China Automation Group Limited
中國自動化集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 569)

2007
Annual Report

Contents

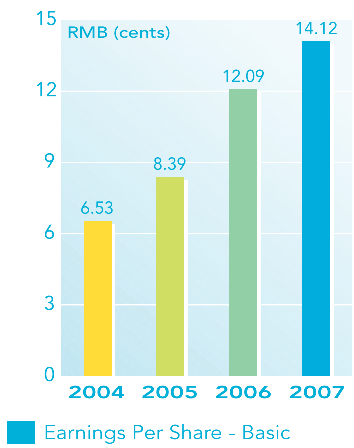
Company Profile

China Automation Group Limited (the "Company") was established in 1999, listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007, and today is the largest and leading safety and critical control system provider in the People's Republic of China (the "PRC"). The Company and its subsidiaries (collectively referred to as the "Group") specialize in providing professional safety and critical control systems and related engineering and maintenance services to the chemical, petrochemical, coal chemical, oil and gas as well as railway industries. According to a research report prepared by Frost and Sullivan, in 2006, the Group had a 68% share of China's safety and critical control system market, reflecting the leading position therein. The main products designed and produced by the Group include Emergency Shutdown Devices ("ESD"), Fire and Gas Systems ("FGS"), Integrated Turbine and Compressor Centers ("ITCC") and Railway Interlocking Systems ("RIS"). Leveraging on its strong engineering capabilities and extensive sales coverage, the Group endeavors to become one of the major providers in the global market.

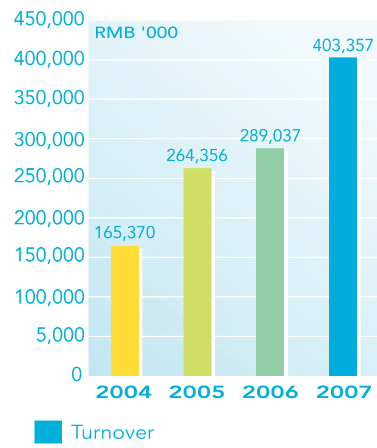
Financial Highlights

	2007 RMB'000	2006 RMB'000
Turnover	**403,357**	289,037
Profit attributable to equity holders of the company	**99,891**	68,471
Earnings per share		
- basic	**RMB14.12 cents**	RMB12.09 cents
- diluted	**RMB14.09 cents**	—
Dividend per share	**HKD3.0 cents**	—

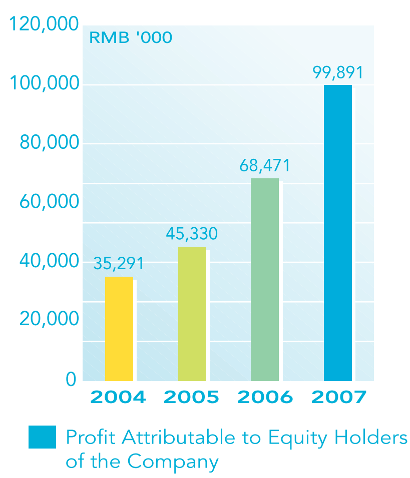
Earnings Per Share - Basic



Turnover



Profit Attributable to Equity Holders of the Company



Chairman's Statement

We are devoted to further consolidate our position as the leading total solution provider in the safety and critical control system as well as all round engineering and maintenance services in the chemical, petrochemical, coal chemical, oil and gas and railway industries.

Chairman's Statement

On behalf of the board of directors (the "Board") of the Company, I am pleased to report the audited annual results of the Company and its subsidiaries for the year ended 31 December 2007.

2007 was a landmark year in the Group's milestone. The Group was successfully listed on the Main Board of the Stock Exchange on 12 July 2007. The positive response from the global capital markets demonstrated investors' confidence in the business prospect and competitive advantages of the Group. The listing not only enhances our corporate image and governance transparency, internationalises our brand, but also allows the Group to share the fruits of our success with our shareholders.

During the year under review, the Group's turnover reached RMB403.4 million, representing approximately 39.6% increase as compared with previous year. Net profit attributable to shareholders increased by approximately 45.8% as compared with previous year amounting to approximately RMB99.9 million (2006: RMB68.5 million). Earnings per share recorded at RMB14.12 cents (2006: RMB12.09 cents). The Board proposes to declare a final dividend of HK$3.0 cents (approximately RMB2.7 cents) per share in respect of the year.

PROSPEROUS OUTLOOK FOR PETROCHEMICAL AND RAILWAY INDUSTRIES

The petrochemical industry is the important foundation and pillar of the PRC economy, and has a very important role in the development of the economy. Oil refinery and propylene are the leading products of the petrochemical industry. A recent forecast states that the demand of refined oil in the PRC in 2020 will amount to 2.3 times of that of 2000 (approximately 500 million tones). The highlights during the period of the "Eleventh Five Year Plan" (2006-2010) include establishing comprehensive ancillary facilities to enhance refinery capability, constructing processing bases for imported crude oil, increasing total production volume of ethylene, establishing a network of world-class ethylene production bases and accelerating the development of the ethylene industry. Furthermore, the rapid growth of the coal chemical industry has become a major characteristic of the petrochemical sector in the PRC due to the "shortage of crude oil with limited natural gas but abundant coal" situation. Currently, nearly every coal production base in the PRC is planning projects for the transformation from "coal to oil", "coal to chemical" and "coal to electricity".

According to the Ministry of Railway ("MOR"), China plans to invest RMB2 trillion in the railway sector for the period of 2006-2020 (among which RMB1.5 trillion would be spent during 2006-10 and the remaining RMB0.5 trillion would be invested in 2011-2020. The length of the railway network will increase 17,000 km in the same period. Moreover, the urban metro system will expand to a total length of 1,000 km by 2010. RIS, as a crucial railway safety control system to upgrade the existing 73,000 km railway network and to equip the future network, was highlighted in the 11th Five Year Plan. As such, the provision of RIS business is extremely promising in the coming years.

LARGE NEW PLANT CONSTRUCTION PROJECTS DEMANDS WHOLE PLANT PACKAGE

In 2007, the Group, being the number one player in safety and critical control system provider, continues to differentiate itself with the competitors by focusing on better tailor-made system integration services to its end customers. In recent years, the new mega plant construction projects demands whole plant packages for the safety and critical control systems with integrated total solution for ITCC, ESD and FGS. Currently the Company is the only one which can provide the whole plant packages delivery. This competitive advantage brought significant business to the Group in 2007.

DEVELOP ENGINEERING SERVICE BUSINESS IN THE INTERNATIONAL MARKET

At the end of 2007, Inovex Corporation, a wholly owned subsidiary of the Group, has been established in Houston and commenced operation in North America. This was the further step to develop the engineering service business in the international market through setting up subsidiaries and/or branches in overseas markets. The business model is to recruit sales and engineer teams locally, bid and secure project orders and provide project consultancy and management contracts, while utilizing the cost effective engineering resources in the PRC to process the orders and engineering jobs. The management believes that with the expertise of the Group in the safety and critical control systems, the international engineering service business would offer great potential and thus boost the earnings of the Group.

ACQUIRE 46.97% EQUITY INTERESTS IN BEIJING JIAODA MICROUNION TECHNOLOGY CO., LTD. ("BEIJING JIAODA MICROUNION")

At the end of 2007, the Group announced, through Beijing Consen Automation Control Co., Ltd 北京康吉森自動化設備技術有限責任公司 ("Beijing Consen") and Beijing Sindhu Industrial Software Company Limited 北京天竺興業軟件技術有限公司 ("Beijing Software"), to acquire 46.97% effective equity interests in Beijing Jiaoda Microunion at a total consideration of RMB192.1 million. Beijing Jiaoda Microunion is principally engaged in railway signal and communications technology and development in the PRC and is a major supplier of railway station computerised interlocking software and system integration and is one of the only four licensees in the PRC holding the relevant licence granted by the MOR of the PRC for the provision of railway-station interlocking software and system integration. The Group is currently involved in negotiations in relation to the possible acquisition of the controlling stake in Beijing Jiaoda Microunion in the near future. In this way, the Group will have RIS business in both the national railway and local railway markets.

PROSPECT

Looking forward, the Group intends to further consolidate its position as the leading total solution provider in the safety and critical control system as well as all round engineering / after-sales services in the chemical, petrochemical, coal chemical, oil and gas and railway industries. Should the acquisition of a controlling stake in Beijing Jiaoda Microunion be consummated in the near future, the Group will have **Two Growth Engines** – one from provision of existing safety and critical control system in chemical, petrochemical, coal chemical, oil and gas market and the other from the railway safety control system in national railway / urban railway market. As such, the business mix of the Group will be diversified further, with control-systems business for both petrochemicals and railways likely to expand rapidly over the next few years.

On behalf of the Board, I would like to take this opportunity to thank every member of our staff for contributing to the success of this year. Also, I wish to express my appreciation to our customers, business partners and shareholders for their continuous support.

Xuan Rui Guo
Chairman

Hong Kong, 9 April 2008

Management Discussion and Analysis

2007 was an extraordinary year, a year with rapid transformation and brilliant achievements.

INDUSTRY OUTLOOK

The solutions for petrochemical safety and critical control systems (including ITCC, ESD and FGS) provided by the Group are mainly applied in the most important large scale rotating machine control in the process supervision of the petrochemical industry and emergency shut down control under dangerous situation. These solutions are used for ensuring the smooth running and safety of production facilities. The railway signal interlocking system RIS provided by the railway industry is mainly used to control the safe passageway of railway stations to avoid train crash and ensure travel safety. Our customers are mainly engaged in petrochemical and railway industries.

PETROCHEMICAL INDUSTRY

The petrochemical industry is the important foundation and pillar of the PRC economy, and has a very important role in the development of the economy. Oil refinery and ethylene are the leading products of the petrochemical industry. A recent forecast states that the demand of refined oil in the PRC in 2020 will amount to 2.3 times of that of 2000 (approximately 500 million tonnes). The highlights during the period of the "Eleventh Five-Year Plan" (2006-2010) include establishing comprehensive ancillary facilities to enhance refinery capability, constructing processing bases for imported crude oil, increasing total production volume of ethylene, establishing a network of world-class ethylene production bases and accelerating the development of the ethylene industry.

– Traditional Petrochemical Industry

The acceleration in the construction projects of the petrochemical industry and the expansion in business scale will boost the demand for large-scale petrochemical equipment. It is initially forecasted that there will be an annual national petrochemical equipment input of approximately RMB$30 billion during the "Eleventh Five-Year Plan" period.

Relevant statistics indicate that an investment of RMB$500 million to RMB1 billion is required for the construction of petrochemical equipment. An investment of over RMB$10 billion is required for the construction of a refinery plant with a production capacity of some 10 million tonnes while a total investment of over RMB$20 billion is required for the construction of an ethylene plant with a production capacity of some million tonnes.

Construction of large-scale petrochemical construction, renovation of obsolete equipment and installation of newly constructed equipment will further increase the demand for specialised petrochemical equipment. According to the project information available to the Group, more than 200 petrochemical projects will be carried out in the coming two years.

According to the international practice of the oil refinery and petrochemical industries, the safety and critical control system market is approximately 0.5% of the total investment in the newly built oil refinery and petrochemical project. As a result, the anticipated increase of investment in the industries will directly bring the market volume growth of safety and critical control system market. As a market leader, the Group has the competitive edge of sustainable and stable development in the petrochemical industry.

– Coal Chemical Industry

The international petroleum price has remained high while the continuous rapid economic growth in the PRC has brought a substantial increase in the demand for energy. These two factors together has given an impetus to the development and application of alternative energy, in particular, the replacement of oil by coal, the replacement of the petrochemical industry by the coal chemical industry, etc.

The outline of the "Eleventh Five-Year Plan" period clearly points out its targets to develop coal chemical industry, to exploit coal-based liquid fuel, to propel construction of coal liquidation demon stration project in an orderly manner, to promote the transformation of intensive processing of coal, and to develop large-scale comprehensive facilities for the coal chemical industry such as the equipment for coal liquefaction and gasification and processing coal to olefin (煤製烯烴). These will accelerate the momentum of standardisation of the coal chemical production industry.

The background of the development of the chemical industry in the PRC is that there is "a shortage of crude oil with limited natural gas but abundant coal". In particular, it is rational to develop the chemical industry with coal as the major raw material, especially in regions with concentrated coal resources, relatively abundant water resources, and convenient accessibility. With acute shortage of resources and high oil prices, clean alternative energy such as methanol will be highly valued due to their characteristics of low cost and high marketisation. Currently, four coal liquefaction projects have commenced operations with a production capacity of refined oil of 20 million tonnes in Inner Mongolia capitalising on the initiatives of technological innovation during the "Eleventh Five-Year Plan" period. Nearly every coal production base in the PRC is planning projects for the transformation from "coal to oil," "coal to chemical" and "coal to electricity".

The rapid growth of the coal chemical industry has become a major characteristic of the petrochemical sector in the PRC. Leveraging on its own edges, the Group will be able to grasp every opportunity and enhance its competitiveness.

RAILWAY INDUSTRY

In order to satisfy the growing demand for transportation, the PRC has exerted great efforts in the construction and investment of transportation infrastructure. In the "Eleventh Five-Year Plan", the investment budget for national infrastructure of the Ministry of Railways is approximately RMB1.25 trillion, representing an increase of over 250% as compared with the "Tenth Five-Year Plan".

– Traditional Railway

(I) National Railway

According to the Ministry of Railways, the PRC railway network can only satisfy approximately 40% of the PRC demand currently.

In respect of traditional railway, apart from constructing new railway lines to extend the total operating length of the railway network, the "Eleventh Five-Year Plan" for railway development also puts special emphasis on the modernisation and advancement of railway technology, in particular the construction of electrified railway, two-way railway and high speed railway. The highlights of the "Eleventh Five-Year Plan" for railway development are: (1) to construct a new railway line of 17,000 km which includes a special passenger railway line of 7,000 km; (2) to upgrade and increase the speed of existing railway line of 8,000 km; (3) to upgrade the existing railway of 15,000 km into electrified railway; (4) to extend the total length of the PRC high speed passenger railway to over 20,000 km; (5) to extend the total operating length of the PRC railway network to over 90,000 km by the end of 2010.

According to the Statistical Centre of the Ministry of Railways of the People's Republic of China (中華人民共和國鐵道部統計中心), the construction of railway infrastructure was completed an investment of $177.21 billion in 2007, increased by RMB22.96 billion or 14.9% compared to last year. According to the agenda of the National Railway Operation Conference (全國鐵路工作會議), the completion of infrastructure investment of RMB300.0 billion, the new railway line of 4,415 km and the two-way railway line of 3,405 km is scheduled in the 2008 PRC annual railway plan.

According to forecast, the construction of the PRC railway network will continue for ten years after the promulgation of the "Eleventh Five-Year Plan".

(II) Joint Venture Railway and Local Railway

According to the Statistical Centre of the Ministry of Railways of the PRC (中華人民共和國鐵道部統計中心), there were 64 joint venture railway projects which were under construction and planning to be constructed in 2007, which accounted for nearly half of the large-to-medium network construction projects. Among the completed investment of RMB177.21 billion, the funding from local government and enterprise amounted to RMB29.18 billion, which accounted for 16.5% of the investment.

The central and local governments took the initiative in the development of joint venture railways and local railways and broadened the fund-raising channels. In recent years, the growth of joint venture railways and local railways has picked up momentum in order to adapt to the development of the transportation industry of different provinces and prefectures. The highlight of such development was the total local railway length of Henan Province which accounted for one fourth of the PRC local railway. Taking only the information of the Local Railway Bureau of Henan Province into account, the total investment of nearly RMB12.0 billion of four local railways in the province, the construction of which has been commenced and confirmed in the province in 2007, was recorded. Furthermore, the narrow gauge railway of 770 km of the province is required to be transformed by 2010.

(III) Specialised Railway

Specialised railways are generally constructed under direct investment of large-to-medium enterprises to cater for the transportation business of the enterprise. Currently the PRC has specialised railways of more than 25,000 km, and among them are industrial ore railways of over 13,000 km, forest railways of more than 9,000 km and other specialised railways of 3,000 km.

For the purpose of only the power plant, according to the development of the power industry under the "Eleventh Five-Year Plan", there will be 50 newly-built coal gangue integrated power plants from 2007 to 2010 which are confirmed by the National Development and Reform Commission with a total installation scale of approximately 20 million kW.

In addition, the development of various industries including metallurgical, iron and steel, coal chemical and industrial ore has also propelled the prosperity of the specialised railway market.

– City Rail Transportation

Due to the rapid economic growth, urbanisation has been accelerated and investment in the construction of city rail transportation infrastructure has been on an upward trend.

Among the ten cities in the PRC which feature city rail transportation systems, six of them (including Beijing, Shanghai and Tianjin) are expanding or planning to expand their existing subway networks. Furthermore, 25 cities in the PRC have formulated specific proposals for city development and plan to develop city rail transportation. 14 out of these 25 cities have submitted subway construction application proposals to the National Development and Reform Commission and have obtained approval as at July 2007. It is forecasted that these 14 cities will construct approximately 55 new subway railways by 2015, and the total investment will be approximately RMB500.0 billion.

RIS, as a crucial railway safety control system to upgrade the existing 73,000 km railway network and to equip the future network, was highlighted in the 11th Five Year Plan. As such, the provision of RIS business is extremely promising in the coming years.

BUSINESS REVIEW

The Group is principally engaged in the provision of safety and critical control systems and related engineering and maintenance services for the chemical, petrochemical, coal chemical, oil and gas and railway industries in the PRC. Being the leader in the market with the largest market share, we are utilizing our expertise in safety and critical control market and endeavour to provide the total solutions with the ITCC, ESD & FGS and RIS to the customers.

Large new plant construction projects dominate the chemical, petrochemical, coal chemical, oil and gas markets in the PRC today. The demand to the provider of safety and critical systems turns to the characteristics of whole plant package, networking between the safety system and close communications with other automation systems. The market demands safety system providers to deliver also maximum reliability and all round after-sales service capability to the plants to ensure long-term and smooth operation. As the market leader, the Group has accumulated a lot of experience in the whole plant package delivery, while at the same time we continue to expand our service network and give the customer maximum reliability assurance.

	Turnover Analysis by Business Segment For the year ended 31 December		
	2007 (RMB' million)	2006 (RMB' million)	Change (%)
System sales			
ITCC	**165.7**	112.8	+46.9
ESD & FGS	**116.9**	66.6	+75.5
RIS	**51.0**	39.0	+30.8
Overall of system sales	**333.6**	218.4	+52.7
Provision of engineering and maintenance services	**36.4**	46.0	-20.9
Trading of equipment	**33.4**	24.6	+35.8
Overall of total revenue	**403.4**	289.0	+39.6

Gross Profit Margin Analysis by Business Segment
For the year ended 31 December

	2007 (%)	2006 (%)	Change (%)
System sales			
ITCC	**46.0**	44.2	+1.8
ESD & FGS	**40.7**	33.8	+6.9
RIS	**39.7**	40.0	-0.3
Sub-total	**43.2**	40.2	+3.0
Provision of engineering and maintenance services	**74.5**	78.3	-3.8
Trading of equipment	**8.0**	0.8	+7.2
Total	**43.1**	42.9	+0.2

ITCC

Following the increase of the market volume and market share, revenue of ITCC sales increased by approximately 46.9% to RMB165.7 million for the year ended 31 December 2007 when compared with that of the previous year. Moreover, the gross profit margin of ITCC system slightly increased by approximately 1.8% to 46.0% of the segment revenue for the year ended 31 December 2007. It shows our market leadership position and the good potential of ITCC business. After years of sales and marketing efforts, the ITCC concept has been widely accepted by end customers in the various industries/markets as one of the important industrial standards. The application of ITCC systems has been extended very widely and generated a lot of business potential in the market. On the other hand, the complexity of ITCC system design and requirement for system reliability keep increasing so that the sales volume of ITCC system has grown larger than before. All the above mentioned factors had served to push the Group's fast growth of the ITCC system sales for the year ended 31 December 2007. The management expects that the general trend would continue in the forthcoming years.

ESD and FGS

Following the construction of large refineries, petrochemical plants and coal chemical plants in the PRC, the market of ESD and FGS keeps expanding for the year ended 31 December 2007. The Group had awarded most of the ESD system orders in the PRC and maintained the largest market share in this business segment. Accordingly, the revenue of ESD and FGS sales increased by approximately 75.5% to RMB116.9 million for the year ended 31 December 2007 when compared with that of the previous year. Moreover, the gross profit margin had increased by approximately 6.9% when compared with that of the previous year to 40.7% of the segment revenue for the year ended 31 December 2007. The considerable increase in gross profit margin on ESD and FGS segment for the year ended 31 December 2007 when compared with that of the previous year was mainly due to the fact that more revenue was generated from the foreign invested companies projects which enjoyed a higher gross profit margin because of its higher engineering standard and complexity.

RIS

The revenue of RIS sales increased by approximately 30.8% to RMB51.0 million for the year ended 31 December 2007 when compared with that of the previous year mainly attributable to the increased sales and marketing effort put in during the year as well as the enhanced engineering works and services quality which led to increased market share in the local railway industry. The gross profit margin of RIS basically maintained at approximately 39.7% (2006: 40.0%) of the segment revenue for the year ended 31 December 2007 which was pretty in line with that of the previous year. The management believes that the revenue of RIS for the forthcoming years would significantly increase in view of the expected substantial investment in the national railway and urban railway transportation network made by the PRC government in the coming five to ten years in the PRC.

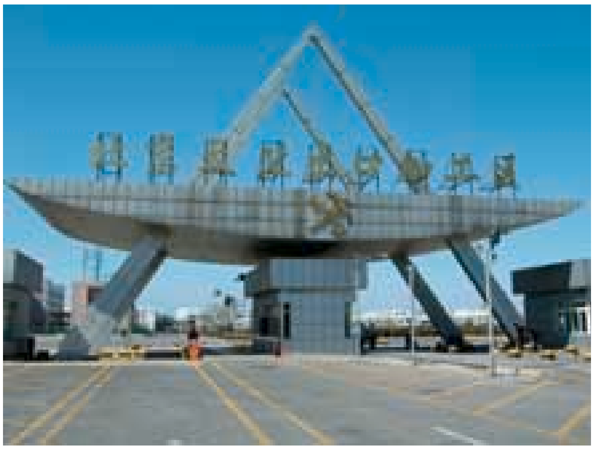
Provision of engineering and maintenance services

The revenue in relation to the provision of engineering and maintenance services had decreased by approximately 20.9% to RMB36.4 million mainly due to less overseas engineering projects having been completed for the year ended 31 December 2007. Nevertheless, the revenue from maintenance services increased steadily due to the accumulated installation base.

Owing to the technical competency and experience of the Group's engineers in the chemical, petrochemical, oil and gas industries, the Group has from time to time been engaged by Invensys Process Systems Pte Limited to provide engineering services in overseas locations such as Dubai (in the Middle East) and Singapore. Presently, the Group had expanded its engineering service by setting up a U.S. company namely Inovex Corporation in Houston to explore North American market and is planning to expand the Middle East market. The management believes that establishment of the new overseas engineering operation would boost the revenue of engineering and maintenance service of the Group in the near future.

Trading of equipment

In view of the expanding railway transportation network in the PRC, the management believes that the demand for train manufacturing equipment would have a significant growth in the foreseeable future. In order to capture the business opportunities that may arise, the Group has commenced the business of trading in train manufacturing equipment since 2003. Following the successful cooperation with foreign vendors and the accumulation of excellent track record, the Group has built up reputation in this niche market. As such, revenue in relation to trading of equipment increased by approximately 35.8% to RMB33.4 million for the year ended 31 December 2007. Looking forward, the management believes that this business segment would have excellent potential in the forthcoming years.



Beijing Airport Exportation Processing Zone

OPERATION AND MARKETING REVIEW

As an ongoing programme, the Group continuously improves the functionality of its systems in order to fulfill the emerging needs and requirements of customers from time to time. In 2007, the Group built up a new training center and expanded new engineering workshop in order to meet the requirements of fast growing business demand and the upcoming mega international standard projects in the downstream chemical, petrochemical, coal chemical, oil and gas industries. The newly developed duty free logistics factory erected at the Beijing Airport Exportation Processing Zone had commenced its operation and thus gives the Group more flexibility in dealing with the contracts relating to exportation.

In 2007, the Group continues to differentiate itself from its competitors by focusing on better tailor-made system integration services to its end customers. Recently, the new mega construction projects demand for whole plant packages for the safety and critical control systems with integrated total solutions for ITCC, ESD and FGS and the Group is currently the only one system provider which can provide the whole plant packages, whilst the competitors can only provide either ITCC or ESD/FGS separately. This competitive advantage brought significant business opportunity to the Group and at times there had been only one single tender submission when whole plant package was demanded in 2007. During the year, the Group had delivered approximately 200 systems to its end customers.

The Group provides quality after-sales services and maintains close relationships with its customers which in turn help the Group to secure more business in system upgrade and maintenance service as well as to obtain more information on potential new projects. Moreover, increasing penetration rate of industrial safety system has created a lot of after-sales services demands as the experienced supporting engineers could guarantee timely and value added after sales services which has consolidate customer loyalty.

On the operation side, the Group continued to maintain zero product fraud rate record in 2007. With the objective to maintain the Group's leading position in the safety and critical control system market in chemical, petrochemical, coal chemical, oil and gas industries and to further develop the Group's business, it intends to enhance its engineering capability through recruiting more system engineers to cope with the fast growing PRC and overseas markets. In 2007, additional 26 system engineers had been recruited to further strengthen the Group's engineering team.

On the marketing side, the Group has a strong sales and marketing team responsible for organizing regular meetings, users' conferences and seminars so as to maintain good and interactive relationships with its customers, understand customers' needs and to keep abreast of the latest market trends and development in the industry. After ongoing marketing efforts, the Group won a significant number of orders for its systems in 2007. The Group continued to obtain the projects from Sinopec and CNPC. Sinopec's projects included Tianjin Refining (10 MT/Y), Ethylene (1 MT/Y) Project, and Ethylene (1 MT/Y) Project of Zhenhai Refinery Company; whilse CNPC's projects included Qinzhou Refining (12 MT/Y) Project. For RIS business, the Group obtained Angola RIS Project and RIS Project of Anshan Steel and Iron Group, whereas other projects included Yangtze-BASF reconstruction project, Datang project, and Shenhua Group MTO project. During the year under review, four new sales and services support offices have been set up which included Urumqi, Wuhan, Chengdu, Shenyang, bringing the Group's total number of sales and services liaison offices from five to nine to provide a more comprehensive coverage in the PRC market. As at end of 2007, the order backlog amounted to approximately RMB500 million, which was a record high for the Group since its establishment in 1999. The Group will be deploying all the requisite resources to let them be completed on time.

As at 31 December 2007, the Group employed 285 employees (2006: 207). Driven by high business growth, the Group has to recruit talented employees in all departments in particular system engineers and sales engineers in order to cope with business expansion. Employees remuneration was determined based on performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission were also awarded to employees, based on their annual performance evaluation. Incentives were offered to encourage personal and career development.

Acquisition of 46.97% effective equity interests in Beijing Jiaoda Microunion

On 24 December 2007, the Group, through Beijing Consen and Beijing Software, entered into two sale and purchase agreements with the six vendors to acquire the 46.97% effective equity interests in Beijing Jiaoda Microunion at a total consideration of RMB192.1 million.

Beijing Jiaoda Microunion is principally engaged in railway signal and communications technology and development in the PRC and is a major supplier of railway station computerised interlocking software and system integration and is one of the only four licensees of RIS and Centralized Traffic Control ("CTC") products granted by the MOR of the PRC for the provision of railway-station interlocking software and system integration. In addition, Beijing Jiaoda Microunion's RIS and CTC businesses have one of largest market shares in the national railway business. CTC is a monitoring system and managing system that oversees overall train traffic and railway station operation. The management believes that the acquisition would help the Group to tap into a new CTC market with around RMB1 billion market size and also having high gross profit margin. Moreover, the Group is also seeking to penetrate into the RIS/CTC market for urban and metro railways.

The acquisition is therefore strategically critical to the Group on a long-term basis in order to overcome the high entry barriers for providing the RIS for the national railway.

The Group is currently involved in negotiations in relation to the possible acquisition of the controlling stake in Beijing Jiaoda Microunion in the near future so as to be able to exercise financial and operational control over that company. If the acquisition is consummated, the management is confident that operating costs could be more effectively controlled via restructuring and integration with the Group's existing RIS business in local railway. In this way, the Group will have RIS business in national, local and urban railways.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2007, revenue of the Group significantly increased by 39.6% to approximately RMB403.4 million (2006: RMB289.0 million), as compared with that of the previous year.

The increase was mainly attributable to the approximately 52.7% increase in the revenue from system sales which increased by approximately RMB115.2 million to RMB333.6 million. In addition, trading of equipment also increased by approximately 35.8% to RMB33.4 million for the year ended 31 December 2007 when compared with that of the previous year.

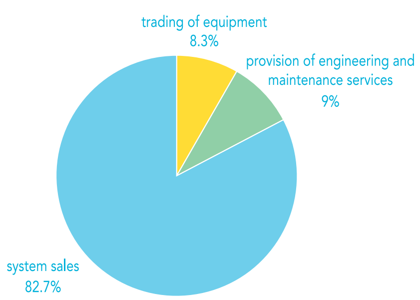
Nevertheless, these increases were partially offset by the approximately 20.9% decrease in the revenue from the provision of engineering and maintenance services which decreased by approximately RMB9.7 million to RMB36.4 million for the year ended 31 December 2007 when compared with that of the previous year.

The increase in system sales was mainly attributable to the fact that (i) the new mega construction projects demands for whole plant packages for the safety and critical control systems with integrated total solutions for ITCC, ESD and FGS; and (ii) the Group is currently the only one system provider in the industry in the PRC who has proven experience in the whole plant packages delivery in the market whilst the competitors can only provide either ITCC or ESD/FGS separately. This competitive advantage has brought significant business opportunity to the Group and at times there had been only one single tender submission when whole plant package was demanded in 2007. This in turn brought about the significant increases in revenue from system sales of ITCC, ESD and FGS.

The increase in trading of equipment was mainly due to the more incidental orders from the customers during the year ended 31 December 2007.

The decrease of revenue from the provision of engineering and maintenance services was mainly attributable to less overseas engineering services business as a result of the slippage in delivery schedules caused by the main contractors. Nevertheless, the revenue from the provision of maintenance services has been steadily increasing due to the accumulated enlarged installation base.

In terms of business segment, approximately 82.7% (2006: 75.6%) was generated from system sales, approximately 9.0% (2006: 15.9%) was from the provision of engineering and maintenance services and approximately 8.3% (2006: 8.5%) was from trading of equipment for the year ended 31 December 2007.



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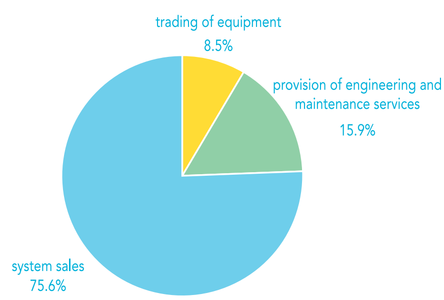

2006

Gross profit

Gross profits for the year ended 31 December 2007 was approximately RMB173.7 million, representing an increase of approximately RMB49.6 million or 40.0% of the total revenue over that of the previous year.

The overall gross profit margin basically maintained at approximately 43.1% of the total revenue for the year ended 31 December 2007, representing a slight increase of approximately 0.2% over that of the previous year. The improvement was mainly due to the overall improvement of gross profit margin in respect of the system sales segment as a result of cost savings achieved through economies of scale and operation streamlining. Moreover, the appreciation of Renminbi also had favourable impact on the gross profit margin.

Other income

For the year ended 31 December 2007, other income significantly increased by approximately RMB8.4 million to RMB9.1 million mainly due to the significant increase in interest income generated from bank deposits following receipt of the proceeds from the initial public offering ("IPO") completed in July 2007 as well as the receipt of government grant for the transformation of the Company's subsidiary which has been engaged in the new and high technology in the Zhongguanchuan Park, Beijing upon public offering.

Selling and distribution costs

Selling and distribution costs for the year ended 31 December 2007 were approximately RMB30.1 million, which increased by approximately 23.4%, as compared with that of the previous year. Such increase was mainly attributable to the increase in consultancy fees in relation to international projects, services fees to tendering institutions, cargo charges as a result of more international purchases and more entertainment expenses in line with the expanding sales and services network in the PRC. During the year under review, the sales and services support offices had increased from five to nine to provide wider coverage in the PRC market.

Administrative expenses

Administrative expenses for the year ended 31 December 2007 were approximately RMB50.0 million, which increased by approximately 112.8% when compared with that of the previous year. Such increase was mainly attributable to (i) increased office expenses; (ii) increased research and development expenditures in order to improve the product competitiveness and to explore new applications; (iii) the promotion of sales and marketing personnel to top management and therefore the related salaries charged to administrative expenses plus the overall improved staff salaries and benefits as well as the increased staff level; (iv) share-based payments of RMB3.4 million charged to the income statement in relation to the valuation of share options granted under the Company's share option scheme during the year; and (v) the increase in listing expenses that could not be capitalized and deducted from the share premium account.

Finance costs

Finance costs for the year ended 31 December 2007 increased from approximately RMB0.6 million to RMB3.1 million. Such increase was mainly attributable to the interest expenses incurred for more discounted bills and utilization of invoice financing for the year under review.

Income tax expenses

Income tax expenses decreased significantly from approximately RMB5.3 million for the year ended 31 December 2006 to a credit of approximately RMB0.4 million for the year ended 31 December 2007 as most of the Group's major operating subsidiaries were on tax holiday for the year ended 31 December 2007 as well as the reversal of over provision of income tax made for Beijing Consen Transportation Technology Company Limited ("Beijing Transportation") in 2006 amounted to approximately RMB0.7 million.

Profit for the year

As a result of the foregoing, the Group recorded a profit attributable to equity holders of the Company of approximately RMB99.9 million for the year ended 31 December 2007, representing an increase of approximately RMB31.4 million or 45.8% as when compared with that of the previous year.

Net profit margin attributable to equity holders of the Company increased from approximately 23.7% for the year ended 31 December 2006 to approximately 24.8% for the year ended 31 December 2007.

Dividend

The Board recommends distribution of a final dividend of HK$3.0 cents (equivalent to approximately RMB2.7 cents) per ordinary share in respect of the year ended 31 December 2007, representing a total payout ratio of approximately RMB24.7 million or 24.7% distribution of the Group's consolidated profit for the current financial year.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

The cash inflow generated from operating activities of the Group increased from approximately RMB18.1 million for the year ended 31 December 2006 to approximately RMB29.9 million for the year ended 31 December 2007. This was mainly attributable to the increase in profit before taxation of the Group from approximately RMB74.2 million for the year ended 31 December 2006 to approximately RMB99.7 million for the year ended 31 December 2007 as well as the increase in trade and bills payables plus increase in other payables, deposits received and accruals but partially offset by the increase in inventories and trade and bills receivables.

Net cash used in investing activities for the year ended 31 December 2007 increased by RMB8.9 million to RMB41.3 million primarily due to the deposit paid amounted to RMB16.2 million for acquisition of 46.97% effective equity interest in Beijing Jiaoda Microunion.

Net cash from financing activities for the year ended 31 December 2007 increased by RMB201.7 million to RMB243.5 million primarily due to the proceeds amounted to RMB329.5 million from issue of new shares upon listing of the Company's shares on the Stock Exchange but offset by the net repayments of bank borrowings amounted to RMB84.4 million.

As at 31 December 2007, cash and bank balances (including bank deposits under conditions) amounted to approximately RMB339.9 million (2006: approximately RMB88.5 million). Working capital (net current assets) of the Group as at 31 December 2007 amounted to approximately RMB516.5million (2006: approximately RMB116.5 million), an increase of 343.3% from previous year-end.

As at 31 December 2007, the total liabilities to shareholders equity decreased to 0.21 times (2006: 0.94 times). Total liabilities of the Group amounted to approximately RMB119.8 million (2006: approximately RMB138.2 million).

As at 31 December 2007, the Group remained at net cash position.

Pursuant to a placing and subscription agreement dated 21 February 2008, 83 million shares of HK$0.01 each in the share capital then held by Consen Group Holding Inc. ("Consen Group") was placed to investors on 25 February 2008 at placing price of HK$2.84 per share and subscription of 83 million new shares by Consen Group at the subscription price of HK$2.84 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK$0.01 each in the share capital of the Company and was completed on 3 March 2008. The net proceeds from the said placing and subscription amounting to approximately HK$229.5 million, were duly received on 27 February 2008.

The management is comfortable that the existing financial resources will be sufficient for its future expansion plans. Should other business opportunities arise requiring additional funding, the management also believes that the Group is in a good position to obtain financing on favourable terms.

Bank borrowings

As at 31 December 2007, the Group had no bank borrowings (2006: RMB54.3 million).

Research and Development Centre in Beijing Plant

FINANCIAL RATIOS AND TURNOVER DAYS

The Group's current ratio, gearing ratio and turnover days for the year ended 31 December 2007 versus 2006 are set forth below:

	As at 31 December	
	2007	2006
Current ratio (Note 1)	**5.3**	1.8
Gearing Ratio (Note 2)	**0**	0
Inventory turnover days (Note 3)	**172**	111
Trade and bills receivable turnover days (Note 4)	**155**	138
Trade and bills payable turnover days (Note 5)	**137**	75

Notes:–

1. The calculation of the current ratio is based on the current assets divided by current liabilities.

2. The calculation of the gearing ratio is based on the total bank borrowings less bank and cash balances and bank deposits under conditions at their respective year ends divided by equity.

3. The calculation of the inventory turnover days is based on the inventory balances at their respective year ends divided by annual cost of sales for the relevant year and times 365.

4. The calculation of the trade and bills receivable turnover days is based on the trade and bills receivable at their respective year ends divided by annual turnover for the relevant year and times 365.

5. The calculation of the trade and bills payable turnover days is based on the trade and bills payable at their respective year ends divided by annual cost of sales for the relevant year and times 365.

CURRENT RATIO

The current ratio as at 31 December 2007 was at a healthy level of approximately 5.3 times (2006: 1.8 times). The significant improvement in current ratio was mainly due to the increase in bank balances and cash received from the Company's IPO exercise, trade and bills receivables as well as inventories. The increase in trade and bills receivables was mainly due to the recognition of revenue relating to the Exxon-Mobil-Saudi Aramco-Sinopec joint venture project in Fujian Province, the PRC amounted to approximately RMB50 million approaching end of 2007. The increase in inventories was mainly due to the bulk purchases of hardware and spare parts in preparation for the execution of the large project backlog in 2008.

GEARING RATIO

As at 31 December 2007, the Group remained at net cash position (2006: net cash position). This was mainly attributable to the Group's prudent financial management policies.

INVENTORY TURNOVER

Inventory turnover for the year ended 31 December 2007 was approximately 172 days (2006: 111 days). The significant increase in inventory turnover days was mainly due to the bulk purchases of hardware and spare parts in 2007 in preparation for the execution of the large project backlog in 2008.

TRADE AND BILLS RECEIVABLE TURNOVER

The Group generally offers a credit period of 90 days to the customers. Trade and bills receivable turnover for the year ended 31 December 2007 was approximately 155 days (2006: 138 days). The increase in trade and bills turnover days was mainly due to the recognition of revenue regarding the Exxon-Mobil-Saudi Aramco-Sinopec joint venture project in Fujian Province, the PRC amounted to approximately RMB50 million approaching the year end of 2007.

TRADE AND BILLS PAYABLE TURNOVER

Trade and bills payable turnover increased to approximately 137 days for the year ended 31 December 2007 (2006: 75 days). This was mainly attributable to the bulk purchases of hardware and spare parts made approaching the end of 2007 in preparation for the execution of the large projects backlog in 2008 and demonstrating good business relationship with the suppliers in terms of more flexible credit limit.

FUTURE OUTLOOK

In view of the fast-growing national economy and fast-expanding production capacity in downstream chemical, petrochemical, coal chemical and oil and gas sectors as well as the fast growing railway sectors, the management believes that the market of safety and critical control system in the PRC would experience continuous and sustainable growth in the forthcoming years. Leveraging on the key competitive advantages in product application track record, software customization ability and localized after sales services, the Group, as the leader of the safety and critical control system provider in the PRC, has the competitive strength and in a good position to capture the market opportunities and successfully expand its business. Details of the Group's future plans are as follows:-

Railway safety control system as the major growth driver

Through completion of the acquisition of 46.97% equity stake in Beijing Jiaoda Microunion in March 2008, which owns one of the only four licenses of RIS and CTC products in the PRC granted by the Ministry of Railways of the PRC (中華人民共和國鐵道部) for the provision of railway-station interlocking software and system integration in the national railway. The management believes that the acquisition is a major step for the Group to secure its leading position in the RIS business. Moreover, the acquisition would definitely have synergy with the existing local railway business conducted by Beijing Transportation through restructuring and integration of the two RIS businesses. Meanwhile, the Group is considering to acquire to a controlling stake in Beijing Jiaoda Microunion in order to obtain financial and operational control over that company. In the medium term, the Group aspires to bring Beijing Jiaoda Microunion to international market after completing its international certification of its engineering works and RIS systems. The management believes that the revenue from the RIS business would achieve significant growth in the forthcoming years, driven by the intensive investment in the national and local railway as well as the metro and urban railway industry in the PRC.

Actively seek mergers and acquisitions opportunities

As the number one player in safety and critical control system provider in chemical, petrochemical, coal chemical and oil and gas and railway industries in the PRC, the Group aspires to continue to expand in this market through organic growth and mergers and acquisitions, both domestically and internationally. The acquisition targets will be the leading providers of related equipment, devices and software and/or offer complimentary products, technologies such that the core competencies of the Group could be further strengthened. The basic criteria would be those companies which have positive operating cash flow and operating profit, whilst which could be bought at reasonable acquisition price.

Enhance its engineering capability and investment in R&D

With a view to maintain the Group's leading position in the safety and critical control system market in the chemical, petrochemical, oil and gas and railway industries and to further develop its business, the Group intends to enhance its engineering capability through recruiting more system engineers to cope with the fast growing PRC and overseas markets.

The R&D investment from the Group continues to serve for the core business of the Group. The management aspires to apply the latest technology in the application of safety and critical control systems. In addition, the Group is also deploying resources to conduct R&D activities in this area and take the lead in the technology for the next generation.

Expand sales and services support network in the PRC

In 2007, the sales and services support offices had increased from five to nine to provide a more comprehensive and meticulous coverage in the PRC market. The Group will further expand its sales and service support network in the PRC to strengthen the market coverage in order to generate more orders and service income as well as to seek fresh market development opportunities.

Develop engineering service business in the international market

The Group continues to develop the engineering service business in the international market through setting up subsidiaries and/or branches overseas such as the Middle East. The business model is to recruit sales and engineer teams locally, bid and secure project orders and provide project consultancy and management contracts, while utilizing the cost effective engineering resources in the PRC to process the orders and engineering jobs. The management believes that with the expertise of the Group in the safety and critical control systems, the international engineering service business would offer great potential and thus boost the earnings of the Group. At the end of 2007, a wholly-owned subsidiary company, namely Inovex Corporation, has been established in Houston, the United States and commenced business operation in North America with experienced management staff already on board.

Extend the applications into other new industries

The Group aspires to extend the existing safety and critical control system applications in downstream chemical, petrochemical, coal chemical, oil and gas market to other new industries including metallurgical, coal liquidation, electricity generation and nuclear power. This will bring new business opportunities for the Group.

Build a new complex

The Group plans to build a new complex comprising production facilities, office premises and R&D centre at Tianzhu Airport Industrial Zone, Beijing, the PRC. It is expected that the new production facilities would be able to increase the Group's annual production output significantly. The detailed design works and tender invitation of the new complex had been completed, while construction work for which will commence in the second half of this year.

Conclusion

With the Group's Two Growth Engines — one from the provision of existing safety and critical control system in chemical, petrochemical, coal chemical, oil and gas market and the other from the railway safety control system in national and local railway as well as urban railway market, the management is confident that, through formulation of above strategic objectives and implementation of tactical and operational plans, the Group can maintain sound business development and profitability, and keep creating economic value for its shareholders.

Directors and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Xuan Rui Guo（宣瑞國）, aged 39, is the founder of the Group, an executive Director and chairman of the Company. Mr. Xuan graduated from the Renmin University of China（中國人民大學）with a bachelor degree specialising in international politics. From December 1993 to October 1995, Mr. Xuan worked as a manager of 北京瑞宇生物技術有限責任公司. From November 1995 to April 1999, Mr. Xuan worked as the general manager of 北京康齊森自動化設備技術開發公司(Beijing Kangqisen Automation Company). He has over six years of experience in the roles of management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading companies in the PRC before founding Beijing Consen in 1999. He is responsible for the overall strategic and financial planning and long-term development of the Group.

Mr. Huang Zhi Yong（黃志勇）, aged 41, is a co-founder of the Group and an executive Director. Mr. Huang holds a master degree in mechanical engineering in Dalian University of Technology （大連理工大學）. From 1990 to 1994, Mr. Huang worked as an engineer of the Machinery Research Institute to Sinopec Tianjin Petrochemical Corp.（天津石化公司機械研究所）. In November 1995, Mr. Huang joined 北京康齊森自動化設備技術開發公司(Beijing Kangqisen Automation Company) and worked as a manager and subsequently as deputy general manager during his employment period. He has over eleven years experience in the management of company operation and automation engineering. He is responsible for overseeing the internal operations of the Group including R&D, financial management and customer service. Mr. Huang is also the head of the Group's software development team.

Mr. Kuang Jian Ping（匡建平）, aged 44, is a co-founder of the Group and an executive Director. Mr. Kuang holds a master degree in mechanical engineering in Dalian University of Technology（大連理工大學）. From July 1990 to March 1993, Mr. Kuang worked in the Instrumentation Technology Company of Dalian University of Technology as the sales manager and was responsible for the trading of instrumentation and automation systems. From March 1993 to 1998, Mr. Kuang worked as a sales manager and subsequently as deputy general manager in a subsidiary of China Chemical Industry Equipment and Instrumentation Company in Hainan province and was responsible for the trading of chemical equipment and instruments. From April 1998 to April 1999, Mr. Kuang worked in 北京康齊森自動化設備技術開發公司(Beijing Kangqisen Automation Company) as the deputy general manager in charge of sales and marketing. He has over 15 years of experience in sales and marketing as well as management in instrument and automation business in the China chemical and petrochemical industry. He is responsible for the business development and sales and marketing of the Group.

Independent Non-Executive Directors

Mr. Tang Min（湯敏）, aged 65, is an independent non-executive Director. Mr. Tang graduated from 北京化工大學 (Beijing University of Chemical Technology) with a bachelor's degree specializing in 有機系基本有機合成工學專業 (organic syntheses, organic department). From June 1990 to August 2002, Mr. Tang worked in (Yangtzi Petrochemical Company Limited)*, his last position therewith was deputy managing director. After Mr. Tang's retirement therefrom, he had been engaged by 揚子巴斯夫合資公司 (BASF-YPC Company Limited)* as senior consultant during the period from January 2005 to September 2005. In December 2000, Mr. Tang was certified and awarded as senior engineer with professor level of qualifications of speciality and technology by 中國石油化工集團公司 (China Petrochemical Corporation)*. Mr. Tang joined the Group in June 2007.

Mr. Wang Tai Wen（王泰文）, aged 61, is an independent non-executive Director. He graduated from Dalian Railway Institute, the PRC in July 1965 majoring in machinery and manufacturing. Prior to joining the Company, Mr. Wang was an external director of China National Foreign Trade Transportation (Group) Corporation. He also held various managerial positions in Ziyang Internal Combustion Locomotive Plant; the chairman, general manager and secretary to the communist party committee of China National Railway Locomotive Corporation; and also served as chairman and secretary to the communist party committee of China Southern Locomotive Industrial Group Corporation. Mr. Wang is currently an independent non-executive director of China Railway Group Limited and an external director of China Railway Engineering Group Company Limited. He appointed on 30 January 2008 to replace Mr. Han Ben Yi.

Mr. Ng Wing Fai（吳榮輝）, aged 49, is an independent non-executive Director. He graduated from the City University of Hong Kong in 1991 with a bachelor degree of arts in accountancy. He further obtained a master degree of arts in international accounting from the City University of Hong Kong in 1998. He also holds a postgraduate diploma in English and Hong Kong law from The Manchester Metropolitan University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a council member of the Society of Chinese Accountants & Auditors, and a member of the Hong Kong Securities Institute. He has more than 15 years of experience in audit, taxation and consultancy. Prior to setting up his own company, Messrs. Simon W.F. Ng & Company, CPA (Practising), he was a partner of Messrs. Paul W.C. Ho & Co., a local medium-size firm in Hong Kong which provides audit, tax advisory and consultancy services. He has extensive experience in audits, tax advisory services. He joined the Group in June 2007.

Mr. Han Ben Yi（韓本毅）, aged 42, is an independent non-executive Director. He is a lawyer and economist. He obtained a master's degree in economics from Northwestern University（西北大學）. He has been the chairman of a company listed on the Shanghai Stock Exchange, 陝西廣電網路傳媒股份有限公司 (Shaanxi Broadcast & TV Network Intermediary Co. Ltd.)*, since May 2001. He is currently the deputy general manager of 中國通用技術集團控股有限責任公司 (China General Technology (Group) Holdings, Ltd.)* since December 2003. He has also been currently the Chairman of a company listed on the Shanghai Stock Exchange, namely CNTIC Trading Co., Ltd. （中技貿易股份有限公司）* since July 2004. He resigned on 30 January 2008.

SENIOR MANAGEMENT

Mr. Yang Hong Yan（楊紅岩）, aged 38, is a deputy general manager of the Group. He is also the director and general manager of Beijing Transportation. He is responsible for the operation of Beijing Transportation and leading the R&D team and engineering team to develop projects of the company. Mr. Yang graduated from China Academy of Railway Science in 1993. He worked in China Academy of Railway Science from 1993 to 2003. He was awarded the Vice Researcher Certificate in 2002. He was also awarded "The National Science Progress Award" by Ministry of Railway and State Science & Technology commission in 2001. In 2003, Mr. Yang cooperated with Beijing Consen to set up Beijing Transportation. His research achievement, MCIS system, was awarded the "Beijing Technical New Products". He joined the Group in September 2003.

Mr. Cui Da Chao（崔大潮）, aged 51, is the chief financial officer of the Group. He is primarily responsible for overseeing the Group's accounting, treasury and financial affairs. From 1999 to 2001, he worked as a partner and deputy general manager of a PRC accountancy firm. He graduated from Xiamen University（廈門大學）, the PRC with a specialisation in international accounting. Mr. Cui joined the Group in February 2004.

Mr. Duan Min（段民）, aged 41, is a deputy general manager of the Group. He is primarily responsible for overseeing the sales departments of the Group. He graduated with a bachelor's degree in automation of chemical engineering in Dalian University of Technology（大連理工大學）. He has over 16 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 1999.

Mr. Zhang Bao Li（張寶莉）, aged 37, is a deputy general manager of the Group. He is primarily responsible for overall supervision, technical support, overseeing the customer services center of the Group, maintain customer's satisfaction and materialise the Group's operating objectives. He graduated with a bachelor's degree in industrial electrical automation from Tianjin University of Technology（天津理工學院）. He joined the Group in March 2000.

Mr. Ji Jun（季俊）, aged 38, is a deputy general manager of the Group. He is primarily responsible for overseeing the quality control in engineering projects and the development of new products and techniques of the Group. He graduated with a bachelor's degree in production process automation in Zhejiang University（浙江大學）. He has over 15 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 2001.

Mr. Zhou Zheng Qiang（周政強）, aged 42, is a deputy general manager of the Group. He is primarily responsible for overseeing the marketing development of the group. He graduated with a bachelor's degree of process automation in the Department of Chemical Engineering in Zhejiang University. He has worked in China Hua Lu Engineering company for 15 years from 1988 to 2002. From April 2002 to January 2006, he was the general manager of 西安籃溪控制系統工程有限責任公司 (Xian Lan Qi Control System Engineering Company Limited). In February 2006, he joined the Group as the deputy general manager of marketing. Mr. Zhou holds the Certificate of Senior Automation Engineer in China.

Mr. Chow Chiu Chi（周昭智）, aged 49, is the financial controller, company secretary and qualified accountant of the Company, and is a member of the senior management employed by the Company on a full-time basis as required under Rule 3.24 of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"). He joined the Group in June 2006. He graduated from the Hong Kong Polytechnic University with a bachelor of arts degree in Accountancy. He is an associate member of the Chartered Institute of Management Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He also obtained a master's degree in business administration from the Hong Kong Polytechnic University. He has over 20 years of experience in finance and accounting.

Directors' Report

Overcome challenges for better results

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is engaged in the provision of critical and safety control system for the chemical, petrochemical, coal chemical, oil and gas and railway industries.

The activities of the Group are mainly based in the PRC. Analysis of the Group's turnover and contribution to operating result by principal activities and by principal markets are set out in notes 7 and 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 47.

The Board recommends a distribution of HK$3.0 cents per share (2006: Nil), amounting to a total of HK$27,390,000 for the year ended 31 December 2007 (2006: Nil) to the shareholders on the register of members of the Company on 15 May 2008.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 101 of this annual report. The summary of results is for comparative purposes only, and does not form an integral part of the audited financial statements.

DISTRIBUTABLE RESERVES

Movements in the reserves of the Group during the year are set out on page 49. As at the balance sheet date, the Company's distributable reserves amounted to RMB206,291,000.

CHARITABLE CONTRIBUTIONS

During the year, there was no charitable contribution made by the Group (2006: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out on page 49. Saved as the initial public offering exercise in July 2007, the Company has not issued any shares or debentures during the year.

CAPITALISED INTEREST

For the year ended 31 December 2007, the Group did not have any capitalised interest.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 are set out in note 35 to the financial statements.

DIRECTORS

The Directors of the Company during the year and as at the date of this report were:

Executive Directors

Mr. Xuan Rui Guo
Mr. Huang Zhi Yong
Mr. Kuang Jian Ping

Independent Non-executive Directors

Mr. Tang Min	
Mr. Han Ben Yi	(resigned on 30 January 2008)
Mr. Wang Tai Wen	(appointed on 30 January 2008)
Mr. Ng Wing Fai	

Pursuant to article 86 of the articles of association of the Company, Mr. Wang Tai-wen shall hold office only until the forthcoming Annual General Meeting and shall be eligible for re-election at the Annual General Meeting. Pursuant to article 87 of the articles of association of the Company, Mr. Huang Zhi Yong and Mr. Kuang Jian Ping shall retire from office by rotation at the Annual General Meeting and shall be eligible for re-election.

DIRECTOR'S SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

The emoluments payable to the employees of the Company are based on their responsibilities, qualification, experience and related industrial practices.

The emoluments payable to the Directors of the Company are based on terms of their respective service contracts with the Company. The director's fee payable is subject to annual assessment and approval by the board of Directors and shareholders at annual general meetings. Details of the emoluments paid and payable to the board of Directors. Directors of the Company for the financial year ended 31 December 2007 are shown in note 13 to the financial statements.

The contributions to pension schemes for directors and past directors for the financial year ended 31 December 2007 are disclosed in note 13 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 25 to 28.

DIRECTORS' INTERESTS IN CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option scheme of the Company as disclosed in note 30 to the financial statements, at no time during the year was the Company or 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 debentures of, the Company or any other body corporate.

USE OF NET IPO PROCEEDS

The Company raised an aggregate net proceeds of approximately HK$319.5 million from the issuance of equity securities pursuant to the issue of an aggregate of 230,000,000 shares of HK$0.01 each in the Company pursuant to the Share Offer. As at 31 December 2007, the Group has used the net proceeds from the Share Offer as follows:-

	Net IPO proceeds (HK$ million)		
Use of Proceeds	**Available**	**Utilised**	**Unutilised**
Construction of a new complex	40.0	—	40.0
Research and development expenses	40.0	3.2	36.8
Expansion and improvement of the Group's sales network	30.0	5.3	24.7
Expansion and improvement of the Group's service network	25.0	1.1	23.9
Pursuing suitable acquisition	60.0	17.2	42.8
Setting up an overseas office	30.0	0.4	29.6
General corporate purposes and working capital	94.5	10.0	84.5
	319.5	37.2	282.3

As at 31 December 2007, the amount of unutilised proceeds from the Share Offer was approximately HK$282.3 million. The Group intends to use approximately HK$75.0 million out of the unutilized proceeds earmarked for general corporate purpose and working capital to pay for part of the consideration for the acquisition of the interests in Beijing Jiaoda Microunion Technology Co., Ltd. and the remaining for other purposes as described in the Prospectus.

USE OF NET PLACING PROCEEDS

Pursuant to a placing and subscription agreement dated 21 February 2008, 83,000,000 shares of HK$0.01 each in the share capital then held by Consen Group was placed on 25 February 2008 at placing price of HK$2.84 per share and subscription of 83,000,000 new shares by Consen Group (the "Subscription") at the subscription price of HK$2.84 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK$0.01 each in the share capital of the Company and was completed on 3 March 2008. The net proceeds from the Subscription amounting to approximately HK$229.5 million, were duly received on 27 February 2008. The Subscription were effected to enable the Company to raise funds for its long-term benefit. The Company intends to use the net proceeds of the Subscription for (i) a possible further acquisition of effective equity interests in Beijing Jiaoda Microunion as referred to in the announcement of the Company dated 28 December 2007; (ii) potential investment opportunities; and (iii) the Group's general working capital.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO") as 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 for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Director's interests in the shares of the Company

	No of shares						
Name of director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Interest in underlying shares pursuant to share options**	**Total**	**Percentage of shareholding**
Mr. Xuan Rui Guo *(Note)*	—	—	540,540,541	—	—	540,540,541	65.13%

Note: Consen Group is the legal and beneficial owner of 540,540,541 shares. Consen Group is wholly-owned by Consen Investments Holding Inc. ("Consen Investments"), which is turn owned as to 50%, 25% and 25% by Mr. Xuan Rui Guo ("Mr. Xuan), Mr. Huang Zhi Yong ("Mr. Huang") and Mr. Kuang Jian Ping ("Mr. Kuang") respectively. Accordingly, Mr. Xuan is deemed to be interested in the 540,540,541 shares held by Consen Group by virtue of the SFO.

(ii) Director's interests in the shares of associated corporations

		No of shares					
Name of associated corporation	**Name of director**	**Personal interest**	**Family interest**	**Corporate interest**	**Interest in underlying shares pursuant to share options**	**Total**	**Percentage of shareholding**
Consen Investments	Mr. Xuan	500,000	—	—	—	500,000	50%
	Mr. Huang	250,000	—	—	—	250,000	25%
	Mr. Kuang	250,000	—	—	—	250,000	25%
Consen Group *(Note)*	Mr. Xuan	—	—	5,000,000	—	5,000,000	100%

Note: Consen Investments is the legal and beneficial owner of 5,000,000 shares in Consen Group. Consen Investments is owned legally and beneficial owned as to 50% by Mr. Xuan, 25% by Mr. Huang and 25% by Mr. Kuang. Accordingly, Mr. Xuan is deemed to be interested in the 5,000,000 shares held by Consen Investments in Consen Group.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

As at 31 December 2007, the persons (not being a Director or chief executive of the Company), had interests and short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO:-

Name of company	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	540,540,541	65.13%
Consen Investments (Note 1)	Interest in a controlled corporation	540,540,541	65.13%
Equity Concept Investment Ltd	Registered & beneficial owner	59,459,459	7.16%
Mr. Wei Yu Qian (Note 2)	Interest in a controlled corporation	59,459,459	7.16%

Notes:

1. Consen Group is wholly-owned by Consen Investments and therefore, Consen Investmentis and Mr. Xuan is deemed to be interested in such 540,540,541 shares held by Consen Group under the SFO.

2 Equity Concept Investment Ltd ("Equity Concept") is wholly-owned by Mr. Wei Yu Qian ("Mr. Wei") and Mr. Wei is therefore deemed to be interested in such 59,459,459 shares held by Equity Concept under the SFO.

(b) Interest in other members of the Group

As at 31 December 2007, so far as the Directors are aware, no persons were directly or indirectly interested in 10% or more of the voting power at any general meeting of any member of the Group.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 16 June 2007 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders of the Company. The Scheme will remain valid for a period of ten years commencing on 16 June 2007.

As at 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 37,948,000, representing 4.57% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

An amount of HK$1 is payable by eligible employee to the Company on acceptance of the option as consideration for the grant. Options may be exercised at any time from twelve months from the date of grant of the share option to the five anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Share option	Option series granted	Date of grant	Exercise period	Exercise price (HK$)
2007A	35,948,000	31/10/2007	31/10/2008 - 30/10/2012	2.95
2007B	35,948,000	20/12/2007	31/10/2008 - 30/10/2012	2.27
2007C	2,000,000	20/12/2007	20/12/2008 - 30/12/2012	2.27

During the year ended 31 December 2007, options were granted to eligible employees on 31 October 2007 (2007A) with exercise price of HK$2.95 and the closing price of the Company's shares on the grant date was HK$ 2.93.

On 20 December 2007, options were granted (2007B) to the same batch of eligible employees as mentioned above (2007A) with exercise price of HK$2.27 to replace the options granted on 31 October 2007 with the same vesting period. The closing price of the Company's shares on the grant date was HK$2.19. On the same date, another batch of options (2007C) was granted to two eligible employees with the exercise price at HK$2.27.

Details of the share options granted during the current year and outstanding at 31 December 2007 are as follows:

	Granted during the year	Cancelled during the year	Outstanding at 31 December 2007
Key management	24,000,000	(11,000,000)	13,000,000
Other employees	49,896,000	(24,948,000)	24,948,000
	73,896,000	(35,948,000)	(37,948,000)
Exercisable at the end of the year			(37,948,000)

The above share options have not been granted to the directors, and substantial shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company had not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in the Cayman Islands in respect of the Company's share capital.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and revenue for the year ended 31 December 2007 attributable to the Group's major suppliers and customers respectively are as follow:

	2007	2006
	%	%
Purchases		
– the largest supplier	**59.7**	64.2
– the five largest suppliers combined	**73.4**	85.6
Revenue		
– the largest customer	**32.2**	24.8
– the five largest customers combined	**73.7**	61.2

None of the Directors, their associates, or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) held any interests in the five largest suppliers or customers noted above.

SUBSEQUENT EVENT

Detail of the subsequent event is disclosed in note 36 to the financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange and considers the Independent Non-executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's issued shares in the market at the date of this report.

AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules. The consolidated financial statements of the Group for the year ended 31 December 2007 have been reviewed by the audit committee.

AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu Certified Public Accountants who will retire and, being eligible offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Xuan Rui Guo
Chairman

Hong Kong, 9 April 2008

The Company is committed to the establishment of good corporate governance practices and procedures which serve as an important element of risk management throughout the growth and expansion of the Company. The Company emphasizes on maintaining and carrying out sound, solid and effective corporate governance principles and structures.

The Company had complied with the applicable code provisions of the Code as set out in Appendix 14 of the Listing Rules throughout the period from its listing on 12 July 2007 until the year ended 31 December 2007 (the "Relevant Period"), except for deviation of the code provision A.2.1 of the Code as mentioned below.

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The role of the chief executive officer has been performed collectively by all the executive directors, including the chairman, of the Company. The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual as chief executive officer when it considers appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all directors and all directors confirmed they have complied with the required standard of dealings set out therein during the year ended 31 December 2007.

BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. Major responsibilities of the Board include approving the Company's overall business, financial and technical strategies, setting key performance targets, approving budgets and overseeing the performance of management.

As at 31 March 2008, the Board comprised six members, consisting of three executive directors (namely Mr. Xuan Rui Guo (the Chairman), Mr. Huang Zhi Yong and Mr. Kuang Jian Ping) and three independent non-executive directors (namely Mr. Tang Min, Mr. Wang Tai Wen and Mr. Ng Wing Fai). The profile of all directors, including chairman, executive directors, and independent non-executive directors are set out on pages 25 to 26. The relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are also disclosed.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the Listing Rules and considers all of the independent non-executive directors to be independent.

Eight Board meetings were held during the Relevant Period. Directors actively participate in each meeting in person or via telephone conferencing. Directors give and receive reports on the activities of the operating divisions and present papers supporting decisions which require the Board approval. The Board consents are given by vote at the Board meetings.

If a director has a conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual director declares his interest and is required to abstain from voting. The matter is considered at a Board meeting attended by independent non-executive directors who have no material interest in the transaction.

Details of the attendance of directors at these Board meetings and at three other committees (the audit committee, the remuneration committee and the nomination committee) for the period from its listing until the date of this report are set out in the following table:

	Meetings Attended/Meetings Held			
Name of director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive directors				
Mr. Xuan Rui Guo	8/8	N/A	1/1	1/1
Mr. Huang Zhi Yong	8/8	N/A	1/1	N/A
Mr. Kuang Jian Ping	8/8	N/A	N/A	1/1
Independent non-executive directors				
Mr. Tang Min	6/8	2/2	1/1	1/1
Mr. Wang Tai Wen (Appointed on 30 January 2008)	2/2	1/1	1/1	1/1
Mr. Ng Wing Fai	6/8	2/2	1/1	1/1
Mr. Han Ben Yi (Resigned on 30 January 2008)	4/6	1/1	N/A	N/A

All directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters.

Minutes of Board meetings are taken by the company secretary and, together with any supporting documents, are available to all directors. Draft and final versions of such minutes are sent to all directors for their comment and record respectively.

AUDIT COMMITTEE

The Company established an audit committee on 16 June 2007 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The audit committee oversees the overall financial reporting process, as well as the adequacy and effectiveness of the Company's internal control. It also reviews and monitors the external auditor's independence and objectivity as well as the effectiveness of the audit process to make sure that it is in full compliance with applicable standards. There had not been any disagreement between the Board and audit committee on appointment and dismissal of external auditors during the Relevant Period.

The audit committee met twice during the Relevant Period to review and discuss with the management of the Company the internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2007.

The audit committee comprises three members, all of whom are independent non-executive Directors, being Mr. Ng Wing Fai ("Mr. Ng"), Mr. Tang Min ("Mr. Tang") and Mr. Wang Tai Wen ("Mr. Wang") who was appointed on 30 January 2008 to replace Mr. Han Ben Yi ("Mr. Han") who resigned on the same date. The audit committee is chaired by Mr. Ng.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 June 2007 with written terms of references in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The remuneration of Directors is determined by the Board based on the advice of the Remuneration Committee with reference to their responsibilities with the Company.

The remuneration committee met once during the Relevant Period to review and approve the remuneration of the directors and senior management of the Company.

The remuneration committee comprises five members, three of whom are independent non-executive Directors, namely Mr. Wang (who was appointed on 30 January 2008 to replace Mr. Han who resigned on the same date), Mr. Tang and Mr. Ng, and the other two of whom are executive Directors, namely Mr. Xuan Rui Guo and Mr. Huang Zhi Yong. The remuneration committee is chaired by Mr. Wang.

NOMINATION COMMITTEE

The Company established a nomination committee on 16 June 2007 with written terms of references in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to review the composition of the Board and make recommendations to the Board on the selection of individuals nominated for directorship. The selection of individual to become directors is based on assessment of their professional qualifications, experience and prevailing industry practices. The nomination committee met once during the Relevant Period to review and recommend the appointment of the independent non-executive director and reappointment of the retiring Directors for shareholders' approval at the forthcoming annual general meeting.

The nomination committee comprises five members, three of whom are independent non-executive Directors, being Mr. Tang, Mr. Ng and Mr. Wang (who was appointed on 30 January 2008 to replace Mr. Han who resigned on the same date) , and the other two of whom are executive Directors, namely Mr. Xuan and Mr. Kuang. The nomination committee is chaired by Mr. Tang.

INDEPENDENT NON-EXECUTIVE DIRECTORS

All the existing independent non-executive directors, were previously appointed with specific terms for two years to 12 July 2009 except for Mr. Wang who was appointed on 30 January 2008 to replace Mr. Han who resigned on the same date. Pursuant to Article 86 of the Articles of Association of the Company, Mr. Wang shall hold office only until the Annual General Meeting and shall be eligible for re-election at the Annual General Meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2007, the fees charged by the Company's auditors in respect of audit and taxation services amounted to approximately RMB1,427,000 (2006: RMB1,200,000) and Nil (2006 : RMB240,000) respectively.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditors' Report on page 45 of this Annual Report.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. In this connection, the management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

COMMUNICATION WITH SHAREHOLDERS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all shareholders. Press releases are posted on the Company's corporate website http://www.chinaautomationgroup.com. The Company's website provides email address, postal address, fax number and telephone number by which enquiries may be put to the Company. Constantly being updated in a timely manner, the website also contains additional information on the Group's business activities.

The Company encourages its shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA AUTOMATION GROUP LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 100, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 true 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

9 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	7	**403,357**	289,037
Cost of sales		**(229,618)**	(164,930)
Gross profit		**173,739**	124,107
Other income	9	**9,135**	684
Selling and distribution expenses		**(30,079)**	(24,431)
Administrative expenses		**(49,963)**	(23,470)
Change in fair value of derivative financial instruments		**—**	(209)
Finance costs	10	**(3,096)**	(2,529)
Profit before tax		**99,736**	74,152
Income tax credit (expense)	11	**386**	(5,290)
Profit for the year	12	**100,122**	68,862
Attributable to:			
Equity holders of the Company		**99,891**	68,471
Minority interests		**231**	391
		100,122	68,862
Dividends proposed	15	**HK$27,390**	—
Earnings per share	16		
Basic (RMB)		**14.12 cents**	12.09 cents
Diluted (RMB)		**14.09 cents**	—

See accompanying notes to financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current Assets			
Property, plant and equipment	17	**12,505**	10,982
Prepaid lease payments	18	**16,931**	17,284
Intangible asset	19	**850**	—
Bank deposits under conditions	20	**—**	798
Deposits for acquisition of subsidiaries	21	**16,182**	—
Deposits for acquisition of leasehold land and building		**—**	787
Deferred tax assets	22	**308**	308
		46,776	30,159
Current Assets			
Inventories	23	**108,133**	50,145
Trade and bills receivables	24	**170,990**	109,142
Other receivables and prepayments		**17,255**	6,834
Bank deposits under conditions	20	**38,282**	17,830
Bank balances and cash	25	**301,659**	70,697
		636,319	254,648
Current Liabilities			
Trade and bills payables	26	**86,220**	33,749
Other payables, deposits received and accruals		**31,858**	21,432
Tax payable		**1,717**	13,429
Borrowings	27	**—**	54,322
Dividends payable		**—**	15,238
		119,795	138,170
Net Current Assets		**516,524**	116,478
Total Assets less Current Liabilities		**563,300**	146,637
Capital and Reserves			
Share capital	28	**7,772**	—
Reserves	29	**554,307**	145,647
Equity attributable to equity holders of the Company		**562,079**	145,647
Minority interests		**1,221**	990
Total Equity		**563,300**	146,637

See accompanying notes to financial statements.

Xuan Rui Guo
Director

Huang Zhi Yong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 29 a)	Statutory surplus reserves RMB'000 (Note 29 b)	Contribution from equity holders RMB'000	Translation reserve RMB'000	Share option reserve RMB'000 (Note 29 c)	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	–	–	11,650	4,863	619	(1,212)	–	99,806	115,726	599	116,325
Exchange difference arising on translation of foreign operations and expense recognised directly in equity	–	–	–	–	–	(1,337)	–	–	(1,337)	–	(1,337)
Profit for the year	–	–	–	–	–	–	–	68,471	68,471	391	68,862
Total recognised income and expense for the year	–	–	–	–	–	(1,337)	–	68,471	67,134	391	67,525
Conversion of convertible notes	–	47,841	–	–	–	–	–	–	47,841	–	47,841
Dividend paid	–	–	–	–	–	–	–	(55,588)	(55,588)	–	(55,588)
Payments to equity holders upon reorganisation	–	–	(29,466)	–	–	–	–	–	(29,466)	–	(29,466)
At 31 December 2006	–	47,841	(17,816)	4,863	619	(2,549)	–	112,689	145,647	990	146,637
Exchange difference arising on translation of foreign operations and expense recognised directly in equity	–	–	–	–	–	(3,063)	–	–	(3,063)	–	(3,063)
Profit for the year	–	–	–	–	–	–	–	99,891	99,891	231	100,122
Total recognised income and expense for the year	–	–	–	–	–	(3,063)	–	99,891	96,828	231	97,059
Appropriations	–	–	–	6,289	–	–	–	(6,289)	–	–	–
Issue of shares upon Group Reorganisation	519	–	(519)	–	–	–	–	–	–	–	–
Capitalisation on issue of shares	5,099	(5,099)	–	–	–	–	–	–	–	–	–
Issue of new shares upon listing of the Company's shares on the Stock Exchange	2,154	327,365	–	–	–	–	–	–	329,519	–	329,519
Transaction costs attributable to issue of new shares	–	(13,324)	–	–	–	–	–	–	(13,324)	–	(13,324)
Recognition of share-based payments	–	–	–	–	–	–	3,409	–	3,409	–	3,409
At 31 December 2007	**7,772**	**356,783**	**(18,335)**	**11,152**	**619**	**(5,612)**	**3,409**	**206,291**	**562,079**	**1,221**	**563,300**

See accompanying notes to financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007	2006
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**99,736**	74,152
Adjustments for:		
Finance costs	**3,096**	2,529
Depreciation of property, plant and equipment	**2,401**	1,849
Share-based payment expense	**3,409**	209
Allowances for doubtful debts	**—**	533
Prepaid lease payments released to income statement	**353**	—
Amortisation of intangible asset	**150**	—
Gain on disposal of held-for-trading financial assets	**(182)**	—
Interest income	**(6,900)**	(505)
Operating cash flows before movements in working capital	**102,063**	78,767
(Increase) decrease in inventories	**(57,988)**	1,128
Increase in trade and bills receivables	**(65,827)**	(41,359)
Increase in other receivables and prepayments	**(10,421)**	(4,169)
Decrease in amounts due from related parties	**—**	27
Increase (decrease) in trade and bills payables	**54,515**	(699)
Increase (decrease) in other payables, deposits received and accruals	**18,678**	(10,521)
Decrease in held-for-trading financial assets	**182**	—
Cash generated from operations	**41,202**	23,174
Income tax paid	**(11,326)**	(5,025)
NET CASH FROM OPERATING ACTIVITIES	**29,876**	18,149
INVESTING ACTIVITIES		
Interest received	**6,900**	505
Purchases of property, plant and equipment	**(3,137)**	(4,579)
New lease prepayments	**(8,252)**	(9,385)
Purchase of intangible asset	**(1,000)**	—
Payment of deposits for acquisition of leasehold land and buildings	**—**	(787)
Increase in amounts due from directors	**—**	(10,782)
Increase in bank deposits under conditions	**(19,654)**	(6,213)
Increase in bank deposits with original maturity over three months	**—**	(1,183)
Deposit paid for acquisition of subsidiaries	**(16,182)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(41,325)**	(32,424)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
New borrowings raised	**99,610**	90,211
Proceeds on issue of convertible notes	**—**	46,323
Interest paid	**(3,096)**	(1,220)
Repayments of borrowings	**(153,932)**	(60,082)
Dividends paid	**(15,238)**	(3,920)
Payments to equity holders upon group reorganisation	**—**	(29,466)
Payments of transaction cost attributable to issue of new shares	**(13,324)**	—
Proceeds from issue of new shares upon listing of the Company's shares on the Stock Exchange	**329,519**	—
NET CASH FROM FINANCING ACTIVITIES	**243,539**	41,846
NET INCREASE IN CASH AND CASH EQUIVALENTS	**232,090**	27,571
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**70,697**	44,463
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(1,128)**	(1,337)
CASH AND CASH EQUIVALENTS AT END OF YEAR,	**301,659**	70,697
Analysis of the balances of cash and cash equivalents: represented by		
Bank balances and cash	**301,659**	70,697

See accompanying notes to financial statements.

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 July 2006 under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 July 2007. Its immediate holding Company is Consen Group Holding Inc. incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is Consen Investment Holding Limited, a company incorporated in BVI. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The Company acts as investment holding company. The activities of its subsidiaries are set out in note 35.

Pursuant to a group reorganisation (the "Group Reorganisation") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 16 June 2007.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting as disclosed in Note 3.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the currency of the primary economic environment in which the Group operates.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

In preparing the financial statements, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretation Committee ("IFRIC") of IASB, which are effective for the Group's financial year beginning on 1 January 2007.

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC – Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC – Int 8	Scope of IFRS 2
IFRIC – Int 9	Reassessment of Embedded Derivatives
IFRIC – Int 10	Interim Financial Reporting and Impairment

Except for the following area, the adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting period have been prepared and presented, and no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT'D)

The Group has applied the disclosure requirement under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, or interpretations that have been issued but not yet effective:

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 March 2007

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of IFRS 3 (revised) Business Combinations and IAS 27 (Revised) Consolidation and Separate Financial Statements. IFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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 resulting from business combination under common control in which merger accounting applied) or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Merger accounting for business combination under common control

The financial statement incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination. The comparative amounts in the financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Business combinations other than under common control

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition

Revenue for system sales is recognised when the system is delivered and accepted by the customers.

Trading of goods is recognised when goods are delivered and title has passed.

Revenue for provision of maintenance and engineering service is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment using the straight-line method, over their estimated useful lives after taking into account of their estimated residual value.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever 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.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into a operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

Retirement benefits costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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. 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 reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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 income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculating using tax rate that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxation (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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 the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables. 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost 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, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of counterparty; or
- default or delinquency in settlement of receivables; or
- it becoming probable that the debtors will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivable that are assessed not to be impaired individually and subsequently assess for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of debtors, 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 debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to 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 include other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables and accruals, as well as borrowings are subsequently measured at amortised cost, using the 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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of its financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

If new share options are granted as replacement for the cancellation of previously granted share options, the grant of replacement share options is accounted for as modifications. The incremental fair value granted, representing the difference between the fair value of the modified/replacement share option and that of the original share option, at the date the modification/replacement is expensed over the remaining vesting period of the share options, in addition to the amount based on the grant date fair value of the original share options.

At the time when the 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 previously recognised in share options reserve will be transferred to retained profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, the directors of the Company have made the following estimation with key assumption at the balance sheet dates. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade receivables

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2007, allowance of doubtful debts of RMB1,567,000 (2006: RMB1,567,000) have been recognised on the Group's balance sheet.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings of RMB Nil (2006: RMB54,322,000) disclosed in note 27 net of bank balances and equity attributable to equity holders of the Company comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on the results of the review of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends and raising new share capital as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loans and receivables	**175,033**	110,063
Financial liabilities		
Carrying amounts at amortised cost	**96,404**	105,108

b. Financial risk management objectives and policies

The Group's major financial instruments are set out above. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, currency risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Credit risk

As at 31 December 2007, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheet. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debts at each balance sheet date 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.

The credit risk on bank balances is limited because the counterparties have high credit ratings. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers spread across diverse industries and geographical areas.

6. FINANCIAL INSTRUMENTS (CONT'D)

b. Financial risk management objectives and policies (cont'd)

Currency risk

The functional currency of the subsidiaries of the Company in the PRC is RMB in which most of the transactions are denominated. However, certain bank balances and borrowings in 2006 are denominated in foreign currencies. Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk.

The carrying amounts of the Groups' foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States Dollars ("US$")	**27,058**	37,279	**309,439**	44,465

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.

The Group is mainly exposed to the effects of fluctuation in US$ against RMB. The following table details the Group's sensitivity to 5% increase and decrease in the RMB against US$ while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% change in foreign currency rate.

	2007	2006
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
– if RMB weakens against US$	**13,803**	344
– if RMB strengthens against US$	**(13,803)**	(344)

6. FINANCIAL INSTRUMENTS (CONT'D)

b. Financial risk management objectives and policies (cont'd)

Interest rate risk

The Group was exposed to cash flow interest rate risk in relation to variable-rate bank borrowings in 2006 (see note 27 for details of these borrowings). It is the Group policy to keep its borrowings at floating rate of interests and therefore the related fair value interest rate risk is considered limited.

The possible change in interest rate does not affect on the Group's profit and equity for 2007 as no borrowing is held by the Group in the current year.

At 31 December 2006, if People's Bank of China lending rate had been increased by 100 basis points and all other variables were held constant, the Group's profit would decrease by approximately RMB 543,000 for the year ended 31 December 2006. If People's Bank of China lending rate had been decreased by 100 basis points, there would be equal but opposite impact on the profit for the year.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at 31 December 2007, the Group has available unutilised banking facilities of approximately RMB40,703,000 (2006: RMB28,608,000).

The following tables detail the Group's remaining contractual maturity for its financial liabilities as well as certain financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For financial assets, the tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. For financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date which the Group can be required to pay. The tables include both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS (CONT'D)

b. Financial risk management objectives and policies (cont'd)

	Weighted average effective interest rate	1 month to 3 months	3 months to 6 months	6 months to 1 year	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007						
Trade and bills payables	**N/A**	**(38,119)**	**(21,066)**	**(27,035)**	**(86,220)**	**(86,220)**
Other payables and accruals	**N/A**	**(200)**	**(2,400)**	**(7,583)**	**(10,183)**	**(10,183)**
		(38,319)	**(23,466)**	**(34,618)**	**(96,403)**	**(96,403)**
At 31 December 2006						
Trade and bills payables	N/A	(11,083)	(22,531)	(135)	(33,749)	(33,749)
Other payables and accruals	N/A	(4,174)	(6,235)	(6,628)	(17,037)	(17,037)
Borrowings	6.12%	(23,041)	(12,151)	(19,130)	(54,322)	(54,322)
		(38,298)	(40,917)	(25,893)	(105,108)	(105,108)

	Weighted average effective interest rate	1 month to 3 months	3 months to 6 months	6 months to 1 year	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007						
Trade and bills receivables	**N/A**	**45,000**	**60,000**	**65,990**	**170,990**	**170,990**
Other receivables	**N/A**	**2,806**	**1,237**	**—**	**4,043**	**4,043**
Bank deposits under condition	**N/A**	**—**	**20,000**	**12,282**	**32,282**	**32,282**
Bank balances and cash	**N/A**	**301,659**	**—**	**—**	**301,659**	**301,659**
		349,465	**81,237**	**78,272**	**508,974**	**508,974**
At 31 December 2006						
Trade and bills receivables	N/A	42,794	38,173	28,175	109,142	109,142
Other receivables	N/A	507	393	21	921	921
Bank deposits under condition	N/A	—	12,917	4,913	17,830	17,830
Bank balances and cash	N/A	70,697	—	—	70,697	70,697
		113,998	51,483	33,109	198,590	198,590

6. FINANCIAL INSTRUMENTS (CONT'D)

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions as input.

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.

7. REVENUE

	2007	2006
	RMB'000	RMB'000
System sales	**333,568**	218,380
Provision of maintenance and engineering services	**36,390**	46,067
Trading of equipment	**33,399**	24,590
	403,357	289,037

8. SEGMENT INFORMATION

The Group is primarily organised by business segments and secondarily by geographical locations of external customers.

Each segment represents a strategic business unit that offers products or services which are subject to risks and returns different from other segments. The Group's three principal segments are:

(a) system sales: system design, system integration and sales of safety and critical control systems for the petrochemical, chemical, oil and gas, coal chemical, railway industries and others;

(b) maintenance and engineering services: provision of field maintenance, systems upgrade or redevelopment, system hardware diagnostic services, 24-hour emergency diagnostic services, spare parts and training services in respect of safety and critical control systems; and

(c) trading of equipment: trading of train manufacturing equipment and instruments for petrochemical industries.

8. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below

2007

Consolidated income statement

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Consolidated RMB'000
Revenue	333,568	36,390	33,399	403,357
Segment result	114,822	24,378	164	139,364
Unallocated other income				9,135
Unallocated corporate expenses				(45,667)
Finance costs				(3,096)
Profit before tax				99,736
Income tax credit				386
Profit for the year				100,122

8. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below (cont'd)

2007 (cont'd)

Consolidated balance sheet

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Consolidated RMB'000
Assets				
Segment assets	280,249	4,751	6,154	291,154
Unallocated corporate assets				391,941
Consolidated total assets				683,095
Liabilities				
Segment liabilities	105,743	—	2,787	108,530
Unallocated corporate liabilities				11,265
Consolidated total liabilities				119,795

8. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below (cont'd)

2007 (cont'd)

Other information

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to property, plant and equipment	—	—	—	3,924	3,924
Additions to intangible asset	—	—	—	1,000	1,000
Lease payments released to income statement	—	—	—	353	353
Amortisation of intangible asset	—	—	—	150	150
Depreciation of property, plant and equipment	—	—	—	2,401	2,401

8. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below (cont'd)

2006

Consolidated income statement

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Consolidated RMB'000
Revenue	218,380	46,067	24,590	289,037
Segment result	68,242	32,151	(1,932)	98,461
Unallocated other income				684
Unallocated corporate expenses				(22,255)
Change in fair value of derivative financial instruments				(209)
Finance costs				(2,529)
Profit before tax				74,152
Income tax expense				(5,290)
Profit for the year				68,862

8. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below (cont'd)

2006 (cont'd)

Consolidated balance sheet

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Consolidated RMB'000
Assets				
Segment assets	141,439	13,361	7,836	162,636
Unallocated corporate assets				122,171
Consolidated total assets				284,807
Liabilities				
Segment liabilities	38,143	—	—	38,143
Unallocated corporate liabilities				100,027
Consolidated total liabilities				138,170

8. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below (cont'd)

2006 (cont'd)

Other information

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to property, plant and equipment	—	—	—	4,579	4,579
Additions to intangible assets	—	—	—	—	—
Lease payments released to income statement	—	—	—	—	—
Amortisation of intangible assets	—	—	—	—	—
Depreciation of property, plant and equipment	—	—	—	1,849	1,849
Allowances for bad and doubtful debts	533	—	—	—	533

8. SEGMENT INFORMATION (CONT'D)

Geographical segment

The Group's operations are principally located in the PRC. The following tables present revenue and the segment assets and capital expenditure information for the Group's geographical segments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers irrespective of the origins of the goods/services, and assets are attributed to the segments based on the location of the assets.

2007

	PRC RMB'000	**Overseas countries RMB'000**	**Combined RMB'000**
Revenue	**388,907**	**14,450**	**403,357**
Segment assets	**680,249**	**2,846**	**683,095**
Additions to property, plant and equipment	**3,924**	**—**	**3,924**
Deposits for acquisition of leasehold land and buildings	**—**	**—**	**—**

2006

	PRC RMB'000	Overseas countries RMB'000	Combined RMB'000
Revenue	266,132	22,905	289,037
Segment assets	275,126	9,681	284,807
Additions to property, plant and equipment	4,579	—	4,579
Deposits for acquisition of leasehold land and buildings	787	—	787

9. OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Bank interest income	**6,900**	505
Net foreign exchange gain	**—**	161
Gain on disposal of held-for-trading financial assets	**182**	—
Government grant *(Note)*	**2,000**	—
Others	**53**	18
	9,135	684

Note: The government grant represents the subsidy received from the government for the transformation of the Company's subsidiary upon public offering. The subsidiary recognised the subsidy as income when the conditions fulfilled and the subsidy become recoverable.

10. FINANCE COSTS

	2007	2006
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**3,096**	1,220
Convertible notes	**—**	1,309
	3,096	2,529

11. INCOME TAX (CREDIT) EXPENSE

	2007	2006
	RMB'000	RMB'000
PRC income tax:		
Current tax	**274**	6,196
Overprovision in prior years	**(660)**	(598)
Deferred tax *(note 22)*	**—**	(308)
	(386)	5,290

PRC income tax is calculated at 33% of the estimated assessable profit of the Company's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for both years, except for certain subsidiaries of the Company, which are taxed at preferential rates of 15% in accordance with relevant tax rules and regulations in the PRC or approvals obtained by the tax bureau in the PRC. Taxation arising in the jurisdictions other than the PRC is calculated at rates prevailing in the relevant jurisdictions. No provision for overseas taxation made as these subsidiaries have no assessable profits arising in relevant jurisdictions.

The Company's subsidiaries operating in the PRC are eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years.

During the year, Beijing Consen Automation Control Co., Ltd. and Beijing Tri-Control Automation Co., Ltd. are under the year of tax exemption whereas Beijing Consen Transportation Technology Co., Ltd. is under the year of 50% tax reduction.

Tri-Control Automation Co., Ltd, is a limited company incorporated in Hong Kong. Pursuant to the relevant laws and regulations in the PRC, it is deemed to have a permanent establishment in the PRC and subject to PRC income tax.

11. INCOME TAX (CREDIT) EXPENSE (CONT'D)

On 16 March 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law which will change the tax rate to 25% from 1 January 2008. Pursuant to the transition relief rules, qualifying enterprises that enjoyed substantially lower than 25% tax rates due to incentives will gradually increase to the new 25% over a five-years period. Under the Implementation of Transitional Tax Relief Rules, the tax holiday can be enjoyed on going after the implementation of the New Law until the expiry date.

The income tax (credit) charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2007 **RMB'000**	2006 RMB'000
Profit before tax	**99,736**	74,152
Tax at the PRC income tax rate of 33%	**32,913**	24,470
Tax effect of expenses not deductible for tax purpose	**4,690**	1,411
Reversal of overprovision in prior years	**(660)**	(598)
Tax effect of tax losses not recognised	**1,480**	330
Tax effect of different tax rate	**—**	(3,226)
Income tax on concessionary rate	**(38,809)**	(17,097)
Tax (credit) charge for the year	**(386)**	5,290

12. PROFIT FOR THE YEAR

	2007	2006
	RMB'000	RMB'000
Profit for the year is arrived at after charging:		
Auditors' remuneration	**1,427**	1,200
Depreciation of property, plant and equipment	**2,401**	1,849
Amortisation of intangible asset	**150**	—
Lease payments released to income statement	**353**	—
Allowances for bad and doubtful debts	**—**	533
Staff costs:		
Directors' emoluments *(note 13)*	**1,869**	1,230
Other staff costs		
– Salaries and other benefits	**19,623**	15,064
– Retirement benefits scheme contributions	**1,403**	466
– Share-based payments	**3,409**	—
	26,304	16,760
Operating lease rentals in respect of rented premises	**2,241**	2,138
Net foreign exchange loss (gain)	**3,314**	(161)
Research and development costs	**4,296**	1,215

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the Company's directors were as follows:

	2007					
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
Executive directors						
Mr. Xuan Rui Guo	—	343	8	240	—	591
Mr. Kuang Jian Ping	—	321	8	240	—	569
Mr. Huang Zhi Yong	—	269	8	240	—	517
Sub-total	—	933	24	720	—	1,677
Independent non-executive directors						
Mr. Tang Min	55	—	—	—	—	55
Mr. Han Ben Yi	55	—	—	—	—	55
Mr. Ng Wing Fai	82	—	—	—	—	82
Sub-total	192	—	—	—	—	192
Total	192	933	24	720	—	1,869

13. DIRECTORS' EMOLUMENTS (CONT'D)

The emoluments paid or payable to the Company's directors were as follows: (cont'd)

	2006					
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payment RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
Executive directors						
Mr. Xuan Rui Guo	—	226	6	200	—	432
Mr. Kuang Jian Ping	—	205	6	200	—	411
Mr. Huang Zhi Yong	—	181	6	200	—	387
Sub-total	—	612	18	600	—	1,230
Independent non-executive directors						
Mr. Tang Min	—	—	—	—	—	—
Mr. Han Ben Yi	—	—	—	—	—	—
Mr. Ng Wing Fai	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—
Total	—	612	18	600	—	1,230

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

14. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three directors (2006: three) for the year ended 31 December 2007, whose emoluments are disclosed in note 13 above. The emoluments of the remaining two (2006: two) individuals for the year ended 31 December 2007 are as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits	**905**	419
Contributions to retirement benefits scheme	**40**	12
Performance related incentive payments	**293**	460
Share-based payments	**201**	—
	1,439	891

Their emoluments were within the following bands:

	Number of employees	
	2007	2006
Nil to HK$1,000,000 (equivalent to approximately RMB970,000)	**2**	2

15. DIVIDENDS

	2007	2006
	HK$'000	HK$'000
Dividends recognised as distributions during the year		
Final proposed HK$3.0 cents per share (2006: nil)	**27,390**	—

The final dividend of HK$3.0 cents (equivalent to approximately RMB2.7 cents) (2006: nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

No dividends had been paid or declared by the Company from its date of incorporation to 31 December 2006, However, on 26 April 2006, the directors of Tri-Control International Holding Inc. declared and approved the payment of dividends amounting to HK$54,000,000 (equivalent to approximately RMB55,588,000) to the shareholders whose names appeared on the register of Tri-Control International Holdings Inc. on 26 April 2006.

16. EARNING PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the consolidated profit attributable to equity holders of the parent of approximately RMB 99,891,000 (2006: RMB 68,471,000) and the weighted average number of shares as follows:

Number of shares

	2007 RMB'000 (Note a)	2006 RMB'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**707,452**	566,442
Effect of dilutive potential ordinary shares for share options	**1,583**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**709,035**	566,442

Note:

(a) The computation of diluted earnings per share does not assume the exercise of certain outstanding share options as the options are not yet exercisable.

(b) The calculation of basic and diluted earnings per share for both years is assuming that the Group Reorganisation and capitalization issue has been effective since 1 January 2006.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Fixtures and electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2006	3,924	521	1,328	7,184	12,957
Additions	—	—	2,165	2,414	4,579
At 31 December 2006	3,924	521	3,493	9,598	17,536
Additions	787	—	2,467	670	3,924
At 31 December 2007	**4,711**	**521**	**5,960**	**10,268**	**21,460**
DEPRECIATION					
At 1 January 2006	587	362	665	3,091	4,705
Provided for the year	127	82	369	1,271	1,849
At 31 December 2006	714	444	1,034	4,362	6,554
Provided for the year	213	77	760	1,351	2,401
At 31 December 2007	**927**	**521**	**1,794**	**5,713**	**8,955**
CARRYING VALUES					
At 31 December 2007	**3,784**	**—**	**4,166**	**4,555**	**12,505**
At 31 December 2006	3,210	77	2,459	5,236	10,982

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	3%
Leasehold improvements	Over the lease terms
Fixtures and electronic equipment	10% - 20%
Motor vehicles	20%

The buildings of the Group are located on land in the PRC under medium-term lease.

The leasehold interests in land are included in property, plant and equipment as the directors consider that the allocations between the land and buildings elements cannot be made reliably.

Certain building with carrying value of approximately RMB787,000 is in the process of obtaining the building property title certificate at the balance sheet date.

At 31 December 2006, the Group pledged motor vehicles having a net book value of approximately RMB2,377,000 to obtain corporate guarantee from an independent third party for the banking facilities granted to the Group, which was released during the year.

At 31 December 2006, the Group pledged leasehold land and buildings having a net book value of approximately RMB3,210,000 to obtain corporate guarantee from an independent third party for the banking facilities granted to the Group, which was released during the year.

18. PREPAID LEASE PAYMENTS

	2007	2006
	RMB'000	RMB'000
CARRYING AMOUNT		
At 1 January	**17,637**	17,637
Released to consolidated income statement	**(353)**	—
At 31 December	**17,284**	17,637
Analysed for reporting purpose as:		
Current asset (included in other receivables and prepayments)	**353**	353
Non-current asset	**16,931**	17,284

19. INTANGIBLE ASSET

	Patents RMB'000
COST	
At 1 January 2007 and 2006	—
Additions	1,000
At 31 December 2007	**1,000**
DEPRECIATION	
At 1 January 2007 and 2006	—
Charge for the year	150
At 31 December 2007	**150**
NET BOOK VALUE	
At 31 December 2007	**850**
At 31 December 2006	—

The patents included above have finite useful lives. The patents are amortised on a straight line basis over 5 years.

20. BANK DEPOSITS UNDER CONDITIONS

	2007 RMB'000	2006 RMB'000
Other bank deposits *(Note (a))*	**—**	10,000
Bank deposits with maturity over 3 months	**6,305**	5,508
Pledged bank deposits *(Note (b))*	**31,977**	3,120
	38,282	18,628

	2007 RMB'000	2006 RMB'000
Mature over one year	**—**	798
Mature within one year	**38,282**	17,830
	38,282	18,628

20. BANK DEPOSITS UNDER CONDITIONS (CONT'D)

The bank deposits under conditions carried effective interest of 3.55 % for the year (2006: 3.5%) respectively.

Notes:

(a) Pursuant to a letter of undertaking given by the Group to an independent third party, the Group covenanted to maintain deposits of not less than RMB10,000,000 with a bank as condition precedent to the bank borrowings of RMB30,000,000 guaranteed by an independent third party. The guarantee was released upon the listing.

(b) Bank deposits have been pledged to secure banking facilities granted to the Group.

21. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES

At 31 December 2007, the amount represents deposits paid by the Group in connection with the acquisition of an aggregate of 100% equity interests in each of Beijing Liboyuan Investment Management Company Limited 北京力博遠投資管理有限公司 and Beijing Hengtong Fangda New Materials and Technology Company Limited 北京恒通方大新材料技術有限公司 which are in substance, to acquire their respective 28.47% and 18.5% effective equity interests in Beijing Jiaoda Microunion Technology Company Limited 北京交大微聯科技有限公司 . The acquisition was entered into on 24 December 2007 and was not yet completed as at balance sheet date.

22. DEFERRED TAX ASSETS

The deferred tax assets recognised by the Group and movements thereon during the current and prior year are as follows:

	Allowance for doubtful debts RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2007 and 31 December 2007	188	120	308

Other temporary differences mainly represent the temporary differences arising from the leasehold improvements which was deductible for tax purpose in the period those costs were incurred.

At 31 December 2007, the Group had unused tax losses of approximately RMB5,494,000 (2006: RMB1,009,000) available to offset against future profits of respective subsidiaries. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams of respective subsidiaries. The tax losses will be carried forward for five years from date of their originations.

23. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	**89,339**	38,518
Work in progress	**16,101**	9,003
Finished goods	**2,693**	2,624
	108,133	50,145

For the year ended 31 December 2007, cost of inventories of RMB211,692,000 (2006: RMB149,848,000) is charged to the consolidated income statement.

24. TRADE AND BILLS RECEIVABLES

	2007	2006
	RMB'000	RMB'000
Trade receivables	**164,140**	91,310
Less: allowance for doubtful debts	**(1,567)**	(1,567)
	162,573	89,743
Bills receivable	**8,417**	19,399
	170,990	109,142

At 31 December 2007, included in trade and bills receivables are retention receivable of RMB12,012,000 (2006: RMB9,790,000). Retention receivables are interest-free and recoverable at end of the retention period of individual contract, the Group's normal operating cycle, which is usually from 12 months to 18 months.

24. TRADE AND BILLS RECEIVABLES (CONT'D)

The normal credit period except for the retention receivables granted to the Group's customer is 90 to 180 days. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts at the balance sheet dates:

	2007	2006
	RMB'000	RMB'000
0 - 90 days	**124,294**	87,128
91 - 180 days	**40,118**	8,795
181 - 365 days	**820**	8,881
1 - 2 years	**4,011**	2,971
2 - 3 years	**1,747**	1,367
	170,990	109,142

The Group's trade receivables that are neither past due nor impaired related to a large number of diversified customers, mainly state-owned enterprises. The Group seeks to maintain strict control over the creditability of customers and its outstanding receivables. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The creditability of customers is reviewed regularly.

As at 31 December 2007, trade receivables with a carrying amount of RMB5,758,000 (2006: RMB4,338,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Ageing of trade receivables which are past due but not impaired is as follows:

	2007	2006
	RMB'000	RMB'000
1-2 years	**4,011**	2,971
2-3 years	**1,747**	1,367
Total	**5,758**	4,338

24. TRADE AND BILLS RECEIVABLES (CONT'D)

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	RMB'000
At 1 January	**1,567**	1,034
Impairment losses recognised on trade receivables	**—**	533
At 31 December	**1,567**	1,567

25. 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 prevailing market interest rate at 0.5% to 0.81% (2006: 0.72%).

26. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables at the balance sheet dates is as follows:

	2007	2006
	RMB'000	RMB'000
0 - 90 days	**52,280**	28,478
91 - 180 days	**33,620**	4,833
181 - 365 days	**310**	218
1 - 2 years	**10**	220
	86,220	33,749

The average credit period on purchases of is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

27. BORROWINGS

	2007 RMB'000	2006 RMB'000
Secured bank borrowings due within one year	—	54,322

	2007 RMB'000	2006 RMB'000
Denominated in:		
RMB	—	47,930
United States dollars	—	6,392
	—	54,322

The borrowings were arranged at variable interest rate and the ranges of effective interest rates on the Group's borrowings were as follows:

	2007	2006
Effective interest rate per annum	—	3.6% to 7.75%

At 31 December 2006 bank borrowings of approximately RMB6,392,000 was secured by pledged bank deposits, floating charge on trade receivables and inventories of the Company's subsidiary, Tri-Control Automation Company Limited, as well as joint and several guarantees from Xuan Rui Guo, Kuang Jian Ping and Huang Zhi Yong, the directors of the Company, as set out in note 34.

As at 31 December 2006, bank borrowings of RMB30,000,000 was guaranteed by an independent third party. During the year ended 31 December 2006, the Group paid approximately RMB624,600 to the independent third party for the corporate guarantees provided. Details of the securities provided by the Group and the directors of the Company to the independent third parties for the guarantees provided are set out in note 20 and note 34.

28. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At date of incorporation and at 31 December 2006	38,000,000	380
Increase during the year	2,962,000,000	29,620
At 31 December 2007	**3,000,000,000**	**30,000**
Issued and fully paid:		
At date of incorporation and at 31 December 2006	1	—
Issue of shares on Group Reorganisation	55,499,999	555
Capitalisation on issue of shares	544,500,000	5,445
Issue of new shares upon listing of the Company's shares on the Stock Exchange	230,000,000	2,300
At 31 December 2007	**830,000,000**	**8,300**

	RMB'000
Shown in the consolidated financial statements at 31 December 2007 as	7,772

28. SHARE CAPITAL (CONT'D)

Details of the changes in the Company's share capital for the year ended 31 December 2006 and 2007 are as follows:

(a) The Company was incorporated in the Cayman Islands on 25 July 2006 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

(b) The authorised share capital of the Company was increased from HK$380,000 to HK$30,000,000 by the creation of an additional 2,962,000,000 shares pursuant to the resolutions in writing of the shareholders of the Company passed on 16 June 2007.

(c) On 16 June 2007, pursuant to the Group Reorganisation, Consen Group Holding Inc. and Equity Concept Investments Ltd. transferred all the issued share capital in Tricon International (BVI) to the Company, in consideration for which the Company allotted and issued, credited as fully paid, 49,999,999 shares to Consen Group Holding Inc. and 5,500,000 shares to Equity Concept Investments Ltd. respectively and credited as fully paid at par the one nil paid Share held by Consen Group Holding Inc..

(d) The Company capitalised the amount of HK$5,445,000.00 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 544,500,000 shares for allotment and issue to the person(s) whose name(s) appears on the register of the members of the Company at the close of business on 27 June 2007.

(e) The Company issued 200,000,000 new ordinary shares of HK$0.01 each for cash at HK$1.53 per share by way of public offer.

(f) The Company's shares were listed on the Main Board of the Stock Exchange on 12 July 2007.

(g) On 30 July 2007, a further 30,000,000 new ordinary shares of HK$0.01 each were issued. At 30 July 2007, the Company's issued share capital comprised 830,000,000 shares of HK$0.01 each.

29. RESERVES

(a) Other reserve

The Group's other reserve represents amounts arising on the Group Reorganisation.

(b) Statutory surplus reserves

As stipulated by the relevant PRC laws and regulations, before distribution of the net profit each year, the subsidiaries as wholly-owned foreign enterprise with limited liability which established in the PRC shall set aside 10% of their net profit to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(c) Share option reserve

The Group's share option reserve represents the recognition of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period.

30. SHARE-BASED PAYMENT

Equity-settled share option scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 16 June 2007 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial Shareholders; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial Shareholders The Scheme will remain valid for a period of ten years commencing on 16 June 2007.

At 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 37,948,000, representing 4.57% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

30. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (cont'd)

An amount of HK$1 is payable by eligible employee to the Company on acceptance of the option as consideration for the grant. Options may be exercised at any time from twelve months from the date of grant of the share option to the five anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Option series	Share option granted	Date of grant	Exercise period	Exercise price
				HK$
2007A	35,948,000	31/10/2007	31/10/2008 - 30/10/2012	2.95
2007B	35,948,000	20/12/2007	31/10/2008 - 30/10/2012	2.27
2007C	2,000,000	20/12/2007	20/12/2008 - 30/12/2012	2.27

During the year ended 31 December 2007, options were granted to eligible employees on 31 October 2007 (2007A) with exercise price of HK$2.95 and the closing price of the Company's shares on the grant date is HK$ 2.93. The estimated fair values of the options granted on that date is approximately HK$34,876,000.

On 20 December 2007, options were granted (2007B) to the same batch of eligible employee as mentioned above (2007A) with exercise price of HK$2.27 replace the options (2007A) granted on 31 October 2007. The closing price of the Company's shares on the grant date is HK$2.19. The estimated fair values of the new options granted (2007B) and the options replaced (2007A) on that date are approximately HK$23,914,000 and HK$18,266,000 respectively. The incremental fair value of appoximately HK$5,648,000 will be expensed over the remaining vesting period of which HK$132,000 will be expensed in 2007.

On the same date, another batch of options (2007C) was granted to two eligible employees with the exercise price at HK$2.27. The estimated fair values of the options are approximately HK$1,358,000.

These fair values were calculated using the Binomial Model pricing model. The Company used the inputs below to measure the fair value of the above options.

Option series	2007A	2007B	2007C
Stock price at grant date	HK$2.93	HK$2.19	HK$2.19
Exercise price	HK$2.95	HK$2.27	HK$2.27
Expected volatility	44.15%	42.7%	42.7%
Expected life	5 years	4.86 years	5 years
Risk-free rate	3.513%	2.907%	2.907%
Dividend yield	1.2%	1.2%	1.2%

30. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (cont'd)

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Due to the insufficient data of the Company historical stock price before the grant date, volatility of companies containing with similar business running model was selected to estimate the Company's expected volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavior considerations.

Details of the share options granted during the current year and outstanding at 31 December 2007 are as follows:

	Granted during the year	Cancelled during the year	Outstanding at 31 December 2007
Key management	24,000,000	(11,000,000)	**13,000,000**
Other employees	49,896,000	(24,948,000)	**24,948,000**
	73,896,000	(35,948,000)	**37,948,000**
Exercisable at the end of the year			**37,948,000**

The Group recongised the total expense of RMB3,409,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

During the year ended 31 December 2007, the Company cancelled its outstanding options (2007A) on 20 December 2007 with the issuance of the replacement options (2007B) to the same batch of eligible employees which was accounted for as an modification. The incremental fair value of approximately HK$5,648,000 will be expensed over the remaining vesting period of which HK$132,000 will be expensed in 2007.

31. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December	
	2007	2006
	RMB'000	RMB'000
Within one year	**2,439**	1,613
In the second to fifth year inclusive	**941**	674
	3,380	2,287

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

32. COMMITMENTS

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements – in respect of acquisition of subsidiaries	**175,956**	—

33. RETIREMENT BENEFITS SCHEME

The Company's subsidiaries in the PRC, in accordance with the applicable regulations of the PRC, participated in a state-managed retirement benefits scheme operated by the local government. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement benefits scheme. In addition, the Group participate in the Mandatory Provident Fund Scheme for its employees in Hong Kong. The Group and its employees in Hong Kong contribute 5% of the Hong Kong employees' monthly salary to the scheme. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to income of RMB1,426,000 (2006: RMB484,000) represented contributions paid or payable to these schemes by the Group in respect of respective reporting period.

34. RELATED PARTY TRANSACTIONS

The Group's banking facilities with an aggregate amount of HK$50 million (2006: HK$65 million) was guaranteed by Xuan Rui Guo, Kuang Jian Ping and Huang Zhi Yong, the directors of the Company. As at 31 December 2006, bank borrowings of approximately RMB6,392,000 was secured by the guarantees from the directors of the Company. In addition, personal guarantees were provided by Xuan Rui Guo, Kuang Jian Ping and Huang Zhi Yong to the independent third party to obtain corporate guranatee from the third party for the banking facilities granted to the Group of RMB30,000,000 in 2006. They did not charge the Group for the guarantees provided. The guarantee was released upon the Listing.

The remuneration of key management during the year is as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits	**3,853**	2,381
Retirement benefit scheme contributions	**118**	63
	3,971	2,444

35. PARTICULAR OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2007 and 2006 are as follows:

Name of subsidiary	Date and place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2007 %	2006 %	Principal activities
Tricon International Group Inc. ("Tricon International")	26 September 2005 BVI	Share US$1	100	100	Investment holding
北京康吉森自動化設備技術有限責任公司 Beijing Consen Automation Control Co., Ltd. ("Beijing Consen")	26 April 1999 PRC	Registered capital RMB55,000,000	100	100	Provision of systems design and development, trading of equipment and maintenance services of safety and critical control systems
北京康吉森交通技術有限公司 Beijing Consen Transportation Technology Company Ltd. ("Beijing Transportation")	23 September 2003 PRC	Registered capital RMB3,000,000	95	95	Design, development and sales of railway interlocking system
Tri-Control Automation Company Limited ("Tri-Control")	11 May 2001 Hong Kong	Ordinary shares HKD10,000,000	100	100	Trading of automation products

35. PARTICULAR OF SUBSIDIARIES (CONT'D)

Name of subsidiary	Date and place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2007 %	2006 %	Principal activities
Consen Automation (Singapore) Pte. Ltd. ("Singapore Consen")	26 June 2006 Singapore	Ordinary shares S$1	100	100	Overseas business development and provision of engineering services
北京創康自動化工程有限公司 Beijing Tri-Control Automation Co., Ltd. ("Beijing Tri-Control")	31 July 2006 PRC	Registered capital US$1,000,000	100	100	Provision of systems design and development, trading of equipment and engineering and maintenance services of safety and critical control systems
北京天竺興業軟件技術有限公司 Beijing Sindhu Industrial Software Company Limited ("Beijing Software")	10 August 2006 PRC	Registered capital US$1,000,000	100	100	Research and development as well as software programming and licensing
Inovex Corporation	22 October 2007 USA	Registered capital US$1	100	—	Business development and provision of engineering services in overseas Markets

None of the subsidiaries had issued any debts securities at the end of the year.

36. POST BALANCE SHEET EVENTS

(a) Pursuant to a placing and subscription agreement dated 21 February 2008, 83,000,000 shares of HK$0.01 each in the share capital then held by Consen Group Holding Inc. was placed on 25 February 2008 at placing price of HK$2.84 per share and subscription of new shares of 83,000,000 by Consen Group Holding Inc. (the "subscription") at the subscription price of HK$2.84 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK$0.01 each in the share capital of the Company was completed on 3 March 2008. The net proceeds from the subscription amounting to HK$229.5 million, were duly received on 27 February 2008.

(b) The acquisition of the 46.97% equity interest in Beijing Jiaoda Microunion Technology Company Limited through Beijing Liboyuan Investment Management Company Limited and Beijing Hengtong Fangda New Materials and Technology Company Limited has been completed on 10 March 2008.

Financial Summary

RESULTS

	For the year ended 31 December			
	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	165,370	264,356	289,037	**403,357**
Profit before tax	38,594	55,585	74,152	**99,736**
Income tax (expense) credit	(3,493)	(9,871)	(5,290)	**386**
Profit attributable to equity holder of the parent	35,291	45,330	68,471	**99,891**

ASSETS AND LIABILITIES

	At 31 December			
	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	11,720	9,539	30,159	**46,776**
Current assets	144,866	201,984	254,648	**636,319**
Current liabilities	(83,043)	(95,198)	(138,170)	**(119,795)**
Net current assets	61,823	106,786	116,478	**516,524**
Total assets less current liabilities	73,543	116,325	146,637	**563,300**

Notes:

(1) The Company was incorporated in the Cayman Islands on 25 July 2006 and became the holding company of the Group on 17 June 2007 as a result of the Group Reorganisation.

(2) The summary financial information for the year ended 31 December 2004, 2005 and 2006 have been prepared using the principles of merger accounting as if the group structure immediately after the Group Reorganisation had been in existence throughout the years concerned.

Corporate Information

DIRECTORS

Executive Directors:
Mr. Xuan Rui Guo *(Chairman)*
Mr. Huang Zhi Yong
Mr. Kuang Jian Ping

Independent Non-executive Directors:
Mr. Tang Min
Mr. Wang Tai Wen (Appointed on 30 January 2008)
Mr. Ng Wing Fai
Mr. Han Ben Yi (Resigned on 30 January 2008)

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

Mr. Ng Wing Fai *(Chairman)*
Mr. Tang Min
Mr. Wang Tai Wen (Appointed on 30 January 2008)
Mr. Han Ben Yi (Resigned on 30 January 2008)

REMUNERATION COMMITTEE

Mr. Wang Tai Wen *(Chairman)*
(Appointed on 30 January 2008)
Mr. Tang Min
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Huang Zhi Yong
Mr. Han Ben Yi (Resigned on 30 January 2008)

NOMINATION COMMITTEE

Mr. Tang Min *(Chairman)*
Mr. Wang Tai Wen (Appointed on 30 January 2008)
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Kuang Jian Ping
Mr. Han Ben Yi (Resigned on 30 January 2008)

SENIOR MANAGEMENT

Mr. Yang Hong Yan
Mr. Cui Da Chao
Mr. Duan Min
Mr. Zhang Bao Li
Mr. Ji Jun
Mr. Zhou Zheng Qiang
Mr. Chow Chiu Chi

STOCK CODE

Hong Kong Stock Exchange 569

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chow Chiu Chi, FCPA, ACMA

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PRINCIPAL BANKERS

Hong Kong:
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
BNP Paribas Private Bank Hong Kong Branch

PRC:
Agricultural Bank of China
Bank of Beijing
Bank of Communications
Shenzhen Development Bank Corporation Limited

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong law
Woo, Kwan, Lee & Lo

As to Cayman Islands law
Conyers Dill & Pearman

As to PRC law
Commerce & Finance Law Offices

COMPLIANCE ADVISER

First Shangai Capital Limited