Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider the immediate and ultimate holding company to be Star Treasure Investments Holdings Limited ("Star Treasure"), a limited liability company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Prior to 1 January 2008, the functional currency of the Company was Hong Kong dollars for the purpose of preparing its financial information. In the current year, the directors are in the opinion that Renminbi ("RMB") is having increasingly significant effect on the economic environment in which the Company operates. The directors have therefore determined that the functional currency of the Company has changed to be RMB. The consolidated financial statements are presented in RMB, which is the same as the functional currency of the Company.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 33.

Pursuant to the special resolutions passed at the annual general meeting and the special general meeting of the Company held on 21 May 2008 and 1 September 2008 respectively, and upon the approval from the Registrar of Companies in the Cayman Islands, the name of the Company was changed from Wasion Meters Group Limited 威勝儀表集團有限公司 to Wasion Group Limited 威勝集團有限公司 with effect from 23 May 2008, and to Wasion Group Holdings Limited 威勝集團控股有限公司 with effect from 1 September 2008.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods commencing on or after 1 January 2009 except the amendments to HKFRS 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 ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 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. HKAS 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 and revised standards, amendments or interpretations will have no material effect on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All inter-company transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

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

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

Goodwill

Goodwill arising on an acquisition of a business 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Additional interests in subsidiaries are measured at the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the book value of net assets attributable to the additional interest acquired are accounted for as goodwill.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

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

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

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

The Group as lessee

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

Leasehold land and building

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gain or loss arising from derecognition of an intangible asset is measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Research and development expenditure

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

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair values at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses on the same basis as intangible assets acquired separately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables are set out below.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

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

Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated the investment in unlisted equity securities issued by a private entity as the available-for-sale investment.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to related parties and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The cost of the Company's shares repurchased by the Company (or its subsidiaries) for the share award plan as set out in note 26 is recognised as a deduction from equity in a special reserve (shares held for share award plan). No gain or loss shall be recognised in the consolidated income statement on the purchase, sales issue or cancellation of such shares.

Repurchase of equity instruments

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity (share capital and share premium). No gain or loss is recognised in the consolidated income statement on the purchase or cancellation of the Company's own equity instruments.

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Equity-settled share-based payment transactions

Share options/awarded shares granted to employees after 1 January 2005

The fair value of services received determined by reference to the fair value of the share options and awarded shares granted at the grant date is expensed as staff costs on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve and share award reserve respectively).

At each balance sheet date, the Group revises its estimates of the number of share options and awarded shares that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve and share award reserve respectively.

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

At the time when the awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares will be transferred to retained profits.

Foreign currencies

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

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

When there is a change in entity's functional currency, the translation procedures applicable to the new functional currency are applied prospectively from the date of the change. All items are translated into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in equity are not recognised in profit or loss until the disposal of the relevant operation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group which are stated at functional currency of the respective group entity other than RMB are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Government subsidy

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are recognised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment losses other than goodwill (see the accounting policy in respect of goodwill)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

Estimated impairment of intangible assets

The Group tests whether intangible assets have suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of intangible assets have been determined based on discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and no impairment was recognised during the year. Where the actual future cash flows is different from the original estimate, an impairment loss may arise. The carrying amount of intangible assets at the balance sheet date was approximately RMB247.9 million (2007: RMB202.2 million).

Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit ("CGU") to which goodwill has been allocated. This calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGU containing goodwill using a suitable discount rate. Where the expected future cash flows arising from the relevant CGU differ from the original estimation, an impairment loss may arise. The carrying amount of goodwill of approximately RMB110.3 million (2007: RMB56.8 million) as at 31 December 2008 was allocated to the electronic meters segment. Details of the recoverable amount calculation are disclosed in note 17.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of trade receivables is approximately RMB582.6 million (2007: RMB457.5 million), net of allowance for doubtful debts of approximately RMB16.6 million (2007: RMB16.0 million).

5. SEGMENT INFORMATION

Business segments

The Group's operating businesses are structured and managed separately, according to the nature of their operations, and the products they provide. For management purposes, the Group's operations are currently organised into two operating segments, namely electronic meters and data collection terminals. Each of the two segments represents a strategic business unit that offers products which are subject to risks and returns that are different from one another. Summarised details of each of the two business segments are as follows:

(a) electronic meters segment, which engages in the development, manufacture and sale of electronic power, water and gas meters; and

(b) data collection terminals segment, which engages in the development, manufacture and sale of data collection terminals.

These divisions are the bases on which the Group reports its primary segment information.

For the year ended 31 December 2008

	Electronic meters RMB'000	Data collection terminals RMB'000	Elimination RMB'000	Consolidated RMB'000
CONSOLIDATED INCOME STATEMENT				
REVENUE				
Sales to external customers	784,341	275,049	—	1,059,390
Inter-segment sales*	824	30,697	(31,521)	—
	785,165	305,746	(31,521)	1,059,390
RESULTS				
Segment results	224,059	100,490	—	324,549
Unallocated income				5,633
Unallocated corporate expenses				(24,640)
Loss on disposal of available-for-sale investment				(3,070)
Finance costs				(19,614)
Profit before taxation				282,858
Income tax expense				(21,328)
Profit for the year				261,530

* *Inter-segment sales were charged at prevailing market rates.*

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 December 2007

	Electronic meters RMB'000	Data collection terminals RMB'000	Elimination RMB'000	Consolidated RMB'000
CONSOLIDATED INCOME STATEMENT				
REVENUE				
Sales to external customers	598,517	205,513	—	804,030
Inter-segment sales*	4,177	15,145	(19,322)	—
	602,694	220,658	(19,322)	804,030
RESULTS				
Segment results	185,218	73,001	—	258,219
Unallocated income				7,829
Unallocated corporate expenses				(15,466)
Finance costs				(17,186)
Profit before taxation				233,396
Income tax expense				(20,500)
Profit for the year				212,896

* *Inter-segment sales were charged at prevailing market rates.*

As at 31 December 2008

	Electronic meters RMB'000	**Data collection terminals RMB'000**	**Consolidated RMB'000**
CONSOLIDATED BALANCE SHEET			
ASSETS			
Segment assets	**1,508,403**	**260,735**	**1,769,138**
Unallocated corporate assets			**774,704**
Consolidated total assets			**2,543,842**
LIABILITIES			
Segment liabilities	**367,438**	**63,231**	**430,669**
Amounts due to related parties			**179,831**
Borrowings			**454,137**
Unallocated corporate liabilities			**94,102**
Consolidated total liabilities			**1,158,739**

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 December 2008

	Electronic meters RMB'000	Data collection terminals RMB'000	Unallocated RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	355,188	12,347	618	368,153
Depreciation and amortisation of property, plant and equipment and intangible assets	55,261	12,967	1,906	70,134
Release of prepaid lease payments	1,510	—	303	1,813
Allowance for doubtful debts	672	—	—	672
Loss on disposal of property, plant and equipment	338	—	—	338

As at 31 December 2007

	Electronic meters RMB'000	Data collection terminals RMB'000	Consolidated RMB'000
CONSOLIDATED BALANCE SHEET			
ASSETS			
Segment assets	914,687	222,874	1,137,561
Unallocated corporate assets			777,994
Consolidated total assets			1,915,555
LIABILITIES			
Segment liabilities	211,561	22,072	233,633
Amounts due to related parties			129,624
Borrowings			250,790
Unallocated corporate liabilities			78,230
Consolidated total liabilities			692,277

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 December 2007

	Electronic meters RMB'000	Data collection terminals RMB'000	Unallocated RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	253,006	8,968	231	262,205
Depreciation and amortisation of property, plant and equipment and intangible assets	23,417	10,386	2,096	35,899
Release of prepaid lease payments	798	—	228	1,026
Allowance for doubtful debts	1,084	139	—	1,223
Write-down of inventories	1,027	—	—	1,027

Geographical segments

Approximately 90% of the Group's turnover and results were derived from the PRC. Accordingly, no geographical segment analysis is presented for the year.

As at the balance sheet dates, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no analysis of the carrying amount of segment assets or additions to property, plant and equipment and intangible asset by location of assets is presented.

6. OTHER REVENUE

	2008 RMB'000	2007 RMB'000
Other revenue includes:		
Net exchange gain	**10,201**	14,950
Refund of value-added tax ("VAT", note)	**6,828**	4,480
Bank interest income	**3,923**	7,439
Dividend income from available-for-sale investment	**278**	—

Note: Pursuant to the relevant regulations in the PRC, certain subsidiaries of the Group operated in the PRC are entitled to refunds of VAT on the sale of high technology products. The amount represents the refunds of VAT paid or payable in excess of 3% of income generated from the sales of these products and is recognised when the refund is approved by the relevant tax authorities.

7. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on borrowings wholly repayable within five years	**30,280**	18,554
Less: amounts capitalised in property, plant and equipment	**(10,666)**	(1,368)
	19,614	17,186

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.20% (2007: 6.23%) per annum to expenditures on qualifying assets.

8. PROFIT BEFORE TAXATION

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs including directors' emoluments:		
Salaries and benefits	**72,868**	53,748
Retirement benefit scheme contributions	**5,621**	3,824
Share-based payment expenses	**6,945**	17,240
	85,434	74,812
Auditor's remuneration	**2,210**	1,850
Loss on disposal of property, plant and equipment	**338**	—
Depreciation of property, plant and equipment	**17,450**	13,200
Release of prepaid lease payments	**1,813**	1,026
Amortisation of intangible assets	**52,684**	22,699
Allowance for doubtful debts	**672**	1,223
Cost of inventories recognised as expense	**561,773**	424,117
Write-down of inventories	**—**	1,027

9. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
Current year	**25,694**	15,248
Overprovision in prior years	**(2,285)**	(359)
	23,409	14,889
Deferred taxation (note 25)		
Current year	**(2,081)**	237
Attributable to a change in tax rate	**—**	5,374
	(2,081)	5,611
Total	**21,328**	20,500

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

PRC EIT is provided on the estimated assessable income of the year calculated in accordance with the relevant regulations of the PRC.

Up to 31 December 2007, PRC EIT was calculated based on the statutory rate of 33% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rate rules and regulations in the PRC, except for the followings:

(i) Pursuant to the relevant laws and regulations in the PRC and according to the Certificate of High New Technology Enterprise obtained by the relevant entities, certain PRC subsidiaries of the Group are approved as enterprises that satisfied the condition as high technology development enterprises and are subject to a preferential tax rate of 15%.

(ii) Pursuant to the relevant laws and regulations in the PRC, three PRC subsidiaries of the Group included in (i) above are further exempted from PRC EIT for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. Accordingly, the applicable tax rate for these subsidiaries between 2007 and 2010, as appropriate, is 7.5%. The tax holidays and concessions will expire between 2009 and 2010.

9. INCOME TAX EXPENSE (Continued)

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed the tax rate to 25% for the Group's PRC subsidiaries from 1 January 2008.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax exemption and deduction from PRC EIT entitled by the PRC subsidiaries of the Group as set out in (ii) above is still applicable until the end of the five year transitional period under the New Law. The preferential treatment set out in (i) above will continue on the implementation of the New Law.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Under the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a Macao company incorporated under that Law ("58/99/M Company") is exempted from Macao Complementary Tax (Macao Income Tax) as long as the 58/99/M Company does not sell its products to a Macao resident company.

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

	2008 RMB'000	2007 RMB'000
Profit before taxation	**282,858**	233,396
Tax at the income tax rate of 25% (2007: 27%)	**70,715**	63,017
Tax effect of expenses not deductible for tax purpose	**5,314**	3,905
Tax effect of income not taxable for tax purpose	**(734)**	(1,098)
Tax effect of tax losses not recognised	**689**	236
Effect of tax concessions/exemption granted to PRC and Macao subsidiaries	**(52,371)**	(50,575)
Overprovision in prior years	**(2,285)**	(359)
Effect of change in tax rates	**—**	5,374
Tax charge for the year	**21,328**	20,500

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The employments paid or payable to each of the nine (2007: nine) directors were as follows:

(a) Directors' emoluments

Details of emoluments of individual directors are set out as follows:

2008

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Ji Wei ("Mr. Ji")	—	1,091	—	11	—	1,102
Cao Zhao Hui	—	573	51	10	127	761
Wang Xue Xin	—	573	209	10	190	982
Zheng Xiao Ping	—	423	30	10	127	590
Liao Xue Dong	—	393	30	10	101	534
Zeng Xin	—	493	35	10	127	665
Wu Jin Ming	128	—	—	—	13	141
Pang Yuan	128	—	—	—	13	141
Hui Wing Kuen	334	—	—	—	38	372
	590	3,546	355	61	736	5,288

2007

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Mr. Ji	—	1,165	—	12	—	1,177
Cao Zhao Hui	—	446	51	15	810	1,322
Wang Xue Xin	—	596	209	15	1,215	2,035
Zheng Xiao Ping	—	386	30	15	810	1,241
Liao Xue Dong	—	366	30	15	648	1,059
Zeng Xin	—	416	35	15	810	1,276
Wu Jin Ming	112	—	—	—	81	193
Pang Yuan	112	—	—	—	81	193
Hui Wing Kuen	320	—	—	—	243	563
	544	3,375	355	87	4,698	9,059

No directors waived any emoluments for both years.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2008 included four (2007: five) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining individual for the year ended 31 December 2008 are as follows:

	RMB'000
Salaries and other benefits	936
Retirement benefit scheme contributions	11
Share-based payment expenses	285
	1,232

The above emoluments were within the band of HK$1,000,001 to HK$1,500,000.

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Dividends recognised as distribution during the year: 2007 final dividend — HK$0.09, equivalent to RMB0.08, per share (2007: 2006 final dividend of HK$0.07, equivalent to RMB0.07, per share)	66,867	49,297
Dividends proposed after the balance sheet date: 2008 final dividend — HK$0.11, equivalent to RMB0.097, per share (2007: 2007 final dividend of HK$$0.09, equivalent to RMB0.08, per share)	81,940	66,867

The proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 RMB'000	2007 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**261,530**	212,896

	2008	2007
Number of shares		
Weighted average number of ordinary shares of purpose of basic earnings per share	**816,589,803**	734,810,308
Effect of dilutive potential ordinary shares in respect of:		
Share options	**8,451,704**	17,305,869
Contingently issuable shares for acquisition of subsidiaries	**19,511,188**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**844,552,695**	752,116,177

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award plan of the Company as set out in note 26.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2007	59,060	4,886	39,295	6,439	12,888	4,653	127,221
Exchange realignment	—	(52)	—	(25)	(76)	—	(153)
Additions	—	—	11,121	989	561	77,664	90,335
Acquired on acquisition of subsidiaries (note 29)	—	—	2,791	1,024	299	2,920	7,034
Transfer	—	—	710	—	—	(710)	—
Disposals	—	—	(1,183)	(844)	—	—	(2,027)
At 31 December 2007	59,060	4,834	52,734	7,583	13,672	84,527	222,410
Exchange realignment	—	(41)	—	(20)	(67)	—	(128)
Additions	—	534	29,995	1,319	3,721	192,257	227,826
Acquired on acquisition of subsidiaries (note 29)	15,336	637	638	288	130	24,843	41,872
Transfer	27,028	—	787	—	—	(27,815)	—
Disposals	—	—	(1,051)	(4)	—	—	(1,055)
At 31 December 2008	**101,424**	**5,964**	**83,103**	**9,166**	**17,456**	**273,812**	**490,925**
DEPRECIATION							
At 1 January 2007	3,916	1,889	14,890	2,801	2,265	—	25,761
Exchange realignment	—	(30)	—	(5)	(5)	—	(40)
Provided for the year	1,481	1,091	7,821	1,467	1,340	—	13,200
Eliminated on disposals	—	(20)	(1,138)	(799)	—	—	(1,957)
At 31 December 2007	5,397	2,930	21,573	3,464	3,600	—	36,964
Exchange realignment	—	(33)	—	(6)	(8)	—	(47)
Provided for the year	2,431	535	11,759	1,211	1,514	—	17,450
Eliminated on disposals	—	—	(713)	(4)	—	—	(717)
At 31 December 2008	**7,828**	**3,432**	**32,619**	**4,665**	**5,106**	**—**	**53,650**
CARRYING VALUES							
At 31 December 2008	**93,596**	**2,532**	**50,484**	**4,501**	**12,350**	**273,812**	**437,275**
At 31 December 2007	53,663	1,904	31,161	4,119	10,072	84,527	185,446

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment other than construction in progress are depreciated on straight-line basis at the following rates per annum:

Buildings	Over the remaining period of the relevant lease, or 50 years, whichever is the shorter
Leasehold improvements	Over the remaining period of the relevant lease, or 5 years, whichever is the shorter
Plant and machinery	10%–20%
Furniture, fixtures and office equipment	20%
Motor vehicles	10%

The carrying amount of the Group's property interests comprises:

	2008 RMB'000	2007 RMB'000
Properties outside Hong Kong held under:		
long leases	**41,650**	—
medium-term leases	**51,946**	53,663
	93,596	53,663

At 31 December 2008, certain property interests of the Group with aggregate carrying values of RMB250,321,000 (2007: RMB46,989,000) were pledged to banks to secure banking facilities granted to the Group.

14. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under:		
long leases	**48,809**	—
medium-term leases	**48,877**	46,812
	97,686	46,812
Analysed for reporting purposes as:		
Non-current assets	**95,608**	45,837
Current assets	**2,078**	975
	97,686	46,812

At 31 December 2008, certain leasehold land of the Group with aggregate carrying values of RMB97,686,000 (2007: RMB10,068,000) were pledged to banks to secure banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Acquired technology RMB'000	Customer relationship and contracts RMB'000	Premium on land RMB'000	Total RMB'000
COST						
At 1 January 2007	39,138	50,700	—	—	—	89,838
Additions	16,712	—	—	—	—	16,712
Acquired on acquisition of subsidiaries	8,340	5,121	50,730	37,220	46,713	148,124
At 31 December 2007	64,190	55,821	50,730	37,220	46,713	254,674
Additions	27,612	—	—	—	—	27,612
Acquired on acquisition of subsidiaries	5,636	—	30,579	697	33,931	70,843
At 31 December 2008	**97,438**	**55,821**	**81,309**	**37,917**	**80,644**	**353,129**
AMORTISATION						
At 1 January 2007	12,131	17,667	—	—	—	29,798
Provided for the year	3,886	7,229	6,341	4,653	590	22,699
At 31 December 2007	16,017	24,896	6,341	4,653	590	52,497
Provided for the year	22,486	7,418	13,899	7,530	1,351	52,684
At 31 December 2008	**38,503**	**32,314**	**20,240**	**12,183**	**1,941**	**105,181**
CARRYING VALUES						
At 31 December 2008	**58,935**	**23,507**	**61,069**	**25,734**	**78,703**	**247,948**
At 31 December 2007	48,173	30,925	44,389	32,567	46,123	202,177

Except for certain of the development costs and trademarks that were internally-generated and acquired separately from third parties, respectively, the balance of the above intangible assets were purchased as part of business combinations in current and prior years.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Development costs	5 years
Acquired patents, copyrights and trademarks	3 to 10 years
Acquired technology	5 years
Customer relationship and contracts	5 years
Premium on land	Over the remaining period of the relevant lease, or 50 years, whichever is shorter

16. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents unlisted equity securities issued by a private entity incorporated in the PRC, amounting to RMB4,961,000 (2007: Nil).

It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

17. GOODWILL

	RMB'000
CARRYING AMOUNTS	
At 1 January 2007	—
Acquired on acquisition of subsidiaries	56,831
At 31 December 2007	56,831
Acquired on acquisition of subsidiaries	53,495
At 31 December 2008	**110,326**

As explained in note 5, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out above have been allocated to a CGU, electronic meters segment.

During the year ended 31 December 2008, management of the Group determines that there is no impairment of its CGU containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 8% (2007: 15%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 9% (2007: 22%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

18. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**145,808**	81,020
Work in progress	**50,458**	28,440
Finished goods	**59,312**	40,446
	255,578	149,906

19. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade and bills receivables	**625,163**	493,710
Less: Allowance for doubtful debts	**(16,623)**	(15,951)
	608,540	477,759
Retentions held by trade customers	**53,247**	66,122
Deposits, prepayments and other receivables	**104,786**	60,160
	766,573	604,041

The Group allows an average credit period ranging from 90 days to 365 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2008 RMB'000	2007 RMB'000
Trade debtors		
0–90 days	**395,045**	341,806
91–180 days	**103,277**	67,467
181–365 days	**110,218**	68,486
	608,540	477,759

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 98% of the trade receivables that are neither past due nor impaired have good credit rating.

19. TRADE AND OTHER RECEIVABLES (Continued)

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB1,330,000 (2007: Nil) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is between 181 to 365 days (2007: Nil).

The entire balance of the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB16,623,000 (2007: RMB15,951,000) which had been in severe financial difficulties. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts are as follows:

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**15,951**	14,728
Impairment loss recognised on receivables	**672**	1,223
Balance at end of the year	**16,623**	15,951

The Group would provide fully for all receivables over 1 year because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss is considered necessary.

At 31 December 2008, RMB37,342,000 (2007: RMB39,809,000) trade receivables of the Group were denominated in foreign currency of United States dollars ("USD").

20. PLEDGED BANK DEPOSITS

The pledged bank deposits are pledged to banks to secure credit facilities granted to the Group. The deposits were pledged to secure bills payables and short-term bank borrowings and are therefore classified as current assets. The pledged bank deposits will be released upon settlements of relevant borrowings.

The deposits carry fixed interest rates ranging from 0.72% to 0.81% (2007: 0.72%) per annum.

At 31 December 2007, RMB46,819,000 pledged bank deposits of the Group were denominated in foreign currency of Hong Kong dollars ("HKD"). The entire balance of pledged bank deposits were denominated in the functional currency of the relevant group entities at 31 December 2008.

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry fixed interest rates ranging from 0.01% to 3.15% (2007: 0.50% to 3.33%) per annum and have original maturity of three months or less.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2008 RMB'000	2007 RMB'000
HKD	**32,175**	318,691
USD	**8,912**	10,284

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2008 RMB'000	2007 RMB'000
0–90 days	**327,798**	120,418
91–180 days	**64,418**	89,343
181–365 days	**11,659**	10,853
Trade payables	**403,875**	220,614
Other payables	**68,210**	56,592
	472,085	277,206

The average credit period on purchases of goods is 90 to 180 days.

23. BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank loans and trust receipt loans	**454,137**	250,790
Analysed as:		
Secured	**308,137**	71,500
Unsecured	**146,000**	179,290
	454,137	250,790

The Group's borrowings are as follows:

	2008			2007		
	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000
Within one year	**194,137**	**40,000**	**234,137**	53,290	155,500	208,790
More than one year, but not exceeding two years	**—**	**85,000**	**85,000**	—	42,000	42,000
More than two years, but not exceeding five years	**—**	**135,000**	**135,000**	—	—	—
	194,137	**260,000**	**454,137**	53,290	197,500	250,790
Less: Amounts due within one year shown under current liabilities	**(194,137)**	**(40,000)**	**(234,137)**	(53,290)	(155,500)	(208,790)
Amounts due after one year	**—**	**220,000**	**220,000**	—	42,000	42,000

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2008	2007
Effective interest rate:		
Fixed-rate borrowings	**6.23% to 9.53% per annum**	5.81% to 7.29% per annum
Variable-rate borrowings	**4.86% to 7.74% per annum**	5.67% to 7.74% per annum

At 31 December 2008, RMB19,137,000 (2007: RMB53,290,000) borrowings of the Group were denominated in foreign currency of USD.

23. BORROWINGS (Continued)

During the year, the Group obtained new bank loans in an amount of approximately RMB234,137,000 (2007: RMB321,165,000). The loans bear interest at prevailing market rates and are repayable by instalments over a period of one to five years. The proceeds were used to finance the acquisition of property, plant and equipment and for general working capital purpose of the Group.

At the balance sheet date, the Group has the following undrawn borrowing facilities:

	2008 RMB'000	2007 RMB'000
Expiring within one year	**40,000**	201,210
Expiring beyond one year	**15,000**	—
	55,000	201,210

24. SHARE CAPITAL

	Notes	**Number of shares**	**Nominal value** HK$'000
Ordinary shares of HK$0.01 each			
Authorised			
At 1 January 2007, 31 December 2007 and 31 December 2008		100,000,000,000	1,000,000
			RMB'000
Issued and fully paid			
At 1 January 2007		704,247,787	7,331
Issue of shares	(i)	112,680,000	1,091
At 31 December 2007		816,927,787	8,422
Issue of shares upon exercise of share options	(ii)	1,780,000	16
Shares repurchased	(iii)	(5,828,000)	(54)
At 31 December 2008		**812,879,787**	**8,384**

24. SHARE CAPITAL (Continued)

Notes:

(i) On 24 September 2007, arrangements were made for a private placement to independent private investors of 112,680,000 ordinary shares of HK$0.01 each in the Company held by Star Treasure, the controlling shareholder of the Company which is wholly-owned by Mr. Ji, at a price of HK$4.56 per share representing a discount of approximately 1.94% to the closing market price of the Company's shares on 21 September 2007.

Pursuant to a subscription agreement of the same date, Mr. Ji subscribed for 112,680,000 new shares of HK$0.01 each in the Company at a price of HK$4.56 per share. The proceeds were used to provide funding of its expansion and growth plan and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 14 May 2007 and rank pari passu with other shares in issue in all respects.

(ii) During the year, 1,780,000 ordinary shares of HK$0.01 each in the Company were issued on exercise of share options under the share option scheme of the Company as set out in note 26 with proceeds of approximately HK$3,961,000 (equivalent to approximately RMB3,564,000).

(iii) During the year ended 31 December 2008, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.01 each repurchased	Price per share Highest price paid	Lowest price paid	Aggregate consideration paid
		HK$	HK$	RMB'000
June	258,000	3.00	2.88	671
July	428,000	3.10	2.79	1,158
August	560,000	2.88	2.39	1,331
September	270,000	2.00	1.90	482
October	2,400,000	1.00	0.73	2,023
November	476,000	1.38	1.12	548
December	1,436,000	1.48	1.20	1,803
	5,828,000			8,016

25. DEFERRED TAX LIABILITY

The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior years:

	Fair value adjustments on business combinations RMB'000
At 1 January 2007	671
Acquired on acquisition of subsidiaries	15,614
Charge to consolidated income statement	237
Effect of change in tax rates	5,374
At 31 December 2007	21,896
Acquired on acquisition of subsidiaries	11,420
Credit to consolidated income statement	(2,081)
At 31 December 2008	31,235

At the balance sheet date, the Group had unused tax losses of approximately RMB5,614,000 (2007: RMB2,860,000). No deferred tax asset has been recognised in respect of any the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for periods of five years from the dates of incurrence.

No deferred taxation has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries arising on or after 1 January 2008 as the directors consider that such earnings will not be distributed in the foreseeable future. At the balance sheet date, the aggregate amount of undistributed earnings of the Group's PRC subsidiaries in respect of which deferred taxation has not been provided for was approximately RMB207,980,000 (2007: Nil).

There was no other significant unprovided deferred taxation for the year or at the balance sheet date.

26. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 26 November 2005 and, unless otherwise terminated or amended, will remain in force for 10 years.

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the date of listing. The limit may be increased to 10% of the then issued share capital of the Company from time to time upon shareholders' approval at a general meeting of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options 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 unless prior approval has been obtained from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

As at 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 47,880,000, representing approximately 5.9% of the issued share capital of the Company as at 31 December 2008.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. There is no minimum period for which an option must be held before the exercise of the subscription right attaching hereto except otherwise imposed by the board of directors. The exercise price is specified in the rules governing the share option scheme and shall not be lower than the highest of the official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options and the nominal value of an ordinary share of the Company.

On 7 February 2007, the Company granted share options to entitle the holders to subscribe for shares in the Company, which will be vested between 2009 and 2010. The exercise price of the options granted is HK$3.20 per share with exercise periods from 7 February 2009 to 6 February 2017 or from 7 February 2010 to 6 February 2017.

The closing price of the Company's shares immediately before 7 February 2007, the date of grant of the options, was HK$3.20.

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors and employees during the current and prior year under the Scheme:

Category	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.1.2007	Granted during the year	Outstanding at 1.1.2008	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
Directors	23.2.2006	23.2.2008 to 22.2.2016	2.225	11,600,000	—	11,600,000	(700,000)	—	**10,900,000**
				11,600,000	—	11,600,000	(700,000)	—	**10,900,000**
Employees	23.2.2006	23.2.2008 to 22.2.2016	2.225	25,200,000	—	25,200,000	(1,080,000)	(1,140,000)	**22,980,000**
	7.2.2007	7.2.2009 to 6.2.2017	3.200	—	7,000,000	7,000,000	—	—	**7,000,000**
	7.2.2007	7.2.2010 to 6.2.2017	3.200	—	7,000,000	7,000,000	—	—	**7,000,000**
				25,200,000	14,000,000	39,200,000	(1,080,000)	(1,140,000)	**36,980,000**
Total				36,800,000	14,000,000	50,800,000	(1,780,000)	(1,140,000)	**47,880,000**
Exercisable at year end						—			**33,880,000**

For the year ended 31 December 2008, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$3.47.

The fair value of the options granted under the Scheme during the year ended 31 December 2007 is HK$15,197,000 (equivalent to approximately RMB14,749,000). The fair value of the share options granted during the current and prior year is calculated using the Binomial Option Pricing Model (the "Model"). The inputs into the Model and the estimated fair value of the share options granted during the year ended 31 December 2007 were summarised as follows:

	7 February 2007
Exercise price	HK$3.20
Early exercise assumption	140% to 180% of the exercise price
Expected volatility	40% per annum
Expected dividend yield	2% per annum
Risk free rates	4.2% per annum
Fair value per share option	HK$1.0855

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

The Model is one of the commonly used models to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the past year. The early exercise assumption used in the Model has been estimated, based on management's best estimate, for the effect of behavioural considerations.

The Group recognised the share-based payment expense of RMB6,945,000 for the year ended 31 December 2008 (2007: RMB17,240,000) in relation to share options granted by the Company.

Share award plan

The Company's share award plan (the "Plan") was adopted pursuant to a resolution passed on 10 October 2008. Pursuant to the Plan under which eligible employees, but not directors, are entitled to participate. The purpose of the Plan is to recognise and reward the contribution of the employees to the growth and development of the Group through an award of shares of the Company. The Plan became effective on 10 October 2008 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Plan is operated through a trustee which is independent of the Group and has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. In any given financial year of the Company, the maximum number of shares to be purchased by the trustee for the purpose of the Plan shall not exceed 2% of the total number of issued shares as at the beginning of that financial year.

The directors would notify the trustee of the Plan in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in the relevant awardees within 10 business days after the latest of (a) the date specified by the directors on the notice of the award; (b) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such participants as specified in the related notice of award have been attained and notified to the trustee of the Plan by the directors in writing; and (c) where applicable, the date on which the trustee of the Plan has completed the purchase of shares for the purpose of making the relevant award. No new shares would be allotted and issued to satisfy the awards made under the Plan.

During the year ended 31 December 2008, 13,461,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$19,010,000 (equivalent to approximately RMB16,902,000). As at 31 December 2008, no participant has been awarded any shares under the Plan.

27. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loan and receivables:		
Trade and other receivables	662,929	553,746
Amounts due from related parties	110,690	80,214
Pledged bank deposits	73,645	81,385
Bank balances and cash	439,160	508,743
	1,286,424	1,224,088
Available-for-sale financial asset:		
Available-for-sale investment	4,961	—
	1,291,385	1,224,088
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	407,205	236,950
Amounts due to related parties	179,831	129,624
Borrowings	454,137	250,790
	1,041,173	617,364

28. FINANCIAL INSTRUMENTS

(b) Financial risk management objectives and polices

The Group's major financial instruments include available-for-sale investment, trade and other receivables, amounts due from/to related parties, pledged bank deposits, bank balances and cash, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the policies on how to mitigate these risks.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, the functional currency of the relevant group entities. Certain entities in the Group have foreign currencies transactions, bank balances and cash and borrowings which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**32,175**	365,510	**—**	—
USD	**46,254**	50,093	**19,137**	53,290
	78,429	415,603	**19,137**	53,290

Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of HKD and USD.

28. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and polices (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit where RMB strengthen 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

	HKD		USD	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year	**(1,609)**	(18,276)	**(1,291)**	152

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances (see notes 20 and 21) and borrowings (see note 23). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed rate borrowings (see note 23).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of People's Bank of China RMB Benchmark Loan Rates arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of variable-rate pledged bank deposits, bank balances and borrowings. The analysis is prepared assuming the amount of the outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

28. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and polices (Continued)

Market risk (Continued)

(ii) *Interest rate risk* (Continued)

Sensitivity analysis (Continued)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would increase/decrease by RMB1,262,000 (2007: RMB1,959,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and borrowings.

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The Group also has concentration of credit risks on amounts due from related parties, as the amounts are due from a limited number of related parties. Other than the above, the Group does not have any other significant concentration of credit risk.

Liquidity risk

The Group has net current assets amounting to approximately RMB740,220,000 at 31 December 2008 (2007: RMB796,883,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flows from operations.

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

28. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and polices (Continued)

Liquidity risk (Continued)

The following table details the Group's contractual maturity for its financial liabilities. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount at 31 December 2008 RMB'000
2008								
Non-derivative financial liabilities								
Trade and other payables	—	79,407	327,798	—	—	—	407,205	407,205
Amounts due to related parties	—	179,831	—	—	—	—	179,831	179,831
Borrowings	7.04%	54,995	—	192,723	90,984	190,231	528,933	454,137
		314,233	327,798	192,723	90,984	190,231	1,115,969	1,041,173

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	1 to 2 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount at 31 December 2007 RMB'000
2007						
Non-derivative financial liabilities						
Trade and other payables	—	116,473	120,477	—	236,950	236,950
Amounts due to related parties	—	129,624	—	—	129,624	129,624
Borrowings	6.63%	—	215,694	44,751	260,445	250,790
		246,097	336,171	44,751	627,019	617,364

(c) Fair value

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

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

29. ACQUISITION OF SUBSIDIARIES

(i) For the year ended 31 December 2008

On 21 May 2008, the Group acquired the entire equity interest of Newest Luck Investments Limited ("Newest Luck") and its wholly-owned subsidiary, Hunan Weiming Technology Co., Ltd ("Hunan Weiming"), from Mr. Ji at a consideration of no more than RMB150,000,000. As confirmed by the Independent Board Committee constituted of all of the three independent non-executive directors of the Company, the terms of the acquisition are fair and reasonable as far as the Company and the independent shareholders are concerned. The consideration is to be satisfied by the Group in the following manner:

(a) a first payment of RMB49,000,000 (the "First Payment") has been paid in cash; and

(b) the remaining balance of the consideration, which will be determined based on the net profit after tax of Hunan Weiming for the year ended 31 December 2008 multiplied by a price-earnings ratio of 6 times and deducting the First Payment but in any event shall not be more than RMB101,000,000, will be satisfied by issue and allotment of new shares of the Company (the "Consideration Shares") within 30 days from the day on which the audited accounts of Hunan Weiming for the year ended 31 December 2008 have been issued by the auditor appointed by the Company, which is expected to be issued in the first half of 2009. The Consideration Shares will be issued at a price of HK$3.58 per share pursuant to the relevant sale and purchase agreement. On the basis that the additional consideration is set at the upper limit of RMB101,000,000 (equivalent to approximately HK$114,130,000), a maximum of 31,879,888 Consideration Shares would be issued by the Company.

The transaction has been accounted for using the purchase method of accounting.

29. ACQUISITION OF SUBSIDIARIES (Continued)

(i) For the year ended 31 December 2008 (Continued)

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

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	2008 Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	25,639	16,233	**41,872**
Prepaid lease payments	52,687	—	**52,687**
Intangible assets (note a)	7	70,836	**70,843**
Available-for-sale investment	4,961	—	**4,961**
Inventories	3,845	—	**3,845**
Trade and other receivables	13,271	—	**13,271**
Amounts due from related parties	62,958	—	**62,958**
Bank balances and cash	1,251	—	**1,251**
Trade and other payables	(2,075)	—	**(2,075)**
Amounts due to related parties	(34,660)	—	**(34,660)**
Borrowings	(98,000)	—	**(98,000)**
Deferred tax liabilities	—	(11,420)	**(11,420)**
	29,884	75,649	**105,533**
Goodwill			**53,495**
			159,028
Total consideration satisfied by:			
Cash			**49,000**
Consideration payable (included in amounts due to related parties, note b)			**110,028**
			159,028
Net cash outflow arising on acquisition:			
Cash consideration paid			**(49,000)**
Bank balances and cash acquired			**1,251**
			(47,749)

29. ACQUISITION OF SUBSIDIARIES (Continued)

(i) For the year ended 31 December 2008 (Continued)

During the year ended 31 December 2008, the subsidiaries acquired contributed approximately RMB24,281,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been RMB1,067,065,000, and profit for the year would have been RMB264,782,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

(ii) For the year ended 31 December 2007

On 14 May 2007, the Group acquired the entire equity interest of Sinowise Industries Limited ("Sinowise") and its wholly-owned subsidiary, Hunan Weike Power Meters Company Limited ("Hunan Weike"), from Liang Ke Nan ("Mr. Liang"), brother of Mr. Ji who is an executive director and the controlling shareholder of the Company, at an aggregate cash consideration of RMB210,000,000.

The transaction has been accounted for using the purchase method of accounting.

29. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) For the year ended 31 December 2007 (Continued)

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

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	2007 Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	6,849	185	7,034
Prepaid lease payments	18,987	—	18,987
Intangible assets (note a)	—	148,124	148,124
Inventories	31,467	—	31,467
Trade and other receivables	54,685	—	54,685
Amounts due from related parties	79,000	—	79,000
Bank balances and cash	6,581	—	6,581
Trade and other payables	(132,225)	—	(132,225)
Borrowings	(44,870)	—	(44,870)
Deferred tax liabilities	(140)	(15,474)	(15,614)
	20,334	132,835	153,169
Goodwill			56,831
			210,000
Total consideration satisfied by:			
Cash			81,000
Consideration payable (included in amounts due to related parties, note c)			129,000
			210,000
Net cash outflow arising on acquisition:			
Cash consideration paid			(81,000)
Bank balances and cash acquired			6,581
			(74,419)

29. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) For the year ended 31 December 2007 (Continued)

During the year ended 31 December 2007, the subsidiaries acquired contributed approximately RMB4,581,000 to the Group's profit for the year between the date of acquisition and 31 December 2007.

If the acquisition had been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been RMB818,040,000, and profit for the year ended 31 December 2007 would have been RMB208,723,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

Notes:

(a) Intangible assets identified separately by the Group upon the acquisition mainly comprises of development costs, patents, copyrights and trademarks, technology, customer relationship and contracts and premium on land, as appropriate, as set out in note 15.

(b) Part of the consideration for the acquisition of Newest Luck and Hunan Weiming in 2008 will be satisfied by the Consideration Shares based on the audited accounts of Hunan Weiming for the year ended 31 December 2008 prepared under the PRC Generally Accepted Accounting Practice.

The fair value of the Consideration Shares was determined by 31,879,888 shares at share price of HK$3.90 each (approximate to RMB3.45 each), the share price of the Company at the date of acquisition.

(c) Consideration payable for the acquisition of Sinowise and Hunan Weike in 2007 has been settled during the year.

The directors consider the goodwill arising on acquisition of subsidiaries in both years were attributable to the anticipated future operating synergies of the Group's business of development, manufacture and sale of electronic meters after the acquisitions.

30. OPERATING LEASE COMMITMENTS

The Group as lessee

	2008 RMB'000	2007 RMB'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**3,793**	2,418

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

	2008 RMB'000	2007 RMB'000
Within one year	**2,494**	2,226
In the second to fifth year inclusive	**1,147**	192
	3,641	2,418

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated for a term ranging from one to two years with fixed rentals.

31. CAPITAL COMMITMENTS

	2008 RMB'000	2007 RMB'000
Capital expenditure in respect of the acquisition of property, plant and machinery:		
contacted for but not provided in the consolidated financial statements	**7,642**	100,195
authorised but not contracted for	**—**	215,785

32. RELATED PARTY DISCLOSURES

(i) Transactions

Company/individual	Transactions	2008 RMB'000	2007 RMB'000
Hunan Weike	Purchase of raw materials	—	20,515
(prior to 14 May 2007, Note a)	Sales of finished goods	—	88
Hunan Weiming	Sales of finished goods	—	2,981
(prior to 21 May 2008, Note b)	Provision of processing services	—	20
Changsha Weihua Property Development Ltd. ("Weihua Property") (Note c)	Rental expense paid	**729**	499
Mr. Liang (Note d)	Rental expense paid	**254**	287

Notes:

(a) Before 14 May 2007, Hunan Weike was beneficially owned by Mr. Liang. On 14 May 2007, the Company acquired the 100% equity interest of Hunan Weike through a wholly-owned subsidiary.

(b) Before 21 May 2008, Hunan Weiming was beneficially owned by Mr. Ji. On 21 May 2008, the Company acquired the 100% equity interest of Hunan Weiming through a wholly-owned subsidiary.

(c) The Group entered into a lease agreement with Weihua Property under which the Group was granted the right to use a manufacturing plant. Mr. Ji has controlling interest in Weihua Property.

(d) The Group entered into a lease agreement with Mr. Liang under which the Group was granted the right to use an office premise and a staff quarter.

In addition, during the year ended 31 December 2008, the Group has acquired two subsidiaries from Mr. Ji. During the year ended 31 December 2007, the Group has also acquired two subsidiaries from Mr. Liang. Details of these transactions are set out in note 29.

32. RELATED PARTY DISCLOSURES (Continued)

(ii) Balances

Particulars of amounts due from related parties

	2008 RMB'000	2007 RMB'000	Maximum amounts outstanding for the year ended 31 December 2008 RMB'000	2007 RMB'000
Companies controlled by certain directors of the Company	**110,690**	80,214	**110,690**	80,214

Particulars of amounts due to related parties

	2008 RMB'000	2007 RMB'000
Companies controlled by certain directors of the Company	**141,607**	—
Mr. Liang	**38,224**	129,624
	179,831	129,624

Amounts due from (to) related parties are unsecured, interest-free and repayable on demand.

(iii) Credit facilities

At 31 December 2008, a borrowing of RMB20,000,000 (2007: RMB20,000,000) was secured by the pledge of property, plant and equipment of Weihua Property and an undrawn facility of RMB40,000,000 (2007: RMB40,000,000) was secured by the pledge of leasehold land held by Hunan Classic Investment Co., Ltd., in which certain directors of the Company have beneficial interests.

(iv) The remuneration of key management during the year were as follows:

	2008 RMB'000	2007 RMB'000
Short-term benefits	**5,427**	6,233
Retirement benefit scheme contributions	**72**	147
Share-based payment expense	**1,021**	6,639
	6,520	13,019

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/ issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company: Directly 2008	Directly 2007	Indirectly 2008	Indirectly 2007	Principal activities
Oceanbase Group Limited	BVI/Hong Kong	US$1,000,000	100%	100%	—	—	Investment holding
Power Well Creation Limited	Hong Kong	HK$2	100%	—	—	—	Investment holding
Changsha Wasion Industrial Investment Company Limited ("Wasion Industrial") (note (iii))	The PRC	RMB60,000,000	—	—	100%	100%	Investment holding
Changsha Weisheng Electronics Company Limited ("Changsha Weisheng") (note (i))	The PRC	RMB100,000,000	—	—	100%	100%	Development, manufacture and sale of power meters
Changsha Weisheng Energy Industrial Technology Company Limited ("Weisheng Energy") (note (ii))	The PRC	HK$50,000,000	—	—	100%	100%	Development, manufacture and sale of energy saving products
Changsha Weisheng Enterprise Management Company Limited ("Weisheng Enterprise") (note (iii))	The PRC	RMB3,000,000	—	—	100%	100%	Provision of enterprise management consultancy
Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (note (iii))	The PRC	RMB2,000,000	—	—	100%	100%	Trading of power meters
Changsha Weisheng Information Technology Company Limited ("Weisheng Information") (note (ii))	The PRC	Paid-up capital of RMB60,000,000	—	—	100%	100%	Development, manufacture and sale of power meters, data collection terminals and related services
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	—	—	100%	100%	Trading of electronic components
Hunan Weike (note (ii))	The PRC	HK$50,000,000	—	—	100%	100%	Development, manufacture and sale of power meters
Human Weiming (note (ii))	The PRC	HK$50,000,000	—	—	100%	—	Development, manufacture and sale of water and gas meters

33. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(i) Changsha Weisheng is a wholly foreign owned enterprise established in the PRC.

(ii) Weisheng Energy, Weisheng Information, Hunan Weike and Human Weiming were wholly foreign owned enterprises established in the PRC, and became sino-foreign enterprises during the year.

(iii) Weisheng Enterprise, Weisheng Import and Export and Wasion Industrial are limited liability companies established in the PRC.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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