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

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

APPLY TOMORROW'S TECHNOLOGY, SAFEGUARD SECURITY TODAY

ANNUAL REPORT 2008

China Automation Group brings cutting edge technology and professional service to safety and critical control systems of petrochemical and railway sectors in China. The Group continues to innovate automation products and services, aiming to become a leading provider in the international market and contribute to industry developments. The Group also strives to maintain a rapid development pace so as to bring fruitful returns to our investors.

China Automation Group Limited

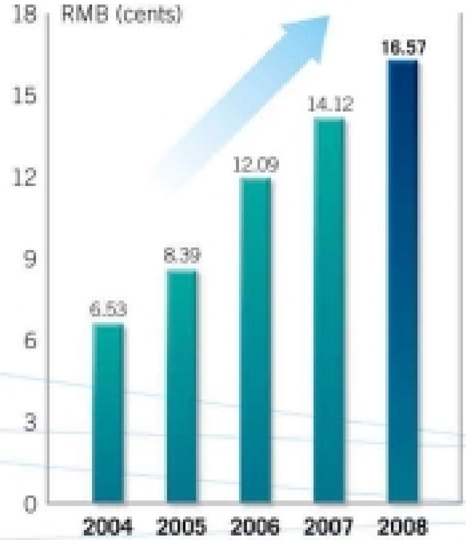
COMPANY PROFILE

China Automation Group Limited (the "company") was established in 1999, listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007, and today is the largest and leading safety and critical control system provider in the People's Republic of China (the "PRC"). The Company and its subsidiaries (collectively referred to as the "Group") specialize in providing professional safety and critical control systems and related engineering and maintenance services to the chemical, petrochemical, coal chemical, oil and gas as well as railway industries. The Group is the largest provider of safety and critical control system in the petrochemical induxtry in the PRC, and one of the largest providers of safety system for the railway synaling industry in the PRC. The Group holds a leading position in both industies. The main products designed and produced by the Group include Emergency Shutdown Devices ("ESD"), Fire and Gas Systems ("FGS"), Integrated Turbine and Compressor Centers ("ITCC"), Railway Interlocking Systems ("RIS") as well as Contralised Traffic Control System ("CTC"). Leveraging its strong engineering capabilities and extensive sales coverage, the Group endeavors to become one of the major providers in the global market.

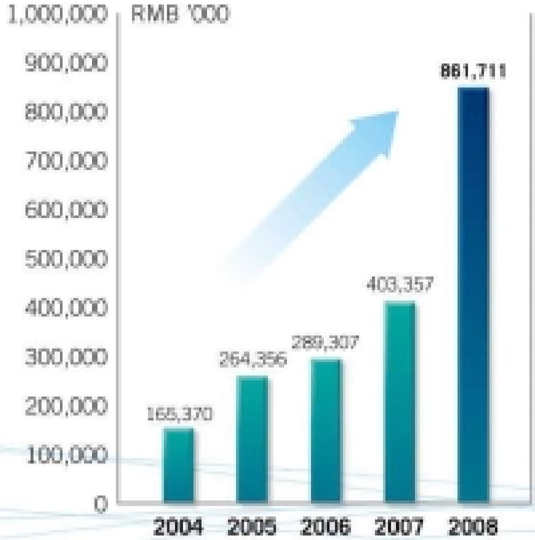
FINANCIAL HIGHLIGHTS

	2008 RMB'000	2007 RMB'000	Growth (%)
Turnover	**861,711**	403,357	113.6
Profit attributable to equity holders of the company	**149,177**	99,891	49.3
Earnings per share			
- basic	**RMB16.57 cents**	RMB14.12 cents	17.4
- diluted	**Not Applicable**	RMB14.09 cents	–
Dividend per share	**4.0 HK cents**	3.0 HK cents	29.6

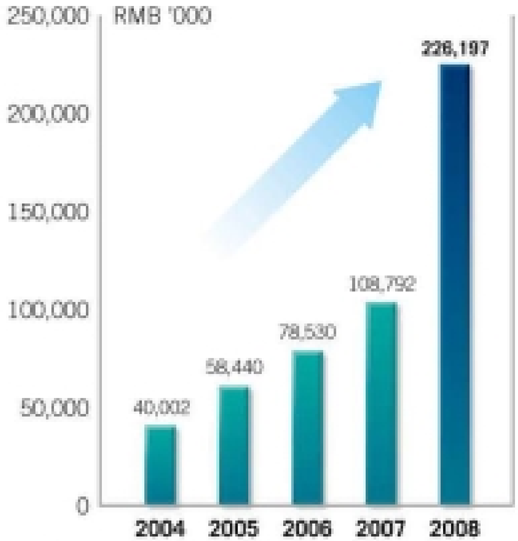
Earnings Per Share - Basic



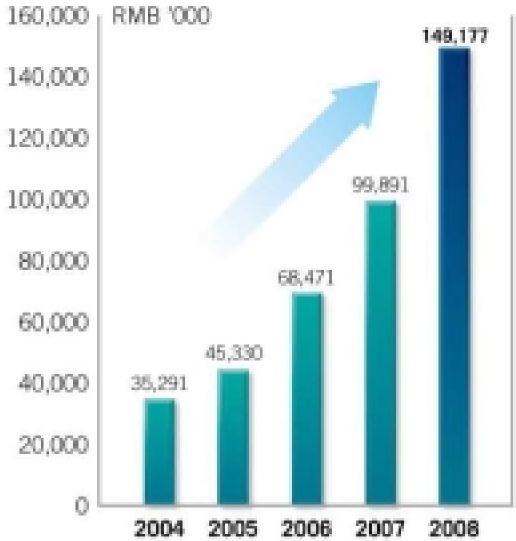
Turnover



EBITDA*



Profit Attributable to Equity Holders of the Company



* EBITDA figures shown are before deduction of share-based payment expenses.

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CHAIRMAN'S STATEMENT

"The Group will continue to benefit from national policies. By leveraging our technical advantages, the Group will fully expand its operations in railway signaling industry. The Group will also actively expand into upstream industries by capitalising on its existing safety and critical control systems for the petrochemical industry, so as to become the most important provider of integrated automated system solutions for the petrochemical industry."

On behalf of the board of directors (the "Board") of the Company, I am pleased to report the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

2008 was a year of challenges when the financial tsunami triggered by the US credit crisis spread all over the world. Many financial institutions, large enterprises and even governments encountered financial difficulties at the end of the year. To alleviate the impact of the financial crisis, many countries introduced economic stimulus plans. At the end of 2008, the Chinese government declared to launch a RMB4 trillion economic stimulus package in the upcoming two years. At the State Council executive meeting held on 19 February 2009, the proposal relating to the inclusion of the petrochemical industry as one of the ten key industries was considered and approved in principle, with an aim to revive the Chinese economy, accelerate the restructuring and technological improvement of the petrochemical industry and complement the "Eleventh Five-year" development planning of the industry.

As the largest safety and critical control system providers for the petrochemical industry and one of the largest railway signaling system providers in the PRC, the Group will certainly seize every business opportunity and actively expand its business.

Despite the fluctuation in the financial market in 2008, the Group continued to expand its market shares in its two major business segments, namely the petrochemical segment and the railway signaling system segment, by leveraging its strong fundamentals. The Group's operation and development were not affected and its turnover and earnings increased significantly as compared with that of 2007. During the year under review, the Group's turnover reached approximately RMB861,700,000 (2007: RMB403,400,000), representing an increase of more than 100% as compared with the previous year. Profit attributable to shareholders increased by approximately 49.3% as compared with the previous year to approximately RMB149,200,000 (2007: RMB99,900,000). Earnings per share were RMB16.57 cents (2007: RMB14.12 cents). The Board proposes to declare a final dividend of HK$4.0 cents per share in respect of the year (2007: HK$3.0 cents).

Xuan Rui Guo
Chairman

THE RAILWAY SIGNALING INDUSTRY WILL BENEFIT FROM THE STATE POLICIES

Under the RMB4 trillion economic stimulus package launched by the PRC government, it is expected that 20,000 kilometers of railway lines will be built in the upcoming two years and the railway system will be optimized. The total amount of investment reached RMB2 trillion, of which RMB600 billion will be completed by the railway sector in 2009. Railway operational length will increase from 70,000 kilometers in 2005 to 90,000 kilometers in 2010. It is also expected that approximately 0.5% to 1% of the annual investment in the railway industry of the PRC will be allocated to the railway signaling safety system. In addition, the National Development and Reform Commission has approved the construction of rail transportation systems in 30 cities, with a total planned length of over 5,000 kilometers and total estimated investment of over RMB800 billion. According to the railway development plan of the PRC, a railway network with a total length of over 120,000 kilometers will be established, with the length of special passenger railway lines adjusted from 12,000 kilometers to 16,000 kilometers, and the goal to achieve an electrification rate of 60% will be fulfilled, by 2020. Driven by economic growth, the urbanization process has been accelerating and the demand for construction of city rail transportation systems is also increasing, indicating that the market development potential relating to the safety system for railway lines and rail transportation systems is tremendous.

Benefiting from the state policies, the Group will be committed to leveraging its technical advantages and market position to make a stake in the increasing railway investment. The Group will also actively expand its operation in the signaling safety system for state-owned railway trunk network through external cooperation, so as to increase its market share and strive to become a main contractor in the rail transportation industry of the PRC.

TO CONSOLIDATE OUR LEADING POSITION IN THE RAILWAY SIGNALING INDUSTRY THROUGH THE ACQUISITION OF 76.7% EQUITY INTERESTS IN BEIJING JIAODA MICROUNION TECHNOLOGY CO. LTD.

To enhance the Group's technology in railway signaling system and actively increase its market share, the Group began to acquire equity interests in Beijing Jiaoda Microunion Technology Co., Ltd. ("BJM") at the end of 2007. Upon completion of the entire acquisition plan in August 2008, the Group held a total of 76.7% shareholding interests in BJM at a total consideration of RMB303,500,000. BJM is principally engaged in railway signaling business in the PRC and is one of the largest providers of railway station computerized signal interlocking software and system integration services in the PRC. The railway industry imposes very strict requirements on signaling safety systems. Only four licenses are granted by the Ministry of Railway of the PRC to providers of railway station computerized signal interlocking software and system integration services and BJM is one of the only four licensees. Upon successful acquisition of BJM, the Group will be better positioned to operate the railway signal interlocking system business in the national and metro railway as well as the local railway markets.

Following the acquisition of BJM, the Group relied on its original management to formulate clear marketing strategies and seize the good opportunities brought by the development of the railway industry. As a result, the percentage of the turnover from its railway business the total turnover increased from approximately 15% in 2007 to approximately 47% in 2008. The Group secured the railway signaling safety system contract for the construction of Line 3 of Chongqing Metro in late 2008, which consolidated the Group's fundamental for the project development of city rail transportation systems. In early 2009, the Group received new orders with a total value of over RMB110 million from such customers as the Ministry of Railway and local railway authorities, which further strengthened the Group's market position in the railway signaling industry.

TREMENDOUS CONSTRUCTION AND RECONSTRUCTION POTENTIAL FOR NEW PETROCHEMICAL PLANTS

A revitalization plan for ten key industries, including the petrochemical industry, was proposed at the State Council executive meeting held in February 2009. The plan suggests that while stabilizing the petrochemical product market, it is essential to accelerate industry restructuring, optimize industrial layout and focus on technological improvement. It is also urged to implement major projects under construction relating to oil refinery and propylene to strengthen the momentum for industrial development. The plan will accelerate the reconstruction of existing projects and the progress of projects under construction, phase out obsolete capacity and promote industry merger and reorganization.

It is expected that driven by state policies, the petrochemical industry will allocate substantial amount of funds to improve technology and increase capacity, and better ensure safety and improve operational efficiency. As such, the demand for safety and critical control system from the petrochemical industry will increase significantly. As the largest provider of safety and critical control system in the petrochemical industry of the PRC and the only provider capable of providing whole plant package in the domestic market, the Group will certainly continue to leverage on its technical advantages, comprehensive engineering and after-sales services and good customer relationship to actively seize the opportunities brought by favorable state policies and maintain its leading position in the market.

EXPANDING INTO THE UPSTREAM OPERATIONS OF THE PETROCHEMICAL INDUSTRY

As a result of the continuous increase in demand for petroleum and natural gas in all provinces and regions in the PRC in recent years, the demand for the construction of oil fields and pipe transportation of crude oil, oil product and natural gas and the construction of urban oil and gas pipe network also increased significantly. To minimize the imbalance between regional supply of and demand for oil and gas, the Chinese government has launched the "west to east gas transmission" project and built oil and gas pipelines connecting with Central Asia, and oil and gas producers are also building trans-regional oil and gas pipelines. Currently, the length of oil and gas pipelines in operation in the PRC reaches approximately 60,000 kilometers and the future growth is expected to be even more tremendous. The Chinese government places great importance on the construction of oil fields and the safety of oil and gas pipelines. In view of this, the Group will actively expand from downstream business to upstream business of the petrochemical industry and provide comprehensive safety control systems for the construction of oil fields and oil and gas pipelines. The Group will continue to develop relevant products with its existing technologies, make full use of the synergies of the Group's human resources and technical advantages and strive to become the most important provider of integrated automated system solutions for the petrochemical industry.

PROSPECT

Looking forward, the Group will continue to benefit from the economic stimulus package and the revitalization plan for ten major industries introduced by the Chinese government. The Group will fully expand its operations in railway signaling system by leveraging its technical advantages. The management of the Group believes that its position in the railway signaling system industry will be consolidated following the acquisition of the controlling stake in BJM.

Meanwhile, the Group will also actively expand into the oil and gas pipeline safety systems for upstream industries by riding on its existing safety and critical control systems for the petrochemical industry and seize the opportunities brought by the construction and reconstruction projects of new petrochemical plants to become the most important provider of integrated automated system solutions for the petrochemical industry.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my appreciation to our customers, business partners and shareholders for their continued support for the Group. Also, I wish to thank every member of our staff for their commitments and contributions to the development of the Group.

Xuan Rui Guo
Chairman

Hong Kong, 15 April 2009

SAFETY FIRST

The Group's high quality products meet the international safety standard and are widely adopted in the railway and petrochemical industries. The products successfully minimize operating risk and industrial accidents, effectively protect, monitor and control the key systems, offering an ease of mind to the society.


Traffic Control System (CTC)
Emergency

The Group's railway signaling products have intellectual control on the railway train system, which lower traffic accidents such as train collision and derailing, providing the passengers a safe journey.

Railway system sales surged

OVER 400%

RAILWAY BUSINESS

BUSINESS REVIEW

Leveraging the key competitive advantages in product application track record, software customization ability and localized after sales services, the Group, being the largest safety and critical control system provider in the chemical, petrochemical, coal chemical and oil and gas industries and one of largest railway signaling system provider in the railway industry in the PRC, is in an excellent position to capture the emerging market opportunities and increase its market share. The Group has achieved excellent results for the year ended 31 December 2008.

The turnover and gross profit margin analysis by business segment for 2008 versus 2007 are tabulated as follows:

Turnover Analysis by Business Segment

	For the year ended 31 December		
	2008 (RMB' million)	2007 (RMB' million)	Change (%)
System sales			
– Petrochemical	**389.5**	282.6	+37.8
– Railway	**284.7**	51.0	+458.2
Overall of system sales	**674.2**	333.6	+102.1
Provision of engineering and maintenance services	**67.4**	36.4	+85.2
Trading of equipment	**120.1**	33.4	+259.6
Overall of total revenue	**861.7**	403.4	+113.6

Gross Profit Margin Analysis by Business Segment

	For the year ended 31 December		
	2008 (%)	2007 (%)	Change (%)
System sales			
– Petrochemical	**40.3**	43.9	-3.6
– Railway	**41.0**	39.7	+1.3
Sub-total	**40.5**	43.2	-2.7
Provision of engineering and maintenance services	**70.6**	74.5	-3.9
Trading of equipment	**15.2**	8.0	+7.2
Total	**39.0**	43.1	-4.1


RIS
CTC
ESD

INNOVATIVE TECHNOLOGY

Our professional and dedicated R&D team and experienced engineers provide the latest, most innovative and integrated solutions for our clients. The high-technology products are well-recognized by the industry and clients.

The Group's products are widely applied in the petrochemical industry. Such products logically control and regulate the core parts of the petrochemical production and transportation process, offering customers preclse and accurate, reliable and flexible safety control systems.

EBITDA increased

> 100%

PETROCHEMICAL BUSINESS

System sales to petrochemical and railway industries

Since the enactment of the "State Council resolution towards executive accountability of significant industrial accidents (國務院關於特大安全事故行政責任追究的規定) in 2001, government officials are liable to executive punishment or even legal responsibilities for significant industrial accident which takes place in his/her responsible area. The implementation of the resolution has subsequently raised demand for safety and critical control systems, both in petrochemical and railway signaling industries, resulting in a sustainable growth in petrochemical and railway industries.

System sales to petrochemical industries

For the year ended 31 December 2008, revenue generated from system sales in relation to petrochemical industries increased by 37.8% to approximately RMB389.5 million (2007: RMB282.6 million). The significant increase was due to (i) increasing awareness of industrial safety and the implementation of national industrial standards as mentioned above, all backed by substantial capital expenditures; (ii) major customers who dominate the chemical, petrochemical, coal chemical, oil and gas markets in the PRC nowadays prefer a full set of safety and critical control solutions ("whole plant package") for their oil and gas, petrochemical plants. As the market leader, the Group has accumulated a lot of experience in the whole plant package delivery, while at the same time the Group continues to expand its service network and gives the customer maximum reliability assurance; (iii) the rapid growth of the coal chemical industry has become a major characteristic of the petrochemical sector in the PRC. Nearly every coal production based in the PRC is planning projects for the transformation from "coal to oil," "coal to chemical" and "coal to electricity". The Group is well positioned to capture this demand by leveraging its own competitiveness. All the above factors brought about significant growth for system sales in relation to petrochemical industries. Despite the recent oil low price which may lead to uncertainty in the investment in "coal to oil" projects, all other "coal to chemical" and "coal to electricity" projects are in the pipeline.

The gross profit margin decreased from 43.9% to 40.3% was due to (i) share-based payment expenses charged to cost of sales; and (ii) the change in product mix of which the proportion of revenue related to the lower margin Emergency Shutdown Device ("ESD") increased for the year ended 31 December 2008.

System sales to railway industries

For the year ended 31 December 2008, revenue generated from system sales to railway industries increased by 458.2% as compared with the previous year to approximately RMB284.7 million (2007: RMB51 million). The overall gross profit margin achieved was at 41.0% (2007: 39.7%), increased by 1.3 percentage points as compared with that of the previous year.

The significant increase in revenue was mainly contributed by the newly acquired subsidiary BJM amounted to approximately RMB236.9 million. BJM achieved a remarkable growth this year mainly attributable to the increasing market demand and a steady growth of its market share due to its enhanced market recognition by customers.

Provision of engineering and maintenance services

For the year ended 31 December 2008, the revenue in relation to the provision of engineering and maintenance services increased by 85.2% to approximately RMB67.4 million (2007: RMB36.4 million) mainly attributable to increase in revenue from the provision of after sales services and maintenance services such as system upgrade, hardware upgrade and software upgrade for aged systems due to the enlarged installation base.

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

Trading of equipment

For the year ended 31 December 2008, revenue in relation to equipment trading increased by 259.6% to approximately RMB120.1 million (2007: RMB33.4 million). This was resulted from the more incidental orders in relation to spot welding machines (車體總組成點焊機) and spot welding robot systems (8 軸龍門式點悍機器人系統) for train body assembly for China Railway Locomotive companies.

Trading of equipment experienced tremendous growth in the year under review. It was mainly due to the strong financial support from the Group following the listing of the Group in the Hong Kong Stock Exchange in July 2007. Moreover, the Group has built up excellent reputation and relationship with key suppliers and customers on this niche market over the years. Looking forward, the management of the Group believes that the equipment trading business segment will have excellent potential in the forthcoming years given the expanding railway transportation network in the PRC.

OPERATION AND MARKETING REVIEW

Safety and consistency are always the major concerns in petrochemical and railway industries. On account of high market entry barrier, however, only few companies in the oligopoly market are able to provide safety and critical control systems to these industries. Thanks to our strong fundamentals and competitive strengths, the Group is the only company in the market to provide an integrated solution for such systems, including Integrated Turbine and Compressor Control ("ITCC"), Emergency Shutdown Device ("ESD") and Fire and Gas System ("FGS"), in which the market demand from most of the new mega construction petrochemical coal chemical, oil and gas plant projects.

In 2008, the Group continued to differentiate itself from its competitors by capitalizing on its tailor-made system integration services to its end customers. Attracted by its comprehensive product and service range, the Group managed to secure new orders from a broader range of customers in petrochemical sector and often became the single tender that customers approached for tender submission or negotiation.

As at 31 December 2008, over 200 safety and critical control systems have been delivered, bringing the cumulative number of systems delivered to approximately 1,200. Meanwhile, the Group also won new contracts which amounted to over RMB5 million each from Sinopec, CNPC, as well as other coal chemical groups and local chemical companies during the year under review.

New remarkable pertrochemical projects are as follows:-

Petrochemical Industry

Sinopec's projects
- Yangtze-BASF BCC Project
- Shanghai Jinshan – aromatics unit (0.6MT/Y) project
- Luoyang branch – power station retrofit project

CNPC's projects
- Daqing company – fertilizer (0.45 MT/Y) project
- Guangxi branch – refining (10 MT/Y) project
- Fushun branch – retrofit project
- Sichuan branch – the refining project

Coal chemical projects
- Jiutai Group – Inner Mongolia coal deep-processing and utilization project
- Shenhua Ningxia Coal Industry Group – dimethyl ether project
- Shenhua Baotou Coal Chemical Company – coal-based alkene project
- Shenhua Coal Liquefaction Company – synthetic oil device project
- Xinjiang Guanghui Group project

Local chemical projects
- Jiangsu Linggu Chemical Company – synthetic ammonia-urea project
- Liaoning Huajin Chemical Industry – ethylene retrofit (0.46 MT/Y) project
- Liaoning Huajin Chemical Industry – ethylene refining project (5 MT/Y) project
- Sinochem Quanzhou Petrochemical Company – coal oil project

The new market
- Datang Group - coal-based alkene (0.46MT/Y) project
- Guangdong Shaogang Iron and Steel Group project

Railway Interlocking System business
- Chongqing - Metro Line 3 Project
- Beijing / Kowloon - Railway Project (Beijing station, Wuhan station and Zhengzhou station)
- Shougang Group – Gaobeidian Project

During the year under review, the Group has made the following operational achievements:

(i) The successful start-up of Shenhua coal direct liquefaction project on 30 December 2008 strengthened the Group's leading position in the automatic safety control sector and the emerging coal chemical industry. Leveraging our cutting-edge science and technology and reliable safety control system applied in the project, the Group realized its corporate philosophy of guaranteeing safety and accordingly made contribution to the development of China's coal chemical industry;

(ii) The Group highly regards research and development so as to maintain the Group's core competence as well as its leading position in the industry. It also keeps on exploring new applications of its safety and critical control system. In the petrochemical business, the Group has obtained 8 software copyrights and passed the tests of three European standards, IEC, CEI and EN. The Group was also awarded with European Union's CE accreditation.

(iii) With the Group's core competence in providing quality after-sales services and prompt response of our experienced maintenance enqineers, the Group continued to maintain a record of zero product fault in 2008.

Sales & Marketing

The Group's professional sales and marketing team continued to organize regular meetings, users conferences and seminars to maintain long lasting relationships with its customers. Such events enabled the management to understand their needs and keep track of the latest market trend in existing and emerging markets. The sound relationship with customers not only facilitates the Group in providing a better system upgrade and maintenance service, but also allows it to obtain information on potential projects. Meanwhile, the provision of timely, value added after-sales services by the Group's veteran technical support engineers has fostered its customer loyalty.

Human Resources

The Group places strong emphasis on human resources development. In view of the rapidly growing market in 2008, the Group recruited more talent, particularly in the field of system and sales engineering. The Group also provides comprehensive training and development schemes to retain talent and empower its workforce.

As at 31 December 2008, the Group had 641 employees (2007: 285). The significant increase in employees was mainly due to (i) the acquisition of Beijing Jiaoda Microunion Technology Co., Ltd. ("BJM"); which added 160 employees to the Group, (ii) the addition of 98 engineers from Beijing Consen Automation Control Co., Ltd. ("Beijing Consen"); (iii) about 48 employees from the formation of a new subsidiary which is engaged in oil & gas pipeline safety control business; and (iv) the addition of 45 engineers from Beijing Consen Transportation Technology Co., Ltd. ("Beijing Transportation"), the Group's subsidiary in local railway business.

Compensation policies are reviewed on a regular basis. During the year under review, employees' remuneration was determined by their performance, experience and the prevailing industry practices. Bonuses, commission (and stock options) were also awarded to employees based on their annual performance evaluation so as to promote personal and career development.

ACQUISITION OF BEIJING JIAODA MICROUNION TECHNOLOGY CO. LTD.

The Group aims to broaden its product line and client base through strategic acquisitions. Similar to petrochemical applications, the Railway Interlocking System (RIS) market for railway systems in China is dominated by a few players. In three consecutive acquisition transactions in March, June and August 2008, the Group acquired 76.7% of equity interests in BJM, a key player in the RIS market. The total consideration of the acquisition amounted to RMB303.5 million.

The organic business of the Group has limited its RIS exposure at local railway level. Meanwhile, BJM is one of the only four licensees in China granted by the Ministry of Railways (MOR) for the provision of a nationwide railway station computerized interlocking software and system integration with a market share of over 30%. RIS market of nationwide railway in China is highly regulated and limited to four industry players only, all of which were formerly part of the MOR.

Furthermore, the management of the Group believes that urban metro may offer more exciting growth opportunities. BJM is one of the five local qualified contractors for delivering transportation signalling system for urban metro awarded by China National Development and Reform Comission in China. Acquiring BJM can help the Group expand its business into metro applications. Contract sizes for metro-line stations may be larger than those of nationwide railway projects. Nowadays, over 30 cities in China are planning to construct or building metro lines. BJM has already secured a metro contract in Chongqing municipal amounting to RMB90 million and several contracts' tender preparation is in the pipeline.

Moreover, the BJM acquisition can also help the Group tap into the higher margin Centralized Traffic Control ("CTC") business, which monitors and manages overall train traffic and railway station operation. The market size of the CTC market is expected to worth about RMB1 billion. The Group has also secured two CTC contracts worth a total of RMB40 million, which are expected to be delivered in the first half of 2009.

In view of the above, the management of the Group believes that the acquisitions are strategically critical to the Group on a long term basis in order to overcome the high entry barriers for providing RIS for the national and urban metro railways.

Railway construction constitutes a major part in China's RMB4 trillion fiscal stimulus package to boost the domestic economy. The confirmed and pending railway investment approved by the MOR has already amounted to over RMB5 trillion for the coming two years. In terms of railway length, the Eleventh-Five plan targeted to construct railway routes of approximately 17,000 km, expanding the total railway length to 90,000 km by 2010. The State Council recently revised the railway length target in 2020 from 100,000 km to 120,000 km. The management believes that around 0.5% to 1% of this railway capital expenditure is directly related to the safety system business.

The growth driver of railway safety system not only comes from enlarging railway network, but also by integrating the new and existing railway networks. The newly developed railway networks are of higher speed than that of the existing ones. Under the Eleventh Five-year plan, 13,000 km of railway length will have a maximum speed of 200 km. In addition, the railway electrified ratio will be raised to over 45% by 2010, and over 60% by 2020. Against this backdrop, enhancing railway switch control and incorporating the old and new systems are increasingly necessary to minimize train collisions. It is expected that new applications with functions of automatic train protection and anti-speeding control system for high-speed trains and bullet locomotives will be rolled out in future.

In addition to the ever-increasing capacity, rising demand for safety system shall be another growth driver. Among the 10,000 railway stations in China, only about 20% has been installed with RIS. For the more advanced CTC, there are only several railway lines in operation and less than ten railway lines under construction currently. The management foresees rising penetration given growing consciousness for railway safety for government officials.

The PRC Government has also planned for construction of several large scale urban railways in Bohai, the Yangtze River Delta and Pearl River Delta regions to cope with the rising city traffic congestion resulting from urbanization. Six major cities in China, including Beijing, Shanghai and Guangzhou, are expanding or planning their existing urban railways, and 30 cities plan to develop new urban railways. Amongst these 30 cities, 14 had obtained approval from National Development and Reform Commission for the construction of 85 new lines at a total cost of RMB800 billion. It is estimated that 16 new lines will commence operations between 2010 and 2015 in Beijing, Shanghai and Guangzhou, adding 430 new stations. The management of the Group believes that urban railway is another huge potential market for RIS products. Apart from the China local market, the Group aspires to bring BJM to the global market after obtaining international certification.

BJM had fruitful achievements in 2008, including: (i) in the city rail transportation sector: successfully won the tender of RIS project of Chongqing Metro line 3 ; (ii) in national railway lines: completed projects of more than 100 new stations to be operated with RIS systems; (iii) the retrofit projects of RIS systems for over 200 existing stations; (iv) the sales target was over-achieved and both sales revenue and contract value registered record high in the year. It is also expected to maintain the growth momentum in 2009; and (v) BJM won the First Prize of Science and Technology 2008 and it was the second time the company won the honor (ministerial-level awards) following the year 2007 when it completed the Train Control System Research and Application Project of the Ministry of Railways. On the basis of its technological achievements, BJM has been making innovations in the R&D on relevant products and expanding the market for train control series.

For the year ended 31 December 2008, the revenue of BJM increased by 69.6% to RMB296.1 million (2007: RMB174.6 million), as compared with that of the previous year with an increasing market demand and a steady growth of BJM's market share due to its enhanced market recognition by customers. Its net profit before and after taxation were RMB98.5 million and RMB77.8 million respectively (2007: RMB15.4 million and RMB19.8 million respectively). Starting from 2008, BJM obtained an approval from the relevant tax authority for its new and high technology enterprise status. This implies that BJM can enjoy a preferential income tax rate of 15%.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2008, total revenue of the Group increased tremendously by approximately 113.6% to RMB861.7 million (2007: RMB403.4 million), as compared with that of the previous year. Such increase was mainly attributable to (i) the significant increase in the revenue from system sales by approximately RMB340.6 million or 102.1% to approximately RMB674.2 million for the year ended 31 December 2008; (ii) the increase of revenue from the provision of engineering and maintenance services by 85.2% to RMB67.4 million for the year ended 31 December 2008 mainly because of the increase in revenue from the provision of after sales services and maintenance services such as system upgrade, hardware upgrade and software upgrade for aged systems due to the Group's enlarged installation base in the industry; (iii) increase in revenue from trading of equipment by approximately 259.6% to RMB120.1 million (2007: RMB33.4 million) for the year ended 31 December 2008 when compared with that of the previous year.

The significant increase in revenue generated from system sales was mainly due to the facts that (i) most of the mega projects require total solution for the safety and critical control system products and the Group is currently the only industry player in China capable of providing a complete set of such systems for chemical, petrochemical, coal chemical, oil and gas industries; (ii) the fast growth of the Group's ITCC business as a result of the high acceptance of ITCC concepts by its end customers in the various industries/markets as one of the important industrial standards so that the application of ITCC systems has been extended very widely and generated a lot of business potential in the market which in turn has been bringing about the increased sales of ESD and FGS because of the demand for total solution for the safety and critical control system as a whole; and (iii) the revenue contributed by the newly acquired subsidiary BJM, amounted to approximately RMB236.9 million during the year ended 31 December 2008.

For the year ended 31 December 2008, the increase in revenue from trading of equipment was primarily due to more orders received in relation to spot welding machines and robot systems for train body assembly business received from customers. The tremendous growth of the equipment trading business has been originated from and backed up by the stronger financial resources of the Group and excellent reputation built up over the past years. The management of the Group believes that the equipment trading business has further potential for growth in the forthcoming years.

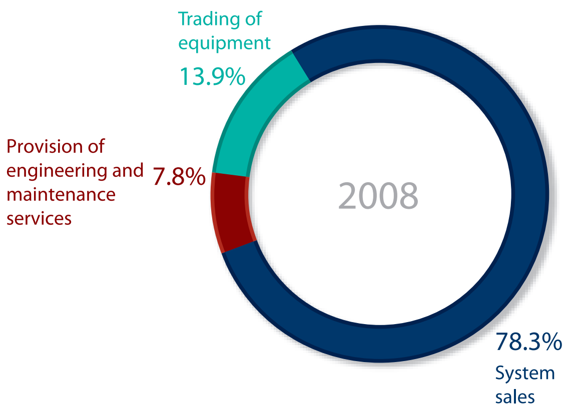
In terms of business segment, revenue of approximately 78.3% (2007: 82.7%) was generated from system sales, approximately 7.8% (2007: 9.0%) from the provision of engineering and maintenance services, while approximately 13.9% (2007: 8.3%) was from trading of equipment for the year ended 31 December 2008.

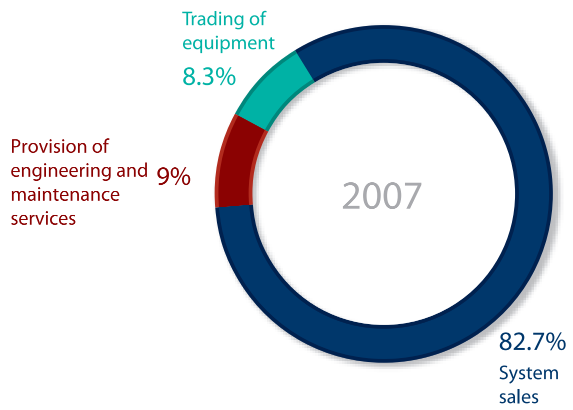
Gross profit

Gross profit of the Group for the year ended 31 December 2008 was approximately RMB335.9 million (2007: RMB173.7 million), representing an increase of approximately RMB162.2 million or 93.4% over that of the previous year.

The overall gross profit margin was at 39.0% for the year ended 31 December 2008, representing a decrease of approximately 4.1 percentage points as compared with that of approximately 43.1% in the previous year.

The decrease in overall gross profit margin of the Group was mainly resulted from (i) the significant increase in its equipment trading business from approximately RMB33.4 million for the previous year to approximately RMB120.1 million for the year ended 31 December 2008, this business segment, in general, had a lower gross profit margin of approximately 15.2% and therefore dragged down the overall gross profit margin, and (ii) the slight decrease in the gross profit margin of the Group's system sales business for the year ended 31 December 2008 which was at approximately 40.5% (2007: approximately 43.2%) mainly resulted from the share-based payment expenses charged to cost of sales but no such expenses in previous year.





Other income

For the year ended 31 December 2008, the Group's other income significantly increased by approximately RMB19.2 million to RMB28.3 million (2007: RMB9.1 million) mainly due to the facts that (i) the increase in foreign exchange gains resulted from the appreciation of Renminbi during the year under review whilst the originally signed purchase contracts were denominated in Euro dollar which devaluated over that year as compared with Renminbi; and (ii) government grants received by BJM and Beijing Sindu Industrial Software Company Limited in relation to VAT refund from local tax bureau pursuant to the preferential policy on corporation tax applicable to software manufacturers.

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2008 were approximately RMB69.4 million (2007: RMB30.1 million), which increased by approximately 130.6% as compared with that of the previous year. Such increase was mainly attributable to (i) the increased staff costs for increased head-count in the sales and marketing department, general improvement in salaries and staff benefits as well as increase in share-based payment of approximately RMB6.7 million (2007: RMB1.5 million) charged to the income statement in relation to the valuation of share options granted under the Company's share option scheme; (ii) more entertainment and traveling expenses as well as office supplies incurred during the year to cope with the expanding sales and service support network in the PRC; and (iii) the increase in commission and service fees for tendering institutions in line with more contracts awarded for the year under review.

Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2008 were approximately RMB100.5 million (2007: RMB50.0 million), which increased by approximately 101.0% when compared with that of the previous year. Such significant increase was mainly attributable to (i) the increase in share-based payment of RMB9.1 million (2007: RMB1.9 million) charged to the income statement in relation to the valuation of share options granted under the Company's share option scheme; (ii) the amortization of intangible assets amounted to approximately RMB6.1 million (2007: Nil); (iii) the increase in staff costs for the increased staff head-count and overall improved staff salaries and benefits; (iv) increased entertainment and traveling expenses in line with the increased scale of business operation and consolidation of BJM's related expenses into the financial statement of the Group as a whole; (v) increase in office expenses notably rental expenses as more new offices were rented in order to cope with increased business activities; and (vi) more legal and professional fees incurred in connection with the acquisition of BJM and other acquisition targets contemplated during the year under review.

Share of results of associates

Share of results of an associate for the year ended 31 December 2008 amounted to RMB4.1 million (2007: Nil) primarily reflected the results achieved by BJM during the period from 10 March 2008 to 11 June 2008 which the Group had an equity interest of 46.97% to be equity-accounted for in the consolidated income statement of the Group. The operating results of BJM were consolidated into the financial statements of the Group thereafter when its equity interest therein was further increased to 76.7% in August 2008.

Finance costs

Finance costs of the Group for the year ended 31 December 2008 increased from approximately RMB3.1 million to RMB8.4 million. Such increase was mainly attributable to higher level of bank charges and interest expenses associated with bank borrowings, trade finance and invoice financing for the year under review.

Income tax expense

Income tax expense of the Group amounted to approximately RMB21.5 million for the year ended 31 December 2008 (2007: income tax credit of RMB0.4 million) mainly attributable to (i) consolidation of the financial results of the newly acquired BJM, of which the relevant enterprise income tax amounted to RMB11.4 million; and (ii) most of the Group's major operating subsidiaries were on tax holiday in the previous year but expired on the tax relief in 2008.

The effective tax rate of the Group for the year ended 31 December 2008 was at approximately 11.3% (2007: a negative tax rate of 0.4%) as most of the Group's major operating subsidiaries such as Beijing Consen, Beijing Transportation and Beijing Tri-Control Automation Co., Ltd. were subject to 50% reduction from the PRC enterprise income tax in 2008 instead of tax holiday enjoyed in the previous year; while the newly acquired BJM was subject to enterprise income tax rate of 15%.

Profit for the year

As a result of the foregoing, the Group recorded a profit attributable to equity holders of the Company of approximately RMB149.2 million (2007: RMB99.9 million) for the year ended 31 December 2008, representing an increase of approximately RMB49.3 million or 49.3% as compared with that of the previous year.

Net profit margin of the Group decreased from approximately 24.8% for the year ended 31 December 2007 to approximately 19.6% for the year ended 31 December 2008.

Dividend

The Board recommends distribution of a final dividend of 4.0 HK cents per share, equivalent to approximately RMB3.5 cents (2007: 3.0 HK cents per share, equivalent to approximately RMB2.7 cents) for the year ended 31 December 2008, representing a total dividend distribution and payout ratio of approximately RMB32.1 million and 21.5% of the current year profit respectively.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

The Group's operating cash inflow (before movement in working capital) amounted to approximately RMB216.8 million, representing a significant increase by approximately 112.3% or RMB114.7 million when compared with that of approximately RMB102.1 million in the previous year, which demonstrated that the Group has a strong capability to generate meaningful operating cash inflow from business operations. However, the Group's net cash generated from operating activities (i.e. after movement in working capital) decreased from approximately RMB29.9 million for the year ended 31 December 2007 to approximately RMB2.4 million for the year ended 31 December 2008. This was mainly attributable to (i) increase in trade and bills receivables as well as other receivables and prepayment; (ii) decrease in trade and bills payables as well as other payables, deposits received and accruals; and (iii) increase in income tax paid, but these factors were partially offset by the increase in profit before taxation. The increase in trade and bills receivables and decrease in trade and bills payables are explained in the section headed "Financial ratios and turnover days" below.

Net cash used in investing activities for the year ended 31 December 2008 significantly increased by approximately RMB257.9 million to RMB299.2 million primarily due to (i) the consideration of approximately RMB185.2 million paid for acquisition of the aggregate equity interests of 76.7% in BJM; and (ii) the payment of approximately RMB40 million for acquiring a new plant; and (iii) the increase in bank deposits under conditions of approximately RMB25.2 million.

Net cash from financing activities for the year ended 31 December 2008 increased by approximately RMB64.0 million to RMB307.5 million primarily due to the net proceeds received from issue of new shares under a placing and subscription exercise amounted to approximately RMB201.8 million (2007: RMB316.2 million from the Company's new listing) as well as the increase in net bank borrowings raised amounted to RMB143.0 million.

Pursuant to a placing and subscription agreement dated 21 February 2008, 83 million shares of HK$0.01 each in the share capital then held by Consen Group Holding Inc. was placed on 25 February 2008 at placing price of HK$2.84 per share and subscription of new shares of 83 million at the subscription price of HK$2.84 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK$0.01 each in the share capital of the Company was completed on 3 March 2008. The net proceeds from the placing and subscription exercise amounted to HK$229.5 million (equivalent to approximately RMB201.8 million) was duly received on 27 February 2008.

As at 31 December 2008, the Group's bank balances and cash (including bank deposits under conditions) amounted to approximately RMB392.1 million (2007: approximately RMB339.9 million). The bank deposits under conditions increased by approximately RMB38.3 million to RMB83.2 million as at 31 December 2008 in order to obtain additional banking facilities for the Group's expanding business operations, of which, most contract execution demanded lots of bank guarantees, bid bonds and performance bond requirements.

Working capital (net current assets) of the Group as at 31 December 2008 amounted to approximately RMB650.9 million (2007: approximately RMB516.5 million), representing an increase of approximately 26.0% from that as at the previous year-end date.

Gearing position

As at 31 December 2008, the total liabilities to shareholders equity increased to 0.5 times (2007: 0.21 times). Total liabilities of the Group as at 31 December 2008 amounted to approximately RMB498.4 million (2007: approximately RMB119.8 million). The Group's current ratio as at 31 December 2008 was at a healthy level of approximately 2.6 times (2007: 5.3 times).

As at 31 December 2008, the Group remains at net cash position.

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

Bank borrowings

As at 31 December 2008, the Group had bank borrowings of approximately RMB194.4 million (2007: Nil).

Significant investments, mergers and acquisitions

During the year ended 31 December 2008, apart from the acquisition of additional equity stake in BJM, the Group had no other significant investments, mergers and acquisitions and disposals of any subsidiaries and associated companies.

The Group has been aiming to broaden its product line and client base through strategic acquisitions. The Group first acquired 46.97% effective equity interests in BJM in March 2008, and subsequently further increased by 11.04% and 18.69% in June and August 2008 respectively to 76.70% at an aggregate consideration of approximately RMB303.5 million. The formalities in relation to the acquisition of these equity interests in BJM had been completed in August 2008. Upon such completion, the Group's effective equity interest in BJM had been increased to 76.70% and the financial results of which had been consolidated into the financial statements of the Group for the year ended 31 December 2008.

Contingent liabilities

As at 31 December 2008, the Group had no material contingent liabilities.

FINANCIAL RATIOS AND TURNOVER DAYS

The Group's gearing ratio and turnover days for the year ended 31 December 2008 as compared with that for 2007 are set forth below:

	As at 31 December	
	2008	2007
Gearing ratio (Note 1)	**0%**	0%
Inventory turnover days (Note 2)	**139**	172
Trade and bills receivable turnover days (Note 3)	**171**	155
Trade and bills payable turnover days (Note 4)	**59**	137

Notes:–

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

2. The calculation of the inventory turnover days is based on the Group's inventory balances at their respective year-ends divided by its total cost of sales for the relevant year and times 365 days.

3. The calculation of the trade and bills receivable turnover days is based on the Group's trade and bills receivable at their respective year-ends divided by its total revenue for the relevant year and times 365 days.

4. The calculation of the trade and bills payable turnover days is based on the Group's trade and bills payable at their respective year-ends divided by its total cost of sales for the relevant year and times 365 days.

Gearing ratio

As at each of 31 December 2007 and 2008, the Group had remained at net cash position. This was mainly attributable to the Group's prudent financial management policies.

Inventory turnover days

The Group's inventory turnover days for the year ended 31 December 2008 was approximately 139 days (2007: 172 days). The decrease in inventory turnover days was mainly due to the implementation of an integrated inventory management module with designated officers to monitor inventory level more effectively such that the inventory procurement timing becomes more just in time with the actual production requirements. This resulted in more inventories being purchased in early 2009 as quite a large number of contracts with system delivery schedule in second and third quarter of 2009..

Trade and bills receivable turnover days

The Group's trade and bills receivable turnover days for the year ended 31 December 2008 was approximately 171 days (2007: 155 days). The increase in trade and bills receivables turnover days was mainly due to the facts that (i) lots of equipment were delivered in 2008 but invoices not yet raised in relation to a large number of customers of the Group as they delayed the booking of invoices to 2009 in order to enjoy the benefit of the input VAT deduction on their capital expenditures due to the implementation of VAT reform effective from 1 January 2009; and (ii) the worsening profitability of its clients had led to a slowdown in collection of accounts receivable as a result of the recent financial crisis, which affects, to a different extent, every countries all over the world. The Group's trade receivables that are neither past due nor impaired related to a large number of diversified customers, mainly state-owned enterprises. On such basis, the management of the Group does not expect that there would be difficulty in collecting its trade debts even though some of which had been a little bit longer outstanding.

Nevertheless, the Group's trade and bills receivables turnover days would be lowered to 160 days, which is pretty close to that of the previous year should the acquisition of BJM were completed on 1 January 2008.

The management of the Group has been increasing its efforts to control its trade receivables turnover days by several means including change of the terms and conditions of the forthcoming contracts such that more progress payment will be received at an earlier stage of a contract. The Group always seeks to maintain strict control over the creditability of customers and its outstanding receivables. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The creditability of customers is reviewed regularly. The Group had expected that its trade and bills receivables could be collected within 12 months.

Trade and bills payable turnover days

The Group's trade and bills payable turnover days decreased to approximately 59 days for the year ended 31 December 2008 (2007: 137 days). This was mainly attributable to the less procurement made at the end of 2008 such that the inventory procurement timing becomes more just in time with the actual production requirements as mentioned above. This resulted in more inventories being purchased in early 2009. In addition, payments of trade payables were more in line with the terms of invoices in order to nourish better business relationship with the key suppliers of the Group. The management of the Group expects that the Group's trade and bills payable turnover days will rebound to the normal level 100 days in 2009.


Control System (CTC)
CTC
ESD
FGS
Emergency Shutdown Devices (ESD)

FUTURE EXPANSION

The Group will continue to leverage its strengths in product, technology, market and engineering service, rapidly develop the railway business in the next few years. The Group will also steadily develop the petrochemical business to facilitate a balanced development for both core business segments.

FUTURE OUTLOOK

Being the largest safety and critical control system provider in the PRC petrochemical industry and one of the largest providers of communication signaling systems in the railway signaling industry, the Group will continue to leverage on its own strengths in product, technology, market and engineering service to rapidly grow the railway signaling business and steadily develop the petrochemical business to facilitate the organic integration and balanced development of both businesses.

Petrochemical business

1. *Organic growth*

   Being the largest safety and critical control system provider in the PRC petrochemical industry, the Group will actively capture market development opportunities so as to maintain its existing high market share. Although the international oil prices are currently low and the international chemical product market is also unfavourable, this will not affect the enthusiasm of major petrochemical enterprises, refining enterprises, chemical enterprises and coal chemical enterprises in the PRC in establishing new production capacities and constructing new plants. Meanwhile, the standing meeting of the State Council reviewed and approved the plan for the revitalization of the petrochemical industry on 19 February 2009. This has also offered assurance to the above industrial companies in the aspects of policy support and financial funds. The investment made by the State in the petrochemical technology reform has driven efforts in the technological upgrade of the entire industry and facilitated existing petrochemical enterprises to invest substantial funds in reforming their devices over the next few years with a view to increasing efficiency, enhancing safety assurance and adopting latest technologies. The construction of new plants and the technological reform mentioned above will bring huge business opportunities for the development of the Group's petrochemical business.

   In 2009, the Group will expand from the downstream business of the petrochemical sector to the upstream business of the petrochemical sector such as oilfield construction, crude oil, refined oil, natural gas, oil pipeline and natural gas pipeline transmission as well as urban oil and gas pipeline network construction through the establishment of a new oil and gas company, thereby extending from safety and critical control systems of the petrochemical sector to overall safety control of the upstream business of the petrochemical sector.

   On the basis of the growth of the existing market, the Group will make use of existing technologies and resources to actively develop other products, technologies and solutions related to the automation industry so as to further expand its market share. Besides, it will actively capitalize on the historical accumulation of the Group's market, manpower and technical resources to strive to become the most important integrated automation solution provider in the petrochemical industry within the next few years.

2. *Expanding overseas markets*

   Apart from stabilizing and expanding its market share in the existing PRC petrochemical industry, the Group will actively develop overseas operations. The Group will, on the basis of the existing companies in North America and Singapore, establish branches in Middle East and Japan to develop the international market and provide the Group's quality automation products and technical services to overseas customers to strive for overseas markets with high profit margins, thus bringing new momentum for the overall growth of the Group.

Railway signaling business

1. *Organic growth*

   For the national railway business, the Group will improve its existing signaling product systems and swiftly created express railway signaling control system product series such as the CTCS-3 class train control system through independent research and development and external cooperation. Moreover, it will seize the market potential of special passenger lines and express railways to take full advantage of the RMB4 trillion economy stimulus plan introduced by the PRC government. Approximately RMB200 million will be allocated to the railway business. It has been confirmed that RMB600 billion will be invested over the next three years to maintain the rapid development of the Company's railway business.

The Company will leverage on its technological edge in the existing railway signaling business to actively develop the urban rail transport communication signaling business, actively develop product series such as urban rail transport train operation protection system (ATP) and train automatic operation system (ATO) to capitalize on the advantage of the Group as one of the units implementing the domestic production of communication signaling equipment recognized by the National Development and Reform Commission. The State has successively introduced two policies in relation to the domestic production of rail transport equipment. One is "Notice of the General Office of the State Council on Forwarding the Opinion of the State Planning Commission on Implementing the Domestic Production of Urban Rail Transport Equipment (February 1999, Guo Ban No.20 Document). The other is "Notice on Strengthening the Management of the Construction of Urban Rail Transit Networks" (September 2003, Guo Ban No.81 Document). The two national documents expressly indicate the development focus for the domestic production of urban rail transport equipment and enhancing the construction and management of urban express rail transport. The Group will undertake railway and urban rail communication signaling projects throughout the country and aim at becoming the general contractor for the PRC rail transport signaling industry.

For local and industrial ore railways, the Group will leverage on its existing advantages to actively develop the market and establish an integrated product system through independent research and development and external cooperation. Given the fact that existing control system products are developing towards management technologies urgently required for local railways and industrial ore railways, the Group will strive to become the largest leader in local and industrial ore railway management and control technology in the PRC.

2. *Investment and mergers and acquisitions*

The Group will actively expand our operations in railway and urban rail transport through joint venture, investment and mergers and acquisitions. Apart from the original communication signaling products and technologies, the Group will leverage on its accumulated advantages in control technology to actively develop products, technologies and markets related to the rail vehicle industry and control, thus making revenue derived from the railway and urban rail industries the most important development drive for the Group.

The Group is actively identifying enterprises in the railway industry which enjoy edges in independent intellectual property rights, core technologies, marketing, sales and engineering resources and deliver high synergy with the Company's existing railway signaling business as targets for investment and acquisition.

To sum up, the Group will devote great efforts to the development of the railway communication signaling business in 2009 over the next couple years while developing the petrochemical business steadily. Besides, it will create better returns for the Group and shareholders through its own organic growth and investment as well as mergers and acquisitions.

INVESTOR RELATIONS REPORT

The Group is well aware of the importance of investor relations throughout the corporate development progress. In view of this, the Group has focused on reinforcing the communication with shareholders, investors, analysts and the media. The Group is also committed to fostering productive and long-term relationships with shareholders and investors, and to enhance the level of corporate governance of the Group.

In order to ensure an effective communication and a highly transparent and efficient information disclosure, the Group has adopted an open and timely communication with its stakeholders through various platforms during the year under review. Such communication included press conferences and analyst presentation held at least twice a year subsequent to the interim and annual results announcements. At these conferences, the management team explained the Group's financial results, business review and future development strategies.

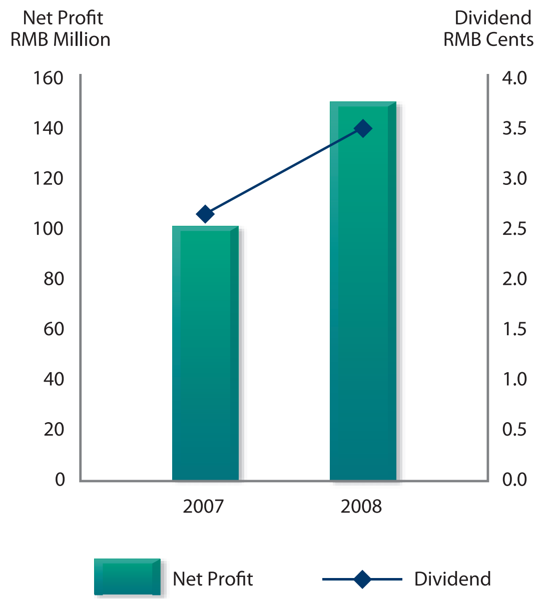
Apart from this, shareholders can also raise questions and express opinions to the directors at the Annual General Meeting. The Group has updated its shareholders through annual reports, interim reports and press releases and the company's website (www.cag.com.hk). The Group has also taken a proactive role in releasing information such as the latest business development, operational management, financial situation and future developments to its stakeholders through attending investor conferences, one-on-one meetings with analysts and fund managers, as well as media interviews. In addition, the Group has been analysing its shareholding structure on a regular basis so as to explore potential investors and broaden its shareholder base. Such moves facilitate the Group to maintain its shareholder structure at a quality and healthy level.

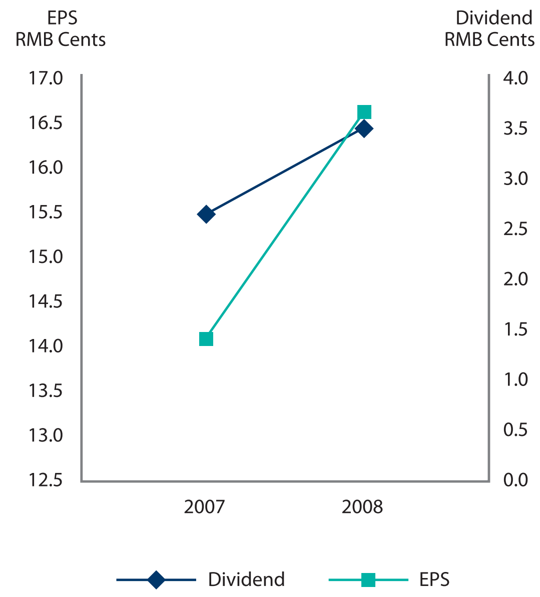
Other than one-on-one meetings with analysts, institutional investors, fund managers and media, the Group also participated in the following road shows and conferences during the year:

Date	Event	Organiser	Location
February 2009	Investor presentation	iPR Ogilvy (Participating organizations: First Shanghai, Sun Hung Kai Securities, CIMB and OSK Asia)	Hong Kong
January 2009	Daiwa investor conference	Daiwa Securities	Tokyo
December 2008	Road show	HSBC	Hong Kong
November 2008	Road show	UOB Kay Hian	Shanghai
October 2008	Little Acorns conference	UBS	Singapore
September 2008	Road show	First Shanghai	Shenzhen
August 2008	Road show	Daiwa Securities	Hong Kong
June 2008	Greater China Middle-sized conference	Piper Jaffray	Singapore
April 2008	Road show	Daiwa Securities	Hong Kong
March 2008	Road show	UOB Kay Hian	Hong Kong, Singapore
February 2008	Daiwa investor conference	Daiwa Securities	Tokyo
January 2008	Road show	JP Morgan	Hong Kong
January 2008	Greater China conference	UBS	Shanghai

Rewarding shareholders

Since its listing, the Group has placed much emphasis on maximizing shareholder returns, it is committed to providing a steady growth in dividends, which is in line with the underlying earnings performance of the business. The following charts demonstrate how steady growth in earnings has been translated into corresponding increment in dividends that the Group delivered to its shareholders.





Although the Group has been listed for a relatively short period of time, it has always focused on bringing its core competence into full play so as to expand its two core business segments – safety and critical control systems in the petrochemical and railway signaling industries. The development focus paid off in terms of shareholder returns. The Group will adhere to its consistent direction of sharing the Group's achievement with its shareholders to so as to express its gratitude to their support all along.

Looking ahead, the Group will continue to foster direct communications with investors so as to enhance their understanding towards its business, strategies and future development. The Group will provide sufficient channels for its shareholders to express their opinions, and will carefully consider such opinions to improve the Group's performance.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. Xuan Rui Guo (宣瑞國), aged 40, the Group's founder, Executive Director and Chairman, is mainly responsible for the overall strategic, financial planning and long-term development. Mr. Xuan graduated from the Renmin University of China（中國人民大學）with a bachelor's degree in international politics. He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He was the general manager of Boda Telecommunication and Electronics Company Ltd. in Yunnan, China, manager of Beijing Invention Biology Company Ltd. and the general manager of Beijing Consen Automation Control Co., Ltd.

Mr. Huang Zhi Yong (黃志勇), aged 42, is a co-founder of the Group and Executive Director. He is also the head of the Group's software development team. Mr. Huang holds a master's degree in mechanical engineering in Dalian University of Technology（大連理工大學）. He has over four year's experience in the research & development of mechanical engineering and over twelve years' experience in the management of corporate operation, automation engineering and trading. He is in charge of the internal operations of the Group including R&D, financial management and customer service. Mr. Huang was an engineer of the Machinery Research Institute of Sinopec Tianjin Petrochemical Corp. and was the deputy general manager of Beijing Consen Automation Control Co., Ltd.

Mr. Kuang Jian Ping (匡建平), aged 45, the Group's co-founder and Executive Director and Chief Executive Officer, is mainly responsible for the Group's daily operation, merger and acquisition strategies and investors relation. Mr. Kuang holds a master's degree in mechanical engineering in Dalian University of Technology（大連理工大學）. He has over 15 years of experience in sales and marketing as well as management in the instrument and automation business in the China chemical and petrochemical industry. Mr. Kuang was a sales manager of the Instrumentation Technology Company of Dalian University of Technology who was responsible for trading instruments and automation systems. He also worked as a sales manager and subsequently a deputy general manager in a subsidiary of China Chemical Industry Equipment and Instrumentation Company in Hainan province and was responsible for trading chemical equipment and instruments. Besides, Mr. Kuang worked in Beijing Consen Automation Control Co., Ltd. as the deputy general manager in charge of sales and marketing.

Independent Non-Executive Directors

Mr. Tang Min (湯敏), aged 66, is as an Independent Non-executive Director. Mr. Tang joined the Group in June 2007. He graduated from Beijing University of Chemical Technology （北京化工大學）with a bachelor's degree specializing in organic syntheses, organic department. From 1965 to May, 1990, he served at Lanzhou Chemical Industry Corporation and was a deputy general engineer before he left the company. From June 1990 to December 2004, Mr. Tang worked in Yangtzi Petrochemical Company Limited and his last position was deputy managing director. After Mr. Tang's retirement, he had been engaged by BASF — YPC Company Limited as senior consultant from January 2005 to September 2005. In 2000, Mr. Tang was awarded by China Petrochemical Corporation as senior engineer of a professor level of qualification.

Mr. Wang Tai Wen （王泰文), aged 62, is an independent Non-executive Director since January 2008 while being an external director of China National Foreign Trade Transportation (Group) Corporation. Prior to joining the Company, He also held various managerial positions in Ziyang Internal Combustion Locomotive Plant; the chairman, general manager and secretary to the communist party committee of China National Railway Locomotive Corporation; and also served as chairman and secretary to the communist party committee of China Southern Locomotive Industrial Group Corporation. In November 2006, Mr. Wang joined China Railway Engineering Group Company Limited as an external director. According to the Notice on board of directors of wholly state-owned company issued by State-owned Assets Supervision and Administration Commission of the State Council, being an external director of China National Foreign Trade Transportation (Group) Corporation, Mr. Wang's main responsibilities are to attend meetings of its board of directors and to make decision in the capacity as a director. He did not participate in any daily operation at both China National Foreign Trade Transportation (Group) Corporation and its group companies. He graduated from Dalian Railway Institute （中國大連鐵道學院）, the PRC, majoring in machinery and manufacturing.

Mr. Ng Wing Fai (吳榮輝), aged 50, is an independent Non-executive Director. Mr. Ng joined the Group in Jume 2007. He has over 15 years' experience in audit, taxation and consultancy in government and non-government institutes. Mr. Ng holds a bachelor's degree of arts in accountancy and a master's degree of arts in international accounting from City University of Hong Kong. He also holds a postgraduate diploma in English and Hong Kong law from The Manchester Metropolitan University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a council member of the Society of Chinese Accountants & Auditors, and a member of the Hong Kong Securities Institute. Prior to setting up his own company, Messrs. Simon W.F. Ng & Company, CPA (Practising), he was a partner of Messrs. Paul W.C. Ho & Co., a local medium-size firm in Hong Kong which provides audit, tax advisory and consultancy services.

SENIOR MANAGEMENT

Mr. Yang Hong Yan (楊紅岩), aged 39, is a deputy general manager of the Group. He joined the Group in September 2003. He is also a director and general manager of Beijing Transportation. He is responsible for the operation of Beijing Transportation and leading the R&D team and engineering team to develop projects of the company. Mr. Yang graduated from China Academy of Railway Science （中國鐵道部科學研究院）. He worked in China Academy of Railway Science from 1993 to 2003. He was awarded the Vice Researcher Certificate in 2002. He was also awarded "The National Science Progress Award" by Ministry of Railway and State Science & Technology commission in 2001. In 2004, Mr. Yang cooperated with Beijing Consen to set up Beijing Transportation. His research achievement, MCIS system, was awarded the "Beijing Technical New Products".

Mr. Cui Da Chao (崔大潮), aged 52, is the Chief Financial Officer of the Group. He is primarily responsible for overseeing the Group's financial planning and control, accounting and financial affairs. Prior to joining the Group in 2004, Mr. Cui worked as an executive director and financial manager at a Canadian company principally engaged in trading of chemical raw materials. From 1999 to 2001, he was a partner and deputy general manager of a PRC accountancy firm. He graduated from Xiamen University （廈門大學）, the PRC, with a specialization in international accounting.

Mr. Wang Wen Hui (王文輝), aged 62, the Group's Vice-President and the Chairman of Beijing Jiaoda Microunion Technology Co., Ltd.. In 1984, he graduated from the Information Research Institute of Northern Jiaotong University （北方交通大學資訊研究所）, majoring in information processing, and was awarded a master degree in engineering. During the period between 1984 and 1993, Mr. Wang held a teaching post at the Information Research Institute of Northern Jiaotong University and was invited to Tokyo Institute of Technology as senior visiting scholar. During the period between 1993 and 2000, he served as department manager and general manager of Beijing Jiaotong University Technology Company and Beijing New Electrical Technology Company, respectively. Before taking up the post of the Chairman, he was a general manager of Beijing Jiaoda Microunion Technology Co., Ltd. since April 2000.

Mr. Li Hai Tao (李海濤), aged 39, is a Head of Strategic Development of the Group. Mr. Li joined the Group in March 2008, mainly responsible for investment and merger and acquisition issues of the Group. He obtained a MBA and a double bachelor's degree in engineering from Tsinghua University （清華大學）. He has expensive experience in investment, strategic development and corporate management, leading various merger and acquisition, as well as integration and new business development. Mr. Li was a vice president, general manager of investment department and general manager of corporate management department at Fei Shang Group in Shenzhen. He also served as general manager of investment management department at Hua Bao Group, managing director of Hua Bao Group Shenzhen Metropolis Trading Co. Ltd. and deputy managing director of Hua Bao Group Shenzhen Metropolis Logistic Co. Ltd.. From 1998 to 2001, Mr. Li was the head of development and research department at China International Marine Containers (Group) Co., Ltd.

Mr. Duan Min (段民), aged 42, is a deputy general manager of the Group. He is primarily responsible for overseeing the sales departments of the Group. He graduated with a bachelor's degree in automation of chemical engineering in Dalian University of Technology （大連理工大學）. He has over 16 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 1999.

Mr. Ji Jun (季俊), aged 39, is a deputy general manager of the Group. He is primarily responsible for overseeing the quality control in engineering projects and the development of new products and techniques of the Group. He graduated with a bachelor's degree in production process automation in Zhejiang University （浙江大學）. He has over 15 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 2001.

Mr. Zhou Zheng Qiang (周政強), aged 43, is a deputy general manager of the Group. He is primarily responsible for overseeing the marketing development of the group. He graduated with a bachelor's degree of process automation in the Department of Chemical Engineering in Zhejiang University （浙江大學）and also holds the Certificate of Senior Automation Engineer in China. He has worked in China Hua Lu Engineering company for 15 years from 1988 to 2002. From April 2002 to January 2006, he was the general manager of Xian Lan Qi Control System Engineering Company Limited （西安籃溪控制系統工程有限責任公司）. He joined the Group in February 2006

Mr. Zhang Wei (張偉), aged 48, is the general manager of Beijing Jiaoda Microunion Technology Co., Ltd. (BJM). He graduated from the School of Electronic and Information Engineering of Northern Jiaotong University（北方交通大學電子資訊工程學院）in 1985, with a master's degree in engineering, majoring in Transportation Automation. From 1985 to 1993, Mr. Zhang held a teaching post at the School of Electronic and Information Engineering and Research Institute of Management and Science of Northern Jiaotong University respectively and was invited to Tokyo University as a senior visiting scholar. From 1993 to 2000, he served as the department manager and vice general manager of Beijing Jiaotong University Technology Company and Beijing New Electrical Technology Company, respectively. Since April 2000, Mr. Zhang was assistant general manager of BJM, and was subsequently promoted to general manager.

Mr. Bill Barkovitz, aged 38, is President of the Group's US operations, Inovex Corporation. He graduated from University of California, Irvine in 1993 with a bachelor's degree in Applied Physics. Upon graduating, he entered the field of control & automation. From 1994 to 2005, Mr. Barkovitz worked for Triconex Corporation, a division of Invensys. Triconex is the global leading supplier of safety, critical control, and turbomachinery systems for the process industries. He served as Sales Director of Northern Asia Pacific while based in Singapore from 1995-1998, then General Sales Manager of Europe, Middle East, & Africa from 1998-2001 while base in the UK. In 2001, Mr. Barkovitz moved to the Triconex corporate headquarters in Irvine, California to take on the role of Vice President Marketing. He moved to a start-up company in 2005, ORYXE Energy International , as Vice President of Marketing. ORYXE Energy develops emissions reduction chemical technologies for oil refiners and fuel distributors. In 2007, he left ORYXE Energy in order to form the first US corporate entity of China Automation Group called Inovex.

Mr. Tim Pieszchala, aged 51, is in charge of technical direction and R&D activities for turbomachinery products for the group. He is also the Vice President of Inovex and Tri-Sen Systems. He worked for the original Tri-Sen System from 1983 to 1992, then for Triconex and Invensys until 1999, holding various technical positions culminating in the Director of Engineering position for turbomachinery. In 1999, he went to work for Dresser-Rand as their Sale and Marketing Manager responsible for world-wide controls sales. He also held position of Manager of Condition Monitoring, establishing Dresser-Rand's consolidation of those efforts. In 2005 he established his own consulting firm before joining the group in 2007. He holds two bachelor's degrees in Fine Arts and Computer Science from Indiana University and a master degree in Computer Systems Design from the University of Houston at Clear Lake.

Mr. Chow Chiu Chi (周昭智), aged 50, is the Financial Controller and Company Secretary. He joined the Group in June 2006. He graduated from the Hong Kong Polytechnic University with a bachelor of arts' degree in Accountancy. He is an associate member of the Chartered Institute of Management Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He also obtained a master's degree in business administration from the Hong Kong Polytechnic University. He has over 20 years of experience in finance, accounting and internal audit.

DIRECTOR'S REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSES OF OPERATIONS

The Company is an investment holding company. The Group is engaged in the provision of safety and critical control system specialized for petrochemical and railway industries, along with related maintenance and engineering services.

The activities of the Group are mainly based in the PRC. Analyses of the Group's revenue and contribution to operating result by principal activities and by principal markets are set out in notes 5 and 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 45 of this annual report.

The Board recommends distribution of a final dividend of 4.0 HK cents per share (2007: 3.0 HK cents), amounting to a total of approximately HK$36,366,880 for the year ended 31 December 2008 (2007: HK$27,390,000) to the shareholders on the register of members of the Company on Tuesday, 26 May 2009.

Upon the approval being obtained in the forthcoming annual general meeting, the above final dividend will be paid on or before 28, June 2009 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 26 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 22 May 2009 to Tuesday, 26 May 2009 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting and the entitlement of the aforementioned proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 21 May 2009.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 106 of this annual report. The summary of results is for comparative purposes only, and does not form an integral part of the audited financial statements.

DISTRIBUTABLE RESERVES

Movements in the reserves of the Group during the year ended 31 December 2008 are set out on page 47 of this annual report. As at the balance sheet date, the Company's distributable reserves amounted to RMB317,533,000 (2007: RMB206,291,000).

SHARE CAPITAL

Movements of the share capital of the Company is set out in note 29 to the financial statements.

CHARITABLE CONTRIBUTIONS

Charitable contribution made by the Group during the year ended 31 December 2008 amounted to RMB300,000 (2007: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2008 are set out in note 39 to the financial statements.

EMPLOYEES

As at 31 December 2008, the Group had a total of 641 employees. The emoluments payable to the employees of the Group are based on their responsibilities, qualifications and experience and the related industrial practices.

DIRECTORS

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

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

Independent non-executive Directors
Mr. Tang Min
Mr. Wang Tai Wen
Mr. Ng Wing Fai

Pursuant to Article 87 of the articles of association of the Company, Mr. Tang Min and Mr. Ng Wing Fai shall retire from their offices by rotation at the forthcoming annual general meeting and shall be eligible to offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

The emoluments payable to the Directors are based on terms of their respective service contracts with the Company. The Directors' fee payable is subject to annual assessment and approval by the Board and shareholders of the Company at annual general meetings. Details of the emoluments paid and payable to the Directors for the year ended 31 December 2008 are shown in note 11 to the financial statements.

The contributions to pension schemes for the Directors for the year ended 31 December 2008 are disclosed in note 11 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 30 to 33 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option scheme of the Company as disclosed in note 36 to the financial statements, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

USE OF NET PROCEEDS FROM THE IPO EXERCISE

The Company raised an aggregate net proceeds of approximately HK$319.5 million from the issuance of equity securities pursuant to the issue of an aggregate of 230,000,000 shares of HK$0.01 each in the Company pursuant to the IPO exercise. As at 31 December 2008, the Group has used the net proceeds from the IPO exercise as follows:-

		Net IPO proceeds (HK$ million)	
Use of Proceeds	**Available**	**Utilised**	**Unutilised**
Construction of a new complex	40.0	2.1	37.9
Research and development expenses	40.0	20.5	19.5
Expansion and improvement of the Group's sales network	30.0	13.1	16.9
Expansion and improvement of the Group's service network	25.0	5.2	19.8
Pursuing suitable acquisition	60.0	60.0	—
Setting up an overseas office	30.0	13.2	16.8
General corporate purposes and working capital	94.5	94.5	—
	319.5	208.6	110.9

As at 31 December 2008, the amount of unutilised proceeds from the IPO exercise was approximately HK$110.9 million. The Group had used approximately HK$65.0 million out of the unutilized proceeds earmarked for general corporate purpose and working capital to pay for part of the consideration for the acquisition of the interests in Beijing Jiaoda Microunion Technology Co., Ltd. ("BJM") and the remaining for other purposes as described in the prospectus of the Company dated 28 June 2007.

USE OF NET PROCEEDS FROM THE PLACING EXERCISE

Pursuant to a placing and subscription agreement dated 21 February 2008, 83,000,000 shares of HK$0.01 each in the share capital then held by Consen Group Holding Inc. ("Consen Group") was placed on 25 February 2008 at placing price of HK$2.84 per share and subscription of 83,000,000 new shares by Consen Group (the "Subscription") at the subscription price of HK$2.84 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK$0.01 each in the share capital of the Company and was completed on 3 March 2008. The net proceeds from the Subscription amounting to approximately HK$229.5 million, were duly received on 27 February 2008. The Subscription was effected to enable the Company to raise funds for its long-term benefit. The Company intended to use the net proceeds of the Subscription for (i) a possible further acquisition of effective equity interests in BJM as referred to in the announcement of the Company dated 28 December 2007; (ii) potential investment opportunities; and (iii) the Group's general working capital. As at 31 December 2008, approximately HK$208.9 million had been used for financing part of the consideration for the acquisition of the interest in BJM and the balance had been used for working capital.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

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

	No. of shares						
Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Interest in underlying shares pursuant to share options	Total	Approximate percentage of shareholding
Mr. Xuan Rui Guo *(Note)*	—	—	543,908,541	—	—	543,908,541	59.82%

Note: Consen Group is the legal and beneficial owner of 543,908,541 shares. Consen Group is wholly-owned by Consen Investments Holding Inc. ("Consen Investments"), which in turn is owned as to 50%, 25% and 25% by Mr. Xuan Rui Guo ("Mr. Xuan"), Mr. Huang Zhi Yong ("Mr. Huang") and Mr. Kuang Jian Ping ("Mr. Kuang") respectively. Accordingly, Mr. Xuan is deemed to be interested in the 543,908,541 shares held by Consen Group by virtue of the SFO.

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

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

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

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

As at 31 December 2008, the persons (not being a Director or chief executive of the Company), had interests and short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO:-

Name	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	543,908,541	59.82%
Consen Investments *(Note 1)*	Interest in a controlled corporation	543,908,541	59.82%
Equity Concept Investments Limited	Registered & beneficial owner	59,459,459	6.54%
Mr. Wei Yu Qian *(Note 2)*	Interest in a controlled corporation	59,459,459	6.54%

Notes:

1. *Consen Group is wholly-owned by Consen Investments and therefore, Consen Investments is deemed to be interested in such 543,908,541 shares held by Consen Group under the SFO.*

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

(b) Interest in other members of the Group

As at 31 December 2008, so far as the Directors are aware, no persons were directly or indirectly interested in 10% or more of the voting power at any general meeting of any member of the Group

SHARE OPTION SCHEME

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

As at 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 38,948,000, representing 4.28% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

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

Details of specific categories of options are as follows:

Share option	Option series granted	Date of grant	Exercise period	Exercise price (HK$)
2007B	35,948,000	20/12/2007	31/10/2008 - 30/10/2012	2.27
2007C	2,000,000	20/12/2007	20/12/2008 - 30/12/2012	2.27
2008A	1,000,000	03/07/2008	31/10/2008 - 30/10/2012	2.26

On 3 July 2008, options were granted (2008A) to one eligible employee with exercise price at HK$2.26. He is not a director nor a substantial shareholder of the Company.

Save as disclosed above, for the year ended 31 December 2008, no option had been granted or agreed to be granted to any person under the scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company has repurchased certain of its own shares through the Stock Exchange. Details of the movements in share capital of the Company during the year are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and revenue for the year ended 31 December 2008 attributable to the Group's major suppliers and customers respectively are as follow:

	2008 %	2007 %
Purchases		
– the largest supplier	**37.2**	59.7
– the five largest suppliers combined	**57.3**	73.4
Revenue		
– the largest customer	**10.4**	32.2
– the five largest customers combined	**42.0**	73.7

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

SUBSEQUENT EVENT

Details of the subsequent event are disclosed in note 40 to the financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser agreement dated 27 June 2007 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the Listing Rules for the period from the 12 July 2007 to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ending 31 December 2008.

As notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 31 December 2008.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The consolidated financial statements of the Group for the six months ended 30 June 2008 and the year ended 31 December 2008 and the related disclosures have been reviewed and approved by the audit committee.

AUDITORS

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

On behalf of the Board

Xuan Rui Guo
Chairman
Hong Kong, 15 April 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company had complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In respect of the year ended 31 December 2008 (the "Relevant Period"), all the code provisions set out in the Code were met by the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all the Directors, and all of them had confirmed that they have complied with the required standard of dealings set out therein during the year ended 31 December 2008.

BOARD OF DIRECTORS

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

As at the date of this annual report, the Board comprised six members, consisting of three executive Directors, namely Mr. Xuan Rui Guo (the chairman), Mr. Huang Zhi Yong and Mr. Kuang Jian Ping (the chief executive officer); and three independent non-executive Directors, namely Mr. Tang Min, Mr. Wang Tai Wen and Mr. Ng Wing Fai. The roles of the chairman and chief executive officer are segregated. The profile of all the Directors, including the chairman, executive Directors and independent non-executive Directors are set out on pages 30 to 33 of this annual report. The relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are also disclosed.

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

Eleven Board meetings were held during the Relevant Period. Directors actively participated in each meeting in person or via telephone conferencing. Directors received reports on the activities of the operating divisions and present papers supporting decisions which required the Board approval. The Board consents were given by vote at the Board meetings.

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

Details of the attendance of Directors at these Board meetings and at three committee meetings (the audit committee, the remuneration committee and the nomination committee) in the Relevant Period are set out in the following table:

	Meetings attended/Meetings held			
Name of director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Xuan Rui Guo	11/11	N/A	1/1	1/1
Mr. Huang Zhi Yong	11/11	N/A	1/1	N/A
Mr. Kuang Jian Ping	11/11	N/A	N/A	1/1
Independent non-executive Directors				
Mr. Tang Min	8/11	2/2	1/1	1/1
Mr. Wang Tai Wen	8/11	2/2	1/1	1/1
Mr. Ng Wing Fai	8/11	2/2	1/1	1/1

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

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

AUDIT COMMITTEE

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

The audit committee met twice during the Relevant Period to review and discuss with the management of the Company the internal controls and financial reporting matters including a review of the financial statements for the six months ended 30 June 2008 and the year ended 31 December 2008.

The audit committee comprises three members, all of whom are independent non-executive Directors, being Mr. Ng Wing Fai ("Mr. Ng"), Mr. Tang Min ("Mr. Tang") and Mr. Wang Tai Wen ("Mr. Wang"). The audit committee is chaired by Mr. Ng.

REMUNERATION COMMITTEE

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

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

The remuneration committee comprises five members, three of whom are independent non-executive Directors, namely Mr. Wang, Mr. Tang and Mr. Ng, and the other two of whom are executive Directors, namely Mr. Xuan Rui Guo and Mr. Huang Zhi Yong. The remuneration committee is chaired by Mr. Wang.

NOMINATION COMMITTEE

The Company established a nomination committee on 16 June 2007 with written terms of references in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to review the composition of the Board and make recommendations to the Board on the selection of individuals nominated for directorship. The selection of individual to become directors is based on assessment of their professional qualifications, experience and prevailing industry practices.

The nomination committee met once during the Relevant Period to review and recommend the appointment of the independent non-executive director and reappointment of the retiring Directors for shareholders' approval at the forthcoming annual general meeting.

The nomination committee comprises five members, three of whom are independent non-executive Directors, being Mr. Tang, Mr. Ng and Mr. Wang, and the other two of whom are executive Directors, namely Mr. Xuan and Mr. Kuang. The nomination committee is chaired by Mr. Tang.

INDEPENDENT NON-EXECUTIVE DIRECTORS

All the existing independent non-executive Directors were previously appointed with specific terms for two years to 12 July 2009 except for Mr. Wang who was appointed on 30 January 2008 with terms for two years up to 30 January 2010 to replace Mr. Han Ben Yi who resigned on the same date.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the fees charged by the Company's auditors in respect of audit and taxation services amounted to approximately RMB2,727,000 (2007: RMB1, 427,000 and RMB460,000 (2007: Nil) respectively.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditors' Report on page 44 of this annual report.

INTERNAL CONTROL

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

COMMUNICATION WITH SHAREHOLDERS

The Group believes that effective communication with investors in developing of business is essential. Since the listing of the Company in July 2007, it has devoted itself to strengthen the good communication with all shareholders, investors, analysts and public media all the time in order to enhance the level of corporate governance.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all shareholders. Press releases are posted on the Company's corporate website http://www.cag.com.hk, which is constantly being updated in a timely manner, and so contains additional information on the Group's business activities.

The Directors have been continuing to put their utmost effort to develop the direct communication channels with all investors to deepen their understanding in business, strategy and future development of the Group

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA AUTOMATION GROUP LIMITED
(incorporated in Caymans Islands with limited liability)

We have audited the consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 105, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	5	**861,711**	403,357
Cost of sales		**(525,757)**	(229,618)
Gross profit		**335,954**	173,739
Other income	7	**28,314**	9,135
Selling and distribution expenses		**(69,423)**	(30,079)
Administrative expenses		**(100,508)**	(49,963)
Finance costs	8	**(8,377)**	(3,096)
Share of results of an associate		**4,079**	—
Profit before tax		**190,039**	99,736
Income tax (expense) credit	9	**(21,500)**	386
Profit for the year	10	**168,539**	100,122
Attributable to:			
Equity holders of the Company		**149,177**	99,891
Minority interests		**19,362**	231
		168,539	100,122
Dividends proposed	13	**32,072**	24,865
Earnings per share	14		
Basic (RMB)		**16.57 cents**	14.12 cents
Diluted (RMB)		**Not Applicable**	14.09 cents

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current Assets			
Property, plant and equipment	15	**53,873**	12,505
Prepaid lease payments	16	**25,522**	16,931
Intangible assets	17	**275,388**	850
Goodwill	18	**72,778**	—
Deposits for acquisition of subsidiaries		**—**	16,182
Deferred tax assets	20	**13,070**	308
		440,631	46,776
Current Assets			
Inventories	21	**200,363**	108,133
Trade and bills receivables	22	**404,384**	170,990
Other receivables and prepayments		**48,212**	17,255
Amounts due from minority shareholders	23	**2,550**	—
Bank deposits under conditions	24	**83,229**	38,282
Bank balances and cash	25	**308,918**	301,659
		1,047,656	636,319
Current Liabilities			
Trade and bills payables	26	**84,413**	86,220
Other payables, deposits received and accruals		**107,801**	31,858
Tax payable		**10,060**	1,717
Borrowings	27	**194,440**	—
		396,714	119,795
Net Current Assets		**650,942**	516,524
Total Assets less Current Liabilities		**1,091,573**	563,300
Non-current liabilities			
Deferred tax liabilities	20	**39,332**	—
Deferred income	28	**62,385**	—
		101,717	—
Total		**989,856**	563,300
Capital and Reserves			
Share capital	29	**8,516**	7,772
Reserves	30	**895,453**	554,307
Equity attributable to equity holders of the Company		**903,969**	562,079
Minority interests		**85,887**	1,221
Total Equity		**989,856**	563,300

Xuan Rui Guo
Director

Kuang Jian Ping
Director

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 30 a)	Statutory surplus reserves RMB'000 (Note 30 b)	Contribution from equity holders RMB'000	Translation reserve RMB'000	Share option reserve RMB'000 (Note 30 c)	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	—	47,841	(17,816)	4,863	619	(2,549)	—	112,689	145,647	990	146,637
Exchange difference arising on translation of foreign operations and expense recognised directly in equity	—	—	—	—	—	(3,063)	—	—	(3,063)	—	(3,063)
Profit for the year	—	—	—	—	—	—	—	99,891	99,891	231	100,122
Total recognised income and expense for the year	—	—	—	—	—	(3,063)	—	99,891	96,828	231	97,059
Appropriations	—	—	—	6,289	—	—	—	(6,289)	—	—	—
Issue of shares upon Group Reorganisation	519	—	(519)	—	—	—	—	—	—	—	—
Capitalisation on issue of shares	5,099	(5,099)	—	—	—	—	—	—	—	—	—
Issue of new shares upon listing of the Company's shares on the Stock Exchange	2,154	327,365	—	—	—	—	—	—	329,519	—	329,519
Transaction costs attributable to issue of new shares	—	(13,324)	—	—	—	—	—	—	(13,324)	—	(13,324)
Recognition of share-based payments	—	—	—	—	—	—	3,409	—	3,409	—	3,409
At 31 December 2007	7,772	356,783	(18,335)	11,152	619	(5,612)	3,409	206,291	562,079	1,221	563,300
Exchange difference arising on translation of foreign operations and expense recognised directly in equity	—	—	—	—	—	(535)	—	—	(535)	—	(535)
Profit for the year	—	—	—	—	—	—	—	149,177	149,177	19,362	168,539
Total recognised income and expense for the year	—	—	—	—	—	(535)	—	149,177	148,642	19,362	168,004
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	123,553	123,553
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(58,249)	(58,249)
Appropriations to reserves	—	—	—	13,070	—	—	—	(13,070)	—	—	—
Dividends	—	—	—	—	—	—	—	(24,865)	(24,865)	—	(24,865)
Issue of ordinary shares	777	206,515	—	—	—	—	—	—	207,292	—	207,292
Transaction costs attributable to issue of new shares	—	(5,459)	—	—	—	—	—	—	(5,459)	—	(5,459)
Recognition of equity-settled share based payments	—	—	—	—	—	—	20,339	—	20,339	—	20,339
Shares repurchased and cancelled	(33)	(4,026)	—	—	—	—	—	—	(4,059)	—	(4,059)
At 31 December 2008	**8,516**	**553,813**	**(18,335)**	**24,222**	**619**	**(6,147)**	**23,748**	**317,533**	**903,969**	**85,887**	**989,856**

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**190,039**	99,736
Adjustments for:			
Share of results of an associate		**(4,079)**	—
Finance costs		**8,377**	3,096
Depreciation of property, plant and equipment		**3,843**	2,401
Share-based payment expense		**20,339**	3,409
Deferred income released to income		**(2,854)**	—
Reversal of bad and doubtful debts		**(1,272)**	—
Prepaid lease payments released to income statement		**430**	353
Amortisation of intangible asset		**6,075**	150
Gain on disposal of held-for-trading financial assts		**—**	(182)
Interest income		**(4,104)**	(6,900)
Operating cash flows before movements in working capital		**216,794**	102,063
(Increase) decrease in inventories		**3,096**	(57,988)
Increase in trade and bills receivables		**(149,911)**	(65,827)
Increase in other receivables and prepayments		**(12,494)**	(10,421)
Increase (decrease) in trade and bills payables		**(11,938)**	54,515
Increase (decrease) in deferred income		**2,255**	—
Increase (decrease) in other payables, deposits received and accruals		**(18,037)**	18,678
Decrease in financial assets held for trading		**—**	182
Cash generated from operations		**29,765**	41,202
Income tax paid		**(27,360)**	(11,326)
NET CASH FROM OPERATING ACTIVITIES		**2,405**	29,876
INVESTING ACTIVITIES			
Interest received		**4,104**	6,900
Purchases of property, plant and equipment		**(47,671)**	(3,137)
Addition of prepaid lease prepayments		**(9,252)**	(8,252)
Purchase of intangible asset		**(16,322)**	(1,000)
Acquisition of an associate		**(169,775)**	—
Acquisition of a subsidiary	33	**54,732**	—
Acquisition of additional interest in a subsidiary	33	**(70,088)**	—
Increase in bank deposits under conditions		**(44,947)**	(19,654)
Deposit paid for acquisition of equity interests		—	(16,182)
NET CASH USED IN INVESTING ACTIVITIES		**(299,219)**	(41,325)

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
New borrowings raised	**313,557**	99,610
Interest paid	**(8,377)**	(3,096)
Repayments of borrowings	**(170,556)**	(153,932)
Dividends paid	**(24,865)**	(15,238)
Payment on repurchase of shares	**(4,059)**	—
Expenses on issue of shares	**(5,459)**	(13,324)
Proceeds from issue of shares	**207,292**	329,519
NET CASH FROM FINANCING ACTIVITIES	**307,533**	243,539
NET INCREASE IN CASH AND CASH EQUIVALENTS	**10,719**	232,090
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**301,659**	70,697
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(3,460)**	(1,128)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**308,918**	301,659
Analysis of the balances of cash and cash equivalents:		
represented by		
Bank balances and cash	**308,918**	301,659

See accompanying notes to financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL

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

The activities of its subsidiaries are set out in note 39.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

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

In the current year, the Group has applied the following amendment and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING SATANDARDS ("IFRSs") (CONT'D)

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

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible hedged items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 7(Amendment)	Improving Disclosures about Financial Instruments[2]
IFRS 8	Operating Segments[2]
IFRIC 9 & IAS39 (Amendments)	Embedded Derivatives[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[6]
IFRIC 17	Distribution of Non-cash Assets to Owners[3]
IFRIC 18	Transfers of assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods 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 application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact 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.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the 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 of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Business combinations

Common control combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations (cont'd)

Non-common control combinations

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

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

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

Business combinations achieved in stages

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

For the purpose 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.

Acquisition of additional interests in subsidiaries

When the Group acquires additional interests in subsidiaries, difference between any consideration paid and the relevant share of the book value of net assets of the subsidiary attributable to the additional interests in subsidiary acquired from minority interests are recognised as goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of this investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes. When a single transaction requires two or more separate goods or services to be delivered at different times, revenue is allocated to each identifiable components.

Revenue from system sales is recognised when the system is delivered and accepted by the customers. When the system sales contract includes an identifiable amount for warranty service, that amount is deferred and recognised as revenue over the period during which the service is performed. For the product warranty service, the Group recognises revenue when the services are provided using the percentage of completion method. The percentage of completion is determined on the basis of costs incurred to date relative to estimated total costs for the duration of the services contracted. Service fees received in advance are recorded as deferred income and recognised as service fee income when the services are rendered.

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

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

Revenue for software sales (that do not involve significant implementation or customization) recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection is probable, and the related products of services are delivered.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Construction in progress includes 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 its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

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

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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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 a operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies

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

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

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

Borrowing costs

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

Government grants

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

Retirement benefits costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 and 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 base 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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 realized. 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.

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.

Gains or losses arising from derecognition of an intangible asset are 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 (CONT'D)

Intangible assets (cont'd)

Research and development expenditure

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

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

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

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

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 value 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. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill set out below).

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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 into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

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 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 rate basis for debt instruments.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

Effective interest method (cont'd)

Impairment of loans and receivables

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

Objective evidence of impairment could include:

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

For certain categories of loans and receivables, such as trade receivable 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

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 bills payables, other payables, as well as 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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on purchase, sale, issue, 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 and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment losses on tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested of impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. 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.

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade and other receivables

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2008, allowance of doubtful debts of RMB296,000 (2007: RMB1,567,000) have been recognised on the Group's balance sheet.

Indefinite useful life of license and trademarks

The Group's acquired license which was issued by the Ministry of Railway ("MOR") and represented the access right of the business of railway safety equipment manufacture and trademarks are classified as indefinite-lived intangible assets. This conclusion is supported by the fact that license and trademarks are capable of being renewed indefinitely by the PRC government upon its expiration at insignificant cost and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. The Group re-evaluates the useful life of license and trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for these assets. It could change significantly as a result of the changing of admission policy of MOR and the railway accident occurred due to the railway safety equipments manufactured by the Group's subsidiary.

Deferred tax asset

As at 31 December 2008, deferred tax assets of RMB13,070,000 (2007: RMB308,000) in relation to the unused tax losses, impairment loss on trade and other receivables, deferred income and other temporary difference have been recognised in the consolidated balance sheet. No deferred tax asset has been recognised in respect of the remaining RMB16,063,000 (2007: RMB5,494,000) due to the unpredictability of future profit streams. The realization of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material adjustment of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a adjustment takes place.

Estimation of the deferred income of system sales

A subsidiary is principally engaged in providing Railway Interlocking Systems ("RIS") and Centralized Traffic Control ("CTC") products to the national railway. Being the industry practice on RIS and CTC sales, the RIS and CTC sales contracts include an identifiable amount for warranty service, that amount is deferred and recognised as revenue over the period during which the service is performed. The warranty services included replacement of spare parts, system upgrade and system maintenance. Considering the unique nature of system product, deferred income of system sales is recorded based on the anticipated total warranty costs incurred and anticipated margin of the warranty services. It requires management to apply judgment regarding past warranty costs incurred. As at 31 December 2008, deferred income of approximately RMB62,385,000 is made for the systems products sold as set out in note 28.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2008 RMB'000	2007 RMB'000
System sales	**663,055**	333,568
Provision of maintenance and engineering services	**67,456**	36,390
Trading of equipments	**120,107**	33,399
Software sales	**11,093**	—
	861,711	403,357

6. SEGMENT INFORMATION

For management purpose, the Group is currently organised into four operating divisions-system sales, maintenance and engineering service, trading of equipment and software sales. These divisions are the basis on which the Group reports its primary segment information. In 2007 the Group was not involved in the software sales, so there are three operating divisions-system sales, maintenance and engineering service and trading of equipment last year.

Principal activities are as follows:

System sales	-system design, system integration and sales of safety and critical control systems for the petrochemical, chemical, oil and gas, coal chemical, railway industries and others.
Maintenance and engineering services	-provision of field maintenance, systems upgrade or redevelopment, system hardware diagnostic services, 24-hour emergency diagnostic services, spare parts and training services in respect of safety and critical control systems.
Trading of equipment	-trading of train manufacturing equipments and instruments for petrochemical industries.
Software sales	-software design and sales of software for the petrochemical, chemical, oil and gas, coal chemical and others.

6. SEGMENT INFORMATION (CONT'D)

Segment information about these businesses is presented below

2008

Consolidated income statement

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Software sales RMB'000	Consolidated RMB'000
Revenue	663,055	67,456	120,107	11,093	861,711
Segment result	212,593	42,204	8,532	12,040	275,369
Unallocated other income					14,155
Unallocated corporate expenses					(95,187)
Finance costs					(8,377)
Share of results of an associate					4,079
Profit before tax					190,039
Income tax expense					(21,500)
Profit for the year					168,539

6. SEGMENT INFORMATION (CONT'D)

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

2008 (cont'd)

Consolidated balance sheet

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Software sales RMB'000	Consolidated RMB'000
Assets					
Segment assets	881,933	54,992	18,702	31,349	986,976
Unallocated corporate assets					501,311
Consolidated total assets					1,488,287
Liabilities					
Segment liabilities	182,698	20	5,780	—	188,498
Unallocated corporate liabilities					309,933
Consolidated total liabilities					498,431

6. SEGMENT INFORMATION (CONT'D)

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

2008 (cont'd)

Other information

	System sales RMB'000	Maintenance and engineering services RMB'000	Trading of equipment RMB'000	Software sales RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to property, plant and equipment	—	—	—	—	45,211	45,211
Additions to intangible asset	280,613	—	—	—	—	280,613
Release of prepaid lease payment	—	—	—	—	430	430
Amortisation of intangible asset	5,875	—	—	—	200	6,075
Depreciation of property, plant and equipment	—	—	—	—	3,843	3,843
Allowances for bad and doubtful debts	(1,224)	(333)	285	—	—	(1,272)

2007

Consolidated income statement

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

6. SEGMENT INFORMATION (CONT'D)

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

2007 (cont'd)

Consolidated balance sheet

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

Other information

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

6. SEGMENT INFORMATION (CONT'D)

Geographical segment

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers irrespective of the origins of the goods/services, and assets are attributed to the segments based on the location of the assets. As assets, revenue and result contributed by overseas countries are individually below 10% of the total segment assets, revenue and results; and external sales to overseas countries is in aggregate less than 25% of total consolidated revenue, no further geographical segments are presented.

2008

	PRC RMB'000	Overseas countries RMB'000	Combined RMB'000
Revenue	**766,811**	**94,900**	**861,711**
Segment assets	**953,827**	**25,031**	**978,858**
Additions to property, plant and equipment	**44,376**	**835**	**45,211**
Additions to intangible assets	**280,613**	**—**	**280,613**

2007

	PRC RMB'000	Overseas countries RMB'000	Combined RMB'000
Revenue	388,907	14,450	403,357
Segment assets	288,308	2,846	291,154
Additions to property, plant and equipment	3,924	—	3,924
Additions to intangible assets	1,000	—	1,000

7. OTHER INCOME

	2008 RMB'000	2007 RMB'000
Bank interest income	**4,104**	6,900
Net foreign exchange gain	**10,049**	—
Gain on disposal of held-for-trading financial assets	**—**	182
Government grant (Note)	**14,159**	2,000
Others	**2**	53
	28,314	9,135

Note: The government grant in 2008 represents the VAT refund from local tax bureau for the transaction of preferential policy on corporation tax of software manufac turer. The tax bureau will refund the VAT if the Group sell prescriptive software.

The government grant in 2007 represents the subsidy received from the government for the transformation of the Company's subsidiary upon public offering. The subsidiary recognised the subsidy as income when the conditions fulfilled and the subsidy become recoverable.

8. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**8,377**	3,096

9. INCOME TAX EXPENSE (CREDIT)

	2008 RMB'000	2007 RMB'000
Hong Kong current tax	**2,898**	—
PRC current Income Tax	**20,141**	274
Overprovision in prior years	**—**	(660)
Deferred tax (Note 20)		
Current year	**(1,526)**	—
Attributable to a change in tax rate	**(13)**	—
	21,500	(386)

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

For year 2007 PRC income tax is calculated at 33% of the estimated assessable profit of the Company's subsidiaries located in the PRC. On 16 March 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Tax"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Tax which will change the tax rate to 25% from 1 January 2008.

PRC enterprise income tax is calculated at 25% of the estimated assessable profit of the Company's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for current year. Except for certain subsidiaries of the Company, which were enjoyed substantially lower than 25%, tax rates due to incentives are gradually increased to 25% over a five-year period from year 2008. Taxation arising in the jurisdictions other than the PRC is calculated at rates prevailing in the relevant jurisdictions. No provision for overseas taxation except for Tri-Control Automation Co., Ltd, made as these subsidiaries have no assessable profits arising in relevant jurisdictions.

Tri-Control Automation Co., Ltd. is a limited company incorporated in Hong Kong. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

Beijing Consen Transportation Technology Co., Ltd. and Beijing Jiaoda Microunion Technology Co., Ltd. are qualified as "New and High Tech Enterprises" and from 2008 to 2010 subject to enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC.

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

During the year, Beijing Sindhu Industrial Software Co., Ltd. is under the first year of tax exemption, and also entitled to an exemption for year 2009 and followed by a 50% tax reduction from 2010 to 2012. Beijing Consen Automation Control Co., Ltd. and Beijing Tri-Control Automation Co Ltd. are under the first year of 50% tax reduction and followed by a 50% tax reduction from 2009 to 2010. Beijing Consen Transportation Technology Co., Ltd. is under the second year of 50% tax reduction and followed by a 50% tax reduction for year 2009.

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

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

	2008 RMB'000	2007 RMB'000
Profit before tax	**190,039**	99,736
Tax at the PRC income tax rate of 25% (2007: 33%)	**47,510**	32,913
Tax effect of expenses not deductible for tax purpose	**10,886**	4,690
Tax effect of income not taxable for tax purpose	**(5,439)**	—
Overprovision in prior years	**—**	(660)
Tax effect of tax losses not recognised	**2,642**	1,480
Effect of different tax rates of subsidiaries	**(1,498)**	—
Deferred tax changes resulting from changes in applicable tax rates	**(13)**	—
Effect of tax benefit granted to certain PRC subsidiaries	**(33,588)**	(38,809)
Deferred tax associated with profits of PRC subsidiaries arising from 1 January 2008 (Note)	**1,000**	—
Tax charge (credit) for the year	**21,500**	(386)

Note: Deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributable retained profits earned by the subsidiaries in the PRC amount in total to approximately 88% of the net profit generated from 1 January 2008 under the New Law of the PRC that requires withholding tax upon the distribution of such profits to the foreign shareholders as the directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

10. PROFIT FOR THE YEAR

	2008 RMB'000	2007 RMB'000
Profit for the year is arrived at after charging (crediting):		
Auditors' remuneration	**2,727**	1,427
Depreciation of property, plant and equipment	**3,843**	2,401
Amortisation of intangible asset	**6,075**	150
Release of prepaid lease payment	**430**	353
Reversal of bad and doubtful debts	**(1,272)**	—
Staff costs:		
Directors' emoluments (note 11)	**8,635**	1,869
Other staff costs		
- Salaries and other benefits	**65,055**	19,623
- Retirement benefits scheme contributions	**3,595**	1,403
- Share-based payments	**20,339**	3,409
	97,624	26,304
Operating lease rentals in respect of rented premises	**7,231**	2,241
Net foreign exchange (gain) loss	**(10,049)**	3,314
Research and development costs	**5,321**	4,296

11. DIRECTORS' EMOLUMENTS

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

	2008					
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
Executive directors						
Mr. Xuan Rui Guo	—	765	11	1,962	—	2,738
Mr. Kuang Jian Ping	—	526	11	2,202	—	2,739
Mr. Huang Zhi Yong	—	544	11	2,183	—	2,738
Sub-total	—	1,835	33	6,347	—	8,215
Independent non-executive directors						
Mr. Wang Tai Wen	110	—	—	—	—	110
Mr. Tang Min	120	—	—	—	—	120
Mr. Han Ben Yi	10	—	—	—	—	10
Mr. Ng Wing Fai	180	—	—	—	—	180
Sub-total	420	—	—	—	—	420
Total	420	1,835	33	6,347	—	8,635

11. DIRECTORS' EMOLUMENTS (CONT'D)

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

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

12. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three directors (2007: three) for the year ended 31 December 2008, whose emoluments are disclosed in note 11 above. The emoluments of the remaining two (2007: two) individuals for the year ended 31 December 2008 are as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	1,634	905
Contributions to retirement benefits scheme	65	40
Performance related incentive payments	200	293
Share-based payments	1,072	201
	2,971	1,439

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	—	2
HK$1,000,001 to HK$2,000,000	2	—
	2	2

13. DIVIDENDS

Dividends recognised as distribution during the year

	2008 RMB'000	2007 RMB'000
Final - RMB2.7 cents per share (2007: Nil)	24,865	—

The final dividend of RMB32,072,000; RMB3.5 cents per share (2007: RMB24,865,000; RMB2.7 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the consolidated profit attributable to equity holders of the parent of approximately RMB149,177,000 (2007: RMB99,891,000) and the weighted average number of shares as follows:

Number of shares	2008 '000 (Note)	2007 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	900,367	707,452
Effect of dilutive potential ordinary shares for share options	Not Applicable	1,583
Weighted average number of ordinary shares for the purposes of diluted earnings per share	Not Applicable	709,035

Note: No diluted earnings per share was presented for the year ended 31 December 2008 as the exercise prices of share options were higher than the average market price for the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Fixtures and electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1 January 2007	3,924	521	—	3,493	9,598	17,536
Additions	787	—	—	2,467	670	3,924
At 31 December 2007	4,711	521	—	5,960	10,268	21,460
Additions	33,220	—	1,977	5,904	2,390	43,491
Acquired on acquisition of a subsidiary	—	—	—	417	1,303	1,720
At 31 December 2008	37,931	521	1,977	12,281	13,961	66,671
DEPRECIATION						
At 1 January 2007	714	444	—	1,034	4,362	6,554
Provided for the year	213	77	—	760	1,351	2,401
At 31 December 2007	927	521	—	1,794	5,713	8,955
Provided for the year	558	—	—	1,555	1,730	3,843
At 31 December 2008	1,485	521	—	3,349	7,443	12,798
CARRYING VALUES						
At 31 December 2008	36,446	—	1,977	8,932	6,518	53,873
At 31 December 2007	3,784	—	—	4,166	4,555	12,505

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

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

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

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

The Group has pledged motor vehicles having a net book value of approximately RMB2,915,000 (2007: Nil) and land and buildings having a net book value of approximately RMB35,623,000 (2007: Nil) to obtain corporate guarantee from an independent third party for the banking facilities of RMB80,000,000 (2007: Nil) granted to the Group.

16. PREPAID LEASE PAYMENTS

Movements in the lease prepayments, which represent land use rights with the lease terms of 50 years in Mainland China, during the year are analysed as follows:

	2008 RMB'000	2007 RMB'000
CARRYING AMOUNT		
At 1 January 2008	**17,284**	17,637
Additions	**9,252**	—
Released to consolidated income statement	**(430)**	(353)
At 31 December 2008	**26,106**	17,284
Analysed for reporting purpose as:		
Current asset (included in other receivables and prepayments)	**584**	353
Non-current asset	**25,522**	16,931

As 31 December 2008, the Group has pledged land use right having a carrying value of approximately RMB26,106,000 (2007: Nil) to banks to secure bank loans granted to the Group.

17. INTANGIBLE ASSETS

	Development costs RMB'000 (Note a)	Licenses RMB'000 (Note b)	Trademarks RMB'000 (Note b)	Backlog orders RMB'000 (Note b)	Patents RMB'000	Total RMB'000
COST						
At 1 January 2007	—	—	—	—	—	—
Additions	—	—	—	—	1,000	1,000
At 31 December 2007	—	—	—	—	1,000	1,000
Additions	10,240	—	546	—	5,536	16,322
Acquired on acquisition of a subsidiary	3,177	190,002	61,922	9,190	—	264,291
At 31 December 2008	13,417	190,002	62,468	9,190	6,536	281,613
AMORTISATION						
At 1 January 2007	—	—	—	—	—	—
Charge for the year	—	—	—	—	150	150
At 31 December 2007	—	—	—	—	150	150
Provided for the year	—	—	—	5,567	508	6,075
At 31 December 2008	—	—	—	5,567	658	6,225
CARRYING VALUES						
At 31 December 2008	13,417	190,002	62,468	3,623	5,878	275,388
At 31 December 2007	—	—	—	—	850	850

Notes:

(a) Development costs are internally generated.

(b) During the year, license of RMB190,002,000, trademark of RMB61,922,000, development costs of RMB3,177,000 and backlog orders of RMB9,190,000 were recognised upon the acquisition of a subsidiary (note 33).

17. INTANGIBLE ASSETS (CONT'D)

The intangible assets, other than license and trademarks which do not have finite period and are stated at cost less impairment, are amortised on straight-line basis based on the estimated useful lives as follows:

Category	Estimated useful lives
Development costs	5 years
Backlog orders	Over the service provided periods
Patents	5-15 years

The trademarks have a legal life of 10 years but are renewable every 10 years at minimal cost and the license has a life of 4 years but is renewable every 4 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademarks and license continuously and have the ability to do so. Various studies including product stability and security studies, market and admission policy trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks and license have no foreseeable limit to the period over which the trademarked products and the licensed business are expected to generate net cash flows for the Group.

As a result, the license and trademarks are considered by the management of the Group as having an indefinite useful life. They will be tested for impairment annually and whenever there are indications that they may be impaired. Particulars of the impairment testing are disclosed in note 19.

18. GOODWILL

Carrying amount	RMB'000
At 1 January 2008	—
Transfer from interest in an associate arising from business combination achieved in stages (note 33)	**52,100**
Arsing on acquisition of a subsidiary (note 33)	**8,839**
Arising on acquisition of additional interest in a subsidiary	**11,839**
At 31 December 2008	**72,778**

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

As explained in note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill , license and trademarks with indefinite useful lives set out in notes 17 and 18 have been allocated to two individual cash generating units (CGUs), including one subsidiary in System sales segment and one subsidiary in Trading of equipment segment. The carrying amounts of goodwill, license and trademarks as at 31 December 2008 allocated to these units are as follows:

	Goodwill		License and trademarks	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
System sales - Beijing Jiaoda Microunion Technology Co., Ltd (Unit A)	**72,778**	—	**251,924**	—
Trading of equipment - Tri-sen Systems Corporation (Unit B)	**—**	—	**546**	—
Total	**72,778**	—	**252,470**	—

During the year ended 31 December 2008, management of the Group determines that there are no impairments of any of its CGUs containing goodwill, license and trademarks with indefinite useful lives.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

The recoverable amount is 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 rates of 16.46% for Unit A and 16.00% for Unit B, depending on the industries in which the subsidiaries operate. One major assumption of the financial budgets is annual revenue growth rates of 7% for Unit A and 10% for Unit B. The growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount.

20. DEFERRED TAX ASSETS/LIABILITIES

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

	Allowance for doubtful debts	Deferred income	Tax losses	Fair value adjustment of intangible assets (note a)	Distributable profits of subsidiary (note 9)	Other temporary differences (note b)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007 and 31 December 2007	188	—	—	—	—	120	308
Acquisition of a subsidiary	1,310	9,448	—	(39,167)	—	300	(28,109)
(Charge) credit to income statement	(184)	(90)	637	835	(1,000)	1,328	1,526
Effect of change in tax rate	8	—	—	—		5	13
At 31 December 2008	1,322	9,358	637	(38,332)	(1,000)	1,753	(26,262)

Notes:

(a) Deferred tax liabilities of fair value adjustment recognised by the Group during the reporting period represented the fair value adjustment on intangible assets arising from the business acquisitions as disclosed in note 33.

(b) Other temporary differences mainly represent the temporary differences arising from the leasehold improvements and unpaid payroll.

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2008 RMB'000	2007 RMB'000
Deferred income tax assets	**13,070**	308
Deferred income tax liabilities	**(39,332)**	—
	(26,262)	308

At 31 December 2008, the Group had unused tax losses of approximately RMB16,063,000 (2007: RMB5,494,000) available to offset against future profits of respective subsidiaries. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams of respective subsidiaries. Included in unrecognised tax losses are losses of RMB10 million (2007: Nil) that may be carried forward indefinitely. The other tax losses will be carried forward for five years from date of their originations.

21. INVENTORIES

	2008 **RMB'000**	2007 RMB'000
Raw materials	**179,965**	89,339
Work in progress	**8,134**	16,101
Finished goods	**12,264**	2,693
	200,363	108,133

For the year ended 31 December 2008, cost of inventories of RMB494,447,000 (2007: RMB211,692,000) is charged to the consolidated income statement.

22. TRADE AND BILLS RECEIVABLES

	2008 **RMB'000**	2007 RMB'000
Trade receivables	**386,090**	164,140
Less: allowance for doubtful debts	**(264)**	(1,567)
	385,826	162,573
Bills receivable	**18,558**	8,417
	404,384	170,990

22. TRADE AND BILLS RECEIVABLES (CONT'D)

Denominated in the currency other than the functional currency of relevant Group's entities:

	2008 RMB'000	2007 RMB'000
USD	**786**	85,187
JPY	**3,686**	—
EUR	**5,797**	—
	10,269	85,187

At 31 December 2008, included in trade and bills receivables are retention receivable of RMB26,645,000 (2007: RMB12,012,000). Retention receivables are interest-free and recoverable at end of the retention period of individual contract, the Group's normal operating cycle, which is usually from 12 months to 18 months.

The normal credit period except for the retention receivables granted to the Group's customer is 90 to 365 days (2007: 90 to 180 days). The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts at the balance sheet dates:

	2008 RMB'000	2007 RMB'000
0 - 90 days	**233,761**	124,294
91 - 180 days	**64,471**	40,118
181 - 365 days	**79,382**	820
1 - 2 years	**25,507**	4,011
2 - 3 years	**1,263**	1,747
	404,384	170,990

The Group's trade receivables that are neither past due nor impaired related to a large number of diversified customers, mainly state-owned enterprises. The Group seeks to maintain strict control over the creditability of customers and its outstanding receivables. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The creditability of customers is reviewed regularly. As at 31 December 2008, retention receivables with a carrying amount of RMB10,209,000 (2007: RMB3,016,000) are expected to be collected after 12 months from the balance sheet date.

As at 31 December 2008, trade receivables with a carrying amount of RMB26,770,000 (2007: RMB6,578,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2008 RMB'000	2007 RMB'000
181-365 days	—	820
1-2 years	**25,507**	4,011
2-3 years	**1,263**	1,747
Total	**26,770**	6,578

Movement in the allowance for doubtful debts

	2008 RMB'000	2007 RMB'000
At 1 January	**1,567**	1,567
Reversal	**(1,303)**	—
At 31 December	**264**	1,567

23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

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

24. BANK DEPOSITS UNDER CONDITIONS

	2008 RMB'000	2007 RMB'000
Other bank deposits (Note a)	**19,019**	—
Pledged bank deposits with maturity over 3 months	**42,133**	6,305
Pledged bank deposits (Note b)	**22,077**	31,977
	83,229	38,282

	2008 RMB'000	2007 RMB'000
Mature within one year	**83,229**	38,282

The bank deposits under conditions carried effective interest of 0.36%-3.78% for the year (2007: 3.55%) respectively.

Notes:

(a) Pursuant to a letter of undertaking given by the Group to an independent third party, the Group covenanted to maintain deposits of RMB10,000,000 with a bank as condition precedent to the bank borrowings of RMB50,000,000 guaranteed by an independent third party. The residual balance amounting to RMB9,019,000 is pledged to obtain the bank borrowing of RMB18,000,000.

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

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group, and short-term bank deposits with an original maturity of three months or less which carry interest at prevailing market interest rate at 0.01% to 0.82% (2007: 0.5% to 0.81%).

Denominated in the currency other than the functional currency of relevant Group's entities:

	2008 RMB'000	2007 RMB'000
USD	**87,713**	224,252
JPY	**5**	—
EUR	**538**	—
HKD	**195**	—
	88,451	224,252

26. TRADE AND BILLS PAYABLES

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

	2008 RMB'000	2007 RMB'000
0 - 90 days	**32,914**	52,280
91 - 180 days	**2,453**	33,620
181 - 365 days	**10,410**	310
1 - 2 years	**36,066**	10
Over 2 years	**2,570**	—
	84,413	86,220

The average credit period on purchases of is 90 to 180 days (2007: 90 days). The Group has financial risk management policies in order to ensure that all payables are paid within the credit timeframe. All trade and bills payables which ages were over 181 days at 31 December 2008 were arised from the acquisition of a subsidiary (note 33).

Denominated in the currency other than the functional currency of relevant Group's entities:

	2008 RMB'000	2007 RMB'000
USD	**4,685**	27,058
JPY	**3,820**	—
	8,505	27,058

27. BORROWINGS

	2008 RMB'000	2007 RMB'000
Secured bank borrowings due within one year	194,440	—

Denominated in the currency other than the functional currency of relevant Group's entities:

	2008 RMB'000	2007 RMB'000
USD	47,578	—

The borrowings were arranged at variable interest rate calculated based on the borrowing rates announced by the People's Bank of China and the ranges of effective interest rates on the Group's borrowings were as follows:

	2008	2007
Effective interest rate per annum	4.50% to 7.47%	—

At 31 December 2008 bank borrowings of approximately RMB51,439,000 (2007: Nil) was secured by pledged bank deposits, floating charge on trade receivables and inventories of the Company's subsidiary, Tri-Control Automation Company Limited.

As at 31 December 2008, bank borrowings of RMB50,000,000 (2007: Nil) was guaranteed by an independent third party. During the year ended 31 December 2008, the Group paid approximately RMB1,096,000 to the independent third party for the corporate guarantees provided. Details of the securities provided by the Group and the directors of the Company to the independent third parties for the guarantees provided are set out in note 15, note 16 and note 24.

28. DEFERRED INCOME

	RMB'000
At 1 January 2008	—
Acquisition of a subsidiary	62,984
Addition	2,255
Released to income statement	(2,854)
At 31 December 2008	62,385

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

29. SHARE CAPITAL

	Number of shares	Amount
		HK'000
Authorized:		
Ordinary shares of HK$0.01 each at 1 January 2008 and 31 December 2008	3,000,000,000	30,000
Issued and fully paid:		
Ordinary shares of HK$0.01 at 1 January 2008	830,000,000	8,300
Issue of new shares through placement (Note a)	83,000,000	830
Share repurchased and cancelled (Note b)	(3,744,000)	(37)
	909,256,000	9,093

	RMB'000
Shown in the consolidated financial statements at 31 December 2008	8,516

Notes:

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

(b) In 2008, the Company repurchased certain of its own shares of 3,744,000 shares through the Stock Exchange at an aggregate consideration of HK$4,617,320 (equivalent to RMB4,059,000). All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK$37,440 (equivalent to RMB33,000) was charged in the share capital and the premium paid on repurchase of HK$4,579,880 (equivalent to RMB4,026,000) was charged against share premium in accordance with the Cayman Islands Companies Act.

Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration
		Highest	Lowest	Paid
		HK$	HK$	HK$
June 2008	340,000	2.30	2.27	781,120
July 2008	552,000	2.49	2.23	1,288,000
September 2008	120,000	2.10	1.36	222,840
October 2008	2,656,000	1.16	0.52	2,233,160
November 2008	76,000	1.22	1.20	92,200
Total	3,744,000			4,617,320

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the twelve month period ended 31 December 2008.

30. RESERVES

(a) Other reserve

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

(b) Statutory surplus reserves

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

(c) Share option reserve

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

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 27 and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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

32. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables	**805,568**	508,974
Financial liabilities		
Amortised cost	**303,236**	96,403

b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivable, other receivables, amounts due from minority shareholders, bank deposits under conditions, bank balances and cash, trade and bills payables, other payables and borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Credit risk

As at 31 December 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 is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheet. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debts at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on cash and cash equivalents and bank deposits is limited because the counterparties have high credit ratings. The Directors do not expect any counterparty to fail to meet its obligations. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers spread across diverse industries and geographical areas.

32. FINANCIAL INSTRUMENTS (CONT'D)

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

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk.

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

	Liabilities		Assets	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
USD	**52,263**	27,058	**88,499**	309,439
HKD	**—**	—	**195**	—
JPY	**3,820**	—	**3,691**	—
EUR	**—**	—	**6,335**	—

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

The following table details the Group's sensitivity to a reasonably possible change of 5% (2007: 5%) in exchange rate of each foreign currency against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2007: 5%) change in foreign currency rates.

	2008 RMB'000	2007 RMB'000
Increase (decrease) in profit for the year		
- if RMB weakens against foreign currencies	**1,791**	13,803
- if RMB strengthens against foreign currencies	**(1,791)**	(13,803)

32. FINANCIAL INSTRUMENTS (CONT'D)

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

Interest rate risk

The Group was exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 27 for details of these borrowings), bank deposits under conditions and bank balances (see note 24 and note 25). It is the Group policy to keep its borrowings at floating rate of interests and therefore the related fair value interest rate risk is considered limited.

The Group's sensitivity to cash flow interest rate risk is prepared assuming the amount of variable-rate financial instruments at the balance sheet date was outstanding for the whole year. A 100 (2007: 100) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates as a result of the gradual increase in interest rate during the current year.

	2008	2007
Reasonably possible change in interest rate	**100 basis points**	100 basis points

	2008 **RMB'000**	2007 RMB'000
Increase (decrease) in profit for the year		
as a result of increase in interest rate	**(2,261)**	5,611
as a result of decrease in interest rate	**2,261**	(5,611)

The sensitivity analysis in interest rate does not affect other components of equity.

32. FINANCIAL INSTRUMENTS (CONT'D)

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at 31 December 2008, the Group has available unutilised banking facilities of approximately RMB119,528,000 (2007: RMB40,703,000).

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

	Weighted average effective interest rate	within 3 months	3 months to 6 months	6 months to 1 year	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008						
Trade and bills payables	—	43,524	28,598	12,291	84,413	84,413
Borrowings	5.82	70,066	51,717	79,115	200,898	194,440
Other payables	—	23,700	683	—	24,383	24,383
		137,290	80,998	91,406	309,694	303,236
At 31 December 2007						
Trade and bills payables	—	38,119	21,066	27,035	86,220	86,220
Other payables	—	200	2,400	7,583	10,183	10,183
		38,319	23,466	34,618	96,403	96,403

32. FINANCIAL INSTRUMENTS (CONT'D)

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

Liquidity risk (cont'd)

	Weighted average effective interest rate %	within 3 months RMB'000	3 months to 6 months RMB'000	6 months to 1 year RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2008						
Trade and bills receivables	—	151,371	146,655	106,358	404,384	404,384
Other receivables	—	5,071	886	530	6,487	6,487
Amounts due from minority shareholders	—	2,550	—	—	2,550	2,550
Bank deposits under conditions	2.80	31,145	10,125	43,081	84,351	83,229
Bank balances and cash	0.20	308,952	—	—	308,952	308,918
		499,089	157,666	149,969	806,724	805,568
At 31 December 2007						
Trade and bills receivables	—	45,000	60,000	65,990	170,990	170,990
Other receivables	—	2,806	1,237	—	4,043	4,043
Bank deposits under conditions	2.13	—	20,149	12,489	32,638	32,282
Bank balances and cash	0.36	301,704	—	—	301,704	301,659
		349,510	81,386	78,479	509,375	508,974

c) Fair value

The fair value of financial assets and financial liabilities are determined:

In accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions as input.

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

33. ACQUISITONS OF A SUBSIDIARY

The Group acquired 76.70% equity interest in Beijing Jiaoda Microunion via (i) the acquisitions on 10 March 2008 of an aggregate of 100% interest in each of Beijing Liboyuan Investment Management Company Limited and Beijing Hengtong Faugda New Materials and Technology Company Limited which are in substance, to acquire their respective 28.47% and 18.50% effective interests in Beijing Jiaoda Microunion for a total consideration of RMB192,137,500 ("First Acquisition"). During the First Acquisition the Group acquired cash and cash equivalents accounting to RMB6,180,146 and; (ii) on 11 June 2008 the 11.04% equity interest in Beijing Jiaoda Microunion by Beijing Hengtong at a consideration of RMB41,323,500 ("Second Acquisition") and; (iii) On 8 August 2008 the 18.69% equity interest in Beijing Jiaoda Microunion by Beijing Hengtong at a consideration of RMB70,087,500 ("Third Acquisition"). The 46.97% effective interests acquired through the First Acquisition were accounted as investment in associate under equity method. The Group obtained control upon completion of the Second Acquisition and the transactions had been accounted for in accordance with the accounting policy as disclosed in Note 3. The Group's effective equity interest in Beijing Jiaoda Microunion has been increased to 76.70% upon completion of the Third Acquisition.

33. ACQUISITONS OF A SUBSIDIARY (CONT'D)

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

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	1,720	—	1,720
Deferred tax assets	11,058	—	11,058
Intangible assets - license	—	190,002	190,002
- trademark	—	61,922	61,922
- backlog orders	—	9,190	9,190
- development cost	3,177		3,177
Inventory	95,326	—	95,326
Trade receivables	79,905	—	79,905
Other receivables and prepayments	14,084	—	14,084
Amounts due from Minority shareholders	2,550	—	2,550
Cash and cash equivalent	96,056	—	96,056
Trade payables	(62,220)	—	(62,220)
Other payables, deposits received and accruals	(93,711)	—	(93,711)
Deferred tax liabilities	—	(39,167)	(39,167)
Income tax payable	(12,664)	—	(12,664)
Deferred income	(62,984)	—	(62,984)
	72,297	221,947	294,244
Preliminary interest held by the Group as an associate			(138,206)
Minority interest			(123,553)
Goodwill arising on acquisition			8,839
Total consideration			41,324
Net cash outflow arising on acquisition:			
Cash consideration paid			(41,324)
Cash and cash equivalents acquired			96,056
			54,732

33. ACQUISITONS OF A SUBSIDIARY (CONT'D)

The fair values of the intangible assets are determined based on professional valuation prepared by an independent firm of professional valuers in Hong Kong.

Beijing Jiaoda Microunion acquired mentioned above contributed approximately RMB236,944,000 to the Group's revenue and contributed a profit of approximately RMB71,496,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the above acquisitions have been completed on 1 January 2008, the revenue of the Group would have been RMB920,910,000 and Group's profit for the year would have been RMB170,743,000. The pro forma information disclosed above is only for illustrative purpose and is not necessary 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.

Goodwill of RMB52,100,000 generated from First Acquisition were transferred to goodwill upon the completion of Second Acquisition.

34. OPERATING LEASES

The Group as lessee

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

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Within one year	**6,808**	2,439
In the second to fifth year inclusive	**4,025**	941
	10,833	3,380

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

35. COMMITMENTS

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements - in respect of acquisition of subsidiaries	**—**	175,956

36. SHARE-BASED PAYMENT

Equity-settled share option scheme

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

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 38,948,000 (2007:37,948,000), representing 4.28% (2007:4.57%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

36. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (cont'd)

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

Details of specific categories of options are as follows:

Option series	Share option granted	Date of grant	Exercise period	Exercise price
				HK$
2007A	35,948,000	31/10/2007	31/10/2008 - 30/10/2012	2.95
2007B	35,948,000	20/12/2007	31/10/2008 - 30/10/2012	2.27
2007C	2,000,000	20/12/2007	20/12/2008 - 30/12/2012	2.27
2008A	1,000,000	03/07/2008	31/10/2008 - 30/10/2012	2.26

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

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

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

On 3 July 2008, option (2008A) was granted to an eligible employee with the exercise price at HK$2.26. The estimated fair values of the options are approximately HK$700,000.

36. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (cont'd)

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

Option series	2007A	2007B	2007C	2008A
Stock Price at grant date	HK$2.93	HK$2.19	HK$2.19	**HK$2.23**
Exercise price	HK$2.95	HK$2.27	HK$2.27	**HK$2.26**
Expected volatility	44.15%	42.7%	42.7%	**45.3%**
Expected life	5 years	4.86 years	5 years	**4.33 years**
Risk-free rate	3.513%	2.907%	2.907%	**3.3%**
Expected dividend yield	1.2%	1.2%	1.2%	**1.2%**

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Due to the insufficient data of the Company historical stock price before the grant date, volatility of companies containing with similar business running model was selected to estimate the Company's expected volatility for 2007A, 2007B and 2007C. Expected volatility for 2008A was determined by using the historical volatility of the company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavior considerations.

36. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (cont'd)

Details of the share options granted during the current year and outstanding at 31 December 2008 and 2007 are as follows:

	Outstanding at 31 December 2007	Reclassified during the year	Granted during the year	**Outstanding at 31 December 2008**
Key management	13,000,000	(200,000)	1,000,000	**13,800,000**
Other employees	24,948,000	200,000	—	**25,148,000**
	37,948,000	—	1,000,000	**38,948,000**

	Outstanding at 1 January 2007	Granted during the year	Cancelled during the year	Outstanding at 31 December 2007
Key management	—	24,000,000	(11,000,000)	13,000,000
Other employees	—	49,896,000	(24,948,000)	24,948,000
	—	73,896,000	(35,948,000)	37,948,000

The Group recongised the total expense of RMB20, 339,000 (2007: RMB3,409,000) for the year ended 31 December 2008 in relation to share options granted by the Company.

37. RETIREMENT BENEFITS SCHEME

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

The total cost charged to income of RMB3,628,000 (2007: RMB1,427,000) represented contributions paid or payable to these schemes by the Group in respect of respective reporting period.

38. RELATED PARTY TRANSACTIONS

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

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	**8,776**	2,685
Retirement benefit scheme contributions	**156**	118
Share-based payments	**7,207**	1,168
	16,139	3,971

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

39. PARTICULAR OF SUBSIDIARIES

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

Name of subsidiary	Date and place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2008 %	2007 %	Principal activities
Tricon International Group Inc. ("Tricon International")	26 September 2005 BVI	Share US$1	100	100	Investment holding
北京康吉森自動化設備技術有限責任公司 Beijing Consen Automation Control Co., Ltd. ("Beijing Consen")	26 April 1999 PRC	Registered capital RMB230,000,000 (2007: RMB100,000,000)	100	100	Provision of systems design and development, trading of equipment and maintenance services of safety and critical control systems
北京康吉森交通技術有限公司 Beijing Consen Transportation Technology Company Ltd. ("Beijing Transportation")	23 September 2003 PRC	Registered capital RMB20,000,000 (2007: RMB3,000,000)	95	95	Design, development and sales of railway interlocking system
Tri-Control Automation Company Limited ("Tri-Control")	11 May 2001 Hong Kong	Ordinary shares HKD10,000,000	100	100	Trading of automation products
Consen Automation (Singapore) Pte. Ltd. ("Singapore Consen")	26 June 2006 Singapore	Ordinary shares S$1	100	100	Overseas business development and provision of engineering services
北京創康自動化工程有限公司 Beijing Tri-Control Automation Co., Ltd. ("Beijing Tri-Control")	31 July 2006 PRC	Registered capital US$1,000,000	100	100	Provision of systems design and development, trading of equipment and engineering and maintenance services of safety and critical control systems
北京天竺興業軟件技術有限公司 Beijing Sindhu Industrial Software Company Ltd. ("Beijing Software")	10 August 2006 PRC	Registered capital US$20,000,000 (2007: US$1,000,000)	100	100	Research and development as well as software programming and licensing
Inovex Corporation	22 October 2007 USA	Registered capital US$1	100	100	Business development and provision of engineering services in overseas Markets
Tri-sen Systems Corporation	03 May 2008 USA	Registered capital US$1	100	—	Business development and provision of turbomachinery controls to the process industries
北京交大微聯科技有限公司 Beijing Jiaoda Microunion Technology Company Limited (" Beijing Jiaoda Microunion")	12 April 2000 PRC	Registered capital RMB100,000,000	76.7	—	Design, development and sales of railway interlocking system

39. PARTICULAR OF SUBSIDIARIES (CONT'D)

Details of the Company's subsidiaries at 31 December 2008 and 2007 are as follows: (cont'd)

Name of subsidiary	Date and place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2008 %	2007 %	Principal activities
Beijing Liboyuan Investment Management Company Limited ("Liboyuan")	7 September 2004 PRC	Ordinary shares RMB10, 000,000	100	—	Investment holding
Beijing Hengtong Faugda New Materials and Technology Company Limited ("Hengtong Faugda")	17 December 2003 PRC	Ordinary shares RMB10,000,000	100	—	Design, development and sales of construction material for railway and highroad, as well as technology service
Consen International (Hong Kong) Ltd ("Consen International ")	02 January 2008 PRC	Ordinary shares HK$10,000.00	100	—	Investment holding
北京康吉森油氣過程控制設備有限公司 Beijing Consen oil and gas process control Company Limited ("Consen Oil and Gas ")	17 December 2008 PRC	Ordinary shares RMB20, 000,000	100	—	trading of equipment of safety and critical control systems as well as technology service
北京恒優聯科技有限公司 Beijing Heng Youlian Technology Company Limited ("Heng Youlian ")	17 December 2008 PRC	Ordinary shares RMB20, 000,000	100	—	imports and exports of goods and technology as well as an agent of imports and exports

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

40. POST BALANCE SHEET EVENTS

The Company has repurchased 84,000 shares on the Stock Exchange of Hong Kong Limited on 12 January 2009 with a consideration of HK$129,294 (equivalent to RMB113,973).

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
Revenue	165,370	264,356	289,037	403,357	**861,711**
Profit before tax	38,594	55,585	74,152	99,736	**190,039**
Income tax (expense) credit	(3,493)	(9,871)	(5,290)	386	**(21,500)**
Profit attributable to equity holder of the parent	35,291	45,330	68,471	99,891	**149,177**

ASSETS AND LIABILITIES

	At 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
Non-current assets	11,720	9,539	30,159	46,776	**440,631**
Current assets	144,866	201,984	254,648	636,319	**1,047,656**
Current liabilities	(83,043)	(95,198)	(138,170)	(119,795)	**(396,714)**
Net current assets	61,823	106,786	116,478	516,524	**650,942**
Total assets less current liabilities	73,543	116,325	146,637	563,300	**1,091,573**

Note:

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

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Xuan Rui Guo (Chairman)
Mr. Huang Zhi Yong
Mr. Kuang Jian Ping

Independent Non-executive Directors:

Mr. Tang Min
Mr. Wang Tai Wen
Mr. Ng Wing Fai

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SENIOR MANAGEMENT

Mr. Yang Hong Yan
Mr. Cui Da Chao
Mr. Wang Wen Hui
Mr. Li Hai Tao
Mr. Duan Min
Mr. Ji Jun
Mr. Zhou Zheng Qiang
Mr. Zhang Wei
Mr. Bill Barkovitz
Mr. Tim Pieszchala
Mr. Chow Chiu Chi

STOCK CODE

Hong Kong Stock Exchange 569

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PRINCIPAL BANKERS

Hong Kong:
- DBS Bank (Hong Kong) Limited
- Industrial and Commercial Bank of China (Asia) Limited
- The Hongkong and Shanghai Banking Corporation Limited

PRC:
- Agricultural Bank of China
- Bank of Beijing
- Bank of Communications
- Shanghai Pudong Development Bank
- Shenzhen Development Bank Corporation Limited
- The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants

LEGAL ADVISERS

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

As to Cayman Islands law
- Conyers Dill & Pearman

As to PRC law
- Commerce & Finance Law Offices

COMPLIANCE ADVISER

First Shangai Capital Limited