中國自動化集團有限公司

China Automation Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 569)

CONTENTS

Result Highlights

HIGHLIGHTS

- The Group achieved revenue of RMB408.8 million for the six months ended 30 June 2008 which represents an increase of approximately 132.9% as compared with the corresponding period of previous year.
- Net profit attributable to equity holders increased by 62.0% to RMB78.1 million as compared with the corresponding period of previous year.
- Earnings per share of the Group were approximately RMB8.78 cents (first half of 2007 : RMB8.04 cents) for the six months ended 30 June 2008.
- The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2008.

The board of directors of the Company (the "Board") is pleased to announce the unaudited results of China Automation Group Limited and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2008 (the "period under review").

Condensed Consolidated Income Statement

For the period ended 30 June 2008

	Notes	Six months ended 30 June 2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Revenue	3	**408,751**	175,520
Cost of sales		**(248,498)**	(93,000)
Gross profit		**160,253**	82,520
Other income	4	**5,838**	1,012
Selling and distribution expenses		**(21,699)**	(15,439)
Administrative expenses		**(46,165)**	(18,238)
Other expense	5	**(2,624)**	(479)
Finance costs		**(1,469)**	(1,246)
Share of results of an associate		**2,906**	—
Profit before tax		**97,040**	48,130
Income tax expense	6	**(12,273)**	—
Profit for the period	7	**84,767**	48,130
Attributable to:			
Equity holders of the Company		**78,089**	48,214
Minority interests		**6,678**	(84)
		84,767	48,130
Dividends	8	**24,865**	—
Earnings per share	9		
Basic (RMB cents)		**8.78**	8.04
Diluted (RMB cents)		**8.74**	—

Condensed Consolidated Balance Sheet

At 30 June 2008

	Notes	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	**17,353**	12,505
Prepaid lease payments		**16,755**	16,931
Intangible assets	11	**295,140**	850
Goodwill	12	**56,714**	—
Deposits for acquisition of a subsidiary		**—**	16,182
Deposits for acquisition of leasehold land and building	22	**20,000**	—
Deferred tax assets	13	**18,809**	308
		424,771	46,776
Current assets			
Inventories		**216,530**	108,133
Trade and bills receivables	14	**335,130**	170,990
Other receivables and prepayments		**41,537**	17,255
Amounts due from minority shareholders	15	**2,550**	—
Bank deposits under conditions		**98,938**	38,282
Bank balances and cash		**330,373**	301,659
		1,025,058	636,319

Condensed Consolidated Balance Sheet

At 30 June 2008

	Notes	**At 30 June 2008 RMB'000 (unaudited)**	At 31 December 2007 RMB'000 (audited)
Current liabilities			
Trade and bills payables	16	**156,018**	86,220
Other payables, deposits received and accruals		**72,139**	31,858
Tax payable		**26,267**	1,717
Deferred tax liability	13	**73,111**	—
Borrowings	17	**97,720**	—
Net current assets		**599,803**	516,524
Total assets less current liabilities		**1,024,574**	563,300
Non-current liability			
Deferred income	18	**65,986**	—
Total		**958,588**	563,300
Capital and reserves			
Share capital	19	**8,546**	7,772
Reserves	20	**816,381**	554,307
Equity attributable to equity holders of the parent		**824,927**	562,079
Minority interests		**133,661**	1,221
Total equity		**958,588**	563,300

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 June 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Other reserve	Statutory surplus reserves	Contribution from equity holders	Translation reserve	Share option reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note 19a)	*(Note 19b)*			*(Note 19c)*				
At 1 January 2007 (audited)	—	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	—	—	—	—	—	(616)	—	—	(616)	—	(616)
Profit for the period	—	—	—	—	—	—	—	48,214	48,214	(84)	48,130
Total recognised income and expense for the period	—	—	—	—	—	(616)	—	48,214	47,598	(84)	47,514
Issue of shares upon group reorganisation	555	—	(555)	—	—	—	—	—	—	—	—
At 30 June 2007 (unaudited)	555	47,841	(18,371)	4,863	619	(3,165)	—	160,903	193,245	906	194,151
At 1 January 2008 (audited)	**7,772**	**356,783**	**(18,335)**	**11,152**	**619**	**(5,612)**	**3,409**	**206,291**	**562,079**	**1,221**	**563,300**
Exchange difference arising on translation of foreign operations and expense recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**(1,199)**	**—**	**—**	**(1,199)**	**—**	**(1,199)**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**78,089**	**78,089**	**6,678**	**84,767**
Total recognised income and expense for the period	**—**	**—**	**—**	**—**	**—**	**(1,199)**	**—**	**78,089**	**76,890**	**6,678**	**83,568**
Acquisition of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**125,762**	**125,762**
Appropriations to reserves	**—**	**—**	**—**	**1,500**	**—**	**—**	**—**	**(1,500)**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(24,865)**	**(24,865)**	**—**	**(24,865)**
Issue of ordinary shares	**777**	**206,515**	**—**	**—**	**—**	**—**	**—**	**—**	**207,292**	**—**	**207,292**
Shares issue expenses	**—**	**(5,459)**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,459)**	**—**	**(5,459)**
Recognition of share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**9,677**	**—**	**9,677**	**—**	**9,677**
Stock repurchase	**(3)**	**(684)**	**—**	**—**	**—**	**—**	**—**	**—**	**(687)**	**—**	**(687)**
At 30 June 2008 (unaudited)	**8,546**	**557,155**	**(18,335)**	**12,652**	**619**	**(6,811)**	**13,086**	**258,015**	**824,927**	**133,661**	**958,588**

Condensed Consolidated Cash Flow Statement

For the period ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**633**	31,640
Net cash from (used in) investing activities		
Interest received	**3,029**	241
Purchases of property, plant and equipment	**(4,996)**	(939)
Purchases of intangible assets	**(6,105)**	—
Prepaid lease prepayments	**—**	(9,059)
Payment of deposits for acquisition of leasehold land and buildings	**(20,000)**	—
(Increase) decrease in bank deposits under conditions	**(60,656)**	15,114
Acquisition of an associate	**(175,956)**	—
Acquisition of a subsidiary	**60,913**	—
	(203,771)	5,357
Net cash from (used in) financing activities		
New borrowings raised	**177,347**	—
Interest paid	**(1,469)**	—
Repayments of borrowings	**(109,347)**	(34,322)
Dividends paid	**(24,865)**	(15,238)
Repurchase of shares	**(687)**	—
Shares issue expenses	**(5,459)**	—
Proceeds from issue of shares	**207,292**	—
	242,812	(49,560)
Net increase (decrease) in cash and cash equivalents	**39,674**	(12,563)
Cash and cash equivalents at 1 January	**301,659**	70,697
Effect of foreign exchange rate changes	**(10,960)**	(616)
Cash and cash equivalents at 30 June	**330,373**	57,518
Analysis of the balances of cash and cash equivalents:		
represented by bank balances and cash	**330,373**	57,518

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

1. GENERAL AND BASIS OF PREPARATION

The Company was a limited company incorporated in the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands and its place of business in Hong Kong is located at Suite 2206, 22nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. The Company is an investment holding company, the shares of which have been listed on the Main Board of the Stock Exchange since 12 July 2007.

The Company's subsidiaries are principally engaged in the research and providing the solution for the safety and critical control system in chemical, petrochemical, coal chemical, oil and gas market and the railway safety control system in national railway/urban railway market.

The condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard (the "IAS") 34 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed 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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies adopted in the condensed consolidated financial statement are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

In addition, the Group acquired a business during the period for which the details are disclosed in note 23 to the condensed consolidated financial statements. The accounting policies for the business combination are summarised as below:

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Business combinations

Acquisitions of businesses are accounted for using the purchase method. The cost of the business combination is measured as 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, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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.

A business combination achieved in stages involves more than one exchange transaction. Each exchange transaction is treated separately, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction.

Before qualifying as a business combination, a transaction may qualify as an investment in an associate and be accounted for in accordance with IAS 28 Investments in Associates using the equity method. If so, the fair values of the investee's identifiable net assets at the date of each earlier exchange transaction will have been determined previously in applying the equity method to the investment.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Goodwill

Goodwill arising on an acquisition of a business for which the agreement date is on after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") 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 2008.

IFRIC – Int 11	IFRS 2: Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Goodwill (cont'd)

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[4]
IFRIC 12	Service Concession Arrangements[5]
IFRIC 13	Customer Loyalty Programmes[6]
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

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

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

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

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

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

[7] Effective for annual periods beginning on or after 1 October 2008

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

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

3. REVENUE AND SEGMENT INFORMATION

Segment information is presented primarily by business and secondarily by geographical locations of external customers.

Business segment

Each segment represents a strategic business unit that offers products or services which are subject to risks and returns different from other segments. Segment information about these businesses is presented below:

Six months ended 30 June 2008

	System sales RMB'000	Provision of engineering & maintenance services RMB'000	Trading of equipment RMB'000	Consolidated RMB'000
Revenue	304,045	32,309	72,397	408,751
Segment results	103,440	22,331	10,159	135,930
Unallocated other income				5,838
Share of results of an associate	2,906	—	—	2,906
Unallocated corporate expenses				(46,165)
Finance costs				(1,469)
Profit before tax				97,040
Income tax expense				(12,273)
Profit for the period				84,767

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

Business segment (cont'd)

Six months ended 30 June 2007

	System sales RMB'000	Provision of engineering & maintenance services RMB'000	Trading of equipment RMB'000	Consolidated RMB'000
Revenue	146,887	19,812	8,821	175,520
Segment results	49,192	15,545	1,865	66,602
Unallocated other income				1,012
Unallocated corporate expenses				(18,238)
Finance costs				(1,246)
Profit before tax				48,130
Income tax expense				—
Profit for the period				48,130

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

Geographical segment

The Group's operations are principally located in the PRC. The following tables present revenue 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.

Six months ended 30 June 2008

	PRC **RMB'000**	**Other countries** **RMB'000**	**Total** **RMB'000**
Revenue	**374,827**	**33,924**	**408,751**

Six months ended 30 June 2007

	PRC RMB'000	Other countries RMB'000	Total RMB'000
Revenue	164,462	11,058	175,520

4. OTHER INCOME

	Six months ended 30 June	
	2008 **RMB'000**	2007 RMB'000
Interest income	**3,029**	241
Net foreign exchange gain	**2,809**	771
	5,838	1,012

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

5. OTHER EXPENSE

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Research and development costs	**2,624**	479

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current tax charge comprises:		
PRC enterprise income tax	**13,321**	—
Deferred tax *(note 13)*	**(1,048)**	—
	12,273	—

PRC enterprise income tax is calculated at 25% 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. Except for certain subsidiaries of the Company, which were enjoyed substantially lower than 25% in prior year, tax rates due to incentives are gradually increased to the new 25% over a five-year period from year 2008. 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.

Certain subsidiaries of the Company 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.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**1,869**	1,128
Amortisation of intangible assets	**4,260**	334
Amortisation of prepaid lease payments	**176**	176
Allowances for bad and doubtful debts	**51**	—
Share-based payments (included in administrative expenses)	**9,677**	—
Share of tax of an associate associates (included in share of results of an associate)	**968**	—
Operating lease rentals in respect of rented premises	**4,033**	1,067

8. DIVIDENDS

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Dividends paid	**24,865**	—

(a) During the period, a dividend of HK$3.0 cents (Six months ended 30 June 2007: Nil) per share, amounting to RMB24,864,642 (Six months ended 30 June 2007: Nil) was paid to shareholders as the final dividend for the immediate preceding financial year end.

(b) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June	
Earnings	**2008**	2007
	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	**78,089**	48,214

	Six months ended 30 June	
Number of shares	**2008**	2007
	RMB'000	RMB'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**889,275**	600,000
Effect of dilutive potential ordinary shares for share options	**4,630**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**893,905**	600,000

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence for the six months ended 30 June 2007.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, through acquisition of business the Group's property, plant and equipment increased by approximately RMB1,720,000 and the Group purchased property, plant and equipment approximately RMB4,996,000 from third parties.

11. INTANGIBLE ASSETS

During the period, license, trademark and backlog orders amounted to RMB209,106,000, RMB75,584,000 and of RMB7,755,000 respectively were recognised upon the acquisition of businesses (note 23) and the Group purchased other intangible assets approximately RMB6,105,000 from third parties.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

12. GOODWILL

	RMB'000
Acquisition of business and at 30 June 2008 *(note 23)*	**56,714**

13. DEFERRED TAX ASSETS/LIABILITY

The deferred tax assets recognised by the Group and movements thereon during the reporting years are as follows:

	Doubtful debts RMB'000	Deferred income RMB'000	Other temporary difference RMB'000	Total RMB'000
At 1 January 2008	188	—	120	308
Acquisition of business	2,171	15,282	—	17,453
(Charge) credit to income statement	(167)	1,215	—	1,048
At 30 June 2008	2,192	16,497	120	18,809

The deferred tax liability were recognised by the Group during the reporting period represented the fair value adjustment on intangible assets arising from the business acquisitions as disclosed in note 23.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

14. TRADE AND BILLS RECEIVABLES

	30.6.2008	31.12.2007
	RMB'000	RMB'000
Trade receivables	324,748	164,140
Less: Accumulated impairment	(1,618)	(1,567)
	323,130	162,573
Bills receivables	12,000	8,417
	335,130	170,990

The Group allows an average credit period ranging from 0 to 90 days to its trade customers.

The following is an aged analysis of trade and bills receivables at the reporting dates:

	30.6.2008	31.12.2007
	RMB'000	RMB'000
0-90 days	266,542	124,294
91-180 days	43,782	40,118
181-365 days	18,366	820
1 - 2 years	3,027	4,011
2-3 years	2,450	1,747
Over 3 years	963	—
	335,130	170,990

The credit period of certain retention receivables is aged over one year. The directors consider that there is no impairment loss to provide for these retention receivables.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

14. TRADE AND BILLS RECEIVABLES (CONT'D)

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.

Movement in the allowance for doubtful debts

	30.6.2008 RMB'000	31.12.2007 RMB'000
At 1 January	**1,567**	1,567
Impairment losses recognised on trade receivables	**51**	—
At 31 December/30 June	**1,618**	1,567

15. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

	30.6.2008 RMB'000	31.12.2007 RMB'000
Minority shareholders	**2,550**	—

The amounts due from minority shareholders are unsecured, interest free and repayable on demand.

16. TRADE AND BILLS PAYABLES

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

	30.6.2008 RMB'000	31.12.2007 RMB'000
0-90 days	**84,924**	52,280
91-180 days	**2,290**	33,620
181-365 days	**42,548**	310
1-2 years	**10,189**	10
2-3 years	**15,878**	—
Over 3 years	**189**	—
	156,018	86,220

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

17. BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately RMB97,720,000. The loans carry interest at market rates of 5.25% to 7.47% and are repayable in installments within one year. The proceeds were used to finance capital expenditure and general working capital of the Group.

At 30 June 2008, certain assets of the Group with aggregate carrying value of RMB33,595,000 (2007: Nil) were pledged as security for loan facilities granted by banks.

18. DEFERRED INCOME

	RMB'000
At 1 January 2008	—
Addition	3,002
Acquisition of business	62,984
At 30 June 2008	65,986

The Company's subsidiary, Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion"), has entered into arrangement to provide maintenance and operational services for the systems installed of up to ten years and it recognizes revenue when the services are provided using the percentage of completion method. Service fees received in advance are recorded as deterred income and recognised as service fee income when the services are rendered.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

19. SHARE CAPITAL

	Number of shares	Amount
		HK'000
Authorized:		
Ordinary shares of HK$0.01 each at 1 January 2008 and 30 June 2008	3,000,000,000	30,000
Issued and fully paid:		
Ordinary shares of HK$0.01 at 1 January 2008	830,000,000	8,300
Issue of new shares through placement *(Note a)*	83,000,000	830
Share repurchased and cancelled *(Note b)*	(340,000)	(3.4)
	912,660,000	9,126

	RMB'000
Shown in the condensed consolidated financial statements at 30 June 2008	**8,546**

Notes:

(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.

(b) In June 2008, the Company repurchased certain of its own shares of 340,000 shares through the Stock Exchange at an aggregate consideration of HK$781,120. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK$3,400 was charged in the share capital and the premium paid on repurchase of HK$777,720 was charged against share premium in accordance with the Cayman Islands Companies Act.

Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration Paid
		HK$	HK$	HK$
June 2008	**340,000**	**2.30**	**2.27**	**781,120**

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six month period ended 30 June 2008.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

20. RESERVES

(a) Other reserve

The 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 entities established in the PRC with limited liability 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 entities and by the relevant authority, to offset accumulated losses or increase capital.

(c) Share option reserve

The 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.

21. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

Option type	Outstanding at 1/1/2008	Granted during period	Exercised during period	Lapsed during period	Expired during period	Outstanding at 30/6/2008
2007B	35,948,000	—	—	—	—	35,948,000
2007C	2,000,000	—	—	—	—	2,000,000

37,948,000 share options are exercisable as at 30 June 2008. The weighted average share price at the dates of exercise is approximately HK$2.848.

The Group recognized total expense of HK$11,243,000 (2007: Nil) for the six months ended 30 June 2008 in relation to the share options granted by the Company.

The fair values of option 2007B and 2007C are HK$15,605,000 and HK$932,000 respectively.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

22. CAPITAL COMMITMENTS

	30.6.2008	31.12.2007
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of subsidiaries	**—**	175,956
– in respect of acquisition of leasehold land and building	**21,000**	—

23. ACQUISITONS OF BUSINESS

The Group acquired 58.01% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion") via (i) the acquisitions on 10 March 2008 of an aggregate of 100% interest in each of Beijing Liboyuan Investment Management Company Limited and Beijing Hengtong Faugda New Materials and Technology Company Limited which are in substance, to acquire their respective 28.47% and 18.50% effective interests in Beijing Jiaoda Microunion for a total consideration of RMB192,137,500 ("First Acquisition") and; (ii) acquisition of 11.04% equity interest in Beijing Jiaoda Mircrounion via Beijing Hengtong at a consideration of RMB41,323,500 ("Second Acquisition") on 12 June 2008. The 46.97% effective interests acquired through the First Acquisition were accounted as investment in associate under equity method. The Group obtained control upon completion of the Second Acquisition and the transactions had been accounted in accordance with accounting policy as disclosed in Note 2.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

23. ACQUISITONS OF BUSINESS (CONT'D)

The net assets acquired in these transactions, and the goodwill arising, are as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	1,720	—	1,720
Deferred tax assets	17,453	—	17,453
Intangible assets – license	—	209,106	209,106
– trademark	—	75,584	75,584
– backlog orders	—	7,755	7,755
Inventory	95,326	—	95,326
Trade receivables	79,905	—	79,905
Other receivables and prepayments	17,798	—	17,798
Cash and cash equivalent	102,236	—	102,236
Trade payables	(58,991)	—	(58,991)
Other payables, deposits received and accruals	(91,981)	—	(91,981)
Deferred tax liability	—	(73,111)	(73,111)
Income tax payable	(14,401)	—	(14,401)
Deferred income	(62,984)	—	(62,984)
	86,081	219,334	305,415
Preliminary interest held by the Group as an associate			(145,936)
Minority interest			(125,762)
Goodwill arising on acquisition			7,606
Total consideration			41,323
Net cash outflow arising on acquisition:			
Cash consideration paid			(41,323)
Cash and cash equivalents acquired			102,236
			60,913

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

23. ACQUISITONS OF BUSINESS (CONT'D)

The fair values of the intangible assets are determined provisionally based on professional valuation prepared by an independent firm of professional valuer in Hong Kong. The directors are in the process of reviewing the valuation basis and the ultimate fair value of the intangible assets, and identifying the existence of other intangible assets. The directors expect the whole process will be finalised before 31 December 2008.

Beijing Jiaoda Microunion acquired mentioned above contributed approximately RMB96,590,000 to the Group's revenue and contributed a profit of approximately RMB19,074,000 to the Group's profit for the period between the date of acquisition and the reporting date.

Had these business combinations been effected at 1 January 2008, the revenue of the Group would be increased by RMB156,622,000, and Group's profit for the period would be increased by RMB14,156,000.

Goodwill of RMB49,108,000 generated from First Acquisition was transferred to goodwill generated from acquisition of business upon the completion of Second Acquisition.

24. CONTINGENT LIABILITIES

As at 30 June 2008, the Group had no material contingent liabilities.

25. RELATED PARTY TRANSACTIONS

As at 30 June 2007, personal guarantees were provided by Mr. Xuan Rui Guo, Mr. Kuang Jian Ping and Mr. Huang Zhi Yong, being the directors of the Company, to the independent third party to obtain corporate guarantee from the third party for the bank borrowing to the group amounted to RMB20,000,000. These guarantees were released upon the listing of the Group.

The remuneration of key management personnel during the period was as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Salaries and other benefits	**4,683**	2,544
Retirement benefit scheme contributions	**69**	48
Share-based payments	**2,499**	—
	7,251	2,592

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 June 2008

26. POST BALANCE SHEET EVENTS

(a) In July 2008, the Company repurchased certain of its own shares of 552,000 shares through the Stock Exchange of Hong Kong Limited at an aggregate consideration of HK$1,288,000. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK$5,520 was charged in the share capital and the premium paid on repurchase of HK$1,282,480 was charged against share premium in accordance with the Cayman Islands Companies Act.

(b) On 14 August 2008, the Group, through Beijing Hengtong, entered into the Equity Transfer Contract with 北京交大資產經營有限公司 (Beijing Jiaotong University Assets Management Company Ltd.), pursuant to which, Beijing Hengtong agreed to acquire and the 資產經營有限公司 (Beijing Jiaotong University Assets Management Company Ltd.) agreed to sell its 18.69% equity interest in Beijing Jiaoda Microunion at a total consideration of RMB70,087,500. The Group's effective equity interest in Beijing Jiaoda Microunion will be increased to 76.70% upon completion.

Management Discussion and Analysis

INDUSTRY REVIEW AND OUTLOOK

INDUSTRY REVIEW

The safety control solutions provided by the Group are mainly used in the petrochemical industry and the railway industry.

In the first half of 2008, notwithstanding the worsening of the international economic environment evidenced by the sub-prime loan crisis in the United States and an economic slowdown, and the unexpected difficulties faced by the domestic economy in its development following the snowstorms, earthquakes, etc., the development of the petrochemical industry remained stable and the railway industry also entered a phase of rapid, orderly development.

As the petrochemical industry and the railway industry develop quickly, the awareness of safety control will also become higher and higher.

PETROCHEMICAL INDUSTRY

Traditional petrochemical industry

In the first half of the year, the traditional petrochemical industry of China developed in a stable manner; in the second half of the year, capital expenditures will continue to grow in a rate of approximately 30%. 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.

Coal chemical industry

2008 is a period of vigorous growth for the coal chemical industry.

The dawn of the high oil price era has turned the modern coal chemical industry with a primary focus on large scale coal chemical projects into a hotspot for global economic development. China's shortage of crude oil and abundance in coal also set the long term trend of its turning into the new coal-based energy direction.

The fundamental policy of the development of the national coal chemical industry is to "accelerate the development of the industry in a stable manner and continue to develop the coal chemical industry". The government also implemented a series of supporting policies. The "Planning Outline of Medium to Long Term Energy Development" states that the coal chemical industry is a main focus of the national strategies on medium to long term development. 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 demonstration project in an orderly manner, and to promote the transformation of intensive processing of coal." According to "Certain Opinion Related to Speeding-up the Vigorous Development of the Equipment Manufacturing Industry of the State Council", large scale comprehensive facilities for the coal chemical industry are included as one of the 16 important equipments. Such facilities include equipment for coal liquefaction and gasification and processing coal to olefin.

Management Discussion and Analysis

The "Medium to Long Term Planning of the Coal Chemical Industry" points out that from 2006 to 2020, total investment in the coal chemical industry in China is expected to be over RMB 1,000 billion, of which 50% are equipment expenditures and 10% are technology expenditures.

The whole coal chemical industry has huge room for development.

THE 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.

According to information from the Ministry of Railways, in 2008, RMB 256 billion has been set aside for investment in infrastructural construction of the railways of China, and new railway lines of 2,099 km, two-way railway lines of 2,347 will be paved, and 2,019 km of electrified railway will commence production.

While developing traditional railways, the development of city rail transportation in the first half of 2008 was prominent.

In the first half of 2008, Beijing-Tianjin City Railway, the first rail of a speed of 300km per hour in China, commenced operation successfully, which betokens that national city rail transportation has entered a phase of straddling development and a bright market future lies ahead. Statistics show that in the first half of 2008, the total length of the special passenger lines and city railway already under construction is 7,000 km.

In the first half of 2008, city rail transportation developed in a rapid and orderly manner. And with proper guidance from national policies and the proactive efforts on the planning and construction of rail transportation in the relevant cities, the ten cities in China that have 20 lines rail transportation together are Beijing, Shanghai, Tianjin, Guangzhou, Changchun, Dalian, Chongqing, Wuhan, Shenzhen, Nanjing. During the "Eleventh Five-Year Plan" period, 2,000 km of subway and light rail commenced services in the ultra large cities in China and approximately 600 billion will be invested in it. The development of rail transportation has become a first choice in the big cities. High speed rail and new city rail equipment is one of the 16 important technology equipment that China will put great effort into development in the future, and the demand for safety standard is especially important, which would push forward the development of the safety system market.

INDUSTRY OUTLOOK

Petrochemical Industry

In the first half of 2008, the petrochemical industry continued to grow rapidly.

In the second half of the year, affected by the economic situation of the world, especially the depreciation of US dollar, the continual rise in oil and food prices, the growth of the traditional petrochemical industry has slowed down and its development remained stable with a growth of approximately 30%. At the same time, the newly emerged coal chemical industry is developing swiftly and the profit margin of the industry is higher. The whole coal chemical industry has a positive outlook.

Management Discussion and Analysis

Railway Industry

In the first half of 2008, the national railway industry developed rapidly and profitability grew significantly.

Railway construction and rail transportation are the two infrastructural areas that are vigorously developed by the country. In the coming period of time, these areas will have the most specific guidance on macroeconomic policies given by the country and the government. In the first half of 2008, the snowstorms, rail transportation incidents and the earthquake relief work further manifest the importance of speeding up the construction of railways in China.

China's railway construction came to a full start in this critical year of 2008. Key projects such as the Beijing-Shanghai, Beijing-Shijiazhuang, Shijiazhuang-Wuhan projects have commenced. The completion of the Beijing-Tianjin city high-speed passenger line, the first rail with a speed of 350 km per hour, betokens that China has entered the era of high-speed rail development. In a long period of time in the future, the railway market in China will have a thriving development.

BUSINESS REVIEW

The Group is principally engaged in the provision of industrial safety and critical control systems and related engineering and maintenance services that are generally used to: (i) monitor and protect crucial equipment in the processing industries such as chemical, petrochemical, coal chemical, oil and gas and metallurgical; and (ii) regulate rail tracks and signal lights to prevent train collision accidents. The Group is the largest safety and critical control system provider in the PRC in 2007 with a market share of approximately 72% (2006: 68%) in terms of revenue. The Group has been providing the total solutions with the Integrated Turbine and Compressor Control ("ITCC"), Emergency Shutdown Device ("ESD") and Fire and Gas System ("FGS") as well as Railway Interlocking System ("RIS") to the customers for over ten years.

In response to energy demands driven by China's strong economic growth, major oil, gas, coal chemical and petrochemical producers are rapidly expanding production capacity. The positive outlook for these sectors is further backed by the increasing awareness of industrial safety and the implementation of national industrial standards, all of which will be backed by substantial capital expenditures. Also, the major customers who dominate the chemical, petrochemical, coal chemical, oil and gas markets in the PRC today prefer a full set of ITCC/ESD/FGS solutions ("whole plant package") for their oil and gas, petrochemical plants. As the market leader, the Group has accumulated a lot of experience in the whole plant package delivery, while at the same time it continues to expand its service network and offer the customers maximum reliability assurance. Also, the rapid growth in the coal chemical industry has become a major characteristic of the petrochemical sector in the PRC. 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 Group is well positioned to capture this massive demand by leveraging on its own competitiveness. All the above factors brought about significant growth for the Group's ITCC and ESD & FGS businesses for the first half of 2008.

Management Discussion and Analysis

Turnover analysis by business segment
Six months ended 30 June

	2008 (RMB' million)	2007 (RMB' million)	Change (%)
System sales			
ITCC	**123.8**	95.1	30.2%
ESD & FGS	**58.5**	38.3	52.7%
RIS	**25.2**	13.5	86.7%
RIS (from Beijing Jiaoda Microunion)	**96.6**	—	—
Sub-total	**304.1**	146.9	+107.0
Provision of engineering and maintenance services	**32.3**	19.8	+63.1
Trading of equipment	**72.4**	8.8	+722.7
Total	**408.8**	175.5	+132.9

Gross profit analysis by business segment
Six months ended 30 June

	2008 (%)	2007 (%)	Change (%)
System sales			
ITCC	**46.9**	46.8	+0.1
ESD & FGS	**38.1**	39.1	-1.0
RIS	**41.6**	41.7	-0.1
RIS (from Beijing Jiaoda Microunion)	**30.2**	—	—
Sub-total	**40.2**	44.3	-4.1
Provision of engineering and maintenance services	**74.4**	78.5	-4.1
Trading of equipment	**19.3**	21.2	-1.9
Total	**39.2**	47.0	-7.8

Management Discussion and Analysis

ITCC

Following the increase of the market volume and market share, revenue of ITCC increased by approximately 30.2% to RMB123.8 million for the six months ended 30 June 2008 when compared with that of the corresponding period of previous year.

Significant increase in revenue was related to the coal chemical industry. Moreover, the gross profit margin of ITCC system increased marginally by approximately 0.1% to 46.9% (first half of 2007: 46.8%) of the segment revenue for the six months ended 30 June 2008. 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 keeps 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 six months ended 30 June 2008. The management of the Group expects that the general trend will continue in the forthcoming years.

ESD and FGS

Following the planned construction of large refineries, petrochemical plants and coal chemical plants, the markets of ESD and FGS has kept expanding for the six months ended 30 June 2008. Accordingly, the revenue of ESD and FGS increased by approximately 52.7% to RMB58.5 million for the six months ended 30 June 2008 when compared with that of the corresponding period of previous year. The gross profit margin had slightly decreased by approximately 1.0% to 38.1% for the six months ended 30 June 2008 when compared with that of the corresponding period of previous year.

RIS

Regarding the RIS business of the Group, the revenue increased by approximately 86.7% to RMB25.2 million for the six months ended 30 June 2008 when compared with that of the corresponding period of previous year and was mainly attributable to the completion of several major projects which including notably Angola RIS project (安哥拉鐵路微機連鎖), Maoming Railroad control system (茂名鐵路控制系統), East Area Railroad Signal & Electricity Reform (東部區鐵路信號電氣集中改造工程), MCIS Module Reform of Tiema Coal Industry Group Co. Ltd. (鐵法煤業集團 MCIS 模塊改造). For the six months ended 30 June 2008, the gross profit margin of RIS basically maintained at approximately 41.6% (first half of 2007: 41.7%) which was pretty the same as that of the corresponding period of previous year.

For the six months ended 30 June 2008, revenue related to RIS business contributed by the newly acquired subsidiary, namely Beijing Jiaoda Microunion Technology Co. Ltd. ("Beijing Jiaoda Microunion"), amounted to approximately RMB96.6 million with gross profit margin at approximately 30.2% (31 December 2007: 24.7%). The gross profit margin achieved by Beijing Jiaoda Microunion was lower than that of the RIS business of the Group.

Looking forward, the Directors anticipate that the gross profit margin of Beijing Jiaoda Microunion could be enhanced through streamlining of its operational, financial and management thereof. The Directors also believe that synergy effect could be achieved through merging the station computerized interlocking software and system integration associated with national and metro railways into the Group's local railway business.

Management Discussion and Analysis

Provision of engineering and maintenance services

For the six months ended 30 June 2008, the revenue in relation to the provision of engineering and maintenance services had increased by approximately 63.1% to RMB32.3 million. It was mainly attributable to the increase in overseas engineering works as well as increase in maintenance services due to the accumulated installation base during the period under review.

The Directors expect that with a relatively large and expanding installation base, after sales engineering support has the potential to become a significant and stable source of recurring revenue. On the other hand, the Group had expanded its engineering service by setting up a U.S. company, namely Inovex Corporation, in the United States to explore to the North American market and establishment of the new overseas engineering operation that would boost the revenue of engineering and maintenance service in the near future.

Trading of equipment

Given the expanding railway transportation network in the PRC, the management of the Group believes that the demand for train manufacturing equipment would have a significant growth in the foreseeable future. For the six months ended 30 June 2008, revenue in relation to trading of equipment increased significantly by approximately RMB63.6 million to RMB72.4 million (first half of 2007: RMB8.8 million). This was resulted from the increase in orders received from China Southern Railway and China Northern Railway in relation to spot welding machines (車體總組成點焊機) and spot welding robot systems (8軸龍門式點悍機器人系統) for train body assembly as the Group has strong financial resources to support the trading business and has built up excellent reputation over the past years on this niche market. Looking forward, the management of the Group believes that this equipment trading business segment would have excellent potential in the forthcoming years.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2008, revenue of the Group increased tremendously by 132.9% to approximately RMB408.8 million (first half of 2007: RMB175.5 million), as compared with that of the corresponding period of previous year.

The revenue of the Group related to system sales, provision of engineering and maintenance services as well as equipment trading amounted to approximately RMB304.1 million, RMB32.3 million and RMB72.4 million respectively, representing respective increases by approximately 107.0%, 63.1% and 722.7% over those of the corresponding period of previous year.

The significant increase in revenue generated from system sales was mainly due to (i) some major customers prefer a full set of ITCC/ESD/FGS solutions ("whole plant package") provided by the Group as it is currently the only one single industry player in China having a complete set of safety and critical control system products for chemical, petrochemical, coal chemical, oil and gas industries of which the coal chemical industry has made the greatest contribution; and (ii) the revenue contributed by the newly acquired non wholly-owned subsidiary Beijing Jiaoda Microunion amounted to approximately RMB96.6 million.

Management Discussion and Analysis

The increase in revenue generated from the provision of engineering and maintenance services was mainly attributable to the increase in overseas engineering services businesses and the increase in revenue generated from the provision of maintenance services was due to the enlarged installation base.

For the six months ended 30 June 2008, the increase in revenue from trading of equipment was primarily due to more orders in relation to spot welding machines and spot welding robot systems for train body assembly business from the customers as backed up by the strong financial resources of the Group and excellent reputation built up over the past years.

In terms of business segment, approximately 74.4% (first half of 2007: 83.7%) was generated from system sales, approximately 7.9% (first half of 2007: 11.3%) was from the provision of engineering and maintenance services and approximately 17.7% (first half of 2007: 5.0%) was from trading of equipment for the six months ended 30 June 2008.

Gross profit

Gross profit for the six months ended 30 June 2008 was approximately RMB160.3 million, representing an increase of approximately RMB77.7 million or 94.2% over that of the corresponding period of previous year.

However, the gross profit margin decreased from approximately 47.0% for the six months ended 30 June 2007 to 39.2% for the six months ended 30 June 2008.

The decrease in overall gross profit margin of the Group was mainly resulted from (i) the consolidation of Beijing Jiaoda Microunion whose gross profit margin was only at approximately 30.2% and therefore dragged down the overall gross profit margin of the Group; and (ii) the increase in equipment trading business from approximately RMB8.8 million to RMB72.4 million for the six months ended 30 June 2008, which also had a lower gross profit margin of merely 19.3%.

Nevertheless, the gross profit margin of ITCC, ESD & FGS and RIS of the Group for the six months ended 30 June 2008 were virtually the same as compared with that of the corresponding period of previous year. Furthermore, the overall gross profit margin of system sales (excluding Beijing Jiaoda Microunion) for the six months ended 30 June 2008 was at 43.8% (full year of 2007: 43.1%), which was even better than that achieved for the previous year.

The financial performance and gross profit margin analysis of Beijing Jiaoda Microunion are set out in the section headed "Acquisition of Beijing Jiaoda Microunion" of this Interim Report.

Other income

For the six months ended 30 June 2008, other income increased by approximately RMB4.8 million to RMB5.8 million. It was mainly due to (i) the increase in foreign exchange gains resulted from the appreciation of Renminbi during the period under review as well as (ii) the increase in interest income generated from bank deposits with the net proceeds from initial public offerings in July 2007 and share placement exercise completed in March 2008.

Management Discussion and Analysis

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2008 were approximately RMB21.7 million, which increased by approximately 40.9% as compared with that of the corresponding period of previous year. Such increase was mainly attributable to (i) the increases in technology consultancy fees in relation to international projects; (ii) service fees to tendering institutions; (iii) more entertainment and traveling expenses incurred for the expanding sales and services network in the PRC; and (iv) the increase in commission expenses and cargo charges in line with the increase in turnover during the period under review.

Administrative expenses

Administrative expenses for the six months ended 30 June 2008 were approximately RMB46.2 million, which increased by approximately 153.8% when compared with that of the corresponding period of previous year. Such increase was mainly attributable to (i) increase in share-based payment of approximately RMB9.7 million (first half of 2007: nil) charged to the income statement in relation to the valuation of share options granted under the Company's share option scheme; (ii) amortization of intangible assets amounted to RMB4.3 million (first half of 2007: nil); (iii) the increase in staff costs attributable to overall improvement in staff salaries and benefits as well as the increased staff head-count; and (iv) increase in office expenses notably rental expenses as more new offices had been rented in order to cope with the increased business activities of the Group.

Other expenses

Other expenses represented research and development costs incurred for the six months ended 30 June 2008 and which amounted to approximately RMB2.6 million, representing an increase of approximately RMB2.1 million or 420.0% when compared with that of the corresponding period of previous year. The increase in research and development costs was to cope with the new product development.

Share of results of an associate

Share of results of an associate for the six months ended 30 June 2008 amounted to approximately RMB2.9 million (first half of 2007: nil) primarily reflected the results achieved by Beijing Jiaoda Microunion during the period from 10 March 2008 to 12 June 2008 in which the Group had an equity interest of 46.97% therein.

Finance costs

Finance costs for the six months ended 30 June 2008 increased by approximately RMB0.2 million to RMB1.5 million. Such increase was mainly attributable to higher level of bank charges and interest expenses associated with trade finance and invoice financing for the period under review.

Management Discussion and Analysis

Income tax expenses

Income tax expenses amounted to approximately RMB12.3 million for the six months ended 30 June 2008 (first half of 2007: nil) and was mainly attributable to (i) consolidation of the financial results of the newly acquired subsidiary, Beijing Jiaoda Microunion; and (ii) the fact that most of the Group's major operating subsidiaries were on tax holiday in the corresponding period of previous year but expired on the tax relief in the period under review.

The effective tax rate of the Group for the six months ended 30 June 2008 was at 12.6% (first half of 2007: zero) as its major operating subsidiaries were subject to 50% reduction from the PRC enterprise income tax in the period under review instead of tax holiday enjoyed in the corresponding period of previous year. Moreover, the newly acquired subsidiary, Beijing Jiaoda Microunion, had prudently provided for a 25% enterprise income tax instead of the preferential tax rate at 15% of the estimated assessable profit, because which has been awaiting for the final approval of the "New and High Tech Enterprises" status with applicable enterprise income tax rate at 15%. However, the Directors are confident that the relevant approval the "New and High Tech Enterprises" status from the tax bureau could be obtained in the second half of the year.

Profit for the year

As a result of the foregoing, the Group recorded a net profit of the Company of approximately RMB84.8 million for the six months ended 30 June 2008, representing an increase of approximately RMB36.7 million or 76.2% as when compared with that of the corresponding period of previous year. Net profit margin of the Company decreased from approximately 27.4% for the six months ended 30 June 2007 to approximately 20.7% for the six months ended 30 June 2008.

Liquidity, financial resources and capital structure

The Group continued to maintain a strong capital and cash position for the period.

The net cash from operating activities of the Group decreased from approximately RMB31.6 million for the six months ended 30 June 2007 to approximately RMB0.6 million for the six months ended 30 June 2008. It was mainly attributable to the increase in inventories and trade and bills receivables but was partly offset by the increase in profit before taxation of the Group from approximately RMB48.1 million for the six months ended 30 June 2007 to approximately RMB97.0 million for the six months ended 30 June 2008 as well as the increase in trade and bills payables. The increase in inventory level was mainly due to the intentional bulk purchases made before June in preparation for the Olympic Games held in August this year since large trucks were not allowed to drive in and out Beijing during that period.

Net cash used in investing activities of the Group amounted to RMB203.8 million (first half of 2007: net cash from investing activities amounted to RMB5.4 million) was mainly due to (i) the consideration of approximately RMB115.0 million paid for acquisition of the equity interests in Beijing Jiaoda Microunion; and (ii) increase in bank deposits under conditions of approximately RMB60.7 million.

Management Discussion and Analysis

Net cash from financing activities for the six months ended 30 June 2008 amounted to RMB242.8 million (first half of 2007: net cash used in financing activities amounted to RMB49.6 million) was mainly due to net proceeds received from issue of new shares amounted to approximately RMB201.8 million.

As at 30 June 2008, cash and bank balances (including bank deposits under conditions) amounted to approximately RMB429.3 million (31 December 2007: approximately RMB340.0 million). Working capital (net current assets) of the Group as at 30 June 2008 amounted to approximately RMB599.8 million (31 December 2007: approximately RMB516.5 million), representing an increase of approximately 16.1% from previous year-end. Current ratio was maintained at a healthy level of 2.4 times (31 December 2007: 5.3 times).

Gearing position

As at 30 June 2008, the total liabilities to shareholders equity increased to approximately 51.3% (31 December 2007: 21.3%). Total liabilities of the Group amounted to approximately RMB491.3 million (31 December 2007: approximately RMB119.8 million).

As at 30 June 2008, the bank borrowings of the Group amounted to RMB97.7 million (31 December 2007: nil) of which all were related to trade finance and invoice financing. As at 30 June 2008, the Group still remained at a net cash position.

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

Significant investments, mergers and acquisitions

For the six month ended 30 June 2008, apart from the acquisition of additional equity stake in Beijing Jiaoda Microunion, the Group had no other significant investments, mergers and acquisitions and disposals of any subsidiaries and associated companies.

Contingent liabilities

As at 30 June 2008, the Group had no material contingent liabilities.

Management Discussion and Analysis

ACQUISITION OF BEIJING JIAODA MICROUNION

The Group aims to broaden its product line and client base through strategic acquisitions. The Group first acquired 46.97% effective equity interests in Beijing Jiaoda Microunion in December 2007, subsequently increasing to 58.01% in June 2008 at a total consideration of approximately RMB233.4 million. The formalities in relation to the acquisition of these equity interests had been completed on 10 March 2008 and 12 June 2008.

In mid August 2008, the Group, through Beijing Hengtong, entered into the Equity Transfer Contract to acquire a further 18.69% equity interest in Beijing Jiaoda Microunion at a total consideration of approximately RMB70.1 million. Upon completion of all the formalities in relation to the Equity Transfer Contract, the Group's effective equity interest in Beijing Jiaoda Microunion will be increased to 76.70% and the financial results of Beijing Jiaoda Microunion will, to a greater extent, be consolidated into the financial statements of the Group.

The Directors are of the view that the increase in controlling stake in Beijing Jiaoda Microunion to 76.70% would allow the Group to secure its control over the financial and operating policies and management thereof. The Group will be in a very good position, both in terms of market and operational, to expand its business in the railway technology and development in the PRC, which shall be complimentary to its existing involvement in the provision of RIS in the China local railway market. Furthermore, the Directors believe that the acquisitions are 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 and urban railways.

Beijing Jiaoda Microunion was established in 2000 by Beijing Jiaotong University and is a major supplier of railway station computerised interlocking software and system integration services in China. The Directors believe that Beijing Jiaoda Microunion is the largest of the four Ministry of Railway (MOR) approved suppliers of RIS and Centralised Traffic Control (CTC) products with more than 30% market share in RIS. RIS market in China is highly regulated and only limited to just four industry players, all of whom were formerly part of the MOR. CTC is a monitoring system and managing system that oversees overall train traffic and railway station operation. The Directors believe that the acquisition would allow the Group to tap into a new high-margin CTC market which worth about RMB1 billion market size.

China has in its 11th Five-Year Plan budgeted for a capital expenditure programme of RMB1.5 trillion between 2006 and 2010 to build new railways and upgrade its aging existing system. With more railway lines and new railway stations to be constructed, and the expected increase in average journey speeds, the Directors anticipates that there are over 5500 railway stations in China which need to install or upgrade their RIS system in order to better prevent train collision accidents. This translates into a RMB15 billion market for Beijing Jiaoda Microunion.

Management Discussion and Analysis

The PRC Government has also planned for construction of several big urban railways in Bohai, the Yangtze Delta and Pearl Delta regions to cope with rising city traffic resulting urbanization. Six major cities in China, including Beijing, Shanghai and Guangzhou, are expanding or planning their existing urban railways, and 25 cities plan to develop new urban railways. Amongst these 25 cities, 14 had obtained approval from National Development and Reform Commission for the construction of 55 new lines at a total cost of RMB500 billion. It is estimated that 16 new lines will commence operations between 2010 and 2015 in Beijing, Shanghai and Guangzhou, adding 430 new stations. The Directors believe that urban railway is another hugh potential market for RIS products and would provide Beijing Jiaoda Microunion with strong momentum in both revenue and profitability for the years ahead. Apart from the China local market, the Group aspires to bring Beijing Jiaoda Microunion to the international market after obtaining international certification.

On the financial side, based on the audited financial statements prepared under International Financial Reporting Standards ("IFRS") for the year ended 31 December 2007, revenue of Beijing Jiaoda Microunion increased by approximately 33.5% to approximately RMB174.6 million (2006: approximately RMB130.8 million), as compared with that of the previous year as the market became more mature and the market share of Beijing Jiaoda Microunion increased steadily because of its increased market recognition by customers. Its gross profit amounted to approximately RMB43.1 million (2006: RMB35.1 million) with gross profit margin at approximately 24.7%. Its net profit before and after taxation were approximately RMB15.4 million and RMB19.8 million respectively (2006: net profit before and after taxation amounted to approximately RMB9.2 million and RMB7.8 million respectively).

Based on the unaudited management accounts prepared under IFRS, for the six months ended 30 June 2008, revenue of Beijing Jiaoda Microunion amounted to approximately RMB157.1 million whereas its gross profit amounted to RMB61.2 million. Its net profit before and after taxation for the year ended 31 December 2007 were approximately RMB43.5 million and RMB32.6 million respectively. For the six-month ended 30 June 2008, the Group effectively consolidated revenue and net profit from Beijing Jiaoda Microunion amounted to RMB96.6 million and RMB19.1 million respectively. As at 30 June 2008, cash and bank balances of Beijing Jiaoda Microunion amounted to approximately RMB97.5 million and its net asset value was approximately RMB99.2 million. There was no bank borrowing as at 30 June 2008.

The Directors expect that the revenue and profitability of Beijing Jiaoda Microunion for the full year of 2008 would be greatly increased when compared with that of the previous year given the favourable market environment and the advantageous market leadership of its products. The Directors also expect that the gross profit margin of Beijing Jiaoda Microunion would be improved after streamlining of its operational, financial and management thereof by the Group.

Management Discussion and Analysis

FUTURE OUTLOOK

In view of the 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 of the Group believes that the market of safety and critical control system in the PRC will further 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 is in a good position to capture the market opportunities and will successfully expand its business. In short, the Group will continue to expand the markets in refinery, petrochemical and coal chemical industries in the PRC through more aggressive investment in R&D, expansion in its sales and service support network and strengthening its engineering capability and production capacity. At the same time, the Group will continue to develop the engineering service business in international markets, which generally has a higher profit margin. Major growth of the Group will come from implementation of the following strategies:

Railway safety control system as another most exciting growth driver

Upon completion of the acquisition of a further 18.69% equity stake in Beijing Jiaoda Microunion in August 2008, the Group's equity interests therein will increase to 76.7%.

The acquisition of Beijing Jiaoda Microunion enables the Group to enter into the highly regulated railway market in the PRC and to tap into the high-margin railway signaling system in national railway and metro market. The Directors believe that the acquisition is a major step for the Group to secure its leading position in the RIS business. The technology of Beijing Jiaoda Microunion in RIS and CTC will raise the overall performance of the Group's RIS business and help it to penetrate into the national and metro railway markets. The Directors also believe that the revenue from the RIS business would achieve a significant growth in the forthcoming years, driven by the intensive investment in the national and metro railway as well as the local railway industry in the PRC.

Going forward, the Group will adopt the following strategies in developing Beijing Jiaoda Microunion's business:

(i) Leveraging on its core competence in railway station computerized interlocking software and system integration, Beijing Jiaoda Microunion will endeavor to develop new products and applications surrounding the railway related signaling and communication systems and make Beijing Jiaoda Microunion become the leading railway signaling system contractor in the PRC and provide total solution to the customers. Beijing Jiaoda Microunion will set up research institution and software R&D company in Beijing, the PRC in order to strengthen its R&D capability and develop more new and advanced systems;

(ii) Beijing Jiaoda Microunion will endeavor to enter into the metro and subway market which is commonly known as having even bigger market than that in national railways in the next five years; and

(iii) With the help of its relationship with Beijing Jiaotong University, which has abundant resources in its R&D centre, Beijing Jiaoda Microunion will benefit by acquiring the newly developed railway related technology and products which have great potential for commercial value to the Group.

Management Discussion and Analysis

Invest in R&D

With a view to consolidate 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, it will enhance the investment in R&D. The R&D investment from the Group continues to serve for the core business of the Group. The management of the Group 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 service support network in the PRC and overseas countries

The Group will continue to enhance its sales and service support network throughout the PRC, while at the same time positively expand the sales network in other overseas countries. Based on the Group's existing nine sales and service support offices in the PRC, it will further set up more offices and make its sales and service support closer to its major customers. The Group is also planning to enter into more formal agreements with its customers who use the Group's resources on service and spare parts on a regular basis. In addition, the Group is planning to formulate some forms of strategic alliance with some key customers in the PRC in order to utilize the competitive advantages of respective parties.

Enhance the Group's engineering capability and expansion for its production capacity

The Group intends to enhance its engineering capability through recruiting more system engineers to cope with the fast growing PRC and overseas markets. At the same time, the Group is building up new facility complex to enlarge the production capability to overcome the bottle neck of the production capacity.

Develop engineering service business in the international market

The Group continues to develop the high profit margin 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, whilst utilizing the cost effective engineering resources in the PRC to process the orders and engineering jobs. The Directors believe that with the Group's expertise in the safety and critical control systems, the international engineering service business will 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.

Management Discussion and Analysis

Actively seek mergers and acquisitions opportunities

As the leading player in safety and critical control system providers 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 ("M&A"), 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 competence 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 acquired at reasonable acquisition price. At the same time, after the Group's acquisition of Beijing Jiaoda Microunion, the strategic development of Beijing Jiaoda Microunion will also create some M&A opportunities to speed up its growth and the Group's railway signaling business. Moreover, the upcoming M&A opportunities in both petrochemical automation business and railway signaling business will be evaluated with same level of importance.

Conclusion

In short, the Group will ride on the Two Growth Engines — one from the provision of existing safety and critical control systems in downstream chemical, petrochemical, coal chemical, oil and gas market and the other from the railway safety control systems in national and urban railway as well as local railway markets by means of organic growth as well as strategic acquisitions. The future growth will be supported by the Group's existing core business, while the M&A closely served for the core business will also benefit the fast growth of the Group. The Directors are confident that the Group is shifting to the fast-growing track which can maintain sound business development and profitability, and keep creating economic value for its shareholders.

Other Information

INTERIM DIVIDEND

For the six months ended 30 June 2008, the board of directors of the Company ("Directors") has resolved not to declare any interim dividend.

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 30 June 2008, the Group had used the net proceeds from the Share Offer as follows:-

	Net IPO proceeds		
Use of Proceeds	**Available**	**Utilised**	**Unutilised**
	(HK$ million)		
Construction of a new complex	40.0	1.9	38.1
Research and development expenses	40.0	6.1	33.9
Expansion and improvement of the Group's sales network	30.0	6.2	23.8
Expansion and improvement of the Group's service network	25.0	1.5	23.5
Pursuing suitable acquisition	60.0	60.0	—
Setting up an overseas office	30.0	13.2	16.8
General corporate purposes and working capital	94.5	94.5	—
	319.5	183.4	136.1

As at 30 June 2008, the amount of unutilised proceeds from the Share Offer was approximately HK$136.1 million. The Group had used approximately HK$75.0 million originally 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. as mentioned in 2007 annual report and the remaining for other purposes as described in the Prospectus.

Other Information

USE OF NET PLACING PROCEEDS

Pursuant to a placing and subscription agreement dated 21 February 2008, 83,000,000 shares of the Company 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 was effected to enable the Company to raise funds for its long-term benefit. The Company intended 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. Up to 30 June 2008, approximately HK$98.6 million had been used for the acquisition of additional equity interest in Beijing Jiaoda Microunion and the amount of unutilized proceeds amounted to HK$130.9 million.

FOREIGN CURRENCY EXPOSURE AND TREASURY POLICY

The Group is exposed to the exchange rate risk between United States dollars and Renminbi. In practice, majority of the Group's sales are denominated in Renminbi. However, the purchases of raw materials from its suppliers are mainly denominated in United States dollar. Given the appreciation of Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to be brought to the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominantly denominated in Hong Kong dollars and Renminbi. The Directors are of the opinion that appreciation of Renminbi would not cause any significant adverse effect on the financial performance and position of the Group.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will appropriately hedge its foreign currency exposure. For the six months ended 30 June 2008, the Company did not use any financial instruments or enter into any contracts in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

As at 30 June 2008, the Group employed 471 employees (31 December 2007: 285), representing an increase of 186 employees or approximately 65.3% over that of previous year-end. Out of the 471 employees, 149 employees were employed by the newly acquired non-wholly owned subsidiary namely Beijing Jiaoda Microunion. Excluding Beijing Jiaoda Microunion, the Group had recruited 37 new employees, most of which are mostly related to system engineers and sales engineers as well as new employees on board in the U.S. operations in order to cope with the Group's business expansion in the PRC and overseas.

Employee's 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.

Other Information

DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any of its associated corporations.

As at 30 June 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the"Model Code") contained in the Listing Rules were as follows:

Long position

(i) *Directors' interests in the Shares*

Name of director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the company
Mr. Xuan Rui Guo *(Note1)*	Corporate interests	540,540,541	59.23%

Note:

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

Other Information

(ii) *Directors' interests in the shares of associated corporations*

Name of associated corporation	Name of directors	Number of shares held	Approximate percentage of the issued share capital of the associated corporation
Consen Investments Holding Inc. *(Note 2)*	Mr. Xuan Rui Guo	500,000	50%
Consen Investments Holding Inc. *(Note 2)*	Mr. Huang Zhi Yong	250,000	25%
Consen Investments Holding Inc. *(Note 2)*	Mr. Kuang Jian Ping	250,000	25%
Consen Group Holding Inc. *(Note 2)*	Mr. Xuan Rui Guo	5,000,000	100%

Note:

2. Consen Investments Holding Inc. is the legal and beneficial owner of 5,000,000 shares in Consen Group Holding Inc.. Consen Investments Holding Inc. is legally and beneficially owned as to 50%, 25% and 25% by Mr. Xuan Rui Guo, Mr. Huang Zhi Yong and Mr. Kuang Jian Ping respectively. Accordingly, Mr. Xuan Rui Guo is deemed to be interested in the 5,000,000 shares in Consen Group Holding Inc..

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Other Information

Substantial Shareholders' interests and short positions in Shares or underlying Shares

As at 30 June 2008, so far as was known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any options in respect of such capital:

Long position

Substantial Shareholders' interests in the Shares

Name of shareholders	Capacity	Number of shares held	Approximate percentage of shareholding
Consen Group Holding Inc.	Registered and beneficial owner	540,540,541	59.23%
Consen Investments Holding Inc. *(Note 3)*	Interest in a controlled corporation	540,540,541	59.23%
Equity Concept Investments Limited	Registered and beneficial owner	59,459,459	6.51%
Mr. Wei Yuqian *(Note 4)*	Interest in a controlled corporation	59,459,459	6.51%

Notes:

3. Consen Group Holding Inc. is wholly-owned by Consen Investments Holding Inc., which in turn is owned as to 50% by Mr. Xuan Rui Guo and therefore, Consen Investments Holding Inc. and Mr. Xuan Rui Guo are deemed to be interested in such 540,540,541 Shares held by Consen Group Holding Inc. under the SFO.

4. Equity Concept Investments Limited is wholly-owned by Mr. Wei Yuqian. Mr. Wei is therefore deemed to be interested in 59,459,459 Shares held by Equity Concept Investments Limited under the SFO.

Save as disclosed above, as at 30 June 2008, so far as was known to any Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any options in respect of such capital.

Other Information

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2008, the Company repurchased 340,000 shares on the Stock Exchange at an aggregate consideration of HK$781,120. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK$3,400 was charged in the share capital and the premium paid on repurchase of HK$777,720 was charged against share premium account in accordance with the Cayman Islands Companies Act.

Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration Paid
		Highest	Lowest	
		HK$	*HK$*	*HK$*
June 2008	340,000	2.30	2.27	781,120

The repurchases of shares were made for the purpose of enhancement of shareholder value in the long term.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

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 nonexecutive 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 30 June 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 37,948,000, representing 4.16% 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.

Other Information

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 period
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

On 20 December 2007, options were granted (2007B) to the same batch of eligible employees 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.

For the six months ended 30 June 2008, no option had been granted or agreed to be granted to any person under the scheme.

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

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code regarding securities transactions by Directors during the six months ended 30 June 2008.

The Company had complied with the applicable code provisions of the Model Code as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2008.

MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation and arbitration during the six months ended 30 June 2008.

Other Information

AUDIT COMMITTEE

The Company established an audit committee on 16 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control system of the Group.

The audit committee comprises of 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"). The audit committee is chaired by Mr. Ng.

The Group's unaudited condensed consolidated financial statements and the related disclosure for the six months ended 30 June 2008 have been reviewed and approved by the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 June 2007 with written terms of references in compliance with the Code on Corporate Governance Practices 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 committee comprises of five members, three of whom are independent non-executive Directors, namely Mr. Wang, Mr. Tang and Mr. Ng, and the other two of whom are executive Directors, namely Mr. Xuan and Mr. Huang. 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 on Corporate Governance Practices 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 nomination committee comprises of five members, three of whom are independent non-executive Directors, being Mr. Tang, Mr. Ng and Mr. Wang, and the other two of whom are executive Directors, namely Mr. Xuan and Mr. Kuang. The nomination committee is chaired by Mr. Tang.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser agreement dated 27 June 2007 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the Listing Rules for the period from 12 July 2007 to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ending 31 December 2008. First Shanghai is paid for acting as the Company's compliance adviser. As notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 30 June 2008.

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
Mr. Ng Wing Fai

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

Mr. Ng Wing Fai *(Chairman)*
Mr. Tang Min
Mr. Wang Tai Wen

REMUNERATION COMMITTEE

Mr. Wang Tai Wen *(Chairman)*
Mr. Tang Min
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Huang Zhi Yong

NOMINATION COMMITTEE

Mr. Tang Min *(Chairman)*
Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Kuang Jian Ping

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
Mr. Li Hai Tao

STOCK CODE

Hong Kong Stock Exchange 569

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chow Chiu Chi, FCPA, ACMA

E-mail: bensonchow@cag.com.hk

INVESTOR RELATIONS

Mr. Chow Chiu Chi

E-mail: bensonchow@cag.com.hk

Ms. Wan Qin

E-mail: wanqin@cag.com.hk

WEBSITE ADDRESS

www.cag.com.hk

REGISTERED OFFICE

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

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2206, 22nd Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN BEIJING

Area 5, No. 5 Beiyuan, Anwai
Chaoyang District
Beijing
PRC

HEAD OFFICE IN BEIJING

Room 1908, Building A
Global Trade Center
36 Beisanhuan Road East
Dongcheng District
Bejing, PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services Limited
Level 28, Three Pacific Place
1, Queen's Road East
Hong Kong

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
DBS Bank (Hong Kong) Limited

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