SUN.KING Power Electronics Group Limited
賽晶電力電子集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code:580

Annual Report 2013

CONTENTS

CORPORATE INFORMATION

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

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

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

Authorised representatives
Mr. Yue Zhoumin
Mr. Lau Lap Kwan
Ms. Ma Sau Kuen Gloria (resigned on 24 February 2014)

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

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

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

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

Secretary
Mr. Lau Lap Kwan
Ms. Ma Sau Kuen Gloria (resigned on 24 February 2014)

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

Auditors
Ernst & Young

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

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

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

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

Hong Kong share registrar and transfer office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

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

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

Company's website
www.speg.hk

Dear Shareholders,

I am pleased to present on behalf of the Board (the "**Board**") of directors (the "**Directors**") of Sun.King Power Electronics Group Limited (the "**Company**") the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2013.

For the year ended 31 December 2013, the consolidated turnover of the Group amounted to approximately RMB739.9 million, representing an increase of approximately RMB166.3 million as compared with the year ended 31 December 2012. The net profit of the Group for the year ended 31 December 2013 amounted to approximately RMB41.9 million, increasing by approximately RMB42.8 million as compared with the year ended 31 December 2012. The Board recommended the payment of a final dividend for the year ended 31 December 2013.

In 2013, the sales revenue of the Group increased significantly. In respect of the power transmission sector, the Group won several bids in the centralised tender projects for the supply of high-voltage power capacitors to State Grid Corporation of China and China Southern Power Grid Company Limited which led to a great increase in the related sales revenue. This result was inextricably linked with the Group's continuous efforts in improving product quality. The Group continued to benefit from the national policy of the People's Republic of China ("**PRC**") in developing the construction of ultra-high-voltage direct current (the "**UHVDC**") transmission lines, as a result, the sales revenue generated from anode saturable reactors tailored for UHVDC transmission projects has increased significantly compared with the same period in 2012. Furthermore, the Group had been actively expanding the high-voltage direct current (the "**HVDC**") light power transmission construction market, and its products have won the bid and have been applied in the first "five-terminal" HVDC light power transmission project in the PRC situated in Zhoushan city, Zhejiang province. In respect of rail transportation sector, the orders placed by China CNR Corporation Limited ("**CNR**") and its subsidiaries in relation to insulated gate bipolar transistor components, laminated busbars and other products for high power locomotives also increased significantly as compared with the same period in 2012.

In 2013, the Group's investment projects progressed smoothly. The new plants for Jiashan Sunking Power Equipment Technology Co., Ltd. ("**Jiashan Sunking**") and Jiujiang Jiuzheng Rectifier Co., Ltd., subsidiaries of the Company, had commenced operation. The production plant of a joint venture company established by a subsidiary of the Company and a subsidiary of Construcciones y Auxiliar de Ferrocarriles (CAF), S.A., had been completed. Jiashan Henghua Real Estate Development Co., Ltd. (嘉善恆華房地產開發有限公司), a joint venture company established by Jiashan Sunking and Hengtian Real Estate Co., Ltd. (恆天地產有限公司) had commenced operation.

In 2013, the Group continued to strengthen its capability in independent research and development, product innovation and enhance product quality, continuously development of diversified products and improve operational efficiency. Meanwhile, the Group continued to maintain the long-term strategic alliance and business partnership with selected partners and major customers, including CNR and, ABB Switzerland; and actively extended its reach to domestic markets in the PRC and overseas markets, in order to expand the Group's market share and increase potential revenue opportunities.

The Group will continue to follow the goal of being the industry-leading electric power system solution integrator and maintain its rapid growth. With the significant increase of investment in rail transportation projects made by the PRC government at various level, especially in the UHVDC transmission sector, and the recovery of the macro economy in the PRC, the Group is confident in the PRC economic development and the business performance in 2014.

Last but not least, the management of the Group is committed to dedicating its efforts to lead the entire team to promote the Group's development in order to maximise the benefits for the shareholders of the Company (the "**Shareholders**"). On behalf of the Board, I would like to take this opportunity to thank the members of our Board and our dedicated staff for their hard work and contributions as well as our business partners for their supports in 2013.

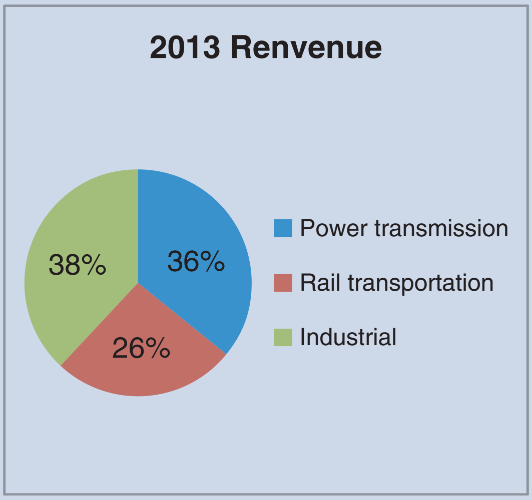
Xiang Jie
Chairman

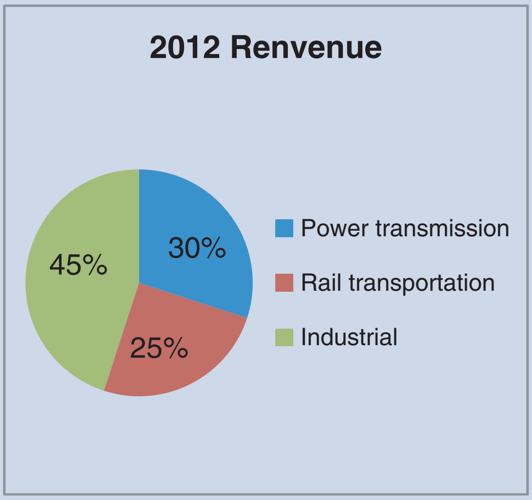
Hong Kong, 19 March 2014

BUSINESS REVIEW

The products offered by the Group are categorised into three main applied industries, namely, power transmission sector, rail transportation sector and industrial sector.

Applied industries	2013 Revenue RMB'000	2013 Gross profit margin %	2012 Revenue RMB'000	2012 Gross profit margin %
Power transmission	**269.33**	**35**	174.10	29
Rail transportation	**191.22**	**27**	144.33	21
Industrial	**279.32**	**28**	255.09	26
Total	**739.87**	**Average 30**	573.52	Average 25





Power transmission sector

The revenue generated by the power transmission sector increased significantly by approximately 54.7% from approximately RMB174.1 million for the year ended 31 December 2012 to approximately RMB269.3 million for the year ended 31 December 2013. The gross profit margin also increased from approximately 29.0% for the year ended 31 December 2012 to approximately 35.0% for the year ended 31 December 2013. Such increase is primarily due to the following:

(a) the Group's high-voltage power capacitors were awarded a number of tenders by State Grid Corporation of China and China Southern Power Grid Company Limited in their centralised tender projects during the year ended 31 December 2013. All these tender awards point to the quality of the Group's high-voltage power capacitors which are able to meet the stringent quality testing processes imposed by the Group's state-owned customers;

(b) the Group's anode saturable reactors tailored for ultra-high voltage direct current transmission projects also achieved remarkable success as the Group was able to benefit from the PRC government's policy which encouraged the application of ultra-high voltage direct current transmission; and

(c) last but not least, the Group's effort in venturing into the high voltage direct current light market was proved successful in that the Group was awarded tenders and applied the relevant products in the PRC's first "five-terminal" high voltage direct current light project in Zhoushan, Zhejiang Province, the PRC.

Rail transportation sector

The revenue generated by the rail transportation sector increased by approximately 32.5% from approximately RMB144.3 million for the year ended 31 December 2012 to approximately RMB191.2 million for the year ended 31 December 2013. The gross profit margin also increased from approximately 21.0% for the year ended 31 December 2012 to approximately 27.0% for the year ended 31 December 2013. Such increase is primarily due to the increase in orders for the Group's insulated gate bipolar transistor modules and laminated busbars placed by China CNR Corporation Limited, being a state-owned manufacturer of locomotives and rolling stock for both the domestic and export markets.

Industrial sector

The revenue generated by the industrial sector increased by approximately 9.5% from approximately RMB255.1 million for the year ended 31 December 2012 to approximately RMB279.3 million for the year ended 31 December 2013 as the Group was able to leverage its expertise and experience in such niche market to secure an increasing number of orders from its customers. The gross profit margin also increased from approximately 26.0% for the year ended 31 December 2012 to approximately 28.0% for the year ended 31 December 2013.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 29.0% from approximately RMB573.5 million for the year ended 31 December 2012 to approximately RMB739.9 million for the year ended 31 December 2013 primarily due to the enhancement of product quality, diversification of product range and strengthening of market development, thereby increasing the market share of the Group's products.

Cost of sales

The cost of sales increased by approximately 21.0% from approximately RMB427.8 million for the year ended 31 December 2012 to approximately RMB517.7 million for the year ended 31 December 2013 primarily due to the increase in revenue for the year ended 31 December 2013.

Gross profit and gross profit margin

The gross profit increased significantly by approximately 52.4% from approximately RMB145.8 million for the year ended 31 December 2012 to approximately RMB222.2 million for the year ended 31 December 2013 primarily due to the increase in revenue for the year ended 31 December 2013.

The gross profit margin increased from approximately 25.4% for the year ended 31 December 2012 to approximately 30.0% for the year ended 31 December 2013 primarily due to the decrease in production costs of each product as a result of the increase in revenue, and the increase in sales of the Group's products with higher gross profit.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 43.2% from approximately RMB45.0 million for the year ended 31 December 2012 to approximately RMB64.4 million for the year ended 31 December 2013 primarily due to the increase in revenue for the year ended 31 December 2013, the enhancement in marketing of new products and the exploration of new markets.

Administrative expenses

The administrative expenses decreased by approximately 6.5% from approximately RMB74.7 million for the year ended 31 December 2012 to approximately RMB69.8 million for the year ended 31 December 2013 primarily as a result of the Group's strict implementation of budget management and control over administrative expenses.

Other expenses

The other expenses increased significantly by approximately 217.1% from approximately RMB8.7 million for the year ended 31 December 2012 to approximately RMB27.5 million for the year ended 31 December 2013 primarily due to the increase in related expenses as a result of the enhancement of research and the development of new products.

Interest on bank loans wholly repayable within five years

The interest on bank loans wholly repayable within five years decreased slightly by approximately 2.6% from approximately RMB17.4 million for the year ended 31 December 2012 to approximately RMB17.0 million for the year ended 31 December 2013.

Profit before tax

The profit before tax increased significantly by approximately 399.9% from approximately RMB11.4 million for the year ended 31 December 2012 to approximately RMB56.8 million for the year ended 31 December 2013 primarily due to the significant increase in gross profit and the Group's strict control over expenses.

Income tax expenses

The income tax expenses increased by approximately 21.6% from approximately RMB12.3 million for the year ended 31 December 2012 to approximately RMB14.9 million for the year ended 31 December 2013 primarily due to the increase in revenue for the year ended 31 December 2013.

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

The profit and total comprehensive income for the year attributable to owners of the parent increased significantly by approximately 9,587.8% from approximately RMB0.4 million for the year ended 31 December 2012 to approximately RMB42.9 million for the year ended 31 December 2013.

The Group's net gain margin, which is calculated as gain attributable to owners of the parent for the year divided by revenue, increased from approximately 0.1% for the year ended 31 December 2012 to approximately 5.8% for the year ended 31 December 2013.

Inventories

The inventories decreased by approximately 29.1% from approximately RMB129.6 million as at 31 December 2012 to approximately RMB91.9 million as at 31 December 2013 primarily due to the strict implementation of ordering process, thereby decreasing the inventory levels.

The average inventory turnover days decreased from approximately 130.4 days for the year ended 31 December 2012 to approximately 87.0 days for the year ended 31 December 2013.

Trade receivables

The trade receivables increased significantly by approximately 52.2% from approximately RMB306.3 million as at 31 December 2012 to approximately RMB466.2 million as at 31 December 2013 primarily due to the increase in revenue for the year ended 31 December 2013.

The average trade receivables turnover days increased from approximately 189.1 days for the year ended 31 December 2012 to approximately 196.0 days for the year ended 31 December 2013.

Trade and other payables

The trade and other payables remained stable and increased by approximately 0.8% from approximately RMB212.3 million as at 31 December 2012 to approximately RMB214.1 million as at 31 December 2013.

The average trade and other payables turnover days increased from approximately 130.8 days for the year ended 31 December 2012 to approximately 150.0 days for the year ended 31 December 2013.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sales of its products and bank borrowings. The current ratio (current assets divided by current liabilities) decreased slightly from approximately 1.7 as at 31 December 2012 to approximately 1.6 as at 31 December 2013. The cash and cash equivalents decreased from approximately RMB186.7 million as at 31 December 2012 to approximately RMB153.9 million as at 31 December 2013. The interest-bearing bank borrowings increased from approximately RMB268.4 million as at 31 December 2012 to RMB299.0 million as at 31 December 2013 primarily due to the expansion in scale of production. The gearing ratio measured on the basis of total interest-bearing bank borrowings to total equity increased slightly from approximately 32.2% as at 31 December 2012 to approximately 34.0% as at 31 December 2013.

As at 31 December 2012 and 31 December 2013, the Group's bank loans were mainly denominated in Renminbi ("**RMB**"), and had contractual maturity within one year from the end of the reporting year. The effective interest rate on bank borrowing, which were also equal to the weighted average contracted interest rate, decreased from approximately 6.3% as at 31 December 2012 to approximately 6.1% as at 31 December 2013. During 2013, there was no material change to the Group's funding and treasury policy.

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

Foreign currency exposure

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

The carrying amount of the outstanding foreign currency forward contracts decreased by approximately 46.0% from approximately RMB1.4 million as at 31 December 2012 to approximately RMB0.7 million as at 31 December 2013.

Contingent liabilities

As at 31 December 2013, the Group had no significant contingent liabilities.

Charges on group assets

As at 31 December 2013, certain of the Group's bank loans were secured by pledge of certain of the Group's trade receivables amounting to approximately RMB25.3 million (as at 31 December 2012: approximately RMB152.6 million) and pledge of certain of the Group's bills receivable of RMB15.0 million (as at 31 December 2012: Nil). At 31 December 2013, certain of the Group's bills receivable of approximately RMB64.5 million (as at 31 December 2012: RMB25.0 million) were pledged to secure certain of the Group's bills payable.

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 40, is an executive Director, founder of the Group and the chairman of the Board. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduating from the Shanghai Maritime University (上海海事大學) in international shipping management in 1995, Mr. Xiang obtained his master degree in business administration from the Maastricht School of Management, the Netherlands in 1999. Mr. Xiang has over 10 years of experience in the power electronic sectors.

Mr. Gong Renyuan, aged 43, is an executive Director, the president of the Group and the chief executive officer of the Company. Mr. Gong joined the Group in 2002, primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Before joining the Group, he has accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學). Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Group.

Mr. Yue Zhoumin, aged 43, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. He is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) with a bachelor degree in economics in 1994. Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. He is highly experienced in strategic management and has worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange (stock code: 1919).

Mr. Huang Xiangqian, aged 42, is an executive Director and a vice president of the Group. He is also the general manager of the Group's subsidiary, Wuxi Sunking Power Capacitor Co. Ltd.(無錫賽晶電力電容器有限公司) specialising in manufacturing power capacitors, primarily responsible for the overall operation of that subsidiary as well as overseeing the production and quality of the Group's products. Mr. Huang graduated from the Harbin University of Science and Technology (哈爾濱理工大學) with a bachelor degree in engineering in 1997 and received his internal auditor qualification from the Beijing Zhongdahuayuan Certification Centre (北京中大華遠認證中心) in 2004. Mr. Huang has rich experience in design and production of power capacitors. Before joining the Group in 2008, Mr. Huang worked in the technology department of Nissin Electric Wuxi Co. Ltd. (日新電機（無錫）有限公司) for a number of years and had vast expertise in product standardisation procedures of power capacitors and HVDC projects.

NON-EXECUTIVE DIRECTORS

Mr. Ye Weigang Greg, aged 44, is a certified public accountant in the United States of America (the "**United States**"). Mr. Ye was appointed as the non-executive Director in May 2010. Mr. Ye was awarded a bachelor degree in electronic engineering from the Shanghai JiaoTong University (上海交通大學) in 1990, a master degree in accountancy from the Northeast Missouri State University in 1993 and a master degree in business administration from the Harvard Business School in 2001. Mr. Ye has worked for PricewaterhouseCoopers in the United States and was a product marketing group director of Cadence Design Systems, Inc., a leading electronic design automation technology and engineering service company. Mr. Ye was a managing partner of NewMargin Ventures. Mr. Ye was also a director of Daqo New Energy Corp., a company listed on the New York Stock Exchange. Mr. Ye is a founding partner of Delta Capital (達泰資本).

Mr. Wong Kun Kau, aged 53, was appointed as the non-executive Director in May 2010. Mr. Wong obtained his bachelor degree in social science from the University of Hong Kong in 1982. Mr. Wong has more than 25 years of experience in fund management, securities brokering and corporate finance and has been involving in securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganisations and other general corporate advisory activities. Mr. Wong is currently the managing partner of Bull Capital Partners Ltd., a fund management company specialising in direct investment in the Greater China region. Prior to joining Bull Capital Partners Ltd., Mr. Wong held senior management positions with several multinational financial institutions including BNP Paribas Capital (Asia Pacific) Limited and Peregrine Securities Limited. Mr. Wong is also an independent non-executive director of West China Cement Limited, a company listed on the Stock Exchange (stock code: 2233), Lifestyle Properties Development Limited, a company listed on the Stock Exchange (stock code: 2183) and Auhui Conch Cement Company Limited, a company listed on the Stock Exchange (stock code: 0914) and Shanghai Stock Exchange (stock code: 600585).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yi, aged 71, was appointed as an independent non-executive Director of the Company in July 2010. Mr. Wang graduated from the Beihang University (北京航空航天大學). Mr. Wang was the president of China Technology and Economy Investment Consulting Co., Ltd.(中技經投資顧問股份有限公司). Mr. Wang was the deputy director (副司長) of the Department of Foreign Economic Cooperation of the Office of the Economic and Trade of the State Council (國務院經濟貿易辦公室對外經濟合作司) and was also a director general (正司級巡視員) of the Department of Investment and Planning of the State Economic and Trade Commission of the PRC (國家經濟貿易委員會投資與規劃司). Mr. Wang is currently a general vice director (常務副主任委員) of the Enterprise Technology Improvement Working Committee of the China Enterprise Confederation (中國企業聯合會企業技術進步工作委員會). Mr. Wang has substantial working experience in the PRC government authorities including experience in policy planning and project approval. Mr. Wang is also an independent director and a member of the Remuneration and Appraisal Committee of China Garments Co., Ltd., an A-Share listed company on the Shenzhen Stock Exchange (stock code: 000902).

Mr. Li Fengling, aged 66, was appointed as an independent non-executive Director of the Company in July 2010. In 1975, Mr. Li completed the programme in power engineering (電力工程) organised by the Tsinghua University (清華大學). He subsequently obtained a master degree from the Tsinghua University in power system and automation (電力系統及自動化) in 1986. Mr. Li is currently the director (主任) of the management committee of the Xiushi Charity Foundation of the China Social Entrepreneur Foundation (中國友成企業家扶貧基金會修實公益基金管理委員會), and an independent director of Beijing Kalends Science & Technology Company Limited (北京昆侖萬維科技股份有限公司). Mr. Li has profound knowledge in the area of power engineering. Mr. Li was the chairman of Beijing Energy Investment (Holding) Co., Ltd. (北京能源投資（集團）有限公司), a company established by the Beijing People's Government and engages in the electricity and energy saving related business in Beijing. Mr. Li held a number of positions with various companies prior to joining the Company. He was previously the president of Beijing International Power Development Investment Corporation (北京國際電力開發投資公司), the director of the management committee of the Beijing Economic and Technological Development Area (北京經濟技術開發區管理委員會) and the general manager of Beijing Economic and Technological Investment & Development Corporation (北京經濟技術投資開發總公司). Mr. Li was also the deputy district mayor (副區長) of the Haidian District of Beijing, the district mayor (區長) of the Chaoyang District of Beijing and a member of the Standing Committee of the People's Political Consultative Conference of China in Beijing (北京市政協常委).

Mr. Chen Shimin, aged 55, was appointed as an independent non-executive Director of the Company in August 2010. Mr. Chen is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree and a master degree in economics in 1983 and 1985, respectively. Mr. Chen then obtained a doctoral degree in philosophy from the University of Georgia in 1992. Mr. Chen is now a professor of accounting, a director (主任) of the master of business administration degree program and a deputy registrar (副教務長) at China Europe International Business School (中歐國際工商學院), a guest professor and adjunct tutor to Ph.D. students (博士生合作指導教師) at the faculty of accounting of the Shanghai University of Finance and Economics. Mr. Chen has extensive education and research experience in domestic and overseas financial accounting and management accounting and teaching experience in numerous well-known universities. Mr. Chen is also an independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd., (中國高速傳動設備集團有限公司) a company listed on the Stock Exchange (stock code: 658); Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠（集團）股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600832); Huafa Industrial Co., LTD. Zhuhai (珠海華發實業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600325); Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd (浙江我武生物科技股份有限公司) a company listed on the Shenzhen Stock Exchange (stock code: 300357); Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300113); and an external supervisor of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600000).

SECRETARY*

Mr. Lau Lap Kwan, aged 64, was appointed as a joint company secretary of the Company in February 2011 and became the secretary of the Company in February 2014. Mr. Lau graduated from Northeast Heavy Machinery Institute (東北重型機械學院) (now known as Yanshan University (燕山大學)), majoring in heavy machinery, in 1975. Mr. Lau has accumulated over 35 years of experience in corporate management, administration and corporate finance both in the PRC and Hong Kong.

* *Ms. Ma Sau Kuen Gloria was a joint company secretary of the Company and has tendered her resignation with effective from 24 February 2014 due to retirement.*

SENIOR MANAGEMENT

Mr. Jin Jiafeng, aged 41, is the chief financial officer of the Group. Mr. Jin joined the Group in 2008. In 1994, Mr. Jin completed the programme in finance and accounting (財務會計專科) organised by the College of International Business and Management, Shanghai University (上海大學國際商業及管理學院). Before joining the Group, Mr. Jin worked at KPMG as a supervisor. Mr. Jin also worked at NewMargin Venture Capital as an investment adviser until December 2003. Mr. Jin was designated as a senior international finance manager by the International Financial Management Association in March 2009 and has extensive experience in finance and mergers and acquisitions in a number of sectors.

Ms. Ren Jie, aged 36, has been a vice president of the Group since 2008 and is responsible for human resources management. In 1998, Ms. Ren completed the programme in English language (英語專業大學專科) organised by the Xi'an International Studies University (西安外國語學院). Ms. Ren joined the Group in 2002 as a sales manager of the Group's subsidiary, Beijing Sunking Electronic Technology Co., Ltd. (北京華瑞賽晶電子科技有限公司) and was promoted as its chief operating officer in 2004. Ms. Ren Jie is the spouse of Mr. Gong Renyuan, an executive Director and chief executive officer of the Company.

Ms. Bai Xing, aged 32, is a vice president of the Group and is responsible for the Group's overall procurement process and daily operation of the procurement department. Ms. Bai has joined the Group since 2002. Ms. Bai graduated from the University of International Business and Economics (對外經濟貿易大學) with a bachelor degree in international business and trade in 2007 and has over eight years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

Mr. Li Jinyan, aged 35, is a vice president of the Group and is responsible for the sales and marketing of the Group's products. Mr. Li has joined the Group after graduating from the University of Science and Technology Beijing (北京科技大學) with a bachelor degree in automation in 2004.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. Throughout the year ended 31 December 2013, the Company complied with all principles and code provisions of the Corporate Governance Code. In addition, to demonstrate the Company's continued commitment to a high standard of corporate governance, the Board adopted a board diversity policy in August 2013 to comply with a new code provision of Corporate Governance Code on board diversity which became effective in September 2013. With the adoption of the board diversity policy, the Company has expanded the duty scope of the nomination committee of the Board to include monitoring the implementation of the policy.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standard against which the Directors must measure their conduct regarding transactions in securities of the Company. The Company confirms that, having made specific enquiry with all the Directors, the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2013.

BOARD

Responsibilities

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

Composition

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

During the year ended 31 December 2013, the Board had at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. The Company appointed three independent non-executive Directors representing one-third of the Board members, including one independent non-executive Directors who possesses appropriate professional qualifications, accounting and related financial management expertise. Therefore, the requirements of the Listing Rules were fully complied with.

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is mainly responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board, and Mr. Gong Renyuan is the chief executive officer of the Company (formally effective from 10 April 2012). During 2013, one meeting without executive Directors was held between the chairman and the non-executive Directors (including the independent non-executive Directors).

NON-EXECUTIVE DIRECTORS

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

MEETINGS

The Board holds meetings regularly to discuss the overall strategies, operational and financial performance of the Group. The Directors can attend meetings in person or via electronic medium. During 2013, a total of four meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at the Board meetings and Shareholders meetings during the year ended 31 December 2013 is set out as below:

		Attended/ Eligible to attend
	Board Meeting	Shareholders Meeting
Executive Directors		
Mr. Xiang Jie	4/4	1/1
Mr. Gong Renyuan	4/4	1/1
Mr. Yue Zhoumin	4/4	1/1
Mr. Huang Xiangqian	4/4	1/1
Non-executive Directors		
Mr. Ye Weigang Greg	4/4	1/1
Mr. Wong Kun Kau	3/4	0/1
Independent non-executive Directors		
Mr. Wang Yi	4/4	1/1
Mr. Li Fengling	4/4	1/1
Mr. Chen Shimin	4/4	1/1

In addition, one executive Directors' meeting was held and two written resolutions of the Board were passed during the year.

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

BOARD COMMITTEES

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

(i) Audit committee

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

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

The audit committee held five meetings during the financial year of 2013. During these meetings, the audit committee confirmed the appointment of Ernst & Young and fixed its remuneration, and reviewed the procedures of internal control of the Group. The committee also reviewed the interim and annual results of the Group for the financial year and the auditors' report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. Please refer to the table below for the attendance record of the meetings of the audit committee during the year ended 31 December 2013:

Directors	**Attended/ Eligible to attend**
Mr. Chen Shimin *(Chairman of the audit committee)*	5/5
Mr. Wang Yi	5/5
Mr. Ye Weigang Greg	5/5

(ii) Remuneration committee

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

The remuneration committee comprises two independent non-executive Directors, Mr. Wang Yi and Mr. Li Fengling, and one non-executive Director, Mr. Wong Kun Kau. The remuneration committee is chaired by Mr. Wang Yi.

The remuneration committee held four meetings during the financial year of 2013. During these meetings, the remuneration committee determined the option incentive scheme, and made recommendation on the Directors' allowances, the remuneration of the senior management and assessment system, as well as the remuneration of the employees and employee reward scheme. Please refer to the table below for the attendance record of the meetings of the remuneration committee during the year ended 31 December 2013:

Directors	**Attended/ Eligible to attend**
Mr. Wang Yi *(Chairman of the remuneration committee)*	4/4
Mr. Wong Kun Kau	4/4
Mr. Li Feng Lin	4/4

The biographies of members of the senior management team at the date of this annual report are disclosed in the section headed "Biographies of Directors and Senior Management" in this annual report. Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2013 is within the following bands:

	Number of individuals	
	2013	2012
RMB200,000 – RMB300,000	0	2
RMB300,001 – RMB400,000	2	2
RMB400,001 – RMB500,000	2	1

(iii) Nomination committee

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

The nomination committee comprises two independent non-executive Directors, Mr. Li Fengling and Mr. Chen Shimin and one executive Director, Mr. Gong Renyuan. The nomination committee is chaired by Mr. Li Fengling.

The nomination committee held four meetings during 2013. During these meetings, the nomination committee proposed to the Board to re-elect retiring Directors and re-appointed Mr. Gong Renyuan as executive Director, Mr. Ye Weigang Greg as non-executive Director and Mr. Li Fengling as independent non-executive Director. The committee reviewed the independence of the independent non-executive Directors, composition of the Board and the board diversity policy. Please refer to the table below for the attendance record of the meetings of the nomination committee during the financial year of 2013:

Directors	**Attended/ Eligible to attend**
Mr. Li Fengling *(Chairman of the nomination committee)*	4/4
Mr. Chen Shimin	4/4
Mr. Gong Renyuan	4/4

(iv) Investment committee

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

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

The investment committee held six meetings during the financial year of 2013. During these meetings, the investment committee discussed the progress of important projects and work and the development prospect of major acquisition and the joint venture. Please refer to the table below for the attendance record of the investment committee during the year ended 31 December 2013:

Directors	**Attended/ Eligible to attend**
Mr. Li Fengling *(Chairman of the investment committee)*	6/6
Mr. Chen Shimin	6/6
Mr. Ye Weigang Greg	6/6
Mr. Wong Kun Kau	5/6
Mr. Xiang Jie	6/6

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed herein, for the year ended 31 December 2013 and up to the date of this report, there were no changes to information required to be disclosed regarding the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

INTERNAL CONTROL

The audit department of the Company conducted comprehensive audit on the internal control system of the Company and its subsidiaries and submitted the "2013 Annual Report on Internal Control" for the Board's review. The Board is responsible for the internal control system and reviewing its effectiveness and it also reviews the efficiency of the internal control system of the Group, which covers all material controls including financial, operational and compliance controls and risk management functions, to prevent unauthorised use or sale of assets, to ensure the proper filing of accounting records and the providing of reliable financial information for internal use or for release, and to ensure that the applicable laws, regulations and rules are complied with. The procedure reasonably ensures the non-occurrence of significant error, loss or fraud. In 2013, in addition to adhering to the existing stringent internal control, the Company made additional improvement as follows:

(I) Department Structure

According to the needs of the business development, the Company established a new budget committee and a marketing department, and restructed the organisational structure and staffing arrangement of major departments. The budget committee is mainly responsible for supervising and managing the budget planning and efficiency of budget planning execution on daily and periodic bases. The committee and its management system will serve as a long-term mechanism of which implementation will be prioritised. The marketing department is mainly responsible for the analysis of market conditions and the execution of marketing campaigns. In general, the newly established budget committee and marketing department could timely improve the effectiveness of internal control.

(II) Management of temporary matters

In order to manage the risk of provisional and unconventional business, the Group has promptly and reasonably established a working group and designated responsible personnel to supervise and manage the overall planning of the project. In 2013, the Group established the "Inspection and acceptance of new plant working group" and the "Direct current power capacitors appraisal working group", the purpose of which was to identify and respond to potential risks and to complete these projects smoothly.

(III) Quality control

The Group emphasised on the quality of its products. With the business expansion and product diversification, the Group has developed a more effective quality control system to address the quality control risks associated with the growing business volume. The Group has strengthened the management and quality control on its suppliers, and formulated more effective standards and procedures on internal production and workflow. When the Group encountered difficult issues, the management of the Group would conduct on-site study and supervise in person, to ensure that the quality issues were resolved as soon as possible. The management is fully aware that the Company could benefit from an efficient and scientific development when product quality and stability is maintained at a high standard.

(IV) Information security control

The Group applied more stringent control on the use of various office software and hardware equipments. On the one hand, the Group actively updated and upgraded hardware equipments for more security and stability. On the other hand, the Group actively recruited professionals with more experience and expertise, in order to ensure the security and stability of the office network of the Group, and hence, minimising the information system risks.

CORPORATE GOVERNANCE FUNCTIONS

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

(a) to develop and review the Company's policies and practices on corporate governance;

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

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

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

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

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements which give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITORS' REMUNERATION

Ernest & Young has been appointed as auditors of the Company since 2012. In 2013, the Company accepted the annual audit fee of RMB1.65 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures of accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 28. During the year ended 31 December 2013, other than the audit fee, RMB0.55 million was paid to Ernst & Young for its performance of interim review.

SECRETARY*

Mr. Lau Lap Kwan was appointed as a joint company secretary of the Company in February 2011 and redesignated as secretary of the Company in February 2014. He is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. During 2013, Mr. Lau has confirmed that he had taken no less than 15 hours on relevant professional training.

CONSTITUTIONAL DOCUMENTS

There were no changes in the Company's constitutional documents during the financial year of 2013.

SHAREHOLDER'S RIGHTS

Procedures for call for extraordinary general meeting and making recommendation

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

MAKING ENQUIRIES TO THE BOARD

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

INVESTOR RELATIONSHIP

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

CORPORATE CULTURE AND SOCIAL RESPONSIBILITY

The Company is fully aware of the benefits of establishing a sound corporate culture which is the soul of development for any company. A sound corporate culture not only is conducive to the management, but also brings a sense of belonging to employees and shareholders. The Company holds group activities from time to time to promote team cohesion. The Company publishes Sun.King Bimonthly (賽晶雙月刊), passing the news of daily activities and the core value of the Company to all employees. Apart from increasing the employee satisfaction, the Company also vigorously organises various community activities to contribute to the society.

(1) Green energy

Challenged by increasingly acute environmental problems in People's Republic of China (the "**PRC**") in recent years, the Company actively responds to the call of the PRC government of energy conservation and emission reduction and has been dedicated to the research and development and manufacturing of products that are more efficient in energy conservation and emission reduction. The Company achieves satisfactory results in all product lines concerning green energy. The high-power rail transportation is the most environmental friendly way of travelling around and greatly reduces the pollution caused by the

* *Ms. Ma Sau Kuen Gloria was a joint company secretary of the Company and has tendered her resignation with effective from 24 February 2014 due to retirement.*

car emissions. SVC and SVG products significantly ease the problems in respect of harmonics, voltage fluctuations, flicker and negative sequence, substantially, therefore reduce the grid load of industrial power distribution system to improve the energy saving effect, security and reliability of power supply and the life cycle of various equipments.

(2) Environmental protection

In respect of production and operation, the Group is dedicated to producing pollution-free products by improving design and technology. In respect of work style, the Group vigorously advocates a low carbon workplace with less consumption in paper, electricity and water. For instance, the Company's annual reports are printed on environmental friendly paper, and the adoption of a reasonable typesetting also reduces the total pages of annual reports.

In addition, the Company will cooperate with Environmental Protection Department in Hong Kong, and update the Company's efforts in environmental protection in due course.

(3) Workplace environment

The Group always upholds the people-oriented management philosophy, and hopes that the employees grow together with the Group. In 2013, the Group made major improvement in the workplace environment, such as adopting a more convenient office system, offering nutritious workplace lunches and organising training courses on business know-how. We endeavour to satisfy reasonable demands from employees, create a comfortable workplace environment and foster employees' development.

(4) Public Welfare

i. In April 2013, the Group donated computers to the Central Primary School of Longping Town, Zunyi County, Guizhou Province, a stricken primary school, which greatly improved the hardware conditions of acquiring knowledge for those children, who, the Group believes, would be pillars of the society and would reward the society with their knowledge and wisdom.

ii. Sponsored by the Group, China-efe.org, xinhuanet.com and the Publicity Department of the Jiashan CPC County Committee, a grand cultural activity under the theme of "Beautiful China in Painters' eyes", which has received encouraging social response, was jointly held in Beijing and Jiashan. The awareness of social responsibility fully demonstrates the value at the core of our corporate culture, which comes from society and returns the favor to society. The value also serves as the source of internal force for the sustainable development of the Group.

iii. The Group responded energetically to the activity under the theme of "warm winter clothing", which was jointly initiated by multiple entities, such as Beijing committee of the Communist Youth League of China and Beijing All-China Youth Federation. The activity mobilised employees to donate idle winter clothes and cold-weather overcoats (such as down jackets and padded coats) to families in poverty or those in need. The activity delivered warmth from the capital and the Group.

iv. To advocate Chinese traditional virtue of helping the poor and philanthropy, the Group supports charity activities in Jiashan County, Zhejiang Province, rewards the society and brings happiness to the people. Jiashan Sunking Power Equipment Technology Co., Ltd. (嘉善華瑞賽晶電氣設備科技有限公司), a subsidiary of the Company, donates annually a special fund of RMB50,000 to the Charity Federation of Jiashan County, Zhejiang Province since 2011.

v. In 2013, Zhejiang Saiying Power Technology Co., Ltd. (浙江賽英電力科技有限公司) ("**Zhejiang Saiying**"), a subsidiary of the Company, organises lectures and aids activities on campus with vigorous support from Shanghai Industrial Technical School (formerly known as the Second Light Industry Machinery School (二輕機械學校)) (the "**School**"). Internship in Zhejiang Saiying has been offered to the students of the School. Furthermore, the opening ceremony for the internship base of the first cohort of high school graduates of Jiashan County, Zhejiang Province was held in Saiying Zhejiang. The internship platform of the Group provides high school graduates of Jiashan County with internship and training opportunity and polish their work skills so as to expedite their employment.

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

Details of the principal activities of the Company's principal subsidiaries are set out in note 18 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and its financial position as at that date are set out in the consolidated financial statements from pages 28 to 96 of this annual report.

At the Board meeting held on 19 March 2014 (Wednesday), the Directors proposed to recommend the payment of a final dividend of HK1 cent per ordinary share for the year ended 31 December 2013. Details of the dividends for the year ended 31 December 2013 are set forth in note 12 to the consolidated statement of profit or loss and other comprehensive income. The aforesaid final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 27 May 2014 and will be paid to the Shareholders of the whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on Tuesday, 10 June 2014.

USE OF PROCEEDS FROM LISTING

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

As at 31 December 2013, out of the total net proceeds from the Listing, approximately RMB496.7 million was utilised for repayment of bank borrowings, land acquisition and construction of buildings for expansion of production capacity, building construction for research and development and working capital and general corporate expenses.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 96 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's issued share capital during the year are set out in note 32 to the consolidated financial statements.

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

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

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

Details of movements in the share options under the Share Option Scheme for the year ended 31 December 2013 and share options outstanding as at the beginning and the end of the year are set out below:

Name of grantees	Date of grant	Number of share options: As at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ Forfeited during the year	As at 31 December 2013	Exercise price per share *(HK$)*	Share price immediately before the grant date *(HK$ per share)*	Fair value of share options *(HK$ per share)*	Exercisable period
Mr. Xiang Jie *(Chairman, executive Director and substantial shareholder of the Company)*	26 April 2012	12,000,000	–	–	–	–	12,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	–	1,350,000	–	–	–	1,350,000	0.68	0.63	0.27	28 May 2014 to 27 May 2019
Mr. Gong Renyuan *(Chief executive officer and executive Director)*	27 April 2011	1,350,000	–	–	–	–	1,350,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
	26 April 2012	6,000,000	–	–	–	–	6,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	–	1,000,000	–	–	–	1,000,000	0.68	0.63	0.27	28 May 2014 to 27 May 2019
Mr. Yue Zhou Min *(Executive Director)*	27 April 2011	420,000	–	–	–	–	420,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
	26 April 2012	1,000,000	–	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	–	600,000	–	–	–	600,000	0.68	0.63	0.27	28 May 2014 to 27 May 2019
Mr. Huang Xiangqian *(Executive Director)*	27 April 2011	700,000	–	–	–	–	700,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
	26 April 2012	1,000,000	–	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	–	600,000	–	–	–	600,000	0.68	0.63	0.27	28 May 2014 to 27 May 2019
Ms. Ren Jie *(senior management and the spouse of Mr. Gong Renyuan)*	27 April 2011	420,000	–	–	–	–	420,000	1.83	1.72	0.81	27 April 2012 to 26 April 2017
	26 April 2012	1,000,000	–	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	–	600,000	–	–	–	600,000	0.68	0.63	0.27	28 May 2014 to 27 May 2019
		23,890,000	4,150,000	–	–	–	28,040,000				
Employees in aggregates	27 April 2011	7,230,000	–	–	–	(1,560,000)	5,670,000	1.83	1.72	0.79	27 April 2012 to 26 April 2017
	26 April 2012	20,450,000	–	(234,000)	–	(3,200,000)	17,016,000	0.55	0.47	0.20	26 April 2013 to 25 April 2018
	28 May 2013	–	13,700,000	–	–	(300,000)	13,400,000	0.68	0.63	0.26	28 May 2014 to 27 May 2019
Other grantees	27 April 2011	4,000,000	–	–	–	–	4,000,000	1.83	1.72	0.83	27 April 2012 to 26 April 2017
Total		55,570,000	17,850,000	(234,000)	–	(5,060,000)	68,126,000				

In August 2013, the Company granted share options to certain grantees, as talents to be introduced, to subscribe for 7,000,000 shares in the issued capital of the Company at the par value of HK$0.10 each, at the exercise price of HK$0.84 per share. As grantees did not accept the share options to subscribe for 7,000,000 shares of the Company, the aforesaid share options as mentioned in the announcement of the Company dated 23 August 2013 are deemed not to have been granted.

Further details of the Share Option Scheme are disclosed in note 32 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 32 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB415 million (2012: RMB400 million) of which approximately RMB11.72 million has been proposed as a final dividend for the year ended 31 December 2013. In addition, under the Companies Law, the share premium account of the Company of approximately RMB400.1 million as at 31 December 2013 (2012: RMB399.9 million) is distributable to the Shareholders (subject to the provisions of its memorandum and articles of association) and provided that immediately following the date on which the dividend, if any, is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business. The Company's share premium account may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the year 2013 and up to the date of this report were:

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

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

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

In accordance with Article 84(1) of the Company's articles of association, Mr. Yue Zhoumin, Mr. Wong Kun Kau and Mr. Chen Shimin will retire by rotation and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are set out on pages 8 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has first been appointed for a term of three years commencing from the date of the Listing. Subsequently in 2012, each of Mr. Xiang Jie and Mr. Huang Xiangqian entered into a supplemental service agreement dated 1 June 2012 under which his term of office would be three years from the date of the said supplemental agreement. On 1 June 2013, Mr. Gong Renyuan entered into a service agreement for a term of three years commencing from 1 June 2013. Each of the non-executive Directors has been appointed for a term of three years commencing from the date of the Listing. Subsequently, Mr. Ye Weigang Greg has entered into a letter of appointment for a term of three years commencing from 1 June 2013. On 11 October 2013, Mr. Wong Kun Kau entered into a letter of appointment, pursuant to which his term of appointment commences from 13 October 2013 and ends on the date of the forthcoming annual general meeting. The independent non-executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin, have first been appointed for a term of three years commencing from 1 July 2010, 1 July 2010 and 19 August 2010, respectively. Mr. Wang Yi then signed a supplemental letter of appointment dated 1 June 2012 under which his term of office would be three years from the date of the said supplemental letter of appointment. On 28 May 2013, Mr. Li Fengling entered into a letter of appointment for a term of three years commencing from 1 June 2013. On 16 August 2013, Mr. Chen Shimin entered into a letter of appointment, pursuant to which his term of appointment commences from 19 August 2013 and ends on the date of the forthcoming annual general meeting.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

During the financial year of 2013, no Director had material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

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

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

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

Name of Director	Nature of interest	Number of ordinary shares	Number of underlying shares held under equity derivatives *(Note 3)*	Total	Approximate percentage of interest in the Company *(Note 4)*
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	421,182,347 *(Note 1)*	13,350,000	434,532,347	31.88%
Mr. Gong Renyuan	Beneficial owner and the interest of spouse	18,060,000	10,370,000 *(Note 2)*	28,430,000	2.10%
Mr. Yue Zhoumin	Beneficial owner	4,000,000	2,020,000	6,020,000	0.44%
Mr. Huang Xiangqian	Beneficial owner	4,450,000	2,300,000	6,750,000	0.50%

Notes:

1. As at 31 December 2013, out of these 421,182,347 shares, 4,854,000 shares were directly held by Mr. Xiang Jie ("**Mr. Xiang**") and the remaining 416,328,347 shares were held by Max Vision Holdings Limited ("**Max Vision**"), which is an investment holding company wholly owned by Jiekun Limited, which is in turn wholly-owned by BNP Paribas Corporate Service Pte Ltd. The entire issued share capital of Jiekun Limited is held by BNP Paribas Corporate Services Pte Ltd in trust for BNP Paribas Singapore Trust Corporation Limited as trustees of a Private Trust of which Mr. Xiang is the settlor and BNP Paribas Singapore Trust Corporation Limited is the trustee. Ms. Meng Fankun, who is the spouse of Mr. Xiang and one of the beneficiary of the said private trust was also deemed under the SFO to be interested in the total 421,182,347 Shares.

2. Out of these 10,370,000 underlying shares, 8,350,000 underlying shares were directly held by Mr. Gong Renyuan and the remaining 2,020,000 underlying shares were held by Ms. Ren Jie, the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan is deemed under the SFO to be interested in the 1,420,000 underlying shares held by Ms. Ren Jie.

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

4. There were 1,362,928,000 shares of the Company in issue as at 31 December 2013.

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

None of the Directors or the chief executives had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company or its associated corporations as at 31 December 2013.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2013 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2013, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

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

Name of substantial Shareholder	Nature of interest	Total number of shares held	Approximate percentage of interest in the Company (Note 6)
Max Vision	Beneficial owner	416,328,347	30.55%
Jiekun Limited	Interest in controlled corporation	416,328,347 (Note 1)	30.55%
BNP Paribas Corporate Service Pte Ltd	Interest in controlled corporation	416,328,347 (Note 1)	30.55%
BNP Paribas Singapore Trust Corporation Limited	Interest in controlled corporation	416,328,347 (Note 1)	30.55%
Meng Fankun	Interest of spouse	434,532,347 (Note 2)	31.88%
NewMargin Growth Fund L.P.	Beneficial owner	200,000,000	14.67%
Common Goal Holdings Limited ("Common Goal")	Beneficial owner	89,570,000	6.57%
Peregrine Greater China Capital Appreciation Fund, L.P. ("Peregrine Greater China")	Interest in controlled corporation	89,570,000 (Note 3)	6.57%
Bull Capital Partners GP Limited ("Bull Capital")	Interest in controlled corporation	89,570,000 (Note 4)	6.57%

Notes:

1. Max Vision, an investment holding company, is wholly owned by Jiekun Limited, which is in turn wholly-owned by BNP Paribas Corporate Service Pte Ltd. The entire issued share capital of Jiekun Limited is held by BNP Paribas Corporate Services Pte Ltd in trust for BNP Paribas Singapore Trust Corporation Limited as trustees of a Private Trust of which Mr. Xiang is the settlor and BNP Paribas Singapore Trust Corporation Limited is the trustee. As such Jiekun Limited, BNP Paribas Corporate Service Pte Ltd and BNP Paribas Singapore Trust Corporation Limited are also deemed to be interested in the 421,182,347 Shares owned by Max Vision by virtue of the SFO.

2. Ms. Meng Fankun, the spouse of Mr. Xiang Jie, is deemed under the SFO to be interested in the 434,532,347 Shares in which Mr. Xiang was interested.

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

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

5. There were 1,362,928,000 Shares in issue as at 31 December 2013.

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

Save as disclosed above, as at 31 December 2013, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under section 336 of the SFO.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling Shareholders, Mr. Xiang and Max Vision, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the above-mentioned undertaking and are of the view that Mr. Xiang and Max Vision have complied with the non-competition undertaking during the year ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,362,928,000 shares of the Company in issue as at 31 December 2013.

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company are set out in note 38 to the consolidated financial statements. With respect to the nature of (a) the amount due from Mr. Gong Renyuan during the year, it represented the out of pocket expenses for business activities which was paid to Mr. Gong Renyuan in advance for the performance of his services as the Company's chief executive officer and executive Director; and (b) the compensation of key management personnel of the Group during the year represented the benefits paid to the management for their respective employment services.

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

HUMAN RESOURCES

As at 31 December 2013, the Group employed 664 employees. Key components of the Group's remuneration packages included basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews on the performance of its employees and their salaries and bonuses are performance-based. The Group did not experience any significant problems with its employees or disruptions to its operations due to labor disputes, nor did it experience any difficulties in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees. For the year ended 31 December 2013, the Group further introduced senior sales management personnel in capacitor products and senior production management personnel in busbar products.

In 2013, Zhejiang Saiying Power Technology Co., Ltd ("**Zhejiang Saiying**"), a subsidiary of the Company received great support from Shanghai Industrial Technical School (formerly known as Second Light Industry Machinery School) for campus talk and aid events, and some students from this school have come to Zhejiang Saiying for practice on an internship basis. In addition, the unveiling ceremony for the First Batch of Practice Base for College Graduates of Zhejiang Jiashan County was held at Zhejiang Saiying. With such a platform, the Group actively provides internships and employment training opportunities to college graduates from Jiashan County, helping them promote work skills and facilitate their early employment.

FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year ended 31 December 2013 are set out in page 7 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

SHARE CAPITAL

Details of the movements in Company's share capital for the year ended 31 December 2013 are set out in note 31 to the consolidated financial statement.

DONATIONS

During the year ended 31 December 2013, charitable donations of RMB100,000 were made by the Group (2012: RMB50,000).

MAJOR SUPPLIERS AND CUSTOMERS

In 2013, the Group's largest supplier accounted for approximately 43.6% (2012: 43.0%) of the Group's total purchases. The Group's five largest suppliers accounted for approximately 54.5% (2012: 61.6%) of the Group's total purchases.

In the year under review, the Group's sale to its five largest customers accounted for approximately 65.5% (2012: 46.8%) of the Group's total sale. The Group's largest customer accounted for approximately 25.4% (2012: 23.4%) of the Group's total sales.

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

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2013. The consolidated financial statements for the year ended 31 December 2013 have been audited by the Company's external auditors, Ernst & Young.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 11 to 18 of this annual report.

PROSPECTS

Along with considerable growth of the investment of the PRC government at various levels in rail transport, rapid development of power transmission especially ultra-high voltage direct current transmission, and recovery of the PRC macro economy, the Company is fully confident about the economic development of the PRC and the business performance of the Group in 2014.

Looking forward into 2014, the Group will continue to adhere to the target of being the industry-leading electric power system solution integrator. The Group will also continue to strengthen its independent research and development in technology and product innovation, improve product quality, reinforce personnel training and talents introduction, develop diversified products and improve operational efficiency, in order to realise the sustainable and rapid development of the Group.

In the next few years, power transmission in the PRC will be at its critical development stage, especially high voltage direct current power transmission and ultra-high voltage direct current power transmission. According to the development plans of the two major power grid companies of the PRC, the PRC will heavily increase its investment in power grid, including the proposed construction of over four lines of ultra-high voltage direct current power transmission, in 2014. Thus the Company is fully confident about the future market development of the power transmission industry.

Since the restart of the investment of the railway department of the PRC in 2013, the Group's orders from the rail transport industry have been obviously increased. Meanwhile, the cooperation between the Group and CAF Group of Spain in the urban rail transport has presented smooth development. The Company is fully confident about development of the railway equipment market and the urban rail transport market in 2014.

The Group will continue to improve its research and development capability, and actively develop and promote new products. The new product laminated busbars, which were launched in 2013, have received recognition from customers in rail transport, power transmission and industrial sectors and made remarkable achievements. In addition, the SVG researched and developed in 2013 for power energy quality governance and the user-breakdown intelligent switch to secure safe power distribution of intelligent power grid have been launched after passing laboratory tests, and received customer recognition. In 2014, the Group will heavily expand the market of such new products.

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

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

The address of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited has been changed from 26th floor, Tesbury Centre, 28 Queen's Road East, Hong Kong to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, information of which was announced in the announcement made by the Company on 7 March 2014.

CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 22 May 2014. The register of members of the Company will be closed from Friday, 23 May 2014 to Tuesday, 27 May 2014, both dates inclusive, during which period no transfer of shares will be registered.

In order to establish the identity of the Shareholders who are entitled to the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 5 June 2014. The register of members of the Company will be closed from Friday, 6 June 2014 to Tuesday, 10 June 2014, both dates inclusive, during which period no transfer of shares will be registered. Subject to Shareholder's approval of the proposed final dividend at the annual general meeting to be held on Tuesday, 27 May 2014, the final dividend will be paid to Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 10 June 2014.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Xiang Jie
Chairman

Hong Kong, 19 March 2014

INDEPENDENT AUDITORS' REPORT

EY 安永

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

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

19 March 2014

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	5	**739,865**	573,517
Cost of sales		**(517,698)**	(427,761)
Gross profit		**222,167**	145,756
Other income and gains	5	**14,842**	12,023
Selling and distribution expenses		**(64,382)**	(44,959)
Administrative expenses		**(69,847)**	(74,693)
Other expenses		**(27,542)**	(8,685)
Finance costs	7	**(16,969)**	(17,424)
Share of losses of:			
A joint venture		**(1,143)**	(652)
An associate		**(310)**	–
PROFIT BEFORE TAX	6	**56,816**	11,366
Income tax expense	10	**(14,913)**	(12,269)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**41,903**	(903)
Attributable to:			
Owners of the parent	11	**42,917**	443
Non-controlling interests		**(1,014)**	(1,346)
		41,903	(903)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB3.15 cents**	RMB0.03 cents
Diluted		**RMB3.14 cents**	RMB0.03 cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**342,280**	299,833
Prepaid land lease payments	15	**60,734**	62,135
Deposits for purchase of items of property, plant and equipment		**1,315**	1,107
Goodwill	16	**37,159**	40,357
Other intangible assets	17	**24,950**	25,109
Club memberships		**2,534**	2,534
Investment in a joint venture	19	**2,205**	3,348
Investment in an associate	20	**24,190**	–
Available-for-sale investment	21	**16,800**	–
Trade receivables	23	**93,994**	46,688
Deferred tax assets	30	**6,960**	10,931
Total non-current assets		**613,121**	492,042
CURRENT ASSETS			
Inventories	22	**91,920**	129,638
Trade and bills receivables	23	**524,579**	472,947
Prepayments, deposits and other receivables	24	**36,597**	64,572
Due from a director	38	**–**	180
Prepaid land lease payments	15	**1,401**	1,401
Derivative financial instruments	28	**743**	1,376
Pledged deposits	25	**17,375**	17,933
Cash and cash equivalents	25	**153,860**	186,660
Total current assets		**826,475**	874,707
CURRENT LIABILITIES			
Trade and bills payables	26	**142,477**	161,103
Other payables and accruals	27	**71,575**	51,174
Interest-bearing bank borrowings	29	**299,000**	268,362
Tax payable		**18,091**	21,212
Total current liabilities		**531,143**	501,851
NET CURRENT ASSETS		**295,332**	372,856
TOTAL ASSETS LESS CURRENT LIABILITIES		**908,453**	864,898

(Continued)

	Notes	2013 RMB'000	2012 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**908,453**	864,898
NON-CURRENT LIABILITIES			
Deferred income		**16,297**	18,382
Deferred tax liabilities	*30*	**13,429**	13,994
Total non-current liabilities		**29,726**	32,376
Net assets		**878,727**	832,522
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**117,156**	117,137
Reserves	*34*	**703,703**	668,219
Proposed final dividend	*12*	**11,716**	–
		832,575	785,356
Non-controlling interests		**46,152**	47,166
Total equity		**878,727**	832,522

Xiang Jie
Director

Yue Zhoumin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the parent										
	Notes	Issued capital RMB'000	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000 *(note a)*	Other reserve RMB'000 *(note b)*	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012		117,385	400,511	5,253	40	13,855	248,886	(4,646)	–	781,284	45,797	827,081
Loss and total comprehensive loss for the year		–	–	–	–	–	–	443	–	443	(1,346)	(903)
Acquisition of non-controlling interests		–	–	–	–	–	(189)	–	–	(189)	(1,285)	(1,474)
Share-based payments	*32*	–	–	3,779	–	910	–	–	–	4,689	–	4,689
Share award	*33*	–	–	–	–	–	–	–	–	–	4,000	4,000
Repurchase and cancellation of shares	*31*	(248)	(623)	–	248	–	–	(248)	–	(871)	–	(871)
At 31 December 2012 and at 1 January 2013		**117,137**	**399,888***	**9,032***	**288***	**14,765***	**248,697***	**(4,451)***	**-**	**785,356**	**47,166**	**832,522**
Profit and total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**42,917**	**-**	**42,917**	**(1,014)**	**41,903**
Exercise of share options	*32*	**19**	**231**	**(147)**	**-**	**-**	**-**	**-**	**-**	**103**	**-**	**103**
Share-based payments	*32*	**-**	**-**	**4,199**	**-**	**-**	**-**	**-**	**-**	**4,199**	**-**	**4,199**
Proposed final 2013 dividend	*12*	**-**	**-**	**-**	**-**	**-**	**-**	**(11,716)**	**11,716**	**-**	**-**	**-**
At 31 December 2013		**117,156**	**400,119***	**13,084***	**288***	**14,765***	**248,697***	**26,750***	**11,716**	**832,575**	**46,152**	**878,727**

Notes:

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

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

* *These reserve accounts comprise the consolidated reserves of RMB703,703,000 (2012: RMB668,219,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**56,816**	11,366
Adjustments for:			
Finance costs	*7*	**16,969**	17,424
Share of losses of a joint venture and an associate		**1,453**	652
Interest income	*5*	**(1,352)**	(1,707)
Gains on disposal of items of property, plant and equipment	*5*	**(183)**	(218)
Depreciation	*6*	**16,956**	14,983
Amortisation of intangible assets	*6*	**1,371**	1,292
Impairment of trade and other receivables	*6*	**4,424**	980
Loss on fair value of foreign currency forward contracts, net	*6*	**4,062**	522
Amortisation of prepaid land lease payments	*6*	**1,401**	1,390
Impairment of goodwill	*6*	**3,198**	–
Impairment of items of property, plant and equipment	*6*	**196**	–
Amortisation of deferred income		**(2,085)**	(1,281)
Write-down of inventories to net realisable value	*6*	**942**	4,051
Share-based payment expense	*6*	**4,199**	4,689
Share award	*6*	**–**	4,000
		108,367	58,143
Decrease in inventories		**36,776**	41,790
Increase in trade and bills receivables		**(103,362)**	(26,356)
Decrease/(increase) in prepayments, deposits and other receivables		**28,459**	(22,000)
(Decrease)/increase in trade and bills payables		**(18,626)**	19,083
Increase/(decrease) in other payables and accruals		**17,715**	(5,551)
Increase in derivative financial instruments		**(3,429)**	(2,784)
Decrease/(increase) in an advance to a director		**180**	(180)
Cash generated from operations		**66,080**	62,145
Interest paid		**(16,969)**	(17,424)
Mainland China corporate income taxes paid		**(14,628)**	(7,495)
Net cash flows from operating activities		**34,483**	37,226

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Net cash flows from operating activities		**34,483**	37,226
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**868**	1,707
Purchases of items of property, plant and equipment		**(57,227)**	(94,384)
Proceeds from disposal of items of property, plant and equipment		**497**	591
Increase in deposits for purchase of items of property, plant and equipment		**(208)**	(1,107)
Additions to other intangible assets	*17*	**(1,212)**	(28)
Additions to prepaid land lease payments		**–**	(381)
Decrease in pledged deposits		**558**	7,177
Investment in a joint venture		**–**	(4,000)
Investment in an associate		**(24,500)**	–
Purchase of an available-for-sale investment		**(16,800)**	–
Receipt of government grants		**–**	16,520
Net cash flows used in investing activities		**(98,024)**	(73,905)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	*31*	**103**	–
New bank loans		**516,702**	489,171
Repayment of bank loans		**(486,064)**	(447,939)
Acquisition of non-controlling interests		**–**	(1,474)
Repurchase of own shares	*31*	**–**	(871)
Net cash flows from financing activities		**30,741**	38,887
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(32,800)**	2,208
Cash and cash equivalents at beginning of year		**186,660**	184,452
CASH AND CASH EQUIVALENTS AT END OF YEAR		**153,860**	186,660
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	**153,860**	186,660

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**515,461**	515,623
Total non-current assets		**515,461**	515,623
CURRENT ASSETS			
Deposits and other receivables	24	**42**	7
Due from a subsidiary	18	**77,900**	–
Cash and cash equivalents	25	**870**	1,157
Total current assets		**78,812**	1,164
CURRENT LIABILITIES			
Other payables and accruals	27	**(43)**	–
Total current liabilities		**(43)**	–
NET CURRENT ASSETS		**78,769**	1,164
Net assets		**594,230**	516,787
EQUITY			
Issued capital	31	**117,156**	117,137
Reserves	34(b)	**465,358**	399,650
Proposed final dividend	12	**11,716**	–
Total equity		**594,230**	516,787

Xiang Jie
Director

Yue Zhoumin
Director

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Group were principally engaged in the trading and manufacturing of power electronic components during the year.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments*: *Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 19 (2011)	*Employee Benefits*
IAS 27 (2011)	*Separate Financial Statements*
IAS 28 (2011)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
International Financial Reporting Interpretations Committee ("IFRIC")-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

Other than as further explained below regarding the impact of IFRS 10, IFRS 11, IFRS 12, IFRS 13, amendments to IFRS 10, IFRS 11, IFRS 12, IAS 1 and IAS 36, and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in Standing Interpretations Committee Interpretation ("SIC")-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in IFRS 10, an investor must have (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. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of IFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of IFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under IFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with IAS 28 (2011).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(c) IFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries, joint ventures and associates are included in notes 18, 19 and 20 to the financial statements.

(d) The IFRS 10, IFRS 11 and IFRS 12 Amendments clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC-Int 12 at the beginning of the annual period in which IFRS 10 is applied for the first time.

(e) IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. IFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in IFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by IFRS 13 for the fair value measurements of financial instruments are included in note 40 to the financial statements.

(f) The IAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

(g) The IAS 36 Amendments remove the unintended disclosure requirement made by IFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group. Disclosures about the Group's impaired non-financial assets are included in notes 14 and 16 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(h) *Annual Improvements 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[4]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[4]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – *Investment Entities*[1]
IFRS 14	*Regulatory Deferred Accounts*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Disclosures of Non-Financial Assets*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

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

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

In December 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in December 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of the associate and the joint venture is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of the associate or joint ventures is included as part of the Group's investments in the associates or joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

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

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

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

Intangible assets (other than goodwill)

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

Trademark

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

Patents and computer software

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

Research and development costs

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

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

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

Operating leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

Available-for-sale financial investments

An available-for-sale financial investment is a non-derivative financial asset in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

After initial recognition, an available-for-sale financial investment is subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss and other comprehensive income in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss and other comprehensive income as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings.

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

Government grants

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

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

Revenue recognition

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

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

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

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

Construction contracts

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton option pricing model, further details of which are given in note 32 to the financial statements.

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgement

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

Withholding tax arising from the distribution of dividends

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

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

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Useful life of property, plant and equipment and other intangible assets

In determining the useful live items of property, plant and equipment and other intangible assets, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment and other intangible assets are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation and amortisation provided for the year ended 31 December 2013 was RMB18,327,000 (2012: RMB16,275,000). Further details are contained in notes 14 and 17.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 30.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. At 31 December 2013, no impairment loss had been recognised for available-for-sale assets (2012: Nil). The carrying amount of available-for-sale assets was RMB16,800,000 (2012: Nil).

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

Estimation uncertainty *(continued)*

Impairment of receivables

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

Write-down of inventories to net realisable value

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

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

Information about major customers

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

	2013 **RMB'000**	2012 RMB'000
Customer A	**187,924**	134,411
Customer B*	**95,182**	–
Customer C*	**–**	59,402
Total	**283,106**	193,813

* *The sales to customer C were less than 10% of the Group's revenue for the year ended 31 December 2013. The sales to customer B were less than 10% of the Group's revenue for the year ended 31 December 2012.*

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts during the year.

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

	Group	
	2013	2012
	RMB'000	RMB'000
Revenue		
Sale of goods	**739,865**	573,517
Other income		
Interest income	**1,352**	1,707
Government grants*	**10,555**	7,828
Commission income	**846**	1,169
Others	**251**	511
	13,004	11,215
Gains		
Gains on disposal of raw materials	**1,059**	362
Gains on disposal of items of property, plant and equipment, net	**183**	218
Foreign exchange differences, net	**504**	–
Others	**92**	228
	1,838	808
	14,842	12,023

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

6. PROFIT BEFORE TAX

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

	Notes	**2013 RMB'000**	2012 RMB'000
Cost of inventories sold		**516,756**	423,710
Write-down of inventories to net realisable value		**942**	4,051
Cost of sales		**517,698**	427,761
Auditors' remuneration		**1,650**	1,500
Depreciation	*14*	**16,956**	14,983
Amortisation of other intangible assets	*17*	**1,371**	1,292
Amortisation of land lease payments	*15*	**1,401**	1,390
Impairment of goodwill*	*16*	**3,198**	–
Minimum lease payments under operating leases for land and buildings		**2,148**	1,898
Impairment of items of property, plant and equipment*	*14*	**196**	–
Impairment of trade and other receivables*		**4,424**	980
Fair value losses on foreign currency forward contracts, net*		**4,062**	522
Fair value losses on derivative financial instruments*		**734**	–
Foreign exchange differences, net		**(504)**	2,378
Research and development costs*		**14,877**	4,805
Share award**	*33*	**–**	4,000
Employee benefit expense (including directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**30,707**	36,623
Share-based payment expense		**4,199**	4,689
Pension scheme contributions***		**4,830**	4,789
		39,736	46,101

* *The impairment of goodwill, impairment of trade and other receivables, impairment of items of property, plant and equipment, net fair value losses on foreign currency forward contracts, fair value losses of derivative financial instruments and research and development costs are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.*

** *The share award expense is included in selling and distribution expenses in the consolidated statement of profit or loss and other comprehensive income.*

*** *At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2012: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Interest on bank loans wholly repayable within five years	**16,969**	17,424

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2013	2012
	RMB'000	RMB'000
Fees	**876**	864
Other emoluments:		
Salaries, allowances and benefits in kind	**1,730**	1,240
Share-based payment expense	**1,455**	1,185
Pension scheme contributions	**164**	155
	3,349	2,580
	4,225	3,444

During the year and in the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2013	2012
	RMB'000	RMB'000
Mr. Wang Yi	**130**	128
Mr. Li Fengling	**130**	128
Mr. Chen Shimin	**130**	128
	390	384

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2013					
Executive directors:					
Mr. Xiang Jie	**81**	**600**	**725**	**39**	**1,445**
Mr. Gong Renyuan*	**81**	**500**	**485**	**39**	**1,105**
Mr. Yue Zhoumin	**81**	**300**	**111**	**39**	**531**
Mr. Huang Xiangqian	**81**	**330**	**134**	**47**	**592**
	324	**1,730**	**1,455**	**164**	**3,673**
Non-executive directors:					
Mr. Ye Weigang Greg	**81**	**–**	**–**	**–**	**81**
Mr. Wong Kun Kau	**81**	**–**	**–**	**–**	**81**
	162	**–**	**–**	**–**	**162**
	486	**1,730**	**1,455**	**164**	**3,835**

* *Mr. Gong Renyuan is also the chief executive of the Company.*

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

* *Mr. Gong Renyuan is also the chief executive of the Company.*

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors which included the chief executive (2012: three directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2012: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**800**	754
Share-based payment expense	**304**	658
Pension scheme contributions	**78**	36
	1,182	1,448

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**2**	2

During the year and in the prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2013 on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2013.

Hong Kong profits tax had not been provided for the year ended 31 December 2012 as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2012.

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

Wuxi Zhuofeng Information Technology Co., Ltd.* (無錫卓峰信息科技有限公司), a subsidiary of the Company, was recognised as a wholly-foreign-owned enterprise and was entitled to tax exemption from CIT for two years commencing from the first profit making year in 2012, followed by a 50% tax rate reduction for CIT for the subsequent three years.

Jiujiang Jiuzheng Rectifier Co., Ltd.* (九江九整整流器有限公司) and Wuhan Langde Electrics Co., Ltd.* (武漢朗德電氣有限公司), subsidiaries of the Company, were registered as new and high technology enterprises, and are subject to CIT at a rate of 15% for the three years ended 31 December 2013.

Jiashan Sunking Power Equipment Technology Co., Ltd.* (嘉善華瑞賽晶電氣設備科技有限公司), a subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to CIT at a rate of 15% for the three years ending 31 December 2015.

* *For identification purposes only*

10. INCOME TAX *(continued)*

	2013 RMB'000	2012 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**378**	–
Current – Mainland China		
Charge for the year	**10,358**	16,514
Underprovision in prior years	**771**	–
Deferred *(note 30)*	**3,406**	(4,245)
Total tax charge for the year	**14,913**	12,269

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

Group – 2013

	Hong Kong		**Mainland China**		**Total**	
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**
Profit/(loss) before tax	**(2,129)**		**58,945**		**56,816**	
Tax at the statutory tax rate	**(351)**	**16.5**	**14,736**	**25.0**	**14,385**	**25.3**
Lower tax rates for specific provinces or enacted by local authority	**–**	**–**	**(12,222)**	**(20.7)**	**(12,222)**	**(21.5)**
Effect on opening deferred tax of decrease in rates	**–**	**–**	**2,338**	**4.0**	**2,338**	**4.1**
Tax losses utilised from previous periods	**–**	**–**	**(1,989)**	**(3.4)**	**(1,989)**	**(3.5)**
Loss attributable to a joint venture	**–**	**–**	**286**	**0.5**	**286**	**0.5**
Loss attributable to an associate	**–**	**–**	**77**	**0.1**	**77**	**0.1**
Expenses not deductible for tax	**–**	**–**	**4,371**	**7.4**	**4,371**	**7.7**
Tax losses not recognised	**778**	**(36.5)**	**6,118**	**10.4**	**6,896**	**12.1**
Adjustments in respect of current tax of previous periods	**–**	**–**	**771**	**1.3**	**771**	**1.4**
Tax charge at the Group's effective rate	**427**	**(20.0)**	**14,486**	**24.6**	**14,913**	**26.2**

Group – 2012

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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB4,759,000 (2012: RMB5,742,000), which was arrived at after deducting dividend income received from a subsidiary of RMB77,900,000 (2012: Nil) from the Company's profit of approximately RMB73,141,000 (2012: a loss of RMB5,742,000), which has been dealt with in the financial statements of the Company (note 34(b)).

12. DIVIDENDS

	2013 **RMB'000**	2012 RMB'000
Proposed final – HK1 cent (2012: Nil) per ordinary share	**11,716**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,362,758,751 (2012: 1,364,767,660) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2013 **RMB'000**	2012 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**42,917**	443

	Number of shares **2013**	 2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,362,758,751**	1,364,767,660
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,095,576**	–
	1,364,854,327	1,364,767,660

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013							
At 31 December 2012 and at 1 January 2013:							
Cost	121,382	1,124	65,579	16,212	13,438	116,368	334,103
Accumulated depreciation	(8,891)	(394)	(12,415)	(6,918)	(5,652)	–	(34,270)
Net carrying amount	112,491	730	53,164	9,294	7,786	116,368	299,833
At 1 January 2013, net of accumulated depreciation	112,491	730	53,164	9,294	7,786	116,368	299,833
Additions	333	316	2,359	2,239	2,351	52,315	59,913
Depreciation provided during the year	(4,753)	(229)	(6,159)	(3,240)	(2,575)	–	(16,956)
Impairment	–	–	(168)	(28)	–	–	(196)
Transfers	36,961	–	2,728	(505)	–	(39,184)	–
Disposals	–	–	(66)	–	(248)	–	(314)
At 31 December 2013, net of accumulated depreciation	145,032	817	51,858	7,760	7,314	129,499	342,280
At 31 December 2013:							
Cost	158,676	1,440	68,879	17,913	14,642	129,499	391,049
Accumulated depreciation	(13,644)	(623)	(17,021)	(10,153)	(7,328)	–	(48,769)
Net carrying amount	145,032	817	51,858	7,760	7,314	129,499	342,280

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

Group

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

15. PREPAID LAND LEASE PAYMENTS

	Group 2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	**63,536**	57,428
Additions	**–**	7,498
Recognised during the year	**(1,401)**	(1,390)
Carrying amount at 31 December	**62,135**	63,536
Current portion	**(1,401)**	(1,401)
Non-current portion	**60,734**	62,135

The leasehold land is situated in Mainland China and is held under medium term leases.

16. GOODWILL

	Group 2013 RMB'000	2012 RMB'000
At 1 January:		
Cost	**40,357**	40,357
Accumulated impairment	**–**	–
Net carrying amount	**40,357**	40,357
Cost at 1 January, net of accumulated impairment	**40,357**	40,357
Impairment during the year	**(3,198)**	–
Cost at 31 December, net of accumulated impairment	**37,159**	40,357
At 31 December:		
Cost	**40,357**	40,357
Accumulated impairment	**(3,198)**	–
Net carrying amount	**37,159**	40,357

16. GOODWILL *(continued)*

Impairment testing of goodwill

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

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

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

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

	2013 **RMB'000**	2012 RMB'000
Jiujiang Rectifier	**37,159**	37,159
Wuhan Langde	**–**	3,198
	37,159	40,357

Assumptions were used in the value in use calculation of the above cash-generating units for 31 December 2013 and 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

During the year ended 31 December 2013, due to continuous losses incurred by Wuhan Langde principally engaged in the manufacture and sale of on-line smart grid monitoring systems, by discounting the future cash flow generated from Wuhan Langde at the discount rate applied to cash flow projections of 27%, the directors of the Company considered that the goodwill of approximately RMB3,198,000 (2012: Nil) was fully impaired.

17. OTHER INTANGIBLE ASSETS

Group

	Patents RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2013				
Cost at 1 January 2013, net of accumulated amortisation	**5,012**	**19,185**	**912**	**25,109**
Additions	**–**	**–**	**1,212**	**1,212**
Amortisation provided during the year	**(847)**	**–**	**(524)**	**(1,371)**
At 31 December 2013	**4,165**	**19,185**	**1,600**	**24,950**
At 31 December 2013:				
Cost	**6,353**	**19,185**	**3,205**	**28,743**
Accumulated amortisation	**(2,188)**	**–**	**(1,605)**	**(3,793)**
Net carrying amount	**4,165**	**19,185**	**1,600**	**24,950**

Group

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

18. INTERESTS IN SUBSIDIARIES

	Company 2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**48,505**	48,505
Due from subsidiaries	**466,956**	467,118
	515,461	515,623

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

The amount due from a subsidiary included in the Company's current assets of RMB77,900,000 (2012: Nil), is unsecured, interest-free and is repayable on demand or within one year.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK$1	100%	Investment holding
Beijing Sunking Electronic Technology Co., Ltd.* 北京華瑞賽晶電子科技有限公司	The PRC/ Mainland China	RMB1,000,000	100%	Trading agent for various products and technologies
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Mainland China	US$76,500,000	100%	Sale, research and development, after sales service and production of electrical/electronic components and installation, including integrated gate bipolar transistors
Tianjin Sunking Xinglu Water Technology Co., Ltd.* 天津市華瑞賽晶興路水科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Environmental machinery, electronic facilities, new type of purification and water facilities, technology advisory, technology transfer, technology service, sale and distribution of environmental machinery
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Mainland China	US$28,000,000	100%	Production of electrical capacitors and its complete device, amorphous alloy transformer, DC current anode saturable dry-type reactors, FM voltage AC traction device; trading agent of various products and technologies
Jiashan Sunking Converter Technology Co., Ltd.** 嘉善華瑞賽晶變流技術有限公司	The PRC/ Mainland China	RMB20,000,000	90%	Manufacture and sale of transformers, capacitors and their ancillary equipment, electricity switch control equipment, power electronic components, and other power transmission and distribution and control equipment, and research and development of the aforesaid products

18. INTERESTS IN SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and business	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Wuxi Zhuofeng Information Technology Co., Ltd.** 無錫卓峰信息科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Manufacture and sale of computer software and hardware, research and development of network technology, technology advisory, technology transfer, technology service, computer system service, sale of electronic product, computer auxiliary equipment and office supplies, technology research and service of electronic product, enterprise management advisory, business advisory
Sudian Power Electronic Technology Co., Ltd.* 蘇電電力電子技術(無錫)有限公司	The PRC/ Mainland China	US$6,000,500	100%	Technology research, technology transfer, technology advisory and technology detection service of power electronic equipment, computer software and hardware, high voltage electrical capacitors, high voltage power networks reactive-load compensation equipment
Wuhan Langde Electrics Co., Ltd.* 武漢朗德電氣有限公司	The PRC/ Mainland China	RMB5,000,000	61%	On-line smart grid monitoring system
Jiujiang Jiuzheng Rectifier Co., Ltd.** 九江九整整流器有限公司	The PRC/ Mainland China	RMB70,793,900	61%	Manufacture and sale of rectifiers
Zhejiang Saiying Power Technology Co., Ltd.** 浙江賽英電力科技有限公司	The PRC/ Mainland China	RMB15,000,000	72%	Research, development, production and sale of power electronics components power transmission and distribution equipment
Zhejiang Jiashan Keneng Power Equipment Co., Ltd.** 浙江嘉善科能電力設備有限公司	The PRC/ Mainland China	RMB37,500,000	72%	Production and sale, research and development of power equipment reactive power compensation devices
Beijing Sunking Power Electronic Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies
Wuhan Angnai Information Co., Ltd.** 武漢昂耐信息有限公司	The PRC/ Mainland China	RMB2,000,000	61%	Manufacture and sale of computer software and hardware, webpage design, graphic design, sale of high and low voltage electrical equipment

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

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

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

18. INTERESTS IN SUBSIDIARIES *(continued)*

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

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

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

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2013	2012
Percentage of equity interest held by non-controlling interests:		
Jiujiang Rectifier	**39%**	39%

	2013 RMB'000	2012 RMB'000
Profit for the year allocated to non-controlling interests:		
Jiujiang Rectifier	**4,254**	312
Accumulated balances of non-controlling interests at the reporting dates:		
Jiujiang Rectifier	**28,982**	24,728

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

2013

	Jiujiang Rectifier RMB'000
Revenue	**166,276**
Total expenses	**(155,368)**
Profit and total comprehensive income for the year	**10,908**
Current assets	**161,684**
Non-current assets	**98,391**
Current liabilities	**(178,985)**
Non-current liabilities	**(6,776)**
Net cash flows from operating activities	**28,978**
Net cash flows used in investing activities	**(20,339)**
Net cash flows used in financing activities	**(10,000)**
Net decrease in cash and cash equivalents	**(1,361)**

18. INTERESTS IN SUBSIDIARIES *(continued)*

2012

	Jiujiang Rectifier RMB'000
Revenue	83,538
Total expenses	(82,737)
Profit and total comprehensive income for the year	801
Current assets	146,300
Non-current assets	82,260
Current liabilities	(158,073)
Non-current liabilities	(7,081)
Net cash flows from operating activities	6,811
Net cash flows used in investing activities	(10,941)
Net cash flows from financing activities	10,000
Net increase in cash and cash equivalents	5,870

19. INVESTMENT IN A JOINT VENTURE

	Group	
	2013 RMB'000	2012 RMB'000
Share of net assets	**2,205**	3,348

The Group's other receivables balances due from the joint venture are disclosed in note 24 to the financial statements.

Particulars of the joint venture are as follows:

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

The above investment in a joint venture is indirectly held by the Company.

Pursuant to the articles of association of Zhejiang Sunking Trainelec, decisions about the relevant activities require an unanimous consent of the parties sharing control.

* *For identification purposes only*

19. INVESTMENT IN A JOINT VENTURE *(continued)*

Zhejiang Sunking Trainelec, which is considered a material joint venture of the Group, acts as the Group's distributor of electronic systems for railroad and metro vehicles in Mainland China and is accounted for using the equity method.

The following table illustrates the summarised financial information of Zhejiang Sunking Trainelec adjusted for any differences in accounting policies, and reconciled to the carrying amount in the financial statements:

	2013	2012
	RMB'000	RMB'000
Cash and cash equivalents	**3,744**	4,598
Other current assets	**42**	1,000
Current assets	**3,786**	5,598
Non-current assets	**57**	18
Financial liabilities, excluding trade and other payables	**(35)**	–
Other current liabilities	**(658)**	(833)
Current liabilities	**(693)**	(833)
Net assets	**3,150**	4,783
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**70%**	70%
Group's share of net assets of the joint venture and carrying amount of the investment	**2,205**	3,348
Interest income	**29**	45
Loss and total comprehensive loss for the year	**(1,633)**	(931)

20. INVESTMENT IN AN ASSOCIATE

	Group 2013 RMB'000	2012 RMB'000
Share of net assets	**24,190**	–

The Group's other receivables due from the associate is disclosed in note 24 to the financial statements.

Particulars of the associate are as follows:

Name	Particulars of capital invested	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jiashan Henghua Real Estate Co., Ltd.#* ("JS Henghua") 嘉善恒華房地產開發有限公司	Paid-up capital of RMB24,500,000	The PRC/ Mainland China	49	Property development

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The Group's shareholding in JS Henghua is held through a wholly-owned subsidiary of the Company.

JS Henghua, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the property development and is accounted for using the equity method.

The following table illustrates the summarised financial information of JS Henghua adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2013 RMB'000
Current assets	**69,641**
Non-current assets	**157**
Current liabilities	**(20,431)**
Net assets	**49,367**
Loss for the year	**(633)**

* *For identification purposes only*

21. AVAILABLE-FOR-SALE INVESTMENT

	Group 2013 RMB'000	2012 RMB'000
An unlisted equity investment, at cost	**16,800**	–

The unlisted equity investment was outside Hong Kong. It was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

22. INVENTORIES

	Group 2013 RMB'000	2012 RMB'000
Raw materials	**46,981**	91,883
Work in progress	**13,609**	24,084
Finished goods	**31,330**	13,671
	91,920	129,638

23. TRADE AND BILLS RECEIVABLES

	Group 2013 RMB'000	2012 RMB'000
Trade receivables	**485,257**	321,427
Impairment	**(19,044)**	(15,116)
	466,213	306,311
Add: Bills receivable	**152,360**	213,324
Less: Amount shown as non-current	**(93,994)**	(46,688)
	524,579	472,947

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

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

23. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group	
	2013	2012
	RMB'000	RMB'000
Within 3 months	**219,484**	132,753
3 to 6 months	**82,277**	35,544
6 to 12 months	**86,581**	91,178
Over 1 year	**77,871**	46,836
	466,213	306,311

As at 31 December 2013 and 31 December 2012, the Group's bills receivable aged within six months.

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

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**15,116**	14,651
Amount written off as uncollectible	**(496)**	–
Impairment losses recognised	**4,424**	465
At 31 December	**19,044**	15,116

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB19,044,000 (2012: RMB15,116,000) with a carrying amount before provision of RMB103,791,000 (2012: RMB39,922,000).

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

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

	Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**378,726**	391,124
Less than 6 months past due	**106,029**	73,732
6 to 12 months past due	**42,438**	27,956
1 to 2 years past due	**6,633**	1,836
Over 2 years past due	**–**	181
	533,826	494,829

23. TRADE AND BILLS RECEIVABLES *(continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2013, certain trade receivables of the Group with an aggregate carrying amount of RMB25,331,000 (2012: RMB152,627,000) were pledged to banks to secure the bank loans granted to the Group (note 29).

At 31 December 2013, certain of the Group's bills receivables of approximately RMB64,469,000 (2012: RMB25,000,000) were pledged to secure certain of the Group's bills payables (note 26).

At 31 December 2013, certain of the Group's bills receivables of RMB15,000,000 (2012: Nil) were pledged to banks to secure the bank loans (note 29).

At 31 December 2013, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the "Endorsed Bills") with a carrying amount of approximately RMB14,187,000 (2012: RMB10,018,000) to certain of its suppliers in order to settle the trade payables due to these suppliers (the "Endorsement"). In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		**Company**	
		2013	2012	**2013**	2012
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Prepayments		**6,991**	32,559	**–**	–
Due from an associate	*38(b)*	**10,001**	–	**–**	–
Due from a joint venture	*38(b)*	**658**	–	**–**	–
Deposits and other receivables		**18,947**	32,013	**42**	7
		36,597	64,572	**42**	7

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

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**171,235**	204,593	**870**	1,157
Less: Pledged deposits for banking facilities	**(17,375)**	(17,933)	**–**	–
Cash and cash equivalents	**153,860**	186,660	**870**	1,157

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB157,447,000 (2012: RMB183,550,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. TRADE AND BILLS PAYABLES

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

	Group	
	2013	2012
	RMB'000	RMB'000
Within six months	**117,924**	123,507
Over six months	**24,553**	37,596
	142,477	161,103

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

As at 31 December 2013, certain of the Group's bills payables are secured by the pledge of the Group's bills receivables amounting to approximately RMB64,469,000 (2012: RMB25,000,000) (note 23).

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**40,618**	23,926	**–**	–
Other payables and accruals	**30,957**	27,248	**43**	–
	71,575	51,174	**43**	–

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2013 Assets RMB'000	2012 Assets RMB'000
Foreign currency forward contracts	**743**	1,376

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are measured at fair value through profit or loss. Net fair value loss of these derivatives amounting to RMB4,062,000 (2012: loss of RMB522,000) was charged to other expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013.

29. INTEREST-BEARING BANK BORROWINGS

Group

	2013			2012		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**5.70 – 6.00**	**2014**	**30,000**	5.60 – 5.88	2013	110,765
Bank loans – unsecured	**5.60 – 6.40**	**2014**	**269,000**	6.30 – 7.22	2013	157,597
			299,000			268,362
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**299,000**			268,362

Notes:

(a) As at 31 December 2013, certain of the Group's bank loans were secured by:

(i) pledge of certain of the Group's trade receivables amounting to RMB25,331,000 (2012: RMB152,627,000) (note 23);

(ii) pledge of certain of the Group's bills receivable of approximately RMB15,000,000 (2012: Nil) (note 23).

(b) As at 31 December 2013, all borrowings were denominated in RMB. As at 31 December 2012, except for a bank loan of RMB3,597,000 denominated in Swiss Francs ("CHF"), all other borrowings were denominated in RMB.

30. DEFERRED TAX

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

Group

	Government grants RMB'000	**Withholding taxes** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2012	–	(4,314)	(2,994)	(7,308)
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	3,905	(2,394)	2,734	4,245
Deferred tax assets/(liabilities) at 31 December 2012 and 1 January 2013	3,905	(6,708)	(260)	(3,063)
Deferred tax charged to profit or loss during the year (note 10)	(1,818)	–	(1,588)	(3,406)
Deferred tax assets/(liabilities) at 31 December 2013	2,087	(6,708)	(1,848)	(6,469)

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

	2013 **RMB'000**	2012 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**6,960**	10,931
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(13,429)**	(13,994)
	(6,469)	(3,063)

The Group has tax losses arising in Mainland China of RMB76,875,000 (2012: RMB52,403,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB28,657,000 (2012: RMB23,942,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

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

31. SHARE CAPITAL

Shares

	2013 HK$'000	2012 HK$'000
Authorised:		
2,000,000,000 (2012: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000

	2013 HK$'000	**2013 RMB'000 equivalent**	2012 HK$'000	2012 RMB'000 equivalent
Issued and fully paid:				
1,362,928,000 (2012: 1,362,694,000) ordinary shares of HK$0.10 each	**136,293**	**117,156**	136,269	117,137

During the year ended 31 December 2013, the subscription rights attaching to 234,000 share options were exercised at the subscription price of HK$0.55 per share (note 32), resulting in the issue of 234,000 shares of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$129,000 (equivalent to approximately RMB103,000). An amount of RMB147,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

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

	Number of shares in issue	**Issued capital** RMB'000	**Share premium account** RMB'000	**Total** RMB'000
At 1 January 2012	1,365,580,000	117,385	400,511	517,896
Repurchase and cancellation of shares	(2,886,000)	(248)	(623)	(871)
At 31 December 2012 and 1 January 2013	1,362,694,000	117,137	399,888	517,025
Share options exercised	234,000	19	231	250
At 31 December 2013	1,362,928,000	117,156	400,119	517,275

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

32. SHARE-BASED PAYMENTS TRANSACTIONS

Share award scheme

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

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

	2013 Number of shares	2012 Number of shares
At 1 January	–	216,137
Vested during the year	–	(216,137)
At 31 December	–	–

During the year ended 31 December 2012, share-based payment expense in respect of the awarded shares of RMB910,000 was charged to the profit or loss.

Share option scheme

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

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

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

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

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

Share option scheme *(continued)*

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

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

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

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.88**	**55,570**	1.83	14,490
Granted during the year	**0.68**	**17,850**	0.55	41,950
Exercised during the year	**0.55**	**(234)**	–	–
Forfeited during the year	**0.95**	**(5,060)**	1.09	(870)
At 31 December	**0.82**	**68,126**	0.88	55,570

The weighted average share price at the date of exercise for share options exercised during the year was RMB0.69 per share (2012: No share options were exercised).

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

2013

Number of options '000	**Exercise price* HK$ per share**	**Exercise period (dd-mm-yyyy)**
17,550	**0.68**	**28-05-2014 to 27-05-2019**
38,016	**0.55**	**26-04-2013 to 25-04-2018**
12,560	**1.83**	**27-04-2012 to 26-04-2017**
68,126		

2012

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

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

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

Share option scheme *(continued)*

The fair values of the share options granted during the year ended 31 December 2013 were HK$0.27 for executives and HK$0.26 for non-executives, of which the Group recognised a share option expense of RMB575,000 for the year ended 31 December 2013.

The fair values of the share options granted during the year ended 31 December 2012 were HK$0.23 for Mr. Xiang Jie and executives and HK$0.20 for non-executives, of which the Group recognised a share option expense of RMB2,383,000 for the year ended 31 December 2013 (2012: RMB1,344,000).

The fair values of the share options granted during the year ended 31 December 2011 were HK$0.79 for non-executives, HK$0.81 for executives and HK$0.83 for directors, shareholders and consultants, of which the Group recognised a share option expense of RMB1,241,000 for the year ended 31 December 2013 (2012: RMB2,345,000).

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

	2013	2012
Dividend yield (%)	**0**	0
Expected volatility (%)	**55**	59
Historical volatility (%)	**58**	59
Risk-free interest rate (%)	**0.75**	0.57-0.7
Expected life of options (year)	**6**	6

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

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

The 234,000 share options exercised during the year resulted in the issue of 234,000 ordinary share of the Company and new share capital of HK$23,000 (equivalent to approximately RMB19,000) and share premium of RMB231,000 (before issue expenses), as further detailed in note 31 to the financial statements.

At the end of the reporting period, the Company had 68,126,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 68,126,000 additional ordinary shares of the Company and additional share capital of RMB5,413,000 and share premium of RMB38,942,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 68,126,000 share options outstanding under the Share Option Scheme, which represented approximately 5.0% of the Company's shares in issue as at that date.

33. SHARE AWARD

For the year ended 31 December 2012

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

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

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

(b) Company

	Notes	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2012		400,511	5,253	40	5,384	42,519	(52,381)	401,326
Loss and total comprehensive loss for the year		–	–	–	–	–	(5,742)	(5,742)
Share-based payments	32	–	3,779	–	910	–	–	4,689
Repurchase and cancellation of shares	31	(623)	–	248	–	–	(248)	(623)
At 31 December 2012 and at 1 January 2013		399,888	9,032	288	6,294	42,519	(58,371)	399,650
Profit and total comprehensive income for the year		–	–	–	–	–	73,141	73,141
Share-based payments	32	–	4,199	–	–	–	–	4,199
Exercise of share options	31	231	(147)	–	–	–	–	84
Proposed final 2013 dividend		–	–	–	–	–	(11,716)	(11,716)
At 31 December 2013		400,119	13,084	288	6,294	42,519	3,054	465,358

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

35. CONTINGENT LIABILITIES

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

36. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Within one year	**649**	711
In the second to fifth years, inclusive	**331**	298
	980	1,009

37. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2013	2012
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**14,297**	33,278

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	Group 2013 RMB'000	2012 RMB'000
An associate:			
Interest income	*(i)*	**484**	–
A joint venture:			
Service income	*(ii)*	**658**	–

Notes:

(i) The interest income arose from a loan to an associate bearing an interest rate of 15% per annum.

(ii) The service income arose from consulting service provided to a joint venture. The consulting service was made according to mutually agreed terms.

(b) Outstanding balances with related parties

	Notes	Group 2013 RMB'000	2012 RMB'000
Prepayments, deposits and other receivables			
Due from an associate	*(i)*	**10,001**	–
Due from a joint venture	*(ii)*	**658**	–
An amount due from a director			
Mr. Gong Renyuan	*(iii)*	**–**	180

Notes:

(i) Included in the amount due from an associate are a loan to the associate and interest receivable from the associate of RMB9,517,000 (2012: Nil) and RMB484,000 (2012: Nil), respectively. The loan to the associate is unsecured, bearing an interest rate of 15% per annum and is repayable within one year.

(ii) The balance is unsecured, interest-free and repayable on demand.

(iii) The balance was unsecured, interest-free and repayable on demand. The maximum outstanding balance due from Mr. Gong Renyuan during the year ended 31 December 2013 was RMB1,060,000.

(c) Compensation on key management personnel of the Group:

	2013 RMB'000	2012 RMB'000
Short term employee benefits	**7,032**	6,059
Post-employment benefits	**716**	701
Equity-settled share option expense	**2,527**	3,713
Total compensation paid to key management personnel	**10,275**	10,473

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

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2013
Financial assets

	Group		
	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	618,573	618,573
Financial assets included in prepayments, deposits and other receivables	–	22,428	22,428
Derivative financial instruments	743	–	743
Pledged deposits	–	17,375	17,375
Cash and cash equivalents	–	153,860	153,860
	743	812,236	812,979

2013
Financial liabilities

	Group Financial liabilities at amortised cost RMB'000
Trade and bills payables	142,477
Financial liabilities included in other payables and accruals	14,970
Interest-bearing bank borrowings	299,000
	456,447

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

2012
Financial assets

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

2012
Financial liabilities

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

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

2013
Financial assets

	Company Loans and receivables RMB'000
Financial assets included in deposits and other receivables	**42**
Due from a subsidiary	**77,900**
Cash and cash equivalents	**870**
	78,812

2013
Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	**43**

2012
Financial assets

	Company Loans and receivables RMB'000
Financial assets included in deposits and other receivables	7
Cash and cash equivalents	1,157
	1,164

2012
Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	–

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of the Group's and the Company's financial instruments approximate to their carrying amounts largely as at 31 December 2013 and 31 December 2012 due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, mainly including forward currency contracts, are measured using quoted prices in active markets. The carrying amounts of forward currency contracts are the same as their fair values.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**743**	**–**	**–**	**743**

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	1,376	–	–	1,376

Liabilities measured at fair value:

Group

The Group did not have any financial liabilities measured at fair value as at 31 December 2013 and 31 December 2012.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2013		
RMB	**100**	**(1,049)**
RMB	**(100)**	**1,049**
2012		
CHF	100	(8)
RMB	100	(1,031)
CHF	(100)	8
RMB	(100)	1,031

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

Foreign currency risk

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

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

	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in profit before tax** RMB'000
2013		
If RMB weakens against USD	**5**	**1**
If RMB strengthens USD	**(5)**	**(1)**
If RMB weakens against CHF	**5**	**(24)**
If RMB strengthens against CHF	**(5)**	**24**
If RMB weakens against EUR	**5**	**130**
If RMB strengthens against EUR	**(5)**	**(130)**
If RMB weakens against HKD	**5**	**56**
If RMB strengthens against HKD	**(5)**	**(56)**
2012		
If RMB weakens against USD	5	34
If RMB strengthens USD	(5)	(34)
If RMB weakens against CHF	5	(154)
If RMB strengthens against CHF	(5)	154
If RMB weakens against EUR	5	55
If RMB strengthens against EUR	(5)	(55)
If RMB weakens against HKD	5	52
If RMB strengthens against HKD	(5)	(52)

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

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

Liquidity risk

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

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

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

Group

	2013		
	On demand or less than 3 months RMB'000	**3 to less than 12 months RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**110,639**	**201,685**	**312,324**
Trade and bills payables	**131,758**	**10,719**	**142,477**
Other payables	**14,970**	**–**	**14,970**
	257,367	**212,404**	**469,771**

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

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

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

Group

	2013 **RMB'000**	2012 RMB'000
Interest-bearing bank borrowings	**299,000**	268,362
Total equity	**878,727**	832,522
Gearing ratio	**34.0%**	32.2%

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2014.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**739,865**	573,517	610,311	427,996	261,704
PROFIT/(LOSS) BEFORE TAX	**56,816**	11,366	(50,489)	52,443	49,112
Income tax expense	**(14,913)**	(12,269)	(2,793)	(14,851)	(10,262)
PROFIT/(LOSS) FOR THE YEAR	**41,903**	(903)	(53,282)	37,592	38,850
Attributable to:					
Owners of the parent	**42,917**	443	(59,360)	37,592	38,850
Non-controlling interests	**(1,014)**	(1,346)	6,078	–	–
	41,903	(903)	(53,282)	37,592	38,850

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,439,596**	1,366,749	1,280,827	1,099,357	338,022
TOTAL LIABILITIES	**(560,869)**	(534,227)	(453,746)	(264,725)	(106,022)
NON-CONTROLLING INTERESTS	**(46,152)**	(47,166)	(45,797)	(1,500)	–
	832,575	785,356	781,284	833,132	232,000