卡姆丹克太陽能系統集團有限公司

# Comtec Solar Systems Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 712

2011

ANNUAL REPORT

# Contents

# Corporate Information

## Directors

*Executive Directors*

Mr. John Zhang

Mr. Chau Kwok Keung

Mr. Shi Cheng Qi

*Non-executive Director*

Mr. Phen, Chun Shing Vincent

Mr. Donald Huang (appointed on 17 June 2011)

*(Note: Mr. Stephen Peel was appointed as a non-executive Director on 17 June 2011 and resigned on 24 April 2012)*

*Independent non-executive Directors*

Mr. Daniel DeWitt Martin

Mr. Kang Sun

Mr. Leung Ming Shu

## Company secretary

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

## Authorised representatives

Mr. John Zhang

Mr. Chau Kwok Keung

## Audit committee

Mr. Leung Ming Shu *(Chairman)*

Mr. Daniel DeWitt Martin

Mr. Kang Sun

Mr. Donald Huang

## Nomination committee

Mr. John Zhang *(Chairman)*

Mr. Daniel DeWitt Martin

Mr. Kang Sun

Mr. Donald Huang

Mr. Leung Ming Shu

## Remuneration committee

Mr. Leung Ming Shu *(Chairman)*

Mr. John Zhang

Mr. Kang Sun

Mr. Donald Huang

Mr. Daniel Dewitt Martin

## Corporate governance committee

Mr. John Zhang *(Chairman)*

Mr. Chau Kwok Keung

Mr. Leung Ming Shu

Mr. Donald Huang

## Significant payments committee

Mr. John Zhang *(Chairman)*

Mr. Chau Kwok Keung

Mr. Donald Huang

## Registered office

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## Headquarter

16 Yuan Di Road

Nanhui Industrial Zone

Shanghai 201314

PRC

## Principal place of business in Hong Kong

Suite 28

35/F, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

## Company's website

www.comtecsolar.com

## Auditor

Deloitte Touche Tohmatsu

# Corporate Information- Continued

## Legal Advisers as to Hong Kong Law

Orrick, Herrington & Sutcliffe

## Principal banks

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

## Cayman Islands principal share registrar and transfer office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## Hong Kong Share Registrar

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

# Financial Summary

| Results | For the year ended 31 December<br>2007<br>RMB'000 | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
|---|---|---|---|---|---|
| Turnover | 349,064 | 762,103 | 506,876 | 1,021,371 | **1,016,746** |
| Profit before interest expenses and taxation | 162,956 | 172,860 | 37,999 | 270,492 | **20,597** |
| Interest expense | (808) | (6,295) | (6,669) | (7,401) | **(38,596)** |
| (Loss) profit before taxation | 162,148 | 166,565 | 31,330 | 263,091 | **(17,999)** |
| Taxation | (14,797) | (35,086) | (6,389) | (40,151) | **(28,328)** |
| (Loss) profit and total comprehensive income for the year, attributable to the owners of the Company | 147,351 | 131,479 | 24,941 | 222,940 | **(46,327)** |

| Assets and liabilities | As at 31 December<br>2007<br>RMB'000 | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
|---|---|---|---|---|---|
| Total assets | 615,781 | 817,261 | 1,410,675 | 1,912,392 | **2,654,773** |
| Total liabilities | (467,580) | (257,344) | (349,050) | (401,049) | **(1,000,996)** |
| Net assets | 148,201 | 559,917 | 1,061,625 | 1,511,343 | **1,653,777** |

# Chairman Statement

Dear Shareholders,

On behalf of Comtec Solar Systems Group Limited, I am pleased to present the audited annual results of the Group for the year ended 31 December 2011. During the year, the growth in worldwide capacity and the channel inventory resulted in significantly lower selling prices across the value chain. It resulted in a challenging operating environment and adversely affected the operating results of every solar company. Despite the challenges facing the market, we still achieved year-on-year growth in the shipment of our quality wafer products, commenced the massive production of our premium products "Super Mono Wafers" and maintained healthy financial position.

Here are some financial and business highlights for the year:

- Revenue for the year was RMB1,016.7 million, drop 0.5 % year-on-year from RMB1,021.4 million for the year ended 31 December 2010;
- Gross profit for the year was RMB92.5 million, drop 72.0 % year-on-year from RMB330.6 million for the year ended 31 December 2010;
- Gross profit margin for the year was 9.1%, decrease from 32.4% for the year ended 31 December 2010;
- Net loss for the year was RMB46.3 million, dropped from the net profit of RMB222.9 million for the year ended 31 December 2010;
- Net loss margin for the year was 4.6%, decreased from the net profit margin of 21.8% for the year ended 31 December 2010;
- Our loss per share for the year was RMB4.09 cents, dropped from the earning per share of RMB21.03 cents for the year ended 31 December 2010;
- Adjusted net profit for the year was approximately RMB114.0 million by excluding the non-cash write-down of inventory of approximately RMB66.0 million, impairment losses recognised in respect of property, plant and equipment of approximately RMB89.1 million, impairment losses recognised in respect of advance to suppliers of approximately RMB7.1 million, provision for onerous contracts of approximately RMB39.1 million, the non-cash accounting charges for the issue of convertible bonds of approximately RMB7.6 million, effective interest expense on the convertible bonds of approximately RMB23.5 million and the gain on fair value change of warrants of approximately RMB72.1 million;

# Chairman Statement- Continued

- Adjusted earning per share for the year was RMB10.06 cents by excluding the non-cash write-down of inventory of approximately RMB66.0 million, impairment losses recognised in respect of property, plant and equipment of approximately RMB89.1 million, impairment losses recognised in respect of advance to suppliers of approximately RMB7.1 million, provision for onerous contracts of approximately RMB39.1 million, the non-cash accounting charges for the issue of convertible bonds of approximately RMB7.6 million, effective interest expense on the convertible bonds of approximately RMB23.5 million and the gain on fair value change of warrants of approximately RMB72.1 million;

- Overall shipment for the year was 222.1MW;

- The annualized production capacity was approximately 600MW by the end of 2011;

- Maintained cash and bank balances for the year was RMB746.1 million and net cash for the year was RMB51.1 million;

- The Group has been ranked by Green World Investor, a reputable green funds' blog, on 1 March 2011 as one of the world's top 10 solar wafer companies.

Despite the challenges facing the market, we achieved notable shipment growth of approximately 26.7% from 175.3MW (including both sales and processing services) in the corresponding period in 2010 to 222.1MW in 2011. With the continuous decrease in the selling price of polysilicons and modules, our customers increasingly realized the benefits of buying high efficient products to assist them to reduce the overall costs and to strengthen their competitive advantages. It strengthens the demand and provides further business opportunities to high efficient solar products.

In an increasingly competitive market of solar products, we also strive to differentiate ourselves by staying committed to offering value-added products with premium quality to our customers. During the year, we completed the qualification process and commenced the massive production of our premium product "Super Mono Wafers". Based on the feedback from our major customer, the high efficientsolar cell with our "Super Mono Wafers" can achieve an average conversion efficiency of approximately 23%. All of our existing 600MW capacity is qualified for the production of "Super Mono Wafers". We keep working on the qualification process with other potential customers and expect to gradually shift our focus from traditional P-type monocrystalline wafers to this newly launched "Super Mono Wafers". We believe our ability to manufacture more advanced and efficient products would further differentiate us in the market and enhance the entry level to our business.

# Chairman Statement- Continued

Further, our continual efforts to improve technology, manufacturing process and conversion efficiency of our wafers also enabled us to reduce our costs of production. Cost competitiveness driven by technical advancement would be crucial to the development of solar industry. Our origin as a manufacturer of semiconductor ingots and wafers since 1999 provided us with a strong technical background. We also benefited from the significant decrease in polysilicon prices in the market. During the year, we actively renegotiated with our major polysilicon suppliers and were able to lower our average cost of polysilicon to approximately RMB327.4 per kg, decreasing from RMB351.5 per kg for the corresponding period in 2010. We will continue to focus on combining innovative products and manufacturing efficiency to respond to the fast growing and competitive landscape of solar industry.

In June 2011, the Company issued a five-year convertible bonds in an aggregate principal amount of approximately RMB650 million, together with the warrants to subscribe for approximately US$50 million of new Shares. The proceeds were originally planned to fund the expansion of capacity. Due to the subsequent changes in the general industry environment with over-capacity and declining average selling prices, we believed it is prudent to reduce our debt level and not to expand by debt financing. In March 2012, we repurchased 75% of the issued convertible bonds by paying approximately RMB490 million in cash and cancelled 75% of the issued warrants and issued new warrants of approximately HK$117 million with the initial exercise price at HK$1.24 per Share, subject to the agreed adjustment mechanism. As part of the repurchase, the investor agreed to consent to the level of borrowing of the Group relative to EBITDA exceeding the level specified in the original bonds instrument until 20 February 2013, to cancel 75% of outstanding originally issued warrants, to cancel the early redemption premium of 30% on the outstanding convertible bonds and to change the use of proceeds of the remaining outstanding amount of the original proceeds to general corporate purposes. We believed that it is a prudent step to take in view of the challenging industry environment the Group is facing. It allowed the Group to enjoy the benefits of reducing its debt levels with immediate effect, to pre-emptively avoid any risk of breaching the borrowings covenant during 2012, to avoid over-leveraging on debt-financing in a challenging industry environment and to obtain more flexibility on the use of proceeds.

Coupled with the sounding cash flow from our operating activities and our disciplined financial and operational initiatives, we maintained a net cash balance of approximately RMB 51.1 million by the end of 2011. Our strong balance sheet positions us well to manage and mitigate the risks arising from the volatile and challenging industry environment in 2011. It also enabled us to capture future growth opportunities.

In response to general industry environment of over capacity and declining average selling prices, we determined to temporarily defer the expansion of capacity. We expect the consolidation in the global solar industry would continue in 2012. We believe we are particularly well positioned with our strong financial position, competitive cost structure and our strong technical capabilities to benefit from the emerging opportunities. We are continuously evaluating the market environment and the equipment pricing to maximize our benefits from the consolidation of production capacity in the industry.

# Chairman Statement- Continued

During the year, the cost of generating power of solar energy per watt had reduced substantially due to the decrease of polysilicon prices, continuous upgrading of production techniques and enhancement of operational effectiveness in the industry. It had accelerated the industry's progress towards grid-parity and the installation of PV systems becoming increasingly affordable. The cost of solar power is now below user-paid rates for increasing number of markets and user categories. Currently, European countries including Germany and Italy are the major end-markets. These countries are promoting solar generation by implementing proactive policies, such as government grants, leading to the fast development of the PV manufacturing industry. The PRC and the United States, being the largest energy consuming countries in the world, together with Japan, Australia, Africa and the Middle East would be promising solar energy markets with substantial growth prospects. Regardless of the reduction of FiT (Feed-in Tariff) by various governments, the continuous cost reduction would fuel the robust growth of demand on solar products. We believe this would sustain the strong prospects of the cost leaders among the value chain and benefit the overall solar industry.

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

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

**John Zhang**
*Chairman*

Shanghai, 30 March 2012

# Management Discussion and Analysis

## BUSINESS REVIEW

The photovoltaics industry experienced tremendous pressure in the year of 2011 due to supply-demand imbalance throughout the value chain. This pressure was exacerbated by incentive adjustment in major solar markets and the uncertainties among the European economies. It resulted in a challenging operating environment with significant decrease in selling prices of solar products which adversely affected the operating results of every solar company. Despite the challenges facing the market, we still achieved year-on-year growth in the shipment of our quality wafer products, commenced the massive production of our premium products "Super Mono Wafers" and maintained healthy financial position.

During the year, we achieved notable shipment growth of approximately 26.7% from 175.3MW (including both sales and processing services) in 2010 to 222.1MW in 2011. With the continuous decrease in the selling price of polysilicons and modules, our customers increasingly realized the benefits of buying high efficient wafers to reduce their overall production costs and to enhance the value-added to the end users. It strengthens the demand and provides further business opportunities to high efficient solar wafers in a tough industry environment. During second half of 2011, we paid increasing attention to customer credit risks and tightened our control over the payment terms granted to customers which resulted in giving up some sales opportunities in such period.

In an increasingly competitive market of solar products, we also strive to differentiate ourselves by staying committed to offering value-added products with premium quality to our customers. During the year, we completed the qualification process and commenced the massive production of our premium product "Super Mono Wafers". Based on the feedback from our major customer, the high efficient solar cell with our "Super Mono Wafers" can achieve an average conversion efficiency of approximately 23%. All of our existing 600MW capacity is qualified for the production of "Super Mono Wafers". We keep working on the qualification process with other potential customers and expect to gradually shift our focus from traditional P-type monocrystalline wafers to this newly launched "Super Mono Wafers". We believe our ability to manufacture more advanced and efficient products would further differentiate us in the market and enhance the entry level to our business.

Our top five customers in 2011 represented 80.9% of our total revenues, comparing to 60.5% in the corresponding period last year. Our largest customer accounted for approximately 31.4% of our total revenues in 2011 while it represented approximately 21.9% in 2010. During 2011, our sales to PRC and Taiwan-based customers represented approximately 68.2% of our total revenues, comparing to 99.0% in the corresponding period last year. The remaining of our sales in 2011 was mainly shipped to Philippines. We commenced the massive production of our "Super Mono Wafers" which are mainly sold to overseas leading solar cell companies. We believe the focus on this premium and differentiated products would create substantial value for the long-term development of the Group.

# Management Discussion and Analysis - Continued

During the year, we continued to execute our cost reduction strategy. We have achieved continuous cost saving from our improvements in technology, manufacturing process and conversion efficiency of our wafers. Cost competitiveness driven by technical advancement would be crucial to the development of solar industry. Our origin as a manufacturer of semiconductor ingots and wafers since 1999 provides us with a strong technical background. We also benefited from the significant decrease in polysilicon prices in the second half of 2011. During the year, we actively renegotiated with our major polysilicon suppliers and were able to lower our average cost of polysilicon to approximately RMB327.4 per kg, decreasing from RMB351.5per kg for the corresponding period in 2010. We will continue to focus on combining innovative products and manufacturing efficiency to respond to the fast growing and competitive industry environment.

In June 2011, the Company issued a five-year convertible bonds in an aggregate principal amount of approximately RMB650 million, together with the warrants to subscribe for approximately US$50 million of new Shares. The proceeds were originally planned to fund the expansion of capacity. Due to the subsequent changes in the general industry environment with over-capacity and declining average selling prices, we believed it is prudent to reduce our debt level and not to expand by debt financing. In March 2012, we repurchased 75% of the issued convertible bonds by paying approximately RMB490 million in cash and cancelled 75% of the issued warrants and issued new warrants of approximately HK$117 million with the initial exercise price at HK$1.24 per Share, subject to the agreed adjustment mechanism. As part of the repurchase, the investor agreed to consent to the level of borrowing of the Group relative to EBITDA exceeding the level specified in the original bonds instrument until 20 February 2013, to cancel 75% of outstanding originally issued warrants, to cancel the early redemption premium of 30% on the outstanding convertible bonds and to change the use of proceeds of the remaining outstanding amount of the original proceeds to general corporate purposes. We believed that it is a prudent step to take in view of the challenging industry environment the Group is facing. It allowed the Group to enjoy the benefits of reducing its debt levels with immediate effect, to pre-emptively avoid any risk of breaching the borrowings covenant during 2012, to avoid over-leveraging on debt-financing in a challenging industry environment and to obtain more flexibility on the use of proceeds.

Coupled with the sounding cash flow from our operating activities and our disciplined financial and operational initiatives, we maintained a net cash balance of approximately RMB51.1 million by the end of 2011. Our strong balance sheet positions us well to manage and mitigate the risks arising from the volatile and challenging industry environment in 2011 and enabled us to capture enormous opportunities in the upcoming era of solar energy.

In response to general industry environment of over capacity and declining average selling prices, we determined to temporarily defer the expansion of capacity. We expect the consolidation in the global solar industry would continue in 2012. We believe we are particularly well positioned with our strong financial position, competitive cost structure and our strong technical capabilities to benefit from the emerging opportunities. We are continuously evaluating the market environment and the equipment pricing to maximize our benefits from the consolidation of production capacity in the industry.

During the year, the cost of generating power of solar energy per watt had reduced substantially due to the decrease of polysilicon prices, continuous upgrading of production techniques and enhancement of operational effectiveness in the industry. It had accelerated the industry's progress towards grid-parity and the installation of PV systems becoming increasingly affordable. Currently, European countries including Germany and Italy are the major end-markets. These countries are promoting solar generation by implementing proactive policies, such as government grants, leading to the fast development of the PV manufacturing industry. The PRC and the United States, being the largest energy consuming countries in the world, together with Japan, Australia, Africa and the Middle East would be promising solar energy markets with substantial growth prospects. Regardless of the reduction of FiT (Feed-in Tariff) by various governments, the continuous cost reduction would fuel the robust growth of demand on solar products. We believe this would sustain the strong prospects of the cost leaders among the value chain and benefits the overall solar industry.

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

## FINANCIAL REVIEW

### Revenue

Revenue decreased by RMB4.7 million, or 0.5%, from RMB1,021.4 million for the year ended 31 December 2010 to RMB1,016.7 million for the year ended 31 December 2011, primarily as a result of decreasing in average selling price, which was partially offset by the growth in our sales volume. Due to the increase in customer demand for our high quality monocrystalline solar products and increase of production capacity, our sales volume increased by 34.2% from 165.5 MW for the year ended 31 December 2010 to 222.1 MW for the year ended 31 December 2011.

For the year ended 31 December 2011, sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 56.2% of total revenue and sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 39.7% of total revenue. In aggregate, solar wafer sales comprised 95.9% of our total sales, as compared to 99.6% for the year ended 31 December 2010.

### Sales of monocrystalline solar wafers

Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers decreased by RMB329.3 million, or 36.6%, from RMB900.9 million for the year ended 31 December 2010 to RMB571.6 million for the year ended 31 December 2011, primarily as a result of an decrease of sales volume by 17.0% from 144.7MW for the year ended 31 December 2010 to 120.1MW for the year ended 31 December 2011, plus a decrease in our average unit price for this product by 22.6% from RMB6.2 per watt for the year ended 31 December 2010 to RMB4.8 per watt for the year ended 31 December 2011.

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers increased by RMB287.1 million, or 245.8%, from RMB116.8 million for the year ended 31 December 2010 to RMB403.9 million for the year ended 31 December 2011, primarily due to our change of focus on the sale of 125 mm by 125 mm "Super Mono Wafers" which resulting in an increase in our sales volume of 125 mm by 125 mm monocrystalline wafers by 365.4% from 20.8 MW for the year ended 31 December 2010 to 96.8 MW for the year ended 31 December 2011 but it was partially offset by a decrease in our average unit price for this product by 25.0% from RMB5.6 per watt for the year ended 31 December 2010 to RMB4.2 per watt for the year ended 31 December 2011.

In relation to the analysis of our revenue by geographical market, approximately 64.8% of total revenue for the year ended 31 December 2011 was generated from our PRC mainland customers (2010: 87.2%). Remaining portion was mainly generated from our sales to Philippines.

### Cost of sales

Cost of sales increased by RMB233.4 million, or 33.8%, from RMB690.8 million for the year ended 31 December 2010 to RMB924.2 million for the year ended 31 December 2011, primarily as a result of the increase in shipment volume and write-down of our inventory of approximately RMB66.0 million due to the decrease in the net realisable value of our inventory as at 31 December 2011, partially offset by a decrease in the average prices of polysilicon by 6.9% during the year ended 31 December 2011 to RMB327.4 per kg from the average prices of RMB351.5 per kg for the year ended 31 December 2010 as well as the improvement in production efficiency.

### Gross profit

Gross profit decreased by RMB238.1 million, or 72.0%, from RMB330.6 million for the year ended 31 December 2010 to RMB92.5 million for the year ended 31 December 2011, primarily as a result of the above.

### Other income

Other income increased by RMB13.5 million, or 50.8%, from RMB26.6 million for the year ended 31 December 2010 to RMB40.1 million for the year ended 31 December 2011, primarily due to the increase in government grants.

### Other gains and losses, expenses and provision

Other losses increased by RMB52.3 million from RMB9.1 million for the year ended 31 December 2010 to RMB61.4 million for the year ended 31 December 2011, primarily due to impairment losses recognised in respect of property, plant and equipment of approximately RMB89.1 million, impairment losses recognised in respect of advance to suppliers of approximately RMB7.1 million and provision for onerous contracts of approximately RMB39.1 million, partially offset by the gain on fair value change of warrants of approximately RMB72.1 million.

### Distribution and selling expenses

The distribution and selling expenses during the year ended 31 December 2011 were approximately RMB1.8 million, recording no material fluctuation as compared to the corresponding period in 2010.

### Administrative and general expenses

Administrative and general expenses decreased by RMB27.0 million, or 35.6%, from RMB75.8 million for the year ended 31 December 2010 to RMB48.8 million for the year ended 31 December 2011, mainly due to the non-cash, one-off expenses for vesting of restricted shares in December 2010 of approximately RMB38.0 million.

### Interest expenses

Interest expenses increased by RMB31.2 million from RMB7.4 million for the year ended 31 December 2010 to RMB38.6 million for the year ended 31 December 2011, primarily as a result of an increase in the amount of bank loans borrowed and effective interest expense charged on the convertible bonds issued during the year.

### Loss before taxation

Loss before taxation of RMB18.0 million for the year ended 31 December 2011, decreased from the profit before taxation of RMB263.1 million for the year ended 31 December 2010, as a result of the foregoing.

# Management Discussion and Analysis - Continued

## Taxation

Taxation decreased from RMB40.2 million for the year ended 31 December 2010 to RMB28.3 million for the year ended 31 December 2011. Our effective tax rate was 19.9% by excluding the non-cash write-down of inventory of approximately of RMB66.0 million, impairment losses recognised in respect of property, plant and equipment of approximately RMB89.1 million, impairment losses recognised in respect of advance to suppliers of approximately RMB7.1 million, provision for onerous contracts of approximately RMB39.1 million, the non-cash accounting charges for the issue of convertible bonds of approximately RMB7.6 million, effective interest expense on the convertible bonds of approximately RMB23.5 million and the gain on fair value change of warrants of approximately RMB72.1 million, increased from 15.3% for the year ended 31 December 2010. Higher effective tax rate was primarly due to a new subsidiary in HaiAn starting operation during the year and it was taxed at 25% in 2011.

## Loss for the year

The Group recorded a loss of RMB46.3 million dropped from the profit of RMB222.9 million for the year ended 31 December 2010, as a result of the foregoing. Net loss margin of 4.6% for the year ended 31 December 2011 decreased from the net profit margin of 21.8% for the year ended 31 December 2010.

## Inventory turnover days

The inventories of the Group mainly comprised of raw materials (namely polysilicon, crucibles and other auxiliary materials) for production requirements. There was a decrease in inventories balance of 12.0% from RMB247.8 million for the year ended 31 December 2010 to RMB218.0 million which was mainly due to the provision on polysilicon inventory and the efforts to reduce inventory balance for the year ended 31 December 2011. The inventory turnover days as at 31 December 2011 totalled 86 days (2010: 131 days).

## Trade receivable turnover days

The trade receivable turnover days as at 31 December 2011 totaled 26 days (2010: 26 days). Our receivable turnover days was within the credit periods of the Group grants to its customers. The Group normally grants a credit period of 30 to 90 days to its customers.

## Trade payable turnover days

The trade payable turnover days as at 31 December 2011 totaled 40 days (2010: 33 days). The increase in turnover days was mainly due to the change of payment terms upon the volatile and challenging market environment in 2011.

### Liquidity and financial resources

The Group's principal sources of working capital included cash flow from operating activities and bank borrowings. As at 31 December 2011, the Group's current ratio (current assets divided by current liabilities) was 2.6 (2010: 2.0) and it was in a net cash position. The Group's financial position remains healthy. As at 31 December 2011, the Group was in a net cash position of RMB51.1 million (2010: RMB123.7 million) which included cash and cash equivalent, other financial assets and pledged bank deposits of RMB789.8 million (31 December 2010: RMB293.7million), short-term bank loans of RMB318.2 million (31 December 2010: RMB170.0 million) and liability component of convertible bonds issued in the year of RMB402.4 million (31 December 2010: nil) and long-term bank loans of RMB18.1 million (31 December 2010: nil).

In June 2011, the Company issued a five-year convertible bonds in an aggregate principal amount of approximately RMB650 million, together with the warrants to subscribe for approximately US$50 million of new Shares. The proceeds were originally planned to fund the expansion of capacity. Due to the subsequent changes in the general industry environment with over-capacity and declining average selling prices, we believed it is prudent to reduce our debt level and not to expand by debt financing. In March 2012, we repurchased 75% of the issued convertible bonds by paying approximately RMB490 million in cash and cancelled 75% of the issued warrants and issued new warrants of approximately HK$117 million with the initial exercise price at HK$1.24 per Share, subject to the agreed adjustment mechanism. As part of the repurchase, the investor agreed to consent to the level of borrowing of the Group relative to EBITDA exceeding the level specified in the original bonds instrument until 20 February 2013, to cancel 75% of outstanding originally issued warrants, to cancel the early redemption premium of 30% on the outstanding convertible bonds and to change the use of proceeds of the remaining outstanding amount of the original proceeds to general corporate purposes. We believed that it is a prudent step to take in view of the challenging industry environment the Group is facing. It allowed the Group to enjoy the benefits of reducing its debt levels with immediate effect, to pre-emptively avoid any risk of breaching the borrowings covenant during 2012, to avoid over-leveraging on debt-financing in a challenging industry environment and to obtain more flexibility on the use of proceeds.

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

### Contingent liabilities

As at 31 December 2011, there was no material contingent liability.

### Related Party Transactions

The Group did not have any related party transactions for the year ended 31 December 2011.

## CHARGES ON GROUP ASSETS

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

As at 31 December 2011, fixed deposits denominated in Renminbi ("RMB") of approximately RMB16.2 million and the USD loan of approximately RMB16.3 million are included in pledged bank deposits and bank loans, respectively.

As at 31 December 2011, other than the restricted cash of approximately approximately RMB16.2 million, the Group pledged its buildings and prepaid lease payments having net book values of approximately RMB89.1 million (31 December 2010: RMB97.2 million) and approximately RMB14.9 million (31 December 2010: RMB15.2 million), respectively, to banks to secure banking facilities granted to the Group.

Save as disclosed above, as at 31 December 2011, no Group asset was under charge to any financial institution.

### Acquisition of subsidiary

No subsidiary of the Company was acquired during the year ended 31 December 2011.

### Use of Proceeds

The proceeds from the issue of the convertible bonds will be used for general corporate purposes of the Group. Please refer to the announcement of the Company dated 25 January 2012 for details.

### Human resources

As at 31 December 2011, the Group had 1,169 (2010: 934) employees. The remuneration of the existing employee includes basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

### Details of the future investment plans for material investment

Due to the change in market environment, the Group temporarily does not have any plan of expansion nor acquisition as well as no material expansion nor expansion made in during the year.

# Management Discussion and Analysis - Continued

### Exposure to fluctuations in exchange rates and any related hedges

The Group recognised net exchange losses of approximately RMB 2.9 million, which mainly arose from monetary assets and liabilities of the group entities denominated in foreign currencies. Although the Group entered into foreign currency forward contracts, the Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedgingsignificant foreign currency exposure should the need arise.

# Biographical Details of Directors and Senior Management

## Executive Directors

**Mr. John Zhang**, aged 49, is as an executive Director, the chairman of the Board and the chief executive officer of the Company, responsible for the overall strategy and operation of our Group. Mr. Zhang has accumulated over ten years of experience in the semiconductor and solar industries from both his founding and development of the Group and his prior professional experience. Prior to founding the Group, Mr. Zhang joined Silicon Systems Inc. which was a semiconductor technology company in California, U.S., in 1992 as an engineer and was responsible for developing and designing communication firmware used in silicon chips. Mr. Zhang graduated from 清華大學 (Tsinghua University) in July 1985 with a Bachelor's degree in Electrical Engineering and from Utah State University with a Master's degree in Electrical Engineering in August 1988.

**Mr. Chau Kwok Keung**, aged 35, is an executive Director, the chief financial officer of the Group and the company secretary of the Company, responsible for corporate financial and general management. He was appointed in May 2010 as a member of supervisory board of RIB Software AG, a software company in Germany and it was listed in Frankfurt Stock Exchange in February 2011. Prior to joining the Group, Mr. Chau served in various positions at China.com Inc., a company listed on the Stock Exchange (Stock Code: 8006) from October 2005 to October 2007, including vice president of the finance department, chief financial officer, company secretary and authorised representative. Prior to joining China.com Inc., he was the deputy group financial controller of China South City Holdings Limited from August 2003 to April 2005 and the financial controller of Shanghai Hawei New Material and Technology Co., Ltd. from June 2002. Mr. Chau Kwok Keung was employed by Andersen & Co. initially as an experienced staff accountant and then he was subsequently promoted to be a senior consultant in the Global Corporate Finance Division of Andersen & Co. in March 2002. Mr. Chau has been a fellow member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a Chartered Financial Analyst of CFA Institute since September 2003. Mr. Chau received a bachelor's degree in Business Administration from the Chinese University of Hong Kong in May 1998.

**Mr. Shi Cheng Qi**, aged 68, is an executive Director and the chief technology officer of the Group, responsible for production, technology and research and development. He is in charge of the production technology and equipment design of the Group. Mr. Shi has over 30 years of experience in semiconductor, solar and materials engineering, which was accumulated from the multiple engineering and management positions held by Mr. Shi in the production, technology and research and development departments of 上海半導體材料廠 (Shanghai Semiconductor Materials Factory) in the PRC from 1969 to 2000. He was accredited by 上海市有色金屬總公司 (Shanghai Non-Ferrous Metals Company) as a senior engineer in March 1993 based on the review and evaluation of 高級評委委員會 (senior appraisal committee) of Shanghai Non-Ferrous Metals Company.

# Biographical Details of Directors and Senior Management - Continued

## Non-executive Director

**Mr. Chun Shing Vincent**, **Phen**, aged 35, is a non-executive Director. He has approximately ten years of experience in direct investment and corporate banking. He is currently the investment manager of CMS Capital (HK) Co., Ltd., formerly known as CMTF Asset Management Limited, and has served in such position since 11 May 2009. He worked as an associate in CLSA Capital Partners from 26 February 2007 to 10 May 2009. Prior to that, Mr. Phen worked in the international corporate banking division of various financial institutions for approximately seven years. Mr. Phen obtained a bachelor degree in business administration and marketing from the University of North Texas, the USA, in 1999. Mr. Phen holds a SFC license of asset management.

**Mr. Stephen Peel**, aged 46, was appointed as a non-executive Director on 17 June 2011. He is a managing partner at TPG Capital based in Hong Kong and heads the firm's investing activities in Asia and Russia. Mr. Peel was a founder of Texas Pacific Group's (now TPG Capital) European office in 1997. He also set up the firm's activities in Eastern Europe and Russia before assuming responsibility for the businesses in Asia in late 2008. Before joining TPG Capital, Mr. Peel was in the Principal Investment Area of Goldman Sachs International in Europe from 1989 to 1997. Mr. Peel graduated from Cambridge University in 1987 and represented Great Britain in the Olympic Games in 1988. Mr. Peel serves or has served on boards of directors including: China Grand Auto, Strauss Coffee, Grohe AG, British Vita Unlimited, Mey Alkollü Içkiler, Punch Taverns, Spirit Group Limited, Findexa Limited and Pivovarni Ivana Taranova. Mr. Stephen Peel resigned as the non-executive Director on 24 April 2012.

**Mr. Donald Huang,** aged 31, is a non-executive Director. He is a vice president at TPG Capital. He joined TPG Capital in 2005 in San Francisco and moved to Asia in 2008. He was previously involved in TPG Capital's investments in Alltel, Intergraph, Asciano, Wumart and China Renewable Energy. Prior to joining TPG Capital, he worked in the investment banking division of Goldman, Sachs & Company in the US, focusing on merger and acquisition.

# Biographical Details of Directors and Senior Management - Continued

## Independent non-executive Directors

**Mr. Leung Ming Shu**, aged 36, is an independent non-executive Director. Mr. Leung is currently the chief financial officer and company secretary of China ITS (Holdings) Co., Ltd. He is also the independent non-executive director of 勝利油氣管道控股有限公司(Shengli Oil & Gas Pipe Holdings Limited) , a company listed on the Stock Exchange (code: 1080), since 1 January 2011. Mr. Leung is experienced in the areas of corporate finance and accounting from his various roles detailed below. From November 2006 to January 2008, Mr. Leung served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd, a subsidiary of Beijing Lingtu Software Co., Ltd, a PRC digital mapping and navigation software company. From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd, a related party of大唐電信科技股份有限公司(Datang Telecom Technology Co., Ltd, a company listed on the Shanghai Stock Exchange) which is engaged in the development of a telecommunications standard and the manufacturer of telecommunications equipment. Prior to that, Mr. Leung spent approximately three years from February 2003 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc., a subsidiary of CDC Corporation and a company listed on the Stock Exchange. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, he also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operations. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. He is a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since March 2006.

**Mr. Daniel DeWitt Martin**, aged 73, is an independent non-executive Director. Mr. Martin was the executive vice president of Semiconductor Equipment & Materials International from 1998 to January 2012. During such period, Mr. Matin was mainly responsible for the global standards development activity, and leading Semiconductor Equipment & Materials International into the photovoltaic industry. From July 1984 to March 1996, he worked in Siltec Corporation (Mitsubishi Silicon America) as the vice president of operations, mainly responsible for manufacturing, process engineering, facilities engineering, facilities and equipment maintenance,etc. Mr. Martin graduated from Washington State University in June 1961 and received a bachelor degree in Physical Metallurgy.

**Mr. Kang Sun**, aged 57, is an independent non-executive Director. Mr. Sun is currently the president and chief executive officer of RayTracker Inc., Pasadena, California, USA and a venture partner of WI Harper Group, San Francisco, California USA. Prior to that, Mr. Sun worked from September 2007 to August 2008 as the president and chief operating officer of JA Solar Holding Ltd, China, a company listed on NASDAQ (Code: JASO), managing director of new business development at Applied Materials Inc., USA since 2005. Prior to that, in different periods of time between 1990 and 2005, he had served as the vice president of Microfabrica Inc., the vice president of Honeywell International Inc., USA and the general manager of Optical Devices Business, AlliedSignal Inc., USA, respectively. Mr. Sun received a Ph.D. degree in Materials Science from Brown University, USA in 1988, a M.S. degree in Physical Chemistry from University of Georgia, USA in 1983 and a B.S. degree in Polymer Chemistry from 南京大學 (Nanjing University), China in 1978.

## SENIOR MANAGEMENT

**Mr. Wu Cheng Xian**, aged 64, is the vice general manager and the head of the manufacturing department of the Group. He is mainly responsible for stipulating and implementing manufacturing plan, supervising quality control, coordinating manufacturing and the operations of the other departments in our Group. He joined the Group in October 2008. Mr. Wu has approximately 40 years of experience in the related industry. Prior to joining the Group, Mr. Wu worked as the vice general manager in 麥斯克電子材料有限公司 (MCL Electronic Materials Co. Ltd.) from October 1999 to September 2008, responsible for daily manufacturing and sales, quality control and human resources management. He worked in 洛陽單晶硅廠 (Luoyang Monocrystalline Silicon Factory), which is now 洛陽單晶硅有限責任公司 (Luoyang Monocrystalline Silicon Co., Ltd.) from August 1968 to September 2008, as the manufacturing department head and then promoted to vice general manager in February 1994, responsible for daily manufacturing and sales of semiconductor materials, quality control and human resources management. Mr. Wu studied in 建德冶金工業學校 (Jiande Metallurgy Industrial School), which is now 嘉興學院 (Jiaxing Institute) since September 1963, majoring in Statistics and graduated in August 1968 with a secondary technical school degree. Mr. Wu received a junior college degree in Statistics in December 1988 by National self-taught examination. Mr. Wu was appraised as the senior economist in November 2006 by 中國有色金屬工業協會 (China Nonferrous Metals Industry Committee) according to nonferrous metals industry credential requirements.

**Ms. Yi Xin**, aged 36, is the head of the import and export department of the Group. She is mainly in charge of importing and exporting and keeping communication documents with customers. She joined us in July 2002. Ms. Yi has over five years of experience in the trading industry and she is in charge of our imports and exports. Prior to joining the Group, Ms. Yi Xin worked in the marketing department of 上海智率醫療器械有限公司 (Shanghai Intelligent Medical Apparatus Company Limited) responsible for market survey and analysis from February 2000 to July 2002. Ms. Yi received a junior college degree in economy and trading from 上海冶金高等專科學校 (Shanghai College of Metallurgy), which is now 上海應用技術學院 (Shanghai Institute of Technology) in July 1997.

**Mr. Cheng Yu Wei**, aged 60, is the head of the equipment department of the Group. He is mainly responsible for daily operation of electromechanical department and equipment maintenance. He joined us in October 2000. Mr. Cheng has approximately 15 years of experience in the electrical engineering industry. Prior to joining the Group, he worked in 中南地質勘查局實業公司 (Zhongnan Geological Prospecting Bureau Industrial Company) as an electrical engineer in 1992 and as a vice chief engineer in 1993. From June 1994 to December 1996, Mr. Cheng worked as an engineer in 中南金剛石工業公司 (Zhongnan Diamond Industry Co., Ltd.). Mr. Cheng majored in electrical engineering of 湖北廣播電視大學 (Hubei TV & Radio University) and graduated in July 1987.

# Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

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

## SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2011 are set out in note 33 to the consolidated financial statements.

## FINANCIAL STATEMENTS

The summary of the results, assets and liabilities of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 46 to 119 of this annual report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income.

The Board recommended that since the Company plans to reserve the cash for working capital requirement and any potential investment opportunities in the future, no dividend will be declared for the year ended 31 December 2011. The Company may consider its dividend policy in the future according to the financial results and performance of the Company, and the general industry and economic environment.

## RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2011 are set out in the consolidated statement of changes in equity and note 28 to the financial statement, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB1,011,036,000. The amount of approximately RMB1,011,036,000 represents the Company's share premium account of approximately RMB1,005,201,000 and retained profits of approximately RMB5,835,000 in aggregate as at 31 December 2011, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## CHARITABLE DONATIONS

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

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2011 are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in note 26 to the consolidated financial statements.

## DIRECTORS

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

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

Non-Executive Directors
Mr. Phen, Chun Shing Vincent
Mr. Donald Huang (appointed on 17 June 2011)
*(Note: Mr Stephen Peel was appointed as a non-executive Director on 17 June 2011 and resigned on 24 April 2012)*

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

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

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 18 to 21 of this annual report.

## DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2011.

## DIRECTORS' SERVICE CONTRACTS

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

Each of the non-executive Directors of the Company, Mr. Phen Chun Shing Vincent and Mr. Donald Huang has entered into a service contract with the Company for a specific term of two years commencing from 26 March 2010 and 17 June 2011, respectively and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Mr. Stephen Peel resigned on 24 April 2012 and he confirmed that he has no disagreement with the Board and that there is no matter which it is necessary to bring to the attention to the Shareholders of the Company in respect of his resignation as non-executive Director of the Company.

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

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

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

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

As at 31 December 2011, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in the Company:

| Name of Director | Nature of interest | Number of shares interested | Approximate percentage of interest in the issued share capital of the Company |
|---|---|---|---|
| Mr. John Zhang[1] | Beneficiary of a trust, interest in a controlled corporation, interest of spouse and interest of children under 18 | 663,867,550 | 58.6% |
| Mr. Chau Kwok Keung | Beneficial owner | 1,230,139 | 0.1% |
| Mr. Shi Chengqi[2] | Beneficial owner | 300,000 | 0.03% |
| Mr. Kang Sun[3] | Beneficial owner | 249,574 | 0.02% |
| Mr. Daniel DeWitt Martin[4] | Beneficial owner | 199,659 | 0.02% |
| Mr. Leung Ming Shu[5] | Beneficial owner | 62,787 | 0.01% |

*Notes:*

(1) Mr. John Zhang legally owns the entire issued share capital of Fonty Holdings Limited, which beneficially owns 546,987,344 Shares. Mr. John Zhang is therefore deemed to be interested in all the Shares held by Fonty Holdings Limited. As a beneficiary of JZ GRAT of 2010 and JZ GRAT of 2011, Mr. John Zhang is also deemed to be interested in 105,550,500 Shares owned by J.P. Morgan Trust Company of Delaware as the trustee of JZ GRAT of 2010 and JZ GRAT of 2011, each of which being an irrevocable grantor retained annuity trust set up by Mr. John Zhang for the benefit of himself and his family members. As the parent of Mr. Alan Zhang, Mr. John Zhang is also deemed to be interested in 11,329,706 Shares in which Mr. Alan Zhang is interested. These 11,329,706 Shares are owned by J.P. Morgan Trust Company of Delaware as the trustee of Zhang Trusts for Descendants, an irrevocable trust set up by Mr. John Zhang for the benefit of his descendants, of which Mr. Alan Zhang is a beneficiary.

(2) The 300,000 Shares in which Mr. Shi Chengqi is deemed to be interested represent 300,000 Shares which may be issued to him upon the exercise of the Share Options granted to him on 24 May 2010.

(3) The 249,574 Shares in which Mr. Kang Sun is deemed to be interested represent 249,574 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009 and 2 October 2009.

(4) The 199,659 Shares in which Mr. Daniel DeWitt Martin is deemed to be interested represent 199,659 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009 and 2 October 2009.

(5) The 62,787 Shares in which Mr. Leung Ming Shu is deemed to be interested represent 62,787 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009 and 2 October 2009.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

## SHARE OPTION SCHEMES

### Pre-IPO Share Option Scheme

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

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

Details of the exercise of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2011 are as follows:

| Grantee | Date of Grant | Exercise price per Share | Balance as at 1 January 2011 | Exercised during 2011 | Balance as at 31 December 2011 |
|---|---|---|---|---|---|
| Director | | | | | |
| Kang Sun | 3 August 2009 | HK$2.51 | 249,574 | – | 249,574 |
| Daniel DeWitt Martin | 3 August 2009 | HK$2.51 | 199,659 | – | 199,659 |
| Leung Ming Shu | 3 August 2009 | HK$2.51 | 124,787 | (62,000) | 62,787 |
| Total | | | 574,020 | (62,000) | 512,020 |

Saved as disclosed above, no Pre-IPO Share Options was granted, lapsed or cancelled for the year ended 31 December 2011.

## Share Option Scheme

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

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

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

(a) the nominal value of a Share;

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

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

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

# Report of the Directors - Continued

Details of the share options granted under the Share Option Scheme as at 31 December 2011 are as follows:

| Grantee | Date of grant | Exercise price per Share | Balance as at 1 January 2011 | Exercised during 2011 | Balance as at 31 December 2011 |
|---|---|---|---|---|---|
| Director | | | | | |
| Mr. Shi Chengqi | 24 May 2010 | HK$1.49 | 300,000 | — | 300,000 |
| Other participants in aggregate | 24 May 2010 | HK$1.49 | 2,290,000 | (200,000) | 2,090,000 |
| Total | | | 2,590,000 | (200,000) | 2,390,000 |

During the year ended 31 December 2011, no options granted under the Share Option Scheme were lapsed or cancelled.

The closing price per Share immediately before 24 May 2010 (the date on which the option were granted) was HK$1.37.

Share options granted under the Share Option Scheme on 24 May 2010 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 24 May 2010 | 50% of the total number of Share Options granted |
| 30 June 2011 | 50% of the total number of Share Options granted |

## ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2011, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name of Shareholders | Nature of interest | Number of shares interested | Approximate percentage of interest in the issued share capital of the Company |
|---|---|---|---|
| Mr. John Zhang[1] | Beneficiary of a trust, interest in a controlled corporation, interest of spouse and interest of children under 18 | 663,867,550 | 58.6% |
| Fonty Holdings Limited | Beneficial owner | 546,987,344 | 48.2% |
| J.P. Morgan Trust Company of Delaware[2] | Trustee of a trust | 116,880,206 | 10.3% |
| Ms. Carrie Wang[3] | Spouse interest | 663,867,550 | 58.6% |
| Mr. Alan Zhang[4] | Beneficiary of a trust | 116,880,206 | 10.3% |
| Public Mutual Berhad (As Fund Manager for PAGF, PBAEF, PBCAEF, PBCAUEF, PBCPRF, PBF, PCIF, PCSF, PEF, PFES, PFETIF, PNREF, PRSEC & PSCF) | Investment manager | 68,002,000 | 6.0% |

*Note:*

(1) Mr. John Zhang legally owns the entire issued share capital of Fonty Holdings Limited, which beneficially owns 546,987,344 Shares. Mr. John Zhang is therefore deemed to be interested in all the Shares held by Fonty Holdings Limited. As a beneficiary of JZ GRAT of 2010 and JZ GRAT of 2011, Mr. John Zhang is also deemed to be interested in 105,550,500 Shares owned by J.P. Morgan Trust Company of Delaware as the trustee of JZ GRAT of 2010 and JZ GRAT of 2011, each of which being an irrevocable grantor retained annuity trust set up by Mr. John Zhang for the benefit of himself and his family members. As the parent of Mr. Alan Zhang, Mr. John Zhang is also deemed to be interested in 11,329,706 Shares in which Mr. Alan Zhang is interested. These 11,329,706 Shares are owned by J.P. Morgan Trust Company of Delaware as the trustee of Zhang Trusts for Descendants, an irrevocable trust set up by Mr. John Zhang for the benefit of his descendants, of which Mr. Alan Zhang is a beneficiary.

(2) J.P. Morgan Trust Company of Delaware is the legal owner of 5,550,500 Shares as trustee for JZ GRAT of 2010,100,000,000 Shares as trustee for JZ GRAT of 2011 and 11,329,706 Shares as trustee for Zhang Trusts for Descendants.

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

(4) Mr. Alan Zhang is a child of Mr. John Zhang under the age of 18. Mr. Alan Zhang is a beneficiary of JZ GRAT of 2010, JZ GRAT of 2011, and Zhangs Trusts for Descendants and is deemed to be interested in the 116,880,206 Shares held by J.P. Morgan Trust Company of Delaware as trustee for JZ GRAT of 2010, JZ GRAT of 2011 and Zhang Trusts for Descendants.

Save as disclosed above, as at 31 December 2011, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

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 2011.

## CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the year ended 31 December 2011.

## NON-COMPETE UNDERTAKINGS

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

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2011 and up to and including the date of this annual report.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2011.

## CONNECTED TRANSACTION

The Company has not entered into connected transactions during the year ended 31 December 2011.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company therefore strives to attain and maintain effective corporate governance practices and procedures. Except for the deviation from code provision A.2.1, the Company has complied with the Corporate Governance Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2011. The Group's principal corporate governance practices are set out on pages 34 to 43 of the annual report.

## PRE-EMPTIVE RIGHTS

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

## EMOLUMENT POLICY

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

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share Option Schemes" above and note 27 to the consolidated financial statements.

None of the directors waived any emoluments during the year ended 31 December 2011.

## RETIREMENT BENEFITS SCHEMES

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

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers during the year of 2011 were 31.4% and 80.9% of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers during the year of 2011 were 44.8% and 78.0% of the Group's total purchases respectively.

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

## AUDITORS

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

## AUDIT COMMITTEE

The audit committee of the Company had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2011.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing Date to 31 December 2011.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Group as at 31 December 2011 are set out in note 24 to the consolidated financial statements.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2011 is set out on page 4 of this annual report.

On behalf of the Board
John Zhang
*Chairman*

Shanghai, 30 March 2012

# Corporate Governance Report

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

## CORPORATE GOVERNANCE CODE

Upon the listing of the Company, the Company has complied with the vast majority of the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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

For the year ended 31 December 2011, all code provisions set out in the Code were fulfilled by the Company except for the deviation from code provision A.2.1 as disclosed below.

## BOARD OF DIRECTORS

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

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

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

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

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

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

### Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2011.

### Chairman and Chief Executive Officer

Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. John Zhang is the chairman and chief executive officer of the Group. He has extensive experience in solar wafer industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors, two non-executive Directors (Mr. Stephen Peel resigned on 24 April 2012.) and three independent non-executive Directors and has a strong independence element in its composition.

# Corporate Governance Report - Continued

## Independent Non-Executive Directors

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

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

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

## Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. Details of how each Director compiles with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in 2012 annual report of the Company.

## Directors' and Officers' Insurance

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

### Meetings

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

The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2011 is set out below:

| Name of Director | Attendance/ Number of Board Meeting(s) | Attendance/ Number of General Meeting(s) |
|---|---|---|
| **Executive Directors** | | |
| Mr. John Zhang *(Chairman and chief executive officer)* | 8/8 | 2/2 |
| Mr. Chau Kwok Keung | 8/8 | 2/2 |
| Mr. Shi Cheng Qi | 8/8 | 0/2 |
| **Non-executive Directors** | | |
| Mr. Phen Chun Shing Vincent | 8/8 | 0/2 |
| Mr. Stephen Peel (resigned on 24 April 2012) | 3/8 | 0/2 |
| Mr. Donald Huang | 3/8 | 0/2 |
| **Independent non-executive Directors** | | |
| Mr. Kang Sun | 8/8 | 0/2 |
| Mr. Daniel DeWitt Martin | 8/8 | 0/2 |
| Mr. Leung Ming Shu | 8/8 | 0/2 |

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

### Appointments, Re-election and Removal of Directors

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

Each of the non-executive Directors of the Company, Mr. Phen Chun Shing Vincent and Mr. Donald Huang has entered into a service contract with the Company for a specific term of two years commencing from 26 March 2010 and 17 June 2011, respectively and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Mr. Stephen Peel resigned on 24 April 2012 and he confirmed that he has no disagreement with the Board and that there is no matter which it is necessary to bring to the attention to the Shareholders of the Company in respect of his resignation as non-executive Director of the Company.

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

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

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

### Board Committees

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

### Audit Committee

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

Apart from the appointment of Mr. Donald Huang as the member of the audit committee of the Company on 17 June 2011, there had been no change of the composition of the Board during the year ended 31 December 2011.

The Group's unaudited interim results for the six months ended 30 June 2011 and the audited annual results for the year ended 31 December 2011 have been reviewed by the audit committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the unaudited quarterly financials and the internal control of the Group during the year of 2011.

During the year ended 31 December 2011, five meetings were held by the audit committee. The individual record of each member of the audit committee at the meetings of the audit committee is set out below:

| Name of Director | Attendance/ Number of Board Meeting(s) |
|---|---|
| Mr. Donald Huang | 3/5 |
| Mr. Daniel DeWitt Martin | 5/5 |
| Mr. Kang Sun | 5/5 |
| Mr. Leung Ming Shu | 5/5 |

### Remuneration Committee

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

Apart from the appointment of Mr. Donald Huang as a member of the remuneration committee on 17 June 2011, the appointment of Mr. Daniel DeWitt Martin as a member of the remuneration committee on 30 March 2012, and the cession of Mr. John Zhang as the chairman of the remuneration and the appointment of Mr. Leung Ming Shu as the chairman of the nomination committee on 30 March 2012, there had been no change of the composition of the Board during the year ended 31 December 2011.

During the year ended 31 December 2011, the remuneration Committee reviewed the remuneration packages of the Directors and the senior management and recommended the remuneration of Mr. Stephen Peel and Mr. Donald Huang to the Board.

During the year ended 31 December 2011, one meeting was held by the remuneration committee. The individual record of each member of the remuneration committee at the meeting of the remuneration committee is set out below:

| Name of Director | Attendance/ Number of Board Meeting(s) |
|---|---|
| Mr. John Zhang | 1/1 |
| Mr. Donald Huang | 0/1 |
| Mr. Daniel DeWitt Martin | 0/1 |
| Mr. Kang Sun | 1/1 |
| Mr. Leung Ming Shu | 1/1 |

### Nomination Committee

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

Apart from the appointment of Mr. Donald Huang as a member of the nomination committee on 17 June 2011 and the appointment of Mr. Leung Ming Shu as a member of the nomination committee on 30 March 2012, there had been no change of the composition of the Board during the year ended 31 December 2011.

The nomination committee reviewed and recommended the appointment of Mr. Stephen Peel and Mr. Donald Huang as the Directors to the Board, and reviewed the structure, size and composition of the Board, during the year of 2011.

During the year ended 31 December 2011, one meeting was held by the nomination committee. The individual record of each member of the nomination committee at the meeting of the nomination committee is set out below:

| Name of Director | Attendance/ Number of Board Meeting(s) |
|---|---|
| Mr. John Zhang | 1/1 |
| Mr. Donald Huang | 0/1 |
| Mr. Daniel DeWitt Martin | 1/1 |
| Mr. Kang Sun | 1/1 |
| Mr. Leung Ming Shu | 0/1 |

### Corporate Governance Committee

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

Details of the work of the corporate governance committee for the year ending 31 December 2012 will be disclosed in the corporate governance report in the 2012 annual report of the Company.

### Company Secretary

The secretary of the Company is Mr. Chau Kwok Keung, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report. Mr. Chau Kwok Keung has informed of the requirement of the Rule 3.29 of the Listing Rules and his compliance with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the 2012 annual report of the Company.

## FINANCIAL REPORTING

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

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

### Auditors' Remuneration

The audit committee of the Board is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages Deloitte Touche Tohmatsu as its external auditors. Details of the fees paid/payable to Deloitte Touche Tohmatsu during the year ended 31 December 2011 are as follows:

| | RMB'000 |
|---|---|
| Audit services | 1,487 |
| Non-audit services | 991 |
| | 2,478 |

*Note:* The non-audit services mainly covered tax advisory, interim review and engagement regarding Taiwan depository receipts.

## INTERNAL CONTROLS

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

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

## SHAREHOLDERS' RIGHTS

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

Pursuant to the Article 58 of the articles of association of the Company, any one or more member(s) of the Company ("Shareholder(s)") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 28, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures by which enquiries may be put to the Board

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

### Investor relations

Apart from the adoption of the existing articles of association on 30 October 2009, there has been no significant change in the Company's constitutional documents during the year ended 31 December 2011.

### Communications with Shareholders

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

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

# Independent Auditor's Report

TO THE MEMBERS OF COMTEC SOLAR SYSTEMS GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Comtec Solar Systems Group Limited and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 119, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

# Independent Auditor's Report - Continued

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
*Certified Public Accountants*
Hong Kong

30 March 2012

# Consolidated Statement of Comprehensive Income

*for the year ended 31 December 2011*

| | NOTES | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|---|
| Revenue | 6 | 1,016,746 | 1,021,371 |
| Cost of sales | | (924,276) | (690,786) |
| Gross profit | | 92,470 | 330,585 |
| Other income | 7 | 40,062 | 26,573 |
| Other gains and losses, expenses and provision | 8 | (61,375) | (9,117) |
| Distribution and selling expenses | | (1,815) | (1,793) |
| Administrative expenses | | (48,745) | (75,756) |
| Finance costs | 9 | (38,596) | (7,401) |
| (Loss) profit before taxation | 10 | (17,999) | 263,091 |
| Taxation | 12 | (28,328) | (40,151) |
| (Loss)profit and total comprehensive (expense) income for the year, attributable to the owners of the Company | | (46,327) | 222,940 |
| | | RMB cents | RMB cents |
| (Loss) earnings per share | | | |
| – Basic | 14 | (4.09) | 21.03 |
| – Diluted | 14 | (4.09) | 21.01 |

# Consolidated Statement of Financial Position

*at 31 December 2011*

| | NOTES | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 15 | 855,626 | 715,847 |
| Prepaid lease payments – non-current | 16 | 40,143 | 21,473 |
| Deposits paid for acquisition of property, plant and equipment | | 5,105 | 118,299 |
| Advance to suppliers | 17 | 396,425 | 279,499 |
| Deferred tax assets | 18 | 689 | 689 |
| Other financial assets | 21(C) | 26,491 | — |
| | | 1,324,479 | 1,135,807 |
| Current assets | | | |
| Inventories | 19 | 217,959 | 247,803 |
| Trade and other receivables | 20 | 213,987 | 155,467 |
| Bills receivable | 20 | 36,700 | 2,000 |
| Advance to suppliers | 17 | 82,249 | 77,180 |
| Prepaid lease payments – current | 16 | 854 | 458 |
| Tax recoverable | | 15,156 | — |
| Pledged bank deposits | 21(A) | 17,289 | — |
| Bank balances and cash | 21(B) | 746,100 | 293,677 |
| | | 1,330,294 | 776,585 |
| Current liabilities | | | |
| Trade and other payables | 22 | 198,692 | 193,746 |
| Customers' deposits received | 23 | 229 | 13,770 |
| Taxation payable | | — | 19,077 |
| Short-term bank loans | 24 | 318,230 | 170,000 |
| | | 517,151 | 396,593 |
| Net current assets | | 813,143 | 379,992 |
| Total assets less current liabilities | | 2,137,622 | 1,515,799 |

# Consolidated Statement of Financial Position - Continued

*at 31 December 2011*

| | NOTES | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 26 | 999 | 998 |
| Reserves | | 1,652,778 | 1,510,345 |
| Total equity | | 1,653,777 | 1,511,343 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 18 | 9,560 | 4,456 |
| Convertible bonds | 25 | 402,444 | — |
| Long-term bank loans | 24 | 18,134 | — |
| Provision for onerous contracts | 17 | 39,107 | — |
| Warrants | 25 | 14,600 | — |
| | | 2,137,622 | 1,515,799 |

The consolidated financial statements on pages 46 to 119 were approved and authorised for issue by the Board of Directors on 30 March 2012 and are signed on its behalf by:

*DIRECTOR* *DIRECTOR*

# Consolidated Statement of Changes in Equity

*for the year ended 31 December 2011*

| | Share capital RMB'000 | Share premium RMB'000 | Other reserve RMB'000 (note c) | Share options reserve RMB'000 | Restricted shares reserve RMB'000 (note 27b) | Special reserve RMB'000 (note a) | Statutory surplus reserve RMB'000 (note b) | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 910 | 809,519 | — | 68 | (37,958) | 11,012 | 48,725 | 229,349 | 1,061,625 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | 222,940 | 222,940 |
| Issue of new shares | 86 | 197,714 | — | — | — | — | — | — | 197,800 |
| Exercise of share options | 2 | 3,519 | — | (1,104) | — | — | — | — | 2,417 |
| Transaction costs attributable to issue of new shares | — | (6,085) | — | — | — | — | — | — | (6,085) |
| Dividends recognised as distribution (note 13) | — | — | — | — | — | — | — | (7,532) | (7,532) |
| Recognition of equity-settled share-based payments | — | — | — | 2,220 | 37,958 | — | — | — | 40,178 |
| At 31 December 2010 | 998 | 1,004,667 | — | 1,184 | — | 11,012 | 48,725 | 444,757 | 1,511,343 |
| Loss and total comprehensive expense for the year | — | — | — | — | — | — | — | (46,327) | (46,327) |
| Exercise of share options | 1 | 534 | — | (155) | — | — | — | — | 380 |
| Recogition of equity component of convertible bonds and warrants | — | — | 187,631 | — | — | — | — | — | 187,631 |
| Recognition of equity-settled share-based payments | — | — | — | 750 | — | — | — | — | 750 |
| Transfer | — | — | — | — | — | — | 24,934 | (24,934) | — |
| At 31 December 2011 | 999 | 1,005,201 | 187,631 | 1,779 | — | 11,012 | 73,659 | 373,496 | 1,653,777 |

# Consolidated Statement of Changes in Equity - Continued

*for the year ended 31 December 2011*

Notes:

a. Special reserve

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

b. Statutory surplus reserve

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

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

c. Other reserve

The reserve, which arises on the issue of convertible bonds and warrants on 17 June 2011 (the "Issue"), consists of (1) the difference between the gross proceeds of the Issue and the aggregate sum of the fair value of the embedded derivative of the early redemption feature, warrants and liability component of the bonds which represents the fair value of the conversion option for the holder to convert the convertible bonds into equity, and (2) the proportion of transaction costs incurred in the Issue related to the equity component of the convertible bonds. Details of transaction are set out in note 25.

# Consolidated Statement of Cash Flows

*for the year ended 31 December 2011*

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Operating activities | | |
| (Loss) profit before taxation | (17,999) | 263,091 |
| Adjustments for: | | |
| Allowance for inventories | 66,011 | — |
| Interest income | (7,256) | (1,095) |
| Interest expenses | 46,164 | 7,401 |
| Gain (loss) on disposal of property, plant and equipment | (4,860) | 2,171 |
| Gain on fair value change on warrants | (72,112) | — |
| Depreciation of property, plant and equipment | 52,859 | 39,605 |
| Share-based payment expenses | 750 | 40,178 |
| Release of prepaid lease payments | 720 | 390 |
| Impairment losses recognised in respect of property, plant and equipment | 89,133 | — |
| Provision for onerous contracts | 39,107 | — |
| Impairment losses recognised in respect of advance to suppliers | 7,149 | — |
| Impairment losses recognised in respect of trade receivables | — | 2,744 |
| Operating cash flows before movements in working capital | 199,666 | 354,485 |
| Increase in inventories | (36,167) | (139,449) |
| (Increase) decrease in trade and other receivables | (58,520) | 7,917 |
| (Increase) decrease in bills receivable | (34,700) | 30,006 |
| Increase in advance to suppliers | (129,144) | (135,966) |
| Increase (decrease) in trade and other payables | 40,963 | (18,305) |
| (Decrease) increase in customers' deposits received | (13,541) | 13,745 |
| Cash (used in) generated from operations | (31,443) | 112,433 |
| Tax paid | (59,497) | (36,516) |
| Tax refunded | 2,040 | 16,172 |
| Net cash (used in) from operating activities | (88,900) | 92,089 |

# Consolidated Statement of Cash Flows - Continued

*for the year ended 31 December 2011*

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Investing activities | | |
| Interest received | 7,256 | 1,095 |
| Proceeds from disposals of property, plant and equipment | 5,849 | 1,986 |
| Placement of pledged bank deposits | (98,791) | — |
| Withdrawal of pledge bank deposits | 81,502 | — |
| Deposits paid and purchase of property, plant and equipment | (205,583) | (397,140) |
| Additions of prepaid lease payments | (19,786) | (6,790) |
| Purchase of other financial assets | (26,491) | — |
| Net cash used in investing activities | (256,044) | (400,849) |
| Financing activities | | |
| Proceeds from issuance of convertible bonds and warrants | 654,500 | — |
| Proceeds from issue of new shares | 380 | 200,217 |
| Bank loans raised | 480,087 | 180,000 |
| Interest paid | (15,101) | (7,401) |
| Repayment of bank loans | (313,723) | (156,000) |
| Payment of transaction costs attributable to the issue of convertible bonds and warrants | (8,776) | — |
| Dividends paid | — | (7,532) |
| Payment of transaction costs attributable to issue of new shares | — | (6,085) |
| Net cash from financing activities | 797,367 | 203,199 |
| Increase (decrease) in cash and cash equivalents | 452,423 | (105,561) |
| Cash and cash equivalents at beginning of the year | 293,677 | 399,238 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | 746,100 | 293,677 |

# Notes to the Consolidated Financial Statements

*for the year ended 31 December 2011*

## 1. GENERAL

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

The Company is an investment holding company. The principal activities of the Company's subsidiaries are the manufacturing and sales of solar wafers and related products. The details of the Company's subsidiaries are set out in note 33.

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

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

In the current year, the Group has applied the following new and revised standards, amendments of standards and interpretations ("IFRSs") issued by the International Accounting Standards Board ("IASB").

| | |
|---|---|
| Amendments to IFRSs | Improvements to HKFRSs issued in 2010 |
| IAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to IAS 32 | Classification of Rights Issues |
| Amendments to IFRIC–Int14 | Prepayments of a Minimum Funding Requirement |
| IFRIC–Int19 | Extinguishing Financial Liabilities with Equity Instruments |

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

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

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

| | |
|---|---|
| Amendments to IFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| IFRS 9 | Financial Instruments[3] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to IAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| IAS 19 (as revised in 2011) | Employee Benefits[2] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| IFRIC - Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted. The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The other new and revised standards, amendments or interpretation will have no material impact on the consolidated financial statements.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Basis of consolidation - *continued*

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

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

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

Revenue recognition

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

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

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

Revenue from processing services is recognised when the services are provided.

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

### Property, plant and equipment

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

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

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

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

### Leasing

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

*The Group as lessee*

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

### Prepaid lease payments

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

### Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Foreign currencies

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

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

### Borrowing costs

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

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

### Retirement benefit costs

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

### Taxation

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

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

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

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Impairment losses

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

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

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

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

Inventories

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

### Research and development expenditure

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

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

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

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

— the ability to use or sell the intangible asset;

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

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

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

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

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

### Financial instruments

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Financial instruments - *continued*

*Financial assets*

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

*Effective interest method*

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

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

*Financial assets at fair value through profit or loss*

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

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

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

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Financial instruments - *continued*

*Loans and receivables*

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

Impairment of financial assets

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

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

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

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

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

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Financial instruments - *continued*

*Financial liabilities and equity*

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as financial liabilities.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Other financial liabilities

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

Convertible bonds

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Convertible bonds - *continued*

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

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

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

Warrants

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

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

*Equity instruments*

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Warrants - *continued*

*Equity instruments* - *continued*

*Derecognition*

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

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

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

Provision for onerous contracts

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

## 3. PRINCIPAL ACCOUNTING POLICIES - *continued*

Share-based payment transactions

*Equity-settled share-based payment transactions*

Share options and restricted shares granted

The fair values of services received in exchange for awards of share options determined by reference to the grant-date fair value of those share options is recognised as expense over the vesting period on a straight-line basis with a corresponding increase in share options reserve. Restricted shares issued are recognised at fair value of those restricted shares granted at the grant date and is recognised as share capital and share premium with a corresponding debit in restricted shares reserve. The fair value of services received in exchange for awards of restricted shares is recognised as expense over the vesting period on a straight-line basis with a corresponding reduction in the previously recognised restricted shares reserve.

At the end of the reporting period, the Group revises its estimates of the number of share options and restricted shares that are expected to ultimately vest. The impact of the original revision of the estimates of the number of share options and restricted shares during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve (for share options) and restricted shares reserve (for restricted shares). When restricted shares are forfeited and cancelled before the vesting date, share capital, share premium, remaining restricted shares reserve (if any) and previously charged expenses (if any) are reversed.

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

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

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Impairment of property, plant and equipment

In assessing the impairment of property, plant and equipment, the Group requires to estimate the recoverable amount of the cash-generating units or the underlying assets. The recoverable amount, which is determined by the value-in-use calculation, requires the Group to estimate the future cash flows expected to arise from the cash-generating units or the underlying assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2011, the Group carried out a review on the recoverable amount of the property, plant and equipment, and determined that an impairment loss of approximately RMB89,133,000 (2010: nil) should be recognised in profit or loss. Details of the recoverable amount calculation are set out in note 15.

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

As detailed in note 17, the Group makes non-refundable advance payments to raw material suppliers under non-cancellable long-term and short-term purchase agreements which are to be offset against future purchases. In the event when the economic benefits expected to be received under these purchase agreements are less than the unavoidable costs of meeting the contractual obligations; or the financial conditions of these suppliers deteriorate, the Group would impair advance payments to these suppliers and make necessary provision for the present obligation under the agreements. The Group does not require collateral or other security against its advance to suppliers. The Group performs ongoing evaluation of impairment of advance to suppliers and provision for commitment that may become onerous due to a change of market conditions and the financial conditions of its suppliers. The evaluation takes into account the projected revenue, related expenses, capital spending and other costs. When the advance would not be settled as expected, the Group would impair the advance to suppliers and make necessary provision for the present obligation under the agreements. As Discussed in note 17, during the year ended 31 December 2011, the Group determined that an impairment loss in respect of advance to suppliers and provision of onerous contracts of approximately RMB7,149,000 (2010: nil) and RMB39,107,000 (2010: nil) should be recognised in profit or loss.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY - *continued*

(c) Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. The Group inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a net realisable value that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down of inventories in that year. During the year ended 31 December 2011, write-down of inventories to net realisable value of approximately RMB66,011,000 (2010: nil) was recognised.

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

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

At 31 December 2011, the carrying amount of property, plant and equipment amounted to approximately RMB855,626,000 (2010: RMB715,847,000).

## 5. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, bills receivable, bank balances and cash, trade and other payables, short-term bank loans and warrants . Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Categories of financial instruments

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Financial assets | | |
| Trade and other receivables | 80,515 | 82,460 |
| Bills receivables | 36,700 | 2,000 |
| Pledged bank deposits | 17,289 | — |
| Bank balances and cash | 746,100 | 293,677 |
| Total loans and receivables | 880,604 | 378,137 |
| FVTPL | 26,491 | — |
| Financial liabilities | | |
| Trade and other payables | 182,436 | 180,948 |
| Short-term bank loans | 318,230 | 170,000 |
| Long-term bank loans | 18,134 | — |
| Convertible bonds | 402,444 | — |
| Total liabilities measured at amortised costs | 921,244 | 350,948 |
| Warrants | 14,600 | — |

## 5. FINANCIAL INSTRUMENTS - *continued*

Currency risk

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

Details of the Group's other financial assets, bank balances and cash, trade and other receivables and trade and other payables that are denominated in foreign currencies, mainly in Hong Kong dollars ("HK$"), United States dollars ("USD"), Japanese yen ("JPY") and European dollars ("Euro") as at 31 December 2011 and 31 December 2010 are set out in respective notes.

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

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

## 5. FINANCIAL INSTRUMENTS - *continued*

Sensitivity analysis - *continued*

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Euro impact | | |
| – Euro strengthens against RMB by 5% | 157 | 154 |
| – Euro weakens against RMB by 5% | (157) | (154) |
| HK$ impact | | |
| – HK$ strengthens against RMB by 5% | (93) | 104 |
| – HK$ weakens against RMB by 5% | 93 | (104) |
| USD impact | | |
| – USD strengthens against RMB by 5% | 3,311 | (248) |
| – USD weakens against RMB by 5% | (3,311) | 248 |
| JPY impact | | |
| – JPY strengthens against RMB by 5% | 20 | 9 |
| – JPY weakens against RMB by 5% | (20) | (9) |

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

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| | *HK$'000* | *HK$'000* |
| USD impact | | |
| – if USD strengthens against RMB | (618) | — |
| – if USD weakens against RMB | 618 | — |

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

## 5. FINANCIAL INSTRUMENTS - *continued*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other financial costs as the assets have fixed interest rate at 5% per annum for the first year in its contractual period. The Group is exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, bank balances and bank loans (see notes 21(A), 21(B) and 24 for details of these pledged bank deposits, bank balances and bank loans). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

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

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

If interest rates on bank balances had been 10 basis points higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit for the year.

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Increase in post-tax profit for the year | 571 | 220 |

The post-tax profit for the year would be decreased by an equal and opposite amount if interest rate on pledged bank deposits and bank balances had been 10 basis points lower and all other variables were held constant.

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Decrease in post-tax profit for the year | (2,401) | (1,275) |

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

## 5. FINANCIAL INSTRUMENTS - *continued*

### Credit risk

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

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

There is concentration of credit risk on bank balances, pledged bank deposits and other financial assets for the Company as at 31 December 2011 and 31 December 2010. As at 31 December 2011, balances with one (2010: one) largest bank accounted for 50% (2010: 58%) of aggregate balance of bank balances, pledged bank deposits and other financial assets (2010: bank balances) of the Group. The credit risk on liquid funds is limited because majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The credit risk of the Group is concentrated on receivables from one (2010: five) of the Group's customers, which was the Group's major customers engaged in the sales and manufacturing of solar cells and modules in Philippine (2010: the PRC) at 31 December 2011 which amounted to approximately RMB59,617,000 (2010: RMB60,655,000) and accounted for 83.3% (2010: 82.7%) of the Group's total trade receivables. This has good repayment history and credit quality with reference to the track records under internal assessment by the Group. In addition, the Group's credit risk on bills receivable was concentrated on counterparties which were reputable banks in the PRC. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers and banks to ensure that prompt actions will be taken to lower exposure.

## 5. FINANCIAL INSTRUMENTS - *continued*

### Liquidity risk management

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

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

| | Weighted average effective interest rate | Less than 6 months | 6 months to 1 year | 1 year to 2 years | 2 years to 5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2011 | | | | | | | |
| Financial liabilities | | | | | | | |
| Non-interest bearing instruments | | 182,436 | — | — | — | 182,436 | 182,436 |
| Variable interest bearing instruments | 5.56 | 161,319 | 170,235 | 5,561 | 16,103 | 353,218 | 336,364 |
| Convertible bonds | 12.00 | — | — | — | 650,000 | 650,000 | 402,444 |
| | | 343,755 | 170,235 | 5,561 | 666,103 | 1,185,654 | 921,244 |

## 5. FINANCIAL INSTRUMENTS - *continued*

Liquidity risk management - *continued*

| | Weighted average effective interest rate | Less than 6 months | 6 months to 1 year | 1 year to 2 years | 2 years to 5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2010 | | | | | | | |
| Financial liabilities | | | | | | | |
| Non-interest bearing instruments | | 180,948 | — | — | — | 180,948 | 180,948 |
| Variable interest bearing instruments | 5.06 | 70,770 | 103,468 | — | — | 174,238 | 170,000 |
| | | 251,718 | 103,468 | — | — | 355,186 | 350,948 |

Note: At 31 December 2011 and 31 December 2010, the weighted average effective interest rates were based on the variable interest rates of the bank loans outstanding at the end of each reporting period.

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

## 5. FINANCIAL INSTRUMENTS - *continued*

Fair value

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

The other financial assets with carrying value of approximately RMB26,491,000 (2010: nil) at 31 December 2011 were Level 2 measurements.

The warrants with carrying value of approximately RMB14,600,000 (2010: nil) at 31 December 2011 were level 3 measurements.

Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

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

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

## 6. SEGMENT INFORMATION

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

Entity-wide disclosures

Revenue analysed by major products

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

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Manufacturing and sales of solar products: | | |
| Monocrystalline solar wafers | 975,466 | 1,017,723 |
| Monocrystalline solar ingots | 9,991 | — |
| Sub-total | 985,457 | 1,017,723 |
| Others: | | |
| Semiconductor products | — | 558 |
| Others (note) | 31,289 | 3,090 |
| Total revenue | 1,016,746 | 1,021,371 |

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

Revenue reported above represents revenue generated from external customers.

## 6. SEGMENT INFORMATION - *continued*

Revenue and assets analysed by place of domicile of group entities

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

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Place of domicile of group entities: | | |
| Mainland China | 659,205 | 890,708 |
| Other countries/places: | | |
| Taiwan | 34,522 | 119,877 |
| Germany | 124 | 4,183 |
| Philipine | 318,785 | — |
| Other countries (note) | 4,110 | 6,603 |
| Total revenue | 1,016,746 | 1,021,371 |

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

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

Information about major customers

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

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Customer A | * | 223,718 |
| Customer B | 258,190 | 134,526 |
| Customer C | 318,785 | * |

* Less than 10%

## 7. OTHER INCOME

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Government grant (note 1) | 32,806 | 19,097 |
| Interest income | 7,256 | 1,095 |
| Processing service fees (note 2) | — | 3,727 |
| Other | — | 2,654 |
| | 40,062 | 26,573 |

Notes:

1. The government grant represented the amount received from the local government as an incentive for the Group in conducting high technology innovation and solar business in the respective economic zone. No specific conditions are attached to the grant.

2. Revenue from processing service for the year ended 31 December 2010 represented amounts received and receivable for wafer processing services provided to external customers.

## 8. OTHER GAINS AND LOSSES, EXPENSES AND PROVISION

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Gain on fair value changes of warrants (note 25) | 72,112 | — |
| Net foreign exchange losses | (2,958) | (6,946) |
| Gain (loss) on disposal of property, plant and equipment | 4,860 | (2,171) |
| Impairment losses recognised in respect of property, plant and equipment (note 15) | (89,133) | — |
| Impairment losses recognised in respect of advance to suppliers (note 17) | (7,149) | — |
| Provision for onerous contracts (note 17) | (39,107) | — |
| | (61,375) | (9,117) |

## 9. FINANCE COSTS

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest expense in relation to: | | |
| – bank loans wholly repayable within five years | 15,266 | 7,624 |
| – factorised bills receivable | 656 | — |
| Effective interest expense on convertible bonds | 23,495 | — |
| Total borrowing costs | 39,107 | 7,624 |
| Less: amounts capitalised | (821) | (223) |
| | 38,596 | 7,401 |

Borrowing costs capitalised during the year arose on the general borrowing pool are calculated by applying a capitalisation rate of 6.304% (2010: 5.082%) per annum to expenditure on qualifying assets.

## 10. (LOSS) PROFIT BEFORE TAXATION

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| (Loss) profit before taxation has been arrived at after charging: | | |
| Directors' remuneration (note (i)) | 3,889 | 23,075 |
| Other staff costs | 44,358 | 23,560 |
| Other staff's retirement benefits scheme contributions | 5,425 | 4,045 |
| Share-based payments expense for other staff (note (i)) | 678 | 20,665 |
| Total staff costs | 54,350 | 71,345 |
| Auditor's remuneration | 1,487 | 1,292 |
| Non-audit service | 991 | 580 |
| | 2,478 | 1,872 |
| Cost of inventories recognised as expense (note (ii)) | 924,276 | 690,786 |
| Depreciation of property, plant and equipment | 52,859 | 39,605 |
| Impairment loss recognised in respect of trade receivables | — | 2,744 |
| Release of prepaid lease payments | 720 | 390 |
| Research and development expenses | 7,130 | 8,223 |
| Operating lease rentals in respect of rented premises | 1,564 | 1,420 |

Notes:

i. During the year ended 31 December 2011, directors' remuneration and share-based payments expense for other staff included share-based payments expense recognised and included in administrative expenses of approximately RMB750,000 in respect of share options of the Company recognised (2010: RMB2,220,000 in respect of share options and RMB37,958,000 in respect of the restricted shares of the Company). Details of transactions are set out in note 27.

ii. Included in cost of inventories recognised as expense represented write-down of inventories of approximately RMB66,011,000 (2010: nil) to their net realisable values.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Non-executive directors: | | |
| – fees | — | — |
| – basic salaries and allowance | 70 | — |
| Independent non-executive directors: | | |
| – fees | 846 | 880 |
| – basic salaries and allowance | — | — |
| – share-based payments expense in relation to share options vested | 207 | 207 |
| Executive directors | | |
| – fees | — | — |
| – basic salaries and allowance | 2,684 | 2,672 |
| – share-based payments expense in relation to | | |
| (i) share options | 72 | 270 |
| (ii) restricted shares | — | 19,036 |
| | 3,889 | 23,075 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

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

| | Fees | Basic salaries and allowance | Share-based payments expense | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| For the year ended 31 December 2011 | | | | | |
| Executive directors: | | | | | |
| Mr. Zhang | — | 600 | — | — | 600 |
| Mr. Chau Kwok Keung ("Mr. Chau") | — | 1,920 | — | 10 | 1,930 |
| Mr. Shi Cheng Qi ("Mr. Shi") | — | 164 | 72 | — | 236 |
| Non-executive directors: | | | | | |
| Mr. Vincent Phen Chun Shing | — | — | — | — | — |
| Mr. Stephen Peel *(Note 2)* | — | 35 | — | — | 35 |
| Mr. Donald Huang *(Note 2)* | — | 35 | — | — | 35 |
| Independent non-executive directors: | | | | | |
| Mr. Leung Ming Shu | 200 | — | 45 | — | 245 |
| Mr. Daniel Dewitt Martin | 323 | — | 72 | — | 395 |
| Mr. Kang Sun | 323 | — | 90 | — | 413 |
| | 846 | 2,754 | 279 | 10 | 3,889 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

| | Fees | Basic salaries and allowance | Share-based payments expense | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| For the year ended 31 December 2010 | | | | | |
| Executive directors: | | | | | |
| Mr. Zhang | — | 600 | — | — | 600 |
| Mr. Chau | — | 1,920 | 19,036 | 10 | 20,966 |
| Mr. Shi | — | 152 | 270 | — | 422 |
| Non-executive directors: | | | | | |
| Mr. Vincent Phen Chun Shing | — | — | — | — | — |
| Mr. He Xin *(Note 1)* | — | — | — | — | — |
| Independent non-executive directors: | | | | | |
| Mr. Leung Ming Shu | 200 | — | 45 | — | 245 |
| Mr. Daniel Dewitt Martin | 340 | — | 72 | — | 412 |
| Mr. Kang Sun | 340 | — | 90 | — | 430 |
| | 880 | 2,672 | 19,513 | 10 | 23,075 |

The five highest paid individuals included three directors of the Company for the year ended 31 December 2011 (2010: two directors), details of whose emoluments are set out above. The emoluments of the remaining individuals during the year are as follows:

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Employees | | |
| – basic salaries and allowance | 755 | 1,037 |
| – retirement benefits scheme contributions | 60 | 55 |
| – share-based payments expense | 98 | 19,059 |
| | 913 | 20,151 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

Their emoluments were within the following bands:

| | 2011 | 2010 |
|---|---|---|
| Nil to HK$1,000,000 | 2 | 1 |
| HK$1,000,001 to HK$1,500,000 | — | — |
| HK$10,500,001 to HK$11,000,000 | — | 1 |
| HK$11,000,001 to HK$11,500,000 | — | 1 |

During the years ended 31 December 2011 and 31 December 2010, no discretionary bonus was paid or payable to the directors nor the other five highest paid individuals.

During the years ended 31 December 2011 and 31 December 2010, no emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the years ended 31 December 2011 and 31 December 2010.

Notes:

1. The director was resigned on 26 March 2010.

2. The director was appointed on 17 June 2011.

## 12. TAXATION

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Current tax: | | |
| Hong Kong Profits Tax | — | — |
| PRC Enterprise Income Tax | | |
| – Current year | 25,264 | 38,707 |
| – Overprovision in prior years | (2,040) | — |
| | 23,224 | 38,707 |
| Deferred tax charge (note 18): | | |
| – Current year | 5,104 | 1,444 |
| | 28,328 | 40,151 |

## 12. TAXATION - *continued*

No Hong Kong Profits was provided for the year ended 31 December 2011 and 31 December 2010 as the group entities either had no relevant assessable profits or incurred tax losses.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC. From 1 January 2008 onwards under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Shanghai Comtec Semiconductor Co., Ltd. ("Comtec Semi") and Shanghai Comtec Solar Technology Co., Ltd. ("Comtec Solar") were registered as foreign invested enterprises of a production nature established in Shanghai Nanhui District which is the Coastal Economic Open Zone in the PRC and where the Group's operations are substantially based during the years ended 31 December 2011 and 31 December 2010. In addition, as Comtec Semi and Comtec Solar are foreign invested enterprises of production nature scheduled to operate for a period of no less than ten years, from the first profit making year, they are exempted from enterprise tax for two years, followed by a 50% enterprise income tax reduction in the following three years which is approved by Shanghai Nanhui National Tax Bureau in accordance with The Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC and The Implementation Rules for Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC promulgated on 30 June 1991 and as effective on 1 July, 1991. As a result, Comtec Semi and Comtec Solar were exempted from enterprise income tax for two years, starting from their first profitable year, which was 2003 and 2006, respectively, and are then entitled to a 50% reduction in enterprise income tax for three years thereafter until 2007 and 2010, respectively. Comtec Solar enjoyed a 50% reduction of domestic income tax rate, resulting in applicable tax rate of 12.5%, during the year ended 31 December 2010.

During the year ended 31 December 2011, the applicable tax rate of Comtec Solar was 15% as it was qualified as a New High-Tech enterprise.

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

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

## 12. TAXATION - *continued*

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| (Loss) profit before taxation | (17,999) | 263,091 |
| Tax at domestic income tax rate (25%) | (4,500) | 65,773 |
| Tax effect of expenses not deductible for tax purpose | 5,506 | 12,514 |
| Tax effect of income not taxable for tax purpose | (18,029) | — |
| Tax effect of temporary difference not recognised | 50,350 | — |
| Effect of tax exemptions granted to a PRC subsidiary | (8,063) | (38,818) |
| Withholding income tax provision on dividends from the PRC | 5,104 | 682 |
| Overprovision in prior years | (2,040) | — |
| Taxation for the year | 28,328 | 40,151 |

## 13. DIVIDENDS

No dividends were paid, declared or proposed during the year ended 31 December 2011. During the year ended 31 December 2010, a final dividend of RMB0.73 cent per ordinary share in respect of the year ended 31 December 2009 was declared and paid to the owners of the Company. The aggregate amount of final dividend declared and paid in the year ended 31 December 2010 amounted to approximately RMB7,532,000.

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

## 14. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the year is based on the following data:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| (Loss) profit | | |
| (Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share | (46,327) | 222,940 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | 1,133,820,471 | 1,059,931,759 |
| Effect of dilutive potential ordinary shares: | | |
| – Share options, convertible bonds and warrants | — | 964,674 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | 1,133,820,471 | 1,060,896,433 |

The Company's outstanding share options (note 27) and convertible bonds and warrants (note 25) did not have dilutive effect to the Company's loss per share during the year ended 31 December 2011 because their potential conversion to ordinary shares would decrease the loss per share.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | |
| At 1 January 2010 | 86,230 | 353,807 | 1,261 | 2,934 | 43,568 | 487,800 |
| Additions | 8,386 | 126 | 401 | 1,138 | 321,976 | 332,027 |
| Transfers | 20,754 | 75,883 | — | — | (96,637) | — |
| Disposals/write-off | — | (13,607) | — | (85) | — | (13,692) |
| At 31 December 2010 | 115,370 | 416,209 | 1,662 | 3,987 | 268,907 | 806,135 |
| Additions | 852 | 607 | 36 | 251 | 281,014 | 282,760 |
| Transfers | 117,087 | 345,366 | 108 | — | (462,561) | — |
| Disposals/write-off | — | (1,565) | (4) | — | — | (1,569) |
| At 31 December 2011 | 233,309 | 760,617 | 1,802 | 4,238 | 87,360 | 1,087,326 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2010 | 3,725 | 55,221 | 487 | 785 | — | 60,218 |
| Provided for the year | 5,070 | 33,770 | 139 | 626 | — | 39,605 |
| Eliminated on disposals/write-off | — | (9,469) | — | (66) | — | (9,535) |
| At 31 December 2010 | 8,795 | 79,522 | 626 | 1,345 | — | 90,288 |
| Provided for the year | 6,746 | 45,205 | 190 | 718 | — | 52,859 |
| Impairment losses recognised in profit or loss | 23,484 | 57,762 | — | — | 7,887 | 89,133 |
| Eliminated on disposals/write-off | — | (576) | (4) | — | — | (580) |
| At 31 December 2011 | 39,025 | 181,913 | 812 | 2,063 | 7,887 | 231,700 |
| CARRYING VALUES | | | | | | |
| At 31 December 2011 | 194,284 | 578,704 | 990 | 2,175 | 79,473 | 855,626 |
| At 31 December 2010 | 106,575 | 336,687 | 1,036 | 2,642 | 268,907 | 715,847 |

## 15. PROPERTY, PLANT AND EQUIPMENT - *continued*

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

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

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

As at 31 December 2011, the Group pledged its buildings and construction in progress having net book values of approximately RMB89,087,000 (2010: RMB97,164,000) and RMB14,886,000 (2010: RMB15,209,000), respectively, to banks to secure banking facilities granted to the Group.

During the year, as a result of severe and challenging market conditions in solar industry towards the end of 2011 which impacted average selling prices of the products of the industry, the Group carried out a review of the recoverable amount of the cash generating unit. The recoverable amount of the cash generating unit has been determined on the basis of their values in use which were cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using a discount rate of 11.0% that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. The cash flows beyond the next five years are explorated using a declining growth rate based on the industry expectation. The review led to the recognition of an impairment loss of approximately RMB89,133,000 in profit or loss. No impairment assessment was performed in 2010 as there was no indication of impairment.

## 16. PREPAID LEASE PAYMENTS

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Carrying values | | |
| At beginning of the year | 21,931 | 15,531 |
| Additions during the year | 19,786 | 6,790 |
| Charged to profit or loss | (720) | (390) |
| At end of the year | 40,997 | 21,931 |
| Less: Amount to be amortised within one year | (854) | (458) |
| Non-current portion | 40,143 | 21,473 |

The lease payments represent the land use rights situated in the PRC which are under medium-term leases. As at 31 December 2011, the certificate of a land use right with carrying amount of approximately RMB19,700,000 (2010: nil) has yet been granted. The Group is in the process of obtaining the certificate.

## 17. ADVANCE TO SUPPLIERS/PROVISION FOR ONEROUS CONTRACTS

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

In November 2006, April 2008, July 2009, December 2009, July 2010, August 2010, October 2010 and March 2011, the Group entered into several purchase agreements with two major suppliers, independent parties not connected or related to the Group, whereby the Group is committed to purchase a minimum quantity of raw materials, mainly polysilicon virgins (to be used in the manufacture of its products) each year during the period from 1 January 2008 to 31 December 2018 (the "Supply Period") at pre-determined prices. According to the terms of the agreements, the Group made advances to these suppliers during the years ended 31 December 2011 and 31 December 2010. At 31 December 2011 and 31 December 2010, the Group had outstanding aggregate advance payments, net of allowance, of approximately RMB460,293,000 and RMB347,648,000, respectively, with these suppliers. The advances are unsecured, interest-free and will be offset with part of the invoiced amounts in the manner as discussed below, on an annual basis before expiry of the agreements in 2018.

Pursuant to the terms of the agreements, during each year of the Supply Period, the amount of advances made in respect of the agreed contract quantity in that particular year would be utilised to reduce the invoice amount of purchases up to those annual agreed quantities. The total minimum amount of raw materials to be purchased by the Group from the two major suppliers during the Supply Period is approximately RMB5,807,625,000 (2010: RMB4,422,047,000).

## 17. ADVANCE TO SUPPLIERS/PROVISION FOR ONEROUS CONTRACTS - *continued*

For the arrangement with one of the major suppliers, if the minimum purchase requirement is not met in a particular year, the advance made to that supplier in relation to the minimum purchase commitment would be forfeited. In addition, pursuant to terms of this purchase agreement, the Group granted to this supplier a continuing security interest in the raw materials supplied by such supplier and the proceeds of sale or insurance of such raw materials with the entire purchase of such raw materials and if applicable, all late payments, interest and expenses necessary to enforce such security interest. The supplier has the right to take all necessary measures to create, perfect, preserve and enforce the security interest. At 31 December 2011 and 31 December 2010, the Group did not have any outstanding trade payable with this supplier.

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

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

| Year ending 31 December | Amount equivalent to *RMB'000* |
|---|---|
| 2012 | 669,789 |
| 2013 | 932,401 |
| 2014 | 1,360,633 |
| 2015 | 1,062,898 |
| 2016 | 655,987 |
| 2017 | 107,824 |
| 2018 | 105,317 |
| | 4,894,849 |

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

## 17. ADVANCE TO SUPPLIERS/PROVISION FOR ONEROUS CONTRACTS - *continued*

Movement in the allowance for advance to suppliers:

| | *RMB'000* |
|---|---|
| Balance at 1 January 2010, 31 December 2010 and 1 January 2011 | — |
| Impairment losses recognised in profit or loss | 7,149 |
| Balance at 31 December 2011 | 7,149 |

Movement in the provision for onerous contracts:

| | *RMB'000* |
|---|---|
| Balance at 1 January 2010, 31 December 2010 and 1 January 2011 | — |
| Provision recognised in profit or loss | 39,107 |
| Balance at 31 December 2011 | 39,107 |

As discussed in note 15, during the year ended 31 December 2011, the market conditions for solar industry have deteriorated. As a result, the Group performed evaluation on the Group's contracted quantity of raw materials, the Group's planned annualised production capacity, demand of the Group's products, forecasted selling prices of the products in the industry and other market conditions in the Supply Period, the Group recognised impairment losses in respect of advances to the two major suppliers of approximately RMB7,149,000 (2010: nil) and made provision of onerous contracts of approximately RMB39,107,000 (2010: nil). The provision of onerous contract and impairment losses recognised represented the estimated losses to be suffered and future payments that the Group is presently obliged to make under the above-mentioned non-cancellable operating contracts, after taking into account revenue expected to be earned and costs to be incurred in production, in certain calendar year(s) in the Supply Period, when is twelve months beyond the end of the reporting period. The evaluation may vary as a result of changes in the market conditions.

## 18. DEFERRED TAX

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

| | Write-down of inventories | Allowance for doubtful debts | Tax losses | Withholding tax on undistributed dividends | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2010 | 127 | — | 1,324 | (3,774) | (2,323) |
| (Charge) credit to profit or loss | — | 562 | (1,324) | (682) | (1,444) |
| At 31 December 2010 | 127 | 562 | — | (4,456) | (3,767) |
| Charge to profit or loss | — | — | — | (5,104) | (5,104) |
| **At 31 December 2011** | **127** | **562** | **—** | **(9,560)** | **(8,871)** |

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Deferred tax assets | 689 | 689 |
| Deferred tax liabilities | (9,560) | (4,456) |
| | (8,871) | (3,767) |

At 31 December 2011 and 31 December 2010, except for the deferred tax liabilities provided for the undistributed profits of certain PRC operating subsidiaries of approximately RMB95.5 million and RMB44.5 million, respectively, deferred tax liabilities have not been recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of the PRC operating subsidiaries of approximately RMB275.5 million and RMB457.5 million, respectively, as the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB201,400,000 (2010: nil). No deferred tax asset has been recognised in relation to such temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

## 19. INVENTORIES

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Raw materials | 105,163 | 216,400 |
| Work-in-progress | 34,147 | 13,373 |
| Finished goods | 78,649 | 18,030 |
| | 217,959 | 247,803 |

## 20. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | 71,606 | 73,326 |
| Utility deposits | 4,219 | 1,873 |
| Value-added-tax recoverable | 133,472 | 71,040 |
| Other receivables and prepayments | 4,690 | 9,228 |
| | 231,987 | 155,467 |
| Bills receivable | 36,700 | 2,000 |

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Age | | |
| 0 to 30 days | 52,607 | 49,317 |
| 31 to 60 days | 10,909 | 22,431 |
| 61 to 90 days | 8,090 | 1,575 |
| 91 to 180 days | — | 3 |
| | 71,606 | 73,326 |

At 31 December 2011 and 2010, none of the Group's trade receivables are past due but not impaired.

## 20. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE - *continued*

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Age | | |
| 0 to 30 days | 29,165 | — |
| 31 to 60 days | 4,585 | 2,000 |
| 91 to 180 days | 2,950 | — |
| | 36,700 | 2,000 |

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

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

Included in the Group's allowance for doubtful debts are individually impaired trade receivables with an aggregate carrying amount of approximately RMB2,744,000 (2010: RMB2,744,000) which are past due as at the end of each reporting period. The Group made impairment losses of approximately RMB2,744,000 during the year ended 31 December 2010 as the debtor was placed under liquidation and in severe financial difficulties. The impairment recognised represented the carrying amount of this specific trade receivable which was considered irrecoverable. The Group did not make any impairment losses during the year ended 31 December 2011. The Group did not hold any collateral over the balance at the end of each reporting period.

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

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade and other receivables denominated in USD | 59,668 | 5,099 |

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

### (A) Pledged bank deposits and a forward contract

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

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

As at 31 December 2011, fixed deposits denominated in RMB of approximately RMB16,235,000 and the USD loan of approximately RMB16,285,000 are included in pledged bank deposits and bank loans, respectively.

The related interest income on the fixed deposits of approximately RMB352,000 and unrealised exchange loss on USD loans of approximately RMB512,000 are included in the other income and other gains and losses, respectively, while the interest expenses on USD loans of approximately RMB191,000 are included in finance costs.

Major terms of the foreign currency forward contract, that will be settled in gross principal amount at maturity, as at 31 December 2011 are as follows:

| Aggregate principal amount | Maturity | Forward exchange rate |
|---|---|---|
| USD2,585,000 | In May 2012 | Buy USD/Sell RMB at 6.3750 |

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

The Group did not have such arrangements with any bank at 31 December 2010.

## 21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/OTHER FINANCIAL ASSETS - *continued*

(B) Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market rates ranging from 0.10% to 0.50% per annum and 0.10% to 0.36% per annum at 31 December 2011 and 31 December 2010, respectively.

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bank balances and cash denominated in: | | |
| Euro | 10,091 | 4,101 |
| HK$ | 64 | 2,771 |
| USD | 97,816 | 106,120 |
| JPY | 1,054 | 232 |

Certain bank balances and cash of approximately RMB637,075,000 and RMB180,453,000 at 31 December 2011 and 31 December 2010, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

## 21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/OTHER FINANCIAL ASSETS - *continued*

(C) Other financial assets

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| FVTPL | 26,491 | — |

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

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

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

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

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

The deposit was denominated in USD.

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

In the opinion of the directors of the Company, changes in fair value of the above contract did not have material impact on the performance of the Group.

## 22. TRADE AND OTHER PAYABLES

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade payables | 100,679 | 63,174 |
| Value-added tax payables | — | 403 |
| Payables for acquisition of property, plant and equipment | 81,757 | 117,774 |
| Other payables and accrued charges | 16,256 | 12,395 |
| | 198,692 | 193,746 |

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Age | | |
| 0 to 30 days | 28,248 | 44,940 |
| 31 to 60 days | 21,930 | 15,866 |
| 61 to 90 days | 30,651 | 441 |
| 91 to 180 days | 17,768 | 547 |
| Over 180 days | 2,082 | 1,380 |
| | 100,679 | 63,174 |

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

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade and other payables denominated in: | | |
| Euro | 73 | — |
| USD | 54,049 | 117,852 |
| JPY | 527 | — |

## 23. CUSTOMERS' DEPOSITS RECEIVED

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

## 24. BANK LOANS

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bank loans | | |
| – secured | 146,285 | 100,000 |
| – unsecured | 190,079 | 70,000 |
| | 336,364 | 170,000 |
| Carrying amounts repayable: | | |
| Within one year | 318,230 | 170,000 |
| One to two years | 4,990 | — |
| More than two years, but not exceeding five years | 13,144 | — |
| | 336,364 | 170,000 |
| Less: Amounts due within one year shown under current liabilities | (318,230) | (170,000) |
| Amounts shown under non-current liabilities | 18,134 | — |

During the current year, the Group obtained new bank loans amounting to RMB480,087,000 (2010: RMB180,000,000). The loans as at 31 December 2011 and 31 December 2010 carried interest at variable market rates benchmark to the interest rates of the People's Bank of China or London Interbank Offer Rate. The proceeds were used to finance the acquisition of property, plant and equipment, to fund working capital for operation and to settle foreign currency-demoninated payables.

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

## 24. BANK LOANS - *continued*

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Denominated in USD | 18,573 | — |
| Denominated in HKD | 2,552 | — |
| Denominated in Euro | 5,830 | — |

## 25. CONVERTIBLE BONDS AND WARRANTS

The Company issued convertible bonds at a par value of RMB100,000 each with an aggregate principal amount of RMB654,500,000 on 17 June 2011 to an independent third party who is neither connected nor related to the Group (the "Bondholder").

The principal terms of the bonds are as follows:

(1) Demonination of the bonds - The convertible bonds are denominated in RMB.

(2) Maturity date - Five years from the date of issuance, which is 16 June 2016 ("Maturity Date")

(3) Interest - The bonds do not bear any interest.

(4) Conversion –

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

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

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

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

## 25. CONVERTIBLE BONDS AND WARRANTS - *continued*

(5) Redepmtion –

(A) At the option of the Company:

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

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

(B) At the option of the Bondholder:

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

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

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

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

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

(9) Collateral – The Bondholder does not hold any collateral over the bonds.

## 25. CONVERTIBLE BONDS AND WARRANTS - *continued*

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

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

| | *RMB'000* |
|---|---|
| Carrying amount at 17 June 2011 | 378,949 |
| Interest charge (note 9) | 23,495 |
| Carrying amount at 31 December 2011 | 402,444 |

The equity component will remain in other reserve until the embedded conversion option is exercised. The embedded derivative in respect of the early redemption feature of the convertible bonds is measured at fair value with changes in fair value recognised in profit or loss. In the opinion of the directors of the Company, the fair value of the embedded derivative in respect of the early redemption feature is immaterial at initial recognition and 31 December 2011.

Concurrent with the issuance of the bonds, 95,121,951 fully detachable and transferrable warrants each to purchase one ordinary share of the Company were issued. The principal terms of the warrants are as follows:

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

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

## 25. CONVERTIBLE BONDS AND WARRANTS - *continued*

(C) Rights - The warrant will rank pari passu in all respects with one another.

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

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

(F) Listing of the warrants - No application will be made for the listing of the warrants on the Stock Exchange or any other exchange.

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

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

| | 17 June 2011 | 31 December 2011 |
|---|---|---|
| Share price | HK$2.96 | HK$1.08 |
| Exercise price | HK$4.10 | HK$4.10 |
| Expected volatility | 53.00% | 62.73% |
| Expected life | 5 years | 4.5 years |
| Risk-free interest rate | 1.3928% | 0.8270% |
| Expected dividend yield | 0.31% | 1.00% |

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

## 25. CONVERTIBLE BONDS AND WARRANTS - *continued*

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

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

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

## 26. SHARE CAPITAL

The share capital of the Group at 31 December 2011 and 31 December 2010 represented the issued and fully paid capital of ordinary shares of the Company.

| Authorised: | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Ordinary shares | | |
| Ordinary shares of HK$0.001 each at 1 January 2010, 31 December 2010 and 31 December 2011 | 7,600,000,000 | 7,600 |

| Issued and fully paid: | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Ordinary shares | | |
| Ordinary shares of HK$0.001 each at 1 January 2010 | 1,031,738,000 | 1,032 |
| Issue of new shares (note 1) | 100,000,000 | 100 |
| Exercise of share options (note 2) | 1,890,000 | 2 |
| Ordinary shares of HK$0.001 each at 31 December 2010 | 1,133,628,000 | 1,134 |
| Exercise of share options (note 3) | 262,000 | 2 |
| Ordinary shares of HK$0.001 each at 31 December 2011 | 1,133,890,000 | 1,136 |

## 26. SHARE CAPITAL - *continued*

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Presented as RMB: | | |
| Ordinary shares | 999 | 998 |

Notes:

(1) On 9 September 2010, arrangements were made for a private placement whereby 100,000,000 ordinary shares of HK$ 0.001 each of the Company held by Fonty were subscribed by independent private investors at a price of HK$ 2.30 per share representing a discount of 9.09% to the closing market price of the Company's shares on 9 September 2010.

Pursuant to a subscription agreement between Fonty and the Company on the same date, Fonty subscribed for 100,000,000 new shares of HK$ 0.001 each in the Company at a price of HK$ 2.30 per share. The proceeds were used to provide additional working capital of the Group and to provide funds for the expansion of the Group's production capacity. The new shares were issued pursuant to the general mandate granted to the directors of the Company pursuant to a resolution passed by the shareholders at the annual general meeting held on 24 May 2010 and rank pair passu with other shares in all respects.

(2) During the year ended 31 December 2010, the Company issued 1,890,000 new shares upon exercise of share options at the exercise price of HK$ 1.49 per share.

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

All the shares issued by the Company during the year ended 31 December 2011 and 31 December 2010, rank pari passu with the then existing shares in all respects.

## 27. SHARE-BASED COMPENSATION

(a) Share options to employees and others

*Pre-IPO Share Option Scheme*

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

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

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

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

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

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

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

## 27. SHARE-BASED COMPENSATION - *continued*

(a) Share options to employees and others - *continued*

*Pre-IPO Share Option Scheme* - continued

Set out below are details of movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the years ended 31 December 2011 and 31 December 2010:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2011 | Issue during the year | Exercised during the year | Forfeited in the year | Outstanding as at 31 December 2011 |
| Directors: | | | | | |
| Mr. Leung Ming Shu | 125,000 | — | (62,000) | — | 63,000 |
| Mr. Daniel Dewitt Martin | 200,000 | — | — | — | 200,000 |
| Mr. Kang Sun | 249,020 | — | — | — | 249,020 |
| | 574,020 | — | (62,000) | — | 512,020 |
| Exercisable at the end of the year | 321,861 | | | | 341,347 |

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2010 | Issue during the year | Exercised during the year | Forfeited in the year | Outstanding as at 31 December 2010 |
| Directors: | | | | | |
| Mr. Leung Ming Shu | 125,000 | — | — | — | 125,000 |
| Mr. Daniel Dewitt Martin | 200,000 | — | — | — | 200,000 |
| Mr. Kang Sun | 249,020 | — | — | — | 249,020 |
| | 574,020 | — | — | — | 574,020 |
| Exercisable at the end of the year | 63,780 | | | | 321,861 |

## 27. SHARE-BASED COMPENSATION - *continued*

(a) Share options to employees and others - *continued*

*Pre-IPO Share Option Scheme* - continued

In respect of the share options exercised during the year ended 31 December 2011, the exercise price and weighted average share price at the date of exercise is HK$2.51 and HK$4.64 per share, respectively. No share options were exercised in the year ended 31 December 2010.

During the year ended 31 December 2011, 62,000 (2010: nil) share options previously granted by the Company under the Pre-IPO Share Option Scheme were exercised.

At 31 December 2011, the number of shares in respect of which options under the Pre-IPO Share Option Scheme remained outstanding was 512,020 (2010: 574,020), representing 0.05% (2010: 0.05%) of the shares of the Company in issue at that date.

The Group recognised the total expense of approximately RMB78,000 (2010: RMB206,000) for the year ended 31 December 2011 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

*Share Option Scheme*

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

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

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

## 27. SHARE-BASED COMPENSATION - *continued*

(a) Share options to employees and others - *continued*

*Share Option Scheme* - continued

Pursuant to a board resolution dated 24 May 2010, the Company granted 5,180,000, representing 0.50% of the shares of the Company in issue at that date, share options to certain employees of the Company under the Share Option Scheme. Set out below are details of the outstanding options granted under the Share Option Scheme on 24 May 2010:

(1) All options granted on 24 May 2010 were at an exercise price of HK$1.49 per share.

(2) All holders of options granted on 24 May 2010 might only exercise their options in the following manner:

(i) half of the share options vested and exercisable on 24 May 2010 and

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

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

The estimated fair values of share options granted on 24 May 2010 was RMB3,054,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

| | |
|---|---|
| Share price on grant date | HK$ 1.37 |
| Exercise price | HK$1.49 |
| Expected volatility | 68.0% |
| Suboptimal exercise multiple | 3.5 |
| Staff turnover rate | 18% |
| Risk-free rate | 2.467% |
| Expected dividend yield | 0.60% |

The risk-free rate was based on market yield rate of Hong Kong Government Bond with maturity on 22 June 2015 and 7 December 2015 as of the date of valuation on 24 May 2010. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Changes in variables and assumptions may result in changes in the fair values of the Share Option Scheme share options.

## 27. SHARE-BASED COMPENSATION - *continued*

(a) Share options to employees and others - *continued*

*Share Option Scheme* - continued

Set out below are details of movements of the outstanding options granted under the Share Option Scheme during the years ended 31 December 2011 and 31 December 2010:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2011 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2011 |
| Director: | | | | | |
| Mr. Shi | 300,000 | — | — | — | 300,000 |
| Employees | 2,290,000 | — | (200,000) | — | 2,090,000 |
| | 2,590,000 | — | (200,000) | — | 2,390,000 |
| Exercisable at the end of the year | 1,717,692 | | | | 2,390,000 |

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2010 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2010 |
| Director: | | | | | |
| Mr. Shi | — | 600,000 | (300,000) | — | 300,000 |
| Employees | — | 4,580,000 | (1,590,000) | (700,000) | 2,290,000 |
| | — | 5,180,000 | (1,890,000) | (700,000) | 2,590,000 |
| Exercisable at the end of the year | — | | | | 1,717,692 |

In respect of the share options exercised during the year ended 31 December 2011, the weighted average share price at the date of exercise is HK$3.94 per share (2010: HK$3.00).

## 27. SHARE-BASED COMPENSATION - *continued*

(a) Share options to employees and others - *continued*

*Share Option Scheme* - continued

During the year ended 31 December 2010, 700,000 share options previously granted by the Company were forfeited before vesting due to departure of employees.

At 31 December 2011, the number of shares in respect of which options under the Share Option Scheme remained outstanding was 2,390,000 (2010: 2,590,000), representing 0.21% (2010: 0.23%) of the shares of the Company in issue at that date.

The Group recognised the total expense of approximately RMB672,000 (2010: RMB2,014,000) for the year ended 31 December 2011 in relation to share options granted by the Company under the Share Option Scheme.

(b) Restricted Shares to a director and certain key management personnel

| | Number of shares | Fair values of Restricted Shares (as defined below) *RMB'000* |
|---|---|---|
| At 1 January 2010 | 24,239,247 | 37,958 |
| Vested on 1 December 2010 | (24,239,247) | (37,958) |
| At 31 December 2010, 1 January and 31 December 2011 | — | — |

A total of 24,239,247 restricted shares ("Restricted Shares") representing 2.35% of the shares of the Company in issue on 1 January 2010 were granted to Mr. Chau and certain key management personnel in prior years at nil consideration to reward them for their past contributions. The Restricted Shares could not be transferred in market until the Group's net profit after tax for a particular year achieved RMB500 million.

Pursuant to agreements entered into between the Company and the holders of the Restricted Shares on 8 November 2010, the Restricted Shares became vested, i.e. freely transferrable, since 1 December 2010. As a result, the Group recognised an aggregate amount of expenses of approximately RMB37,958,000 in relation to the fair values of the Restricted Shares granted by the Company in the consolidated statement of comprehensive income in the year ended 31 December 2010. As at 31 December 2011 and 31 December 2010, no Restricted Shares of the Company remained outstanding.

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

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Non-current assets | | |
| Investments in subsidiaries and amounts due from subsidiaries | 1,203,647 | 990,899 |
| Current assets | | |
| Other receivables | 1,793 | 2,900 |
| Amounts due from subsidiaries | 4,083 | 4,291 |
| Bank balances and cash | 397,288 | 6,095 |
| | 403,164 | 13,286 |
| Current liabilities | | |
| Other payables | 4,428 | 2,750 |
| Warrants | 14,600 | — |
| | 19,028 | 2,750 |
| Net current assets | 384,136 | 10,536 |
| Total assets less current liabilities | 1,587,783 | 1,001,435 |
| Capital and reserves | | |
| Share capital | 999 | 998 |
| Reserves (note i) | 1,184,340 | 1,000,437 |
| Total equity | 1,185,339 | 1,001,435 |
| Non-current liability | | |
| Convertible bonds | 402,444 | — |
| | 1,587,783 | 1,001,435 |

## 28. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - *continued*

*Note i:* Reserves

Other than ordinary and preferred share capital, the other reserves of the Company consist of share premium, restricted shares reserve, share options reserve and the retained profits (accumulated losses).

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | Share premium *RMB'000* | Other reserve *RMB'000* | Share options reserve *RMB'000* | Restricted shares reserve *RMB'000* *(note 27)* | Retained profits (Accumulated losses) *RMB'000* | Total *RMB'000* |
| At 1 January 2010 | 809,519 | — | 68 | (37,958) | 63,331 | 834,960 |
| Loss and total comprehensive expense for the year | — | — | — | — | (61,213) | (61,213) |
| Issue of new shares | 197,714 | — | — | — | — | 197,714 |
| Exercise of share options | 3,519 | — | (1,104) | — | — | 2,415 |
| Transaction costs attributable to issue of new shares | (6,085) | — | — | — | — | (6,085) |
| Dividends recognised as distribution (note 13) | — | — | — | — | (7,532) | (7,532) |
| Recognition of equity-settled share-based payments | — | — | 2,220 | 37,958 | — | 40,178 |
| At 31 December 2010 | 1,004,667 | — | 1,184 | — | (5,414) | 1,000,437 |
| Loss and total comprehensive expense for the year | — | — | — | — | (4,857) | (4,857) |
| Exercise of share options | 534 | — | (155) | — | — | 379 |
| Recognition of equity component of convertible bonds and warrants | — | 187,631 | — | — | — | 187,631 |
| Recognition of equity-settled share-based payments | — | — | 750 | — | — | 750 |
| At 31 December 2011 | 1,005,201 | 187,631 | 1,779 | — | (10,271) | 1,184,340 |

## 29. OPERATING LEASE COMMITMENTS

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

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Within one year | 744 | 781 |
| In the second to fifth year inclusive | 1,720 | 1,720 |
| After five years | 2,616 | 3,046 |
| | 5,080 | 5,547 |

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

## 30. CAPITAL COMMITMENTS

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment | 4,724 | 68,469 |
| Capital expenditure authorized but not contracted for in respect of the acquisition of property, plant and equipment (note) | — | 505,423 |
| | 4,724 | 573,892 |

Note: Pursuant to a board minute dated 21 October 2011, budget in relation to future expansion plan was cancelled due to rapid adverse changes in market conditions of the solar industry.

## 31. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme which was established under the Mandatory Provident Fund Ordnance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. The Group contributes 5% ,with maximum of HK$2,000 per person of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

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

## 32. RELATED PARTY TRANSACTIONS

In the opinion of the directors of the Company, the Group did not have any outstanding balances with related parties at 31 December 2011 and 31 December 2010.

### Compensation of key management personnel

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

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Basic salaries and allowances | 4,942 | 5,623 |
| Retirement benefits scheme contributions | 120 | 188 |
| Share-based payments expense | 468 | 39,301 |
| | 5,530 | 45,112 |

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

## 33. SUBSIDIARIES

Details of the wholly-owned Company's subsidiaries at 31 December 2011 and 31 December 2010 are as follows:

| Name of company | Place and date of incorporation/ establishment/operations | Issued and fully paid share capital/ registered capital at the date of this report | Principal activities |
|---|---|---|---|
| Comtec Semiconductor (Cayman) Limited* | Cayman Islands 23 April 2007 | US$2 (Note 1) | Investment holding |
| Comtec Semiconductor (Hong Kong) Limited | Hong Kong 12 October 2007 | HK$2 (Note 1) | Investment holding |
| Comtec Solar (Cayman) Limited* | Cayman Islands 23 April 2007 | US$2 (Note 1) | Investment holding |
| Comtec Solar (HK) | Hong Kong 12 October 2007 | HK$2 (Note 1) | Investment holding, provision of sourcing, invoicing and support services for group companies |
| Comtec Solar (Jiangxi)# | PRC 22 March 2006 | USD6,064,000 (Note 1) | Inactive |
| Comtec Semi# | PRC 21 December 1999 | US$4,040,000 (Note 1) | Manufacturing and sales of semiconductors, solar wafers and related products |
| Comtec Solar# | PRC 5 July 2005 | US$18,500,000 (Note 1) | Manufacturing and sales of solar wafers and related products |
| Comtec New Energy (Shanghai) Limited# | PRC 7 January 2010 | US$16,000,000 (Note 1) | Manufacturing and sales of solar wafers and related products |
| Comtec Solar (Jiangsu) Co., Limited# | PRC 11 February 2010 | US$35,500,000 (Note 1) | Manufacturing and sales of solar wafers and related products |

* Directly held by the Company

\# Wholly foreign-owned enterprise

## 33. SUBSIDIARIES - *continued*

Notes:

1. The issued and fully paid share capital of the entity remained unchanged as at 31 December 2011 and 31 December 2010.

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

## 34. EVENT AFTER THE REPORTING PERIOD

On 20 January 2012, the Company and the Bondholder entered into an agreement, pursuant to which the Company agreed to repurchase, and the Bondholder (which also held the outstanding warrants of the Company) agreed to sell, 75% of the convertible bonds and warrants issued by the Company in consideration for a cash payment of approximately RMB491 million in aggregate (equal to the aggregate principal amount of the bonds and warrants) ("Repurchase Transaction").

On the same date, the Company and the Bondholder entered into a warrant subscription agreement, pursuant to which the Company agreed to issue new warrants to the Bondholder, in consideration for (i) the sale by the Company and repurchase by the Company of the bonds at par value and (ii) significant value-added services provided by the Bondholder to the Company in respect of new customers, production yields, financial planning and business development ("Warrants Issue Transaction"). The Company agreed to issue detachable and transferrable warrants, exercisable for a period of four years from the date of issue, to the Bondholder who is entitled to subscribe for up to 94,354,838 shares at a price of HK$1.24 per share. Details of the transactions are set out in the announcements and circular of the Company dated 25 January 2012 and 7 February 2012, respectively.

The directors of the Company considered that the Repurchase Transaction and Warrants Issue Transaction are part of the same arrangement and Repurchase Transaction would not have occurred without Warrants Issue Transaction and vice versa, and therefore should be considered as linked transactions. The transactions were completed in March 2012. The directors of the Company are in the course of assessing the financial impact of the transactions to the Group, which is pending for the finalisation of the valuation of financial instruments in relation to the transactions. The directors of the Company estimate that a loss of approximately RMB150 million would be resulted from the transactions. Changes in variables and assumptions used in estimation of the fair values of the liability component of the convertible bonds and warrants repurchased and new warrants issued may result in changes in the estimated loss.

# Definitions

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

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