



中晟科技集團有限公司

Sunrise (China) Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

Stepping into an
era of
Green Economy

Third Quarterly Report

2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors (the “Directors”) of Sunrise (China) Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of directors (the “Board”) of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months ended 30 September 2012, together with the comparative figures as follows:

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the nine months ended 30 September 2012

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover		254,587	199,142	615,949	534,445
Cost of sales		(197,409)	(162,571)	(479,238)	(413,911)
Gross profit		57,178	36,571	136,711	120,534
Other revenue, gains and losses		4,098	(10,093)	15,320	(1,865)
(Loss)/gain arising from fair value change of derivative financial instruments		(12,118)	(13,145)	12,236	(13,145)
Selling and marketing costs		(5,027)	(6,056)	(17,640)	(16,822)
Administrative expenses		(25,395)	(27,548)	(88,163)	(81,077)
Finance costs		(7,454)	(2,989)	(19,449)	(5,690)
Profit/(loss) before income tax expense		11,282	(23,260)	39,015	1,935
Income tax expense	3	(5,293)	(2,190)	(10,061)	(8,037)
Profit/(loss) for the period		5,989	(25,450)	28,954	(6,102)
Other comprehensive income					
– exchange differences on translating foreign operations		(178)	2,146	(94)	7,490
Other comprehensive income for the period, net of tax		(178)	2,146	(94)	7,490
Total comprehensive income for the period		5,811	(23,304)	28,860	1,388

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
(Loss)/profit attributable to:					
– owners of the Company		(7,813)	(23,954)	7,897	(19,521)
– non-controlling interests		13,802	(1,496)	21,057	13,419
		<u>5,989</u>	<u>(25,450)</u>	<u>28,954</u>	<u>(6,102)</u>
Total comprehensive income attributable to:					
– owners of the Company		(7,311)	(23,978)	7,441	(16,878)
– non-controlling interests		13,122	674	21,419	18,266
		<u>5,811</u>	<u>(23,304)</u>	<u>28,860</u>	<u>1,388</u>
(Loss)/earnings per share (HK cents)					
– basic	4	<u>(1.81)</u>	<u>(5.55)</u>	<u>1.83</u>	<u>(4.57)</u>
– diluted	4	<u>(1.81)</u>	<u>(5.55)</u>	<u>1.83</u>	<u>(4.57)</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the nine months ended 30 September 2012

	Share capital	Share premium	Property revaluation reserve	Statutory reserves	Share-based payment reserve	Merger reserve	Cumulative translation adjustment	Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total
	HKS'000	HKS'000	HKS'000	(Note (a)) HKS'000	HKS'000	(Note (b)) HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1 January 2011	4,220	155,563	11,293	7,576	11,185	2,441	17,420	(58,528)	151,170	127,108	278,278
Total comprehensive income for the period	-	-	-	-	-	-	2,643	(19,521)	(16,878)	18,266	1,388
Recognition of equity-settled share-based payment	-	-	-	-	3,330	-	-	-	3,330	-	3,330
Issuance of shares upon conversion of share options	98	9,854	-	-	(3,425)	-	-	-	6,527	-	6,527
Transfer of reserves	-	-	-	1,200	-	-	-	(1,440)	(240)	(231)	(471)
At 30 September 2011	4,318	165,417	11,293	8,776	11,090	2,441	20,063	(79,489)	143,909	145,143	289,052
At 1 January 2012	4,318	165,417	11,293	11,891	25,830	2,441	20,335	(113,419)	128,106	153,397	281,503
Total comprehensive income for the period	-	-	-	-	-	-	(456)	7,897	7,441	21,419	28,860
Cancellation of share options previously granted	-	-	-	-	(1,258)	-	-	1,258	-	-	-
Dividend of a subsidiary	-	-	-	-	-	-	-	-	-	(10,246)	(10,246)
At 30 September 2012	4,318	165,417	11,293	11,891	24,572	2,441	19,879	(104,264)	135,547	164,570	300,117

Notes:

(a) Statutory reserves

Pursuant to the articles of association of the group entities in the People's Republic of China (the "PRC"), appropriations are made from the retained earnings to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in the PRC. Such appropriations to reserves would be made only with approval from the board of directors of those group entities.

(b) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the shares issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares.

Notes to Condensed Consolidated Financial Statements

For the three months ended 30 September 2012

1. GENERAL INFORMATION

The Company is an investment holding company. The Company's subsidiaries are principally engaged in manufacturing and sales of loudspeaker systems and environment related business.

The Company is a limited liability company incorporated in the Cayman Islands. The Directors regard Zhongyu Group Holdings Limited, a company incorporated in the British Virgin Islands (the "BVI"), as the ultimate holding company.

The shares of the Company have been listed on the GEM since 19 July 2002.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretation (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the GEM Listing Rules.

The financial statements have been prepared under the historical cost basis except for land and buildings, investment properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and method of computation used in preparing the financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2011.

The Group has adopted certain new/revised HKFRSs that are effective for the current accounting period. The adoption of the new/revised HKFRSs has no material impact on the Group's financial statements.

The Group has not early adopted the new/revised HKFRSs, that have been issued but are yet effective, and are potentially relevant to the Group's financial statements.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as there is no assessable profits for the group entities operate in Hong Kong during the nine months ended 30 September 2012.

With effect from 1 January 2008, the PRC Enterprise Income Tax ("EIT") rate is 25%, subject to preferential tax treatments.

Taxation arising in other jurisdictions is calculated at the rates in the relevant jurisdictions.

The amount of taxation in the condensed consolidated statement of comprehensive income represents:

	For the three months ended 30 September		For the nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current tax				
– PRC EIT	5,293	2,190	9,970	6,939
– Under provision of EIT in prior years	–	–	91	1,098
Income tax expense	<u>5,293</u>	<u>2,190</u>	<u>10,061</u>	<u>8,037</u>

4. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
(Loss)/earnings	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/earnings for the purposes of calculating basic and diluted (loss)/earnings per share	<u>(7,813)</u>	<u>(23,954)</u>	<u>7,897</u>	<u>(19,521)</u>
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	<u>431,765</u>	<u>431,680</u>	<u>431,765</u>	<u>427,501</u>

5. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the nine months ended 30 September 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group continued to diversify its businesses in the environment related industry in light of the increasingly sanguine market conditions for environmental protection industry and the Company's strategy to seek sustainable business operations. The Group is currently developing its environmental technology businesses in China and Thailand through Confident Echo Holdings Limited and its subsidiaries (the "Shengyi Technology Group") and Time Pro International Company Limited ("Time Pro") respectively.

The Shengyi Technology Group is principally engaged in the business of environmental technology engineering and construction. It excels in the areas of desulphurisation, which are of particular emphasis for toxin-emitting industries, such as coal chemical processing. As the only coal-chemical desulphurisation specialist in Jiangsu, the Shengyi Technology Group stationed in the National Hi-Tech Industrial Development Zone, which has been uniquely and professionally implementing the technology research, development and application of sulphur recycling. The Shengyi Technology Group provides professional services with self-developed technologies which incurs 3 patents, namely direct oxidation, tail gas recycling dilution and C-C two sectioned method. The Shengyi Technology Group is currently conducting the R&D on a new generation of technology in order to further expand its market. This will bring about a continuous growth and revenue in environmental related business of the Group. As at 30 September 2012, there are 7 outstanding uncompleted orders on hand not yet recognized, with total contract sum of approximately RMB124.1 million (equivalent to approximately HK\$152.3 million), and certain of them are expected to be completed and generate profit in 2012.

The Group's another subsidiary, Time Pro, provides biomass heat generation service in Thailand by utilizing bio-waste into green alternative energy. As a result of the floods in Thailand last year, Time Pro's plan to build a heat generation plant in Thailand has suffered a delay. Therefore, as at the date of this report, Time Pro is unable to estimate when the plan to build a heat generation plant in Thailand will restart. Having considered the said circumstance, on 31 August 2012, Time Pro had decided not to proceed with the acquisition of 2 sets of gasifier machines and entered into a termination agreement with the supplier. The part payment in the amount of US\$2.0 million (equivalent to approximately HK\$15.6 million) was returned by the supplier to Time Pro subsequently in October 2012.

The Group expects that the environment related business opportunities will strengthen and diversify the Group's revenue base, and provide synergistic benefits to the long term development of the Group in China and Thailand.

The Group also continued to strengthen its business and streamline group operations in the manufacturing and sales of quality and high performance loudspeaker systems for leading global automobiles. The Group has secured a position as a leading loudspeaker manufacturer in China with its steadfast business relationships with leading automobile players.

Financial Review

During the period under review, businesses of the Group continued to record healthy growth in its sales, on the back of improving economic conditions and global consumer appetite, and the Group recorded an improvement in turnover of 15.3% to approximately HK\$615.9 million (2011: HK\$534.4 million). For the nine months ended 30 September 2012, sales of loudspeaker systems increased by 13.8% to approximately HK\$608.4 million (2011: HK\$534.4 million). The Group has commenced its environment related business since 2011. Revenue and customers' receipts in advance generated from environment related business amounted to HK\$7.5 million for the nine months ended 30 September 2012 and HK\$24.8 million as at 30 September 2012 respectively. The increase in overall sales is primarily attributable to the continual growth of the automobile market and the contributions from the Group's new businesses in the environment related industry. The Group's gross profit ratio was decreased to 22.2% for the nine months ended 30 September 2012 (2011: 22.6%) mainly because of the fluctuation in the raw material pricing in the sales of loudspeaker systems.

During the nine months ended 30 September 2012, the Group recorded net profit of approximately HK\$29.0 million (2011: net loss of approximately HK\$6.1 million). Such increase in net profit was mainly attributable to (i) the fair value gain of derivative financial instrument of approximately HK\$12.2 million recognized by the Company in respect of the convertible loan notes and the unlisted warrants issued by the Company; and (ii) the profit generated from the principal businesses of the Group.

Prospects

As the market demand for desulphurisation in chemical industries in China continue to increase, combined with the government support and subsidies provided to green business, the Group is expected to obtain more projects and generate greater revenue in the future.

The Board believes that the environmental protection sector carries immense growth potential and it is sanguine about the future prospects of the businesses and that the businesses will be value accretive to the Group. It is anticipated that with the insight and experience of the Shengyi Technology Group, the Group will be able to build a dedicated platform in environmental protection in the Asia Pacific and emerge as a key player.

Despite the fact that both turnover and gross profit of the third quarter of year 2012 recorded an increase as compared to that of year 2011, in general, the business of manufacturing and sales of loudspeaker systems is facing a challenge in year 2012. As a result of the slow US economic recovery, the continuous Euro area debt crisis and the weakening China economic growth, the tougher global economic environment has affected the market demands in all core districts. On the other hand, the raw material and labor costs in China have also risen to a historical high level. The Group will continue to monitor, assess and actively procure suitable opportunities that are a strategic fit with the Company's future development.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Mr. Shan Xiaochang	Interest of a controlled corporation	239,556,536 <i>(Note 1)</i>	-	239,556,536	55.48%
	Beneficial owner	-	35,000,000 <i>(Note 2)</i>	35,000,000	8.11%
		<u>239,556,536</u>	<u>35,000,000</u>	<u>274,556,536</u>	<u>63.59%</u>

Notes:

- These shares are held by Zhongyu Group Holdings Limited. The entire issued share capital of Zhongyu Group Holdings Limited is beneficially owned by Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.
- Total number of shares to be allotted and issued upon exercise in full of options under share option scheme adopted by the Company on 8 July 2002. These share options were conditionally granted to Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.

Save as disclosed above, none of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 September 2012.

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

As at 30 September 2012, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Zhongyu Group Holdings Limited (Note 1)	Beneficial owner	239,556,536	–	239,556,536	55.48%
Mr. Shan Xiaochang (Note 1)	Interest of a controlled corporation	239,556,536	–	239,556,536	55.48%
	Beneficial owner	–	35,000,000 (Note 2)	35,000,000	8.11%
		239,556,536	35,000,000	274,556,536	63.59%
Ms. Wu Shuhua (Note 3)	Interest of spouse	239,556,536	35,000,000	274,556,536	63.59%
Mr. Chan Ping Yee	Beneficial owner	73,675,000	–	73,675,000	17.06%
Ms. Liu Sau Wan (Note 4)	Interest of spouse	73,675,000	–	73,675,000	17.06%
Concept Capital Management Limited	Beneficial owner	–	146,163,814 (Note 5)	146,163,814	33.85%

Notes:

- The entire issued share capital of Zhongyu Group Holdings Limited was solely and beneficially owned by Mr. Shan Xiaochang, the chairman and the chief executive officer and the executive director of the Company, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.
- Total number of shares to be allotted and issued upon exercise in full of options under share scheme adopted by the Company on 8 July 2002. These share options were conditionally granted for Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.
- Ms. Wu Shuhua is the spouse of Mr. Shan Xiaochang and, under section 316 of the SFO, is therefore deemed to be interested in all 274,556,536 shares in which Mr. Shan Xiaochang is interested.

4. Ms. Liu Sau Wan is the spouse of Mr. Chan Ping Yee and, under section 316 of the SFO, is therefore deemed to be interested in all 73,675,000 shares in which Mr. Chan Ping Yee is interested.
5. The latest notice filed by Concept Capital Management Limited has not taken into account the reset adjustment to the conversion and exercise prices on 9 May 2012.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 September 2012.

SHARE OPTIONS

The Company operates a share option scheme for the purpose of to enable the Company to grant share options to the eligible participants as incentives or rewards for their contribution to the Group. Eligible participants include any employees, directors, consultants or professional advisors, shareholders and suppliers or customers of the Group. The share option scheme became effective on 8 July 2002 (the “2002 Share Option Scheme”) was terminated and a new share option scheme (the “New Share Option Scheme”) was adopted at the annual general meeting held on 15 June 2012. Shares options granted prior to the expiry of the 2002 Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the 2002 Share Option Scheme. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option schemes or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital from time to time. As at 30 September 2012, the Company had 60,200,000 (31 December 2011: 62,700,000) share options outstanding under the 2002 Share Option Scheme, which represented approximately 13.9% (31 December 2011: 14.5%) of its issued share capital on that date. No share option were granted under the New Share Option Scheme.

The maximum number of share issued and which may fall to be issued upon exercise of the share options granted under the share option scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue unless it is approved by shareholders (other than the grantees and/or their respective associates) in a general meeting of the Company. Any share option granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders’ approval in general meeting of the Company.

The offer of a grant of share option under the share option scheme may be accepted, upon payment of a nominal consideration of HK\$1 in total by the grantee. A share option granted under the share option scheme may be exercised in whole or in part in the manner provided in the share option scheme by a grantee giving notice in writing to the Company at any time during a period not exceed 10 years from the date an share option granted under the share option scheme is offered.

The exercise price of the share options is a price determined by the Board, in its absolute discretion, but in any case is not less than whichever is the highest of (1) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which must be a trading day; (2) the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of the shares of the Company.

The following table discloses movements in the Company's share options during the period:

Name or category of participant	Exercisable period	Exercise price per share of the Company HK\$	Outstanding at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 September 2012
Directors							
Mr. Shan Xiaochang	20 October 2011 to 1 September 2021	0.962	35,000,000	-	-	-	35,000,000
Employees (other than Directors)							
In aggregate	25 November 2010 to 24 November 2020	0.666	1,000,000	-	-	(1,000,000)	-
	2 September 2011 to 1 September 2021	0.962	5,500,000	-	-	(1,500,000)	4,000,000
			6,500,000	-	-	(2,500,000)	4,000,000
Others							
In aggregate	25 November 2010 to 24 November 2020	0.666	21,200,000	-	-	-	21,200,000
			62,700,000	-	-	(2,500,000)	60,200,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Yang Ching Yau, executive director, is engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited, Asian Elite International Company Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers for automotive aftermarket, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15 July 2002 with the Company pursuant to which Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the period.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code on Corporate Governance Practice as defined in the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises Ms. Chan Sze Man, Mr. Wang Jialian and Mr. Wang Zhihua who are the independent non-executive Directors.

The Group's unaudited results for the nine months ended 30 September 2012 have been reviewed by the audit committee, which was of the opinion that such financial statements complied with the applicable accounting standards and that adequate disclosures have been made.

By order of the Board
**Sunrise (China) Technology
Group Limited**
Shan Xiaochang
Chairman

Hong Kong, 14 November 2012

As at the date of this report, the Board comprises of four executive Directors, namely Mr. Shan Xiaochang, Ms. Shan Zhuojun, Mr. Ma Arthur On-hing and Mr. Yang Ching Yau; and three independent non-executive Directors, namely Ms. Chan Sze Man, Mr. Wang Jialian and Mr. Wang Zhihua.

This report will remain on the "Latest Company Reports" page of the GEM website at "www.hkgem.com" for at least seven days from its date of posting and on the Company's website at "www.sunrisechina-tech.com".