the payables to suppliers in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers under the relevant PRC practice, rule and regulations. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2012, the Group's maximum exposure to loss and cash outflow, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB207,758,000 and RMB78,551,000, respectively.

All the bills receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

20. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits and restricted bank deposits represents deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The ranges of interest rate of the Group's pledged bank deposits and restricted bank deposits are as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Interest rate:		
Fixed-rate	2.8%–3.5%	2.6%–3.3%
Variable-rate	0.4%–0.5%	0.5%

The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Bank balances carry interest at market rates which range from 0.01% to 0.40% (31 December 2011: 0.01% to 0.65%) per annum.

20. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH (Continued)

Bank balances and cash, restricted bank deposits and pledged bank deposits that were denominated in USD, HKD, Euro and JPY, foreign currencies of the relevant group entities, were re-translated to RMB and stated for reporting purpose as:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
USD	89	—
HKD	32	6,588
Euro	529	670
JPY	—	17

Certain bank balances and cash, restricted bank deposits and pledged bank deposits of the Group of approximately 303,762,000 (31 December 2011: RMB497,428,000) were denominated in RMB which is not freely convertible currency in the international market. The exchange of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restriction imposed by the Government of the PRC.

21. TRADE AND OTHER PAYABLES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Trade payable	177,818	196,683
Bills payable	323,244	450,436
Payables for acquisition of property, plant and equipment	75,011	115,253
Other tax payables	1,296	276
Other payables and accrued charges	23,080	23,334
	600,449	785,982

The credit period on purchases of goods is 0 to 180 days (2011: 0 to 180 days) and certain suppliers allow longer credit period on a case-by-case basis.

21. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Age		
0 to 30 days	86,169	139,505
31 to 60 days	34,434	39,409
61 to 90 days	16,375	12,159
91 to 180 days	33,937	5,602
Over 180 days	6,903	8
	177,818	196,683

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Age		
0 to 30 days	36,521	55,698
31 to 60 days	76,775	64,339
61 to 90 days	38,279	60,815
91 to 180 days	171,669	269,584
	323,244	450,436

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
USD	7,612	10,097
HKD	1,394	1,964
JPY	11,819	15,096
Euro	12,585	43,069

22. CUSTOMERS' DEPOSITS RECEIVED

Customers' deposits received are unsecured, interest-free and will be settled by the delivery of products by the Group. At the end of the reporting period, the directors of the Company estimate that the amount of customers' deposits received that is expected to be settled by the delivery of products of the agreed contract quantity in the next twelve months and therefore such amount is classified as current liability at the end of the reporting period.

23. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Analyzed for reporting purposes as:		
Current liabilities	27,215	25,105
Non-current liabilities	21,545	48,656
	48,760	73,761

It is the Group's policy to lease certain of its machineries under finance leases. The average lease term is 3 years (2011: 3 years). Interest rate underlying the obligations under finance leases is floating at 110% to the benchmark interest rate issued by the People's Bank of China ("PBOC") (31 December 2011: 110% to the benchmark interest rate issued by PBOC).

	Minimum lease payments As at 31 December		Present value of minimum lease payments As at 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Amounts payable under finance leases:				
Within one year	29,715	29,901	27,215	25,105
In more than one year but not more than two years	22,286	29,901	21,545	27,035
In more than two years but not more than five years	—	22,425	—	21,621
	52,001	82,227	48,760	73,761
Less: future finance charges	(3,241)	(8,466)	N/A	N/A
Present value of lease obligations	48,760	73,761	48,760	73,761
Less: Amount due for settlement within 12 months (shown under current liabilities)			(27,215)	(25,105)
Amount due for settlement after 12 months			21,545	48,656

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

24. OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Foreign currency forward contracts	–	7,758

As at 31 December 2011, the Group had several arrangements with three commercial banks in the PRC pursuant to which the Group would purchase Euro and JPY and sell RMB at pre-determined forward rates for contractual periods from three to twelve months from the banks for settlement of foreign-currency denominated liabilities.

Major terms of foreign currency forward contracts of the Group are as follows:

Principal amount	Maturity	Forward exchange rate
Derivatives — gross settlement		
Euro1,650,000	June 2012	Buy Euro/Sell RMB at 9.1503
Euro1,754,000	June 2012	Buy Euro/Sell RMB at 9.1503
Euro173,000	June 2012	Buy Euro/Sell RMB at 9.1288
Euro173,000	June 2012	Buy Euro/Sell RMB at 9.1288
Euro1,650,000	June 2012	Buy Euro/Sell RMB at 9.1503
Euro3,152,000	March 2012	Buy Euro/Sell RMB at 8.4953
Euro825,000	March 2012	Buy Euro/Sell RMB at 8.2796
Euro784,000	January 2012	Buy Euro/Sell RMB at 9.2133
Euro1,547,000	February 2012	Buy Euro/Sell RMB at 8.7400
Euro772,800	November 2012	Buy Euro/Sell RMB at 8.6331
JPY381,994,000	February 2012	Buy JPY/Sell RMB at 0.08196

As at 31 December 2011, the fair values of the foreign currency forward contracts are measured using quoted forward exchange rates matching maturities of the contracts at the end of the reporting period. All the forward contracts were fully settled as at ended 31 December 2012.

During the year ended 31 December 2012, a loss on change in fair values of the foreign currency forward contracts amounting to approximately RMB3,006,000 (2011: RMB7,758,000) has been recognized in the consolidated statement of comprehensive income.

25. BORROWINGS

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Bank loans	868,217	999,187
Other loans	35,000	—
	903,217	999,187
Secured	282,217	309,787
Unsecured	621,000	689,400
	903,217	999,187
Fixed-rate borrowings	427,217	436,479
Variable-rate borrowings	476,000	562,708
	903,217	999,187
Carrying amount repayable (note):		
Within one year	903,217	730,187
More than one year, but not exceeding two years	—	269,000
	903,217	999,187
Less: amounts repayable within one year shown under current liabilities	(903,217)	(730,187)
Amounts shown under non-current liabilities	—	269,000

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

At 31 December 2012 and 2011, the Group had variable-rate borrowings which carried interest based on the benchmark interest rate issued by the PBOC. Interest was reset every one month, three months or one year.

The proceeds were used to finance the acquisition of property, plant and equipment and to fund working capital for operation.

25. BORROWINGS (Continued)

The ranges of effective interest rate of the Group's borrowings are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Effective interest rate:		
Fixed-rate borrowings	**2.40% to 7.28%**	2.40% to 6.94%
Variable-rate borrowings	**3.22% to 7.32%**	2.26% to 7.32%

The unsecured bank borrowings of approximately RMB576,000,000 (31 December 2011: RMB579,900,000) at 31 December 2012 were guaranteed by independent third parties.

During the year, the Group obtained other loan from an independent third party amounting to RMB35,000,000 (2011: nil) which was unsecured, bearing interest at fixed interest rate of 6.1% (2011: nil) per annum and repayable within one year.

The borrowings denominated in Euro and JPY, the foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Euro	**–**	101,195
JPY	**–**	30,730

26. DEFERRED INCOME

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Government grants (note a)	**51,303**	43,557
Finance lease (note b)	**4,077**	6,408
	55,380	49,965

26. DEFERRED INCOME (Continued)

Notes:

(a) During the year, the Group received a government subsidy of approximately RMB12,104,000 (2011: RMB38,202,000) mainly related to compensation for acquisition of plant and equipment. The amount is treated as deferred income and amortized to income over the useful lives of related assets upon the machineries are ready for their intended use and depreciation commences.

(b) During the year ended 31 December 2011, the Group entered into a sale and leaseback arrangement with a financial institution on certain of the Group's machineries for a principal amount of RMB80,000,000. The sale and leaseback transaction results in a finance lease of which RMB6,990,000, representing the excess of sales proceeds of RMB80,000,000 (i.e. the principal amount of the transaction) over the carrying amount of the machineries at the date of the arrangement of approximately RMB73,010,000 was recognized as a deferred income and amortized over the contractual term of the arrangement. During the year ended 31 December 2012, approximately RMB2,331,000 (2011: RMB582,000) was released from the deferred income and recognized in other gains and losses in the consolidated statement of comprehensive income. Details of the finance lease are set out in note 23.

27. SHARE CAPITAL

Ordinary shares of HKD0.01 each.

Authorized:

	Number of shares	Amount HKD
At 1 January 2011	39,000,000	390,000
Increase on 23 May 2011(note a)	4,961,000,000	49,610,000
At 31 December 2011 and 2012	**5,000,000,000**	**50,000,000**

Issued and fully paid:

	Number of shares	Amount HKD
At 1 January 2011	50,000	500
Capitalization issue on 13 July 2011 (note b)	1,169,950,000	11,699,500
Issue of shares on 13 July 2011 (note b)	390,000,000	3,900,000
At 31 December 2011 and 2012	**1,560,000,000**	**15,600,000**

27. SHARE CAPITAL (Continued)

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Presented in the consolidated financial statements as	12,892	12,892

Notes:

(a) Pursuant to written resolutions of the shareholders of the Company dated 23 May 2011, the authorized share capital of the Company was increased from HKD390,000 to HKD50,000,000 by the creation of an additional 4,961,000,000 shares of HKD0.01 each.

(b) On 13 July 2011, 390,000,000 shares of HKD0.01 each of the Company were issued at HKD1.11 by way of Global Offering (as defined in the Prospectus), resulting in proceeds of HKD432,900,000 (equivalent to approximately RMB357,749,000). On the same date, the Company allotted and issued at par 1,169,950,000 ordinary shares of HKD0.01 each to the then shareholders of the Company in proportion to their respective then existing shareholdings to the Company by way of capitalization of the amount of approximately HKD11,699,500 (equivalent to approximately RMB9,668,000) standing to the credit of the share premium account of the Company.

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
ASSETS		
Investment in a subsidiary and amounts due from subsidiaries	583,005	587,408
Other receivables	210	1,095
Bank balances and cash	16	17
	583,231	588,520
LIABILITIES		
Other payables	9,927	13,639
Amounts due to subsidiaries	24,443	21,571
	34,370	35,210
NET ASSETS	548,861	553,310
Capital and reserves		
Share capital	12,892	12,892
Reserves (note i)	535,969	540,418
Total equity	548,861	553,310

28. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note i: Reserves

	Share premium RMB'000	Special reserve RMB'000 (note ii)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	—	233,968	(8,259)	225,709
Issue of new shares	354,526	—	—	354,526
Transaction costs attributable to issue of shares	(24,575)	—	—	(24,575)
Capitalization issue (note 27(b))	(9,668)	—	—	(9,668)
Loss and total comprehensive expenses for the year	—	—	(5,574)	(5,574)
At 31 December 2011	320,283	233,968	(13,833)	540,418
Loss and total comprehensive expenses for the year	—	—	(4,449)	(4,449)
At 31 December 2012	320,283	233,968	(18,282)	535,969

Note ii: The shareholders of the Company injected capital of approximately RMB233,968,000 to the Company for the purpose to acquire the equity interests of Shunfeng Technology pursuant to the Group Reorganization in year 2010.

29. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Within one year	677	578
In the second to fifth year inclusive	—	187
	677	765

29. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee (Continued)

Operating lease payments represented rental payable by the Group for certain of its office properties and factory premises. The leases are negotiated for an average term from one to three years.

30. CAPITAL COMMITMENTS

At the end of the reporting period, the Group was committed to the following capital expenditure:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of acquisition of land leases:		
— contracted for but not provided in the consolidated financial statements	22,195	—
— authorized but not contracted for	—	7,460
	22,195	7,460

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment		
— contracted for but not provided in the consolidated financial statements	159,840	148,947
— authorized but not contracted for	1,203,259	1,331,436
	1,363,099	1,480,383

31. RETIREMENT BENEFITS SCHEMES

The Group operates MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees of the subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll 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.

32. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain trade receivable and bills receivables with aggregate carrying amount of approximately RMB73,428,000 (31 December 2011: RMB52,250,000) and certain property, plant and equipment and land use rights with aggregate carrying amount of approximately RMB180,446,000 (31 December 2011: nil) to various banks for securing loans and general credit facilities granted to the Group.

33. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the years ended 31 December 2012 and 2011, the Group has the following significant transactions with related parties:

Name of related party	Nature of transaction	Year ended 31 December 2012 RMB'000	2011 RMB'000
Changzhou Shunfeng Electric Power Equipment Co., Ltd.* ("Changzhou Shunfeng") (note)	Purchase of property, plant and equipment	–	713

* The English name is for identification purpose only.

Note: Mr. Lu has controlling interests in Changzhou Shunfeng.

33. RELATED PARTY DISCLOSURES (Continued)

(b) Compensation of key management personnel

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	5,515	3,555
Performance — related incentive bonuses	413	300
Retirement benefits scheme contributions	149	119
	6,077	3,974

The remuneration of directors and key executives is determined with reference to the performance of individuals and market trends.

34. EVENT AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2012:

(a) On 14 January 2013, Shunfeng HK entered into an equity purchase agreement with a non-controlling shareholder of Shunfeng Materials to acquire its 45.45% equity interest in Shunfeng Materials, which will then become a wholly-owned subsidiary of the Company. The consideration payable for the acquisition is RMB72,000,000. The acquisition was approved by in the extraordinary general meeting on 26 February 2013. The consideration will be paid in three installment as follows:

(a) First installment: RMB5,000,000 to be paid on completion of the acquisition;

(b) Second installment: RMB5,000,000 to be paid within three months after payment of the first instalment of the consideration; and

(c) Third installment: RMB62,000,000 to be paid on or before 30 June 2013.

As at the date of the report, RMB72,000,000 was paid to the non-controlling shareholder of Shunfeng Materials.

34. EVENT AFTER THE REPORTING PERIOD (Continued)

(b) On 31 December 2012, the Company and a shareholder (the "subscriber") of the Company entered into a subscription agreement for convertible bond with principal amount of HKD449,400,000 (equivalent to approximately RMB364,374,000) ("Subscription Agreement"). The Subscription Agreement is subject to the approval of shareholders other than the subscriber and the listing committee of the Stock Exchange for considering application for listing and the granting of listing. Relevant approvals were obtained in February 2013 and the convertible bond was issued on 28 February 2013.

The convertible bond is denominated in HKD with a conversion period of 20 years from the issue date and can be converted into ordinary shares of the Company at HKD0.214 per share, subject to customary adjustment for, among other matters, subdivision or consolidation of shares, capitalization of profits or reserves, capital distributions, right issue and issues of securities for cash at a price less than 80% of the then market price.

The holder(s) of the convertible bond have the right to require the Company to redeem the outstanding convertible bond at an amount equals to the principal amount of the convertible bond prior to the twentieth anniversary of the date of issue of the convertible bond (the "Maturity Date") in the following manner:

(i) up to 5% of the aggregate amount of the convertible bond, i.e. HKD22,470,000, during the period from the first anniversary of the date of issue of the convertible bond to the fifth anniversary of the date of issue of the convertible bond;

(ii) subject to (i) above, up to 10% of the aggregate amount of the convertible bond, i.e. HKD44,940,000, during the period from the first anniversary of the date of issue of the convertible bond to the tenth anniversary of the date of issue of the convertible bond; and

(iii) up to 100% of the aggregate amount of the convertible bond during the period from the date after the tenth anniversary of the date of issue of the convertible bond to the Maturity Date.

The Company shall have the right to redeem the outstanding convertible bond at an amount equals to the principal amount of the convertible bond prior to the Maturity Date in the following manner:

(I) up to 5% of the aggregate amount of the convertible bond, i.e. HKD22,470,000, during the period from the first anniversary of the date of issue of the convertible bond to the fifth anniversary of the date of issue of the convertible bond;

(II) subject to (I) above, up to 10% of the aggregate amount of the convertible bond, i.e. HKD44,940,000, during the period from the first anniversary of the date of issue of the convertible bond to the tenth anniversary of the date of issue of the convertible bond; and

(III) up to 100% of the aggregate amount of the convertible bond during the period from the date after the tenth anniversary of the date of issue of the convertible bond to the Maturity Date.

The Group is still in the process of assessing the financial effect of the convertible bonds.

34. EVENT AFTER THE REPORTING PERIOD (Continued)

(c) On 25 March 2013, the Company has entered into a letter of intent (the "LOI") with Hainan Tibetan Autonomous Prefectural People's Government in Qinghai Province ("Tibetan Autonomous Prefectural People's Government"). Pursuant to the LOI, the Company and Tibetan Autonomous Prefectural People's Government will, subject to the entering of the formal agreement, establish a photovoltaic industrial park by using plateau ecological and organic agriculture technologies in Hainan Tibetan Autonomous Prefecture in Qinghai Province (the "Possible Cooperative Investment").

Pursuant to the LOI, Tibetan Autonomous Prefectural People's Government will, subject to the entering of the formal agreement, provide the Company with certain preferential treatment including, among other things, land and preferential tax treatment, in addition to its preferential treatment under the Western Region Development policies.

Pursuant to the LOI, the Company will, subject to the entering of the formal agreement, establish a limited liability company in Hainan Tibetan Autonomous Prefecture in Qinghai Province, make investment of not less than RMB10 billion within ten years and be responsible for the overall implementation of the Possible Cooperative Investment.

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2012 and 2011, are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Attributable equity interest of the Group As at 31 December 2012	2011	Issued and fully paid share capital/ registered capital at 31 December 2012	Principal activities
Shunfeng HK	Hong Kong 16 August 2011	100%	100%	HKD500	Investment holding
Shunfeng Technology (Note a)	PRC 10 October 2005 as a wholly-owned foreign enterprise ("WOFE")	100%	100%	RMB367,317,000	Manufacturing and sales of solar cells and related products
Shunfeng Materials	PRC 21 September 2011 as a sino foreign equity joint venture	54.55%	54.55%	RMB179,521,000	Manufacturing and sales of silicon wafers and related products
Jiangsu Shunfeng Photovoltaic Electronic Power Co., Ltd. 江蘇順風光電電力有限公司 ("Shunfeng Electronic")	PRC 29 December 2011 as a WOFE	100%	100%	USD15,015,000 (Note b)	Manufacturing and sales of solar modules and provision of related installation services

Notes:

(a) Shunfeng Technology was a sino foreign joint venture and has become a wholly owned foreign enterprise since 26 September 2011 upon the Group Reorganization. Pursuant to the Certificate of Approval issued by government authorities in Jiangsu Province in the PRC, total registered capital was increased from RMB167,600,000 to RMB367,317,000 on 12 August 2011.

(b) The registered capital is USD100,000,000. As at 31 December 2012, the amount paid up is approximately USD15 million (31 December 2011: USD15 million).

None of the subsidiaries had issued any debt securities at the end of the years.

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

FINANCIAL SUMMARY

Results	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
	For the year ended 31 December				
Turnover	563,646	378,974	622,922	1,971,530	**1,059,489**
(Loss)/Profit before interest expenses and taxation	58,768	59,319	98,326	82,916	**(196,788)**
Interest expense	(3,981)	(1,268)	(3,970)	(48,506)	**(74,733)**
(Loss)/Profit before taxation	54,787	58,051	94,356	34,410	**(271,521)**
Income tax credit/(expense)	567	(4,573)	(14,266)	(10,657)	**185**
(Loss)/Profit and total comprehensive (expenses) income for the year	55,354	53,478	80,090	23,753	**(271,336)**
(Loss)/Profit and total comprehensive (expenses) income attributable to:					
Owners of the Company	55,354	53,478	80,449	57,182	**(186,347)**
Non-controlling interests	—	—	(359)	(33,429)	**(84,989)**
	55,354	53,478	80,090	23,753	**(271,336)**

Assets and liabilities	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
	As at 31 December				
Total assets	248,209	296,700	846,005	2,626,245	**2,051,610**
Total liabilities	(95,602)	(90,615)	(530,055)	(1,923,617)	**(1,620,318)**
	152,607	206,085	315,950	702,628	**431,292**
Equity attributable to owners of the Company	152,607	206,085	286,539	676,895	**490,548**
Non-controlling interests	—	—	29,411	25,733	**(59,256)**
	152,607	206,085	315,950	702,628	**431,292**

Note: The results and summary of assets and liabilities for each of the three years ended 31 December 2010 were extracted from the Company's prospectus dated 30 June 2011 have been prepared on a combination basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on Hong Kong Stock Exchange had been in existence throughout those years.

DEFINITIONS

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

"Associate"	has the meaning ascribed thereto under the Listing Rules
"Board"	the Board of Directors
"Company", "we" or "us"	Shunfeng Photovoltaic International Limited
"Corporate Governance Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of the Company
"EURO"	Euro, the lawful currency of the member states of European Union
"Global Offering"	the global offering of 390,000,000 Shares by the Company by way of Hong Kong public offering and international offering
"Group"	the Company and its subsidiaries
"GW"	gigawatt, which equals to billion watt
"HKD", "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"JPY"	Japanese Yen, the lawful currency of Japan
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MW"	megawatt, which equals to one million watt
"PRC" or "China"	the People's Republic of China
"PV"	Photovoltaic
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Shunfeng Materials"	Changzhou Shunfeng Photovoltaic Materials Co., Ltd.
"Shunfeng Technology"	Jiangsu Shunfeng Photovoltaic Technology Co., Ltd.
"United States"	the United States of America
"Year"	twelve months ended 31 December 2012

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