2009 annual report

Wasion Group Holdings Limited
威勝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3393)

This report is printed on environmentally friendly paper

EDICO Design and produced by: EDICO Financial Press Services Limited website: www.edico.com.hk

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Ji Wei *(Chairman)*
Ms. Cao Zhao Hui
Mr. Zeng Xin
Ms. Zheng Xiao Ping
Mr. Wang Xue Xin
Mr. Liao Xue Dong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Jin Ming
Mr. Pan Yuan
Mr. Hui Wing Kuen

COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FHKSA*

AUTHORISED REPRESENTATIVES

Mr. Ji Wei
Mr. Choi Wai Lung Edward *FCCA, FHKSA*

AUDIT COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Wu Jin Ming
Mr. Pan Yuan

PRINCIPAL BANKERS

In Hong Kong:

Bank of Communications Hong Kong Branch
Bank of China

In the People's Republic of China (the "PRC"):

China Construction Bank
Bank of Communications

LEGAL ADVISER

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Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Shops 1712–1716, 17th Floor
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Wanchai
Hong Kong

COMPANY WEBSITE

www.wasion.com

STOCK CODE

3393

Corporate Profile

LEADING ENERGY MEASUREMENT EQUIPMENT AND TOTAL SOLUTION PROVIDER

Wasion Group Holdings Limited ("Wasion Group") is the leading provider of energy measurement equipment, systems, and services in China. Wasion Group was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, which was the first professional syndicate engaged in energy measurement and management in China listed overseas.

Wasion Group's products are widely used in the industries in relation to electricity, water, gas, and heat as well as large and medium sized industrial and commercial enterprises and the Group provides extensive support for technology, products and services to the energy measurement and management in public utilities and energy consumption units through a whole series of advanced measurement meters products, including power meters, intelligent water meters, gas meters, ultra sound heat meters, and data collection terminals for different energy including power data collection terminals, power quality control devices, data collection terminals for water, gas and heat, as well as management systems for power loading, integrated management systems for energy measurement of water, electricity, gas and heat, and remote automatic meter reading systems.

Highlights

JANUARY 2009

The SAP-ERP system was successfully launched, which marked a new era for the construction of information infrastructure of the Group.

APRIL 2009

Wasion brand was recognized as "Chinese renowned brand" and this demonstrates that the Wasion brand was well received and highly regarded by the market.

MAY 2009

The relocation work of Wasion Science and Technology Park was completed, which is a milestone in the development of Wasion Group.

JUNE 2009

Premier of the State Council Wen Jiabao visited Wasion Science and Technology Park and expressed "satisfaction and expectation" for Wasion Group in his speech.

July 2009

Jia Qinglin, Chairman of the National Committee of the CPPCC, visited Wasion Science and Technology Park.

August 2009

Wasion Singapore Private Limited and Wasion Technology Shenzhen Company Limited were established consecutively, which clearly revealed the Group's determination and actions taken to develop overseas market aggressively.

JUNE: Wen Jiabao, Premier of the State Council, visited Wasion Science and Technology Park

JULY: Jia Qinglin, Chairman of the National Committee of the CPPCC, visited Wasion Science and Technology Park

October 2009

Zhang Dejiang, Vice Premier of the State Council, visited Wasion Science and Technology Park.

NOVEMBER 2009

In the assessment process of the centralized tendering for the State Grid, which was participated by 84 domestic electronic power meter manufacturers, Wasion Group was one of the ten companies that passed the assessments on both three-phase and single-phase electronic power meters, evidencing the superior research and development capacity of the Group in the area of meter technology.

Wasion Group was again accredited by Forbes Asia, a magazine published in the United States, as the "Best Small and Medium Listed Enterprise" in the Asia Pacific Region for the second year.

DECEMBER 2009

In the first round of centralized tendering for smart meters for the State Grid, Wasion Group was given the largest number of award provinces in the tenders for single-phase electronic power meters and ranked third in terms of overall tender results, which provided a valuable lesson and laid a solid foundation for us to successfully enter the second round of the centralized tendering of State Grid.

The Group has completed the preparation of the standard for digitalized electronic power meters for Hunan Province and won the approval of experts, which demonstrates that Wasion Group has reached leading standard in the PRC in the field of digitalized electricity measurement. We have also participated in the theoretical research on sensors of digitalized electronic power meter organized by the National Institute of Metrology, which proves that our expertise in terms of the construction of measurement data transmission system for digitalized sub-station is recognized by renowned domestic institutions and this has filled the technical gap in the relevant field in the PRC and overseas market.

OCTOBER: Zhang Dejiang, Vice Premier of the State Council, visited Wasion Science and Technology Park

NOVEMBER: Forbes Asia Award

Chairman's Statement

Ji Wei
Chairman

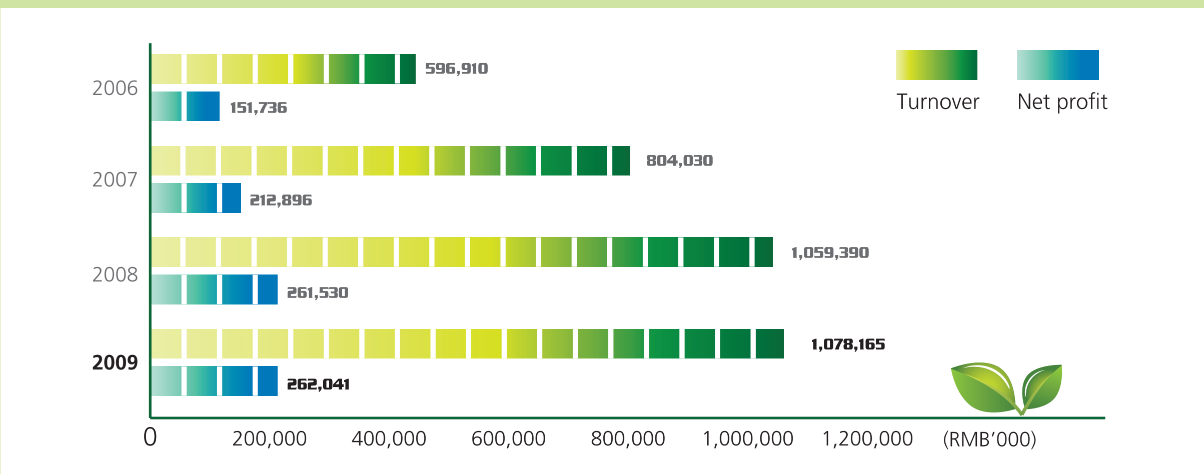
To All Shareholders

On behalf of Wasion Group Holdings Limited ("Wasion Group" or the "Group"), I hereby present the operating results of the Group for the financial year ended 31 December 2009.

For the year ended 31 December 2009, the Group recorded a turnover of RMB1,078.17 million, representing an increase of approximately 2% as compared with 2008. Net profit amounted to RMB262.04 million. The board of directors recommends the payment of a final dividend of HK$0.11 (equivalent to RMB0.097) per share for the year ended 31 December 2009.

2009 is an extraordinary and the most challenging year to the Group. The global economy after the heavy strike of the financial tsunami, the delay in the commencement of the Advanced Metering Infrastructure ("AMI") project of the State Grid, the adjustment in the structure of the state's power market, the relocation of Wasion Science and Technology Park in the first half of the year as well as the full operation of SAP have all brought us unprecedented ordeal. Yet, we are proud of our achievements as follows: in addition to the title of "China Top Brand", our "Wasion" trademark was named as a "China Well-known Trademark" in April, 2009 , which has proven the high market recognition and compliment enjoyed by the "Wasion" trademark; the Singapore AMI Project and Petrol China's Centralized Meter Reading Project both successfully passed inspections; our proprietary digital power meter was recognized as leading technologies in the industry; Wasion Group was one of the few companies whose single-phase and three-phased power meters have passed all inspections in the centralized tendering procedure of the State Grid; and during his visit to the Group in June, Premier Wen Jiabao expressed that he was "satisfied with and expects a lot from" Wasion Group, which gives us great encouragement and strengthens our determination and resolution to make arduous efforts towards the goal of becoming an "Energy Measurement and Management Expert".

Look into the future, as the revelent industry of smart grid has been set as one of the five emerging industries under the state's strategy and has become the focused industry supported by governments of all levels, the Group will continue to bring its edges in technology into full play and the Group, supported by the scale of production and segmentation of our management, will further its effort in exploring new products and market in the core field of energy measurement and management while ensuring our leading position in the new smart grid industry. In terms of the technological innovation, we



will actively participate in the study of smart grid-related technologies and the setting of the industry criteria and this allows the Group to accelerate its pace in developing new products and technologies that meet the market demand and will drive the future sustainable development of the Group. In terms of marketing innovation, we will continue to implement a strategy which fully covers our products and markets and endeavor to achieve economies of scale while actively exploring new market arena. While participating in the centralized procurement project of the State Grid, we will increase our investment in non-power market and expand our market of utilities and large energy consumption corporations as well as increase our investment in, and our effort in the development of, overseas market. Our goal is to establish our market position in the domestic power industry, non-power industry and international markets within the next 3 to 5 years so as to maximize our market scale and efficiency. At the same time, we aim at broadening our vision and setting our development strategy by conducting overseas cooperation, reforming the management procedures and building up our corporate culture in which "innovation" will be the driving force of the development of Wasion Group.

Supported by the new Wasion Science and Technology Park, we will strengthen the on-site management of the production base, optimize and simplify the production flows and reinforce the supervision and management of product quality in order to maximize our efficient use of our resources, lower our costs and increase our profit.

In 2010, we will face both opportunities and challenges. We will, with our concerted effort, make innovation and take the lead in launching new products and technologies, speed up our all-rounded response to the market change and strengthen our overall competitiveness to reward our shareholders for their support with outstanding results.

Yours faithfully,
Ji Wei
Chairman

Hong Kong, 30 March 2010

Management Discussion and Analysis

FINANCIAL REVIEW

Financial Highlights

	2009 RMB'000	2008 RMB'000
Turnover	**1,078,165**	1,059,390
Gross profit	**485,312**	497,617
Profit for the year	**262,041**	261,530
Total assets	**3,176,027**	2,543,842
Shareholders' equity	**2,147,875**	1,385,103
Basic earnings per share (RMB)	**0.31**	0.32
Diluted earnings per share (RMB)	**0.30**	0.31

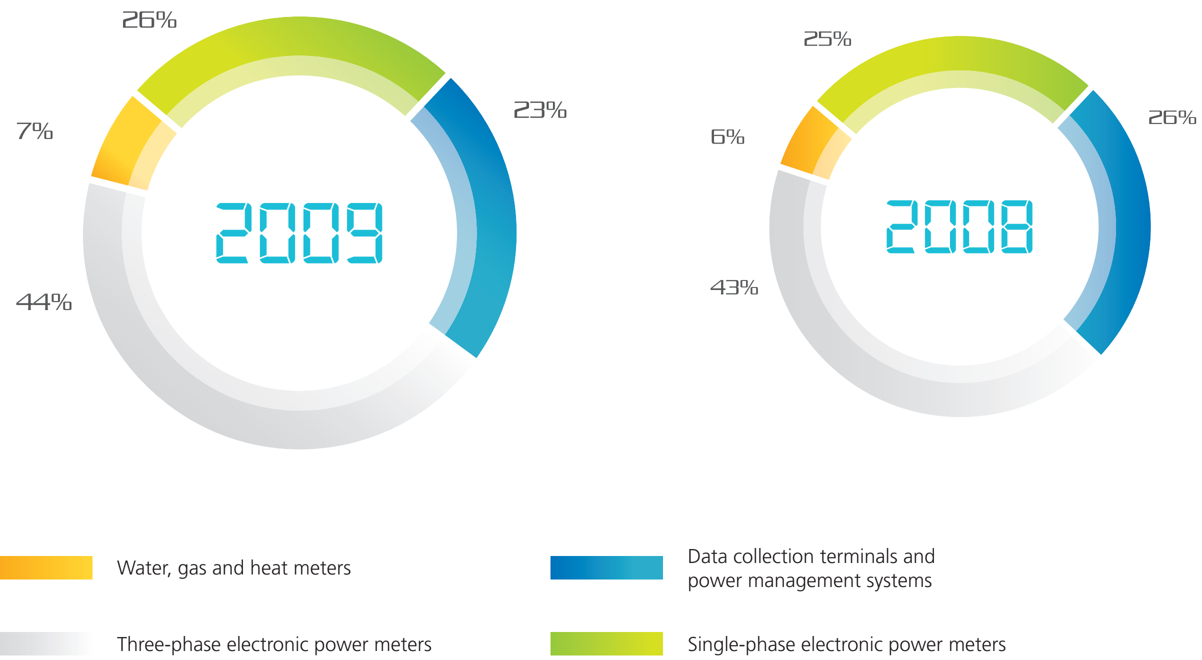
Key Financial Figures

	2009	2008
Gross profit margin	**45%**	47%
Operating profit margin	**27%**	29%
Net profit margin	**24%**	25%
Return on equity	**12%**	19%
Current ratio	**2.47**	1.82
Quick ratio	**2.08**	1.53
Inventory turnover period (Days)	**202**	166
Trade receivable turnover period (Days)	**260**	228
Trade payable turnover period (Days)	**294**	262
Gearing ratio	**13%**	18%
Interest coverage (Profit from operations divided by finance costs)	**20.03**	15.42

Five Year Financial Summary

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Profit for the year attributable to equity shareholders of the Company	**262,041**	261,530	212,896	151,736	115,972
Total assets	**3,176,027**	2,543,842	1,915,555	929,613	744,195
Total liabilities	**1,028,152**	1,158,739	692,277	343,737	272,609
Shareholders' equity	**2,147,875**	1,385,103	1,223,278	585,876	471,586

Turnover Breakdown by Business Segments



Financial Review

Turnover

In the year under review, turnover increased by 2% to RMB1,078.17 million (2008: RMB1,059.39 million).

Gross Profit

The Group's gross profit decreased by 2% to RMB485.31 million for the year ended 31 December 2009. The overall gross profit margin has been dropped from 47% in 2008 to 45% in 2009.

Other revenue

The other revenue of the Group amounted to RMB13.82 million (2008: RMB23.10 million) which was mainly comprised of refund of value-added tax, dividend income from available-for-sale investment and bank interest income.

Operating Expenses

In 2009, the Group's operating expenses amounted to RMB213.12 million (2008: RMB215.17 million). The decrease in operating expenses was mainly due to the decrease in amortization of share options and effective cost control on selling expenses. Operating expenses accounted for 20% of the Group's turnover in 2009, which is similar to that of last year.

Finance Costs

For the year ended 31 December 2009, the Group's finance costs amounted to RMB14.28 million (2008: RMB19.61 million). The decrease was attributable to the decrease of bank borrowings and interest rate.

Operating Profit

Earnings before finance costs and tax for the year ended 31 December 2009 amounted to RMB286.01 million (2008: RMB302.47 million), representing a decrease of 5% as compared with 2008.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2009 amounted to RMB262.04 million which is similar to that of last year.

Capital Structure

On 16 April 2009, 31,879,888 ordinary shares were issued for settlement of the remaining balance of the consideration for the acquisition of Hunan Weiming Technology Co., Ltd..

On 21 July 2009, an aggregate of 80,000,000 ordinary shares were placed by the Company to independent investors at a placing price of HK$7.00 per share, amongst which 14,410,000 and 3,590,000 ordinary shares were shares issued to certain employees upon exercise of share options at an exercise price of HK$2.225 and HK$3.200 respectively. The net proceeds from the placement after deducting the commission and expenses of the placement payable by the Company amounted to approximately HK$550 million will be used for the acquisition of production facilities to expand production capacity for the implementation of the State Grid Power Consumption Data Collection System and State Grid Cooperation Project, research and development, external cooperative projects and potential mergers and acquisitions in relation to the smart meter technology used in the smart grid projects, development of the smart water meter project, development of the sales network and product technology in energy measurement and management in relation to power, water, gas and heat across international markets and general working capital purposes.

During the year, certain employees have also exercised 6,147,000 share options at an exercise price of HK$2.225 and 350,000 share options at an exercise price of HK$3.200. In light of the above, the Company's issued shares increased from 812,879,787 as at 31 December 2008 to 931,256,675 as at 31 December 2009.

Liquidity and Financial Resources

The Group's primary sources of working capital and long-term funding needs have been cash flows from operation and financing activities.

As at 31 December 2009, the Group's current assets amounted to approximately RMB2,053.49 million (2008: RMB1,647.72 million), with cash and cash equivalents totaling approximately RMB644.67 million (2008: RMB439.16 million).

As at 31 December 2009, the Group's bank borrowings amounted to approximately RMB419.21 million (2008: RMB454.14 million), of which approximately RMB250.21 million (2008: RMB234.14 million) will be due to repay within one year and the remaining approximately RMB169 million (2008: RMB220 million) will be due in the next two years. Net book value of the Group's pledged assets for the bank borrowings was approximately RMB237.27 million (2008: RMB323.97 million). In 2009, the interest rate for the Group's bank borrowings ranged from 3.75% to 5.84% (2008: 4.86% to 9.53%) per annum.

The gearing ratio (total borrowings divided by total assets) decreased from 18% in 2008 to 13% in 2009 as a result of decrease in the Group's bank borrowings.

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi, which is not freely convertible into foreign currencies. Since the amount of foreign currency of the Group used to purchase raw materials exceeded the amount of foreign currency earned from exports, the appreciation of Renminbi during the period did not have any adverse effect on the Group's results. During the year, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Emolument Policy

As at 31 December 2009, the Group had 2,991 (2008: 2,452) staff. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB83.97 million in 2009 (2008: RMB85.43 million). Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB4.48 million in 2009 (2008: RMB5.29 million).

The Group's employees in the PRC have enrolled in the mandatory central pension scheme operated by the State. The Group also provides housing allowances and benefits for medicine, employment injury and retirement for its staff in the PRC in accordance with the relevant PRC rules and regulations. The directors of the Company (the "Directors") confirm that the Group has fulfilled its obligations under the relevant PRC employment laws. The Group also set up the mandatory provident fund scheme for the employees in Hong Kong.

Share Option Scheme

The Company has established a share option scheme to recognise and acknowledge the contributions made or will be made to the Group by the eligible participants. The purpose of the scheme is to encourage the eligible participants to continue their contribution. The eligible participants include any full-time or part-time employees, executives, officers, Directors (including executive, non-executive and independent non-executive Directors), advisers, consultants, suppliers and agents of the Company or any of its subsidiaries or invested entities, and any person who, in the opinion of the board of directors of the Company, will contribute to the Group or have done so.

Charge on Assets

As at 31 December 2009, the pledge deposits are denominated in Renminbi and Hong Kong dollars and are pledged to banks as security for certain loans and bills facilities granted to the Group. In addition, part or the Group's land and buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 31 December 2009, the capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements amounted to RMB94.98 million (2008: RMB7.64 million).

Contingent Liabilities

As at 31 December 2009, the Group had no material contingent liabilities.

MARKET REVIEW

On 21 May 2009, the State Grid announced the smart grid development plan to the public for the first time. According to the plan, the construction of the smart grid of the State Grid will be carried out in three phases: first, the planning and pilot work will be completed by 2010; second the large-scale construction will be undertaken from 2010 to 2015 while a unified and strong smart grid will be expected to completed in 2020 in the third phase, and the total investment will exceed RMB4 trillion. AMI is not only the first step to the construction of the smart grid, but is also a very fundamental and key component element of the smart grid, and smart meters and various communication terminals are key component elements of AMI. Along with the worldwide construction of the smart grid, smart meter industry is stepping into a golden period where it is expected to have a rapid development.

The full-scale construction of power consumption data collection system is the most important measure of the State Grid for materializing its AMI construction. It involves achieving real-time data collection of all power consumers through installing new generation smart meter and the comprehensive installation of various date collection equipment and systems. The leading products of Wasion Group, three-phase multi-functional power meters and data collection terminals, enjoy a leading coverage in the domestic market. With full participation in the formulation of the serial standards for the power consumption data collection systems of State Grid, Wasion Group will become a leading force in the construction of the power consumption data collection systems of State Grid.

At the same time, the State Grid has gradually carried out a tender mechanism for centralized bulk purchase of its materials in order to further implement its strategy of centralized management of materials. On 18 November 2009, according to the new principal of "implementing measures by provincial grid corporations under the centralization of the headquarters", the State Grid undertook its first centralized tender for power meters in the regions under its grid, and adopted the serial standards for smart meters newly issued by the State Grid for the first time. In the future, the new purchase model will become the major purchase mechanism of the State Grid.

On 22 September 2009, Mr. Hu Jintao, President of the PRC, stated at the United Nations Summit of Climate Change that China would strongly promote the development of renewable energy and nuclear energy, so as to achieve that non-petrochemical resource accounts for about 15% of the primary energy consumption by 2020. On 27 November 2009, a task force in relation to the development modes and the implementation plans of China smart energy network in the "twelfth five-year" plan was held in Beijing, representing that China officially commenced its preparation of a smart energy network. China's "twelfth five-year" plan will promote the smart energy network which fully covers water, electricity, gas and heat while the original planned smart power grid will only be part of this huge smart energy network in the future. Afterwards, smart networks will be required for resources, like water, electricity, gas and even heat. Wasion Group has already fully committed itself in the water, electricity, gas and heat measurement industries, and will be able to seize more business opportunities in the construction of the national smart energy network.

Business Review

Domestic Markets

In terms of the domestic marketing, following the initiative of centralized procurement undertaken by the State Grid, the Group focused its efforts on developing non-power industry and power non-tender market. In the second half of 2009, under the unfavorable situation where the centralized procurement projects of the State Grid was delayed, the Group adjusted the marketing strategy in a timely manner, and effectively seized the opportunities in the Southern Grid, non-grid customers and the water and gas meter markets. In addition, the Group has also made significant growth in the power non-tender market. The Group passed all the sample tests and ranked the third in terms of the tender value in the first tender of the State Grid, and particularly having acquired the most extensive coverage of the provinces it successfully tendered. In this way, the Group has achieved substantial increase in the market share and a historic breakthrough for its single-phase meters.

Electronic Power Meters

In the year under review, sales of electronic power meters remained the major source of revenue of the Group. Turnover from sales of three-phase electronic power meters and single-phase electronic power meters in 2009 amounted to RMB471.47 million and RMB283.96 million respectively, representing an increase of 2% and 7% respectively as compared with last year and contributed to 44% and 26% of the Group's turnover respectively (2008: 43% and 25%).

Data Collection Terminals and Power Management Systems

In 2009, revenue from sales of data collection terminals and power management systems amounted to RMB249.69 million, representing a decrease of 9% as compared with last year and accounted for 23% (2008: 26%) of the Group's turnover.

Water, Gas and Heat Meters

Revenue from sales of water, gas and heat meters in 2009 amounted to RMB73.05 million, representing an increase of 25% as compared with last year and accounted for 7% (2008: 6%) of the Group's turnover.

Production Plant

Wasion Group's comparative advantages in energy measurement aspect are not only realized in its brand and research and development, etc. Being a leading enterprise in the energy measurement and management services industry, Wasion Group's modern production techniques and capacity are also praised by the industry and is also the largest and the most advanced research and development and manufacturing base for energy measurement and management products. The relocation work of Wasion Science and Technology Park was completed in May 2009.

Energy saving and pollutants discharged reduction service

After a year of fumbling in the corporate energy management field, the Group made new progress and breakthroughs in energy service segments, like "energy saving on architecture", "energy saving agency and service" and "energy saving on electric motors", and has found a new direction for the development of energy business. The Group won the tender in the project related to the Beijing Subway that just completed, implying that the Group had achieved a breakthrough in the development of railway transportation field and power electronic products.

International Markets

For our overseas operations, the Group has established branches in Singapore and Shenzhen that act as our stepping stones to expand to the Southeast Asian and American markets. During the year, the Group has already entered into various new markets such as Nepal, Malaysia, the Philippines, Vietnam, Central America and New Zealand. Furthermore, the AMI Technology Project conducted in cooperation with US and Japanese partners was progressing smoothly and will enhance our competitiveness and improve our development prospect in the market once the trial and pilot sales thereof are completed. In addition, the Group has also paved the way to expand its international market as its proprietary keyboard meter products and systems have all passed STS international certification, while our ANSI products has also successfully gone through examinations in the United Sates of America ("US").

Research and Development

The research expenses in 2009 (including the capitalization part) was approximately RMB85.60 million, representing 7.9% of the total turnover of the Group (2008: 5.4%).

To promote the leading technological and product strength and develop new products to satisfy the future market demand, the Group's research and development of new technology and new products achieved outstanding results in 2009. The two postdoctoral projects, namely "0.1S Grid Meters (關口表)" and "Measurement of impact load (衝擊性負荷計量)", have passed the mid-term inspection and prototype testing and achieved remarkable results. The Group also made achievement in the construction of the transmission system of substations' measurement and won national authoritative recognition, filling the national and international gap in the relevant industry. In addition, Wasion Group is a main drafter of the standards of the national digital power meters, marking the Group's leading position in the digital power meters industry in China.

Prospect

The implementation of smart grid will provide necessary conditions for the grid connection and the transfer of solar, wind, geothermal and other new energy, while reducing the energy consumption. The smart grid industry is the extension of the development of green and new energy industry. The US, Europe, China, Japan, Australia and other countries have all undertaken its own smart grid strategy for becoming the leader of the global green technological competition.

In this low-carbon economic era, the smart grid should shoulder more responsibilities. It is expected that it would be raised to the height of the state strategy. The year of 2010 is an essential year of the overall trial stage of the smart grid. Wasion Group will continue to exploit new products and new market under smart grid while taking advantage of its strength in the research and development of technology, making technological innovation and promoting the development of smart meter technology and the industry. Such an initiative would help the Group to continue to take the lead in the power meter industry with its persistent launch of innovative products and services.

Although the overall investment of the State Grid in 2010 will decrease, the investment in the construction of grid connecting urban and rural areas, the reformation of the rural power grid and the construction of smart power grid remains robust. The China Southern Power Grid will continue to increase its investment in the reformation of urban grid and the improvement of rural grid. It shows that the two companies' investment is shifting gradually from the construction of the power transmission to the construction of the power distribution networks and the marketing of power consumption. All of such development will provide a large market to Wasion Group.

The PRC government has reiterated the overarching importance to reform the pricing mechanism of and levy environmental fees on resources during this year's National People's Congress and Chinese People's Political Consultative Conference meetings. It has laid down the plan to implement progressive residential water and electricity fee within this year. This measure will definitely accelerate the development of the Group's smart water meter business. In addition, the reform in respect of the household measurement of centralized heating consumption in Northern China as well as the promotion and extension of piped gas also represent enormous opportunity for the Group to rapidly expand the market of its non-power products such as heat and smart gas meter.

In addition, Wasion Group will seek breakthroughs in the fields of related equipments for electric automobile charging stations and digital substations and corporate energy-saving solution to achieve the industrialized development in the meanwhile of technological innovation, and drive the new development of the Group's entire business.

Looking into the future, we are facing huge business opportunities provided by the global energy saving and emissions reduction efforts. With the huge domestic and international demand and opportunities, the Group will leverage on our advanced production plant, Wasion Science and Technology Park, and innovative technology and management to fully develop the measurement and management market of water, power, gas and heat energy and progress towards the goal of becoming an "Energy Measurement and Management Expert".

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ji Wei (吉為), aged 53, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji obtained a master degree in business administration from the University of Northern Virginia in June 2005. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies and has over 26 years of experience in management. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發（集團）公司) between 1985 and 1989. Mr. Ji is also a director of each of Hunan Willfar Information Technology Co., Ltd. (湖南威遠信息技術有限公司) ("Hunan Willfar"), Hunan Classic Investment Co., Ltd. (湖南經典投資有限公司) ("Hunan Classic"), Changsha Weihua Property Development Co., Ltd. (長沙威華置業有限公司) ("Weihua Property") and Changsha Weizhong Chemical Machinery Co., Ltd. (長沙威重化工機械有限公司) ("Weizhong Machinery"). Mr. Ji was appointed as an executive Director with effect from 20 July 2004. Mr. Ji was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in 2007. He was also awarded with the honourary titles of "Excellent Entrepreneur Supporting Chinese Communist Party" and "Excellent Entrepreneur of Changsha Hi Tech Zone" in 2008.

Ms. Cao Zhao Hui (曹朝輝), aged 42, is an executive Director and the chief executive officer of the Company. Ms. Cao graduated from Hunan Commerce College in financial accounting and obtained a degree in Economics from the Hunan Financial and Economic College. Ms. Cao was employed as the director of finance with Hunan Weisheng Electronics Co., Ltd. (湖南威勝電子有限公司) ("Hunan Weisheng") between 1998 and 2000. She joined the Group in 2000 and was the director of finance and the director of the general manager's office from 2000 to 2003. She was appointed as a director of Changsha Weisheng Electronics Co., Ltd. (長沙威勝電子有限公司) ("Changsha Weisheng") in March 2004 and as an executive Director in March 2005. Ms. Cao is also a director of each of Hunan Willfar, Weihua Property, Weizhong Machinery and Hunan Classic. Ms. Cao was appointed as the executive Director with effect from 3 March 2005. Ms. Cao was accredited the honor of "Woman Pioneer" and "Excellent Entrepreneur" of Changsha in 2005. Ms. Cao was appointed as a member of the Chinese People's Political Consultative Conference of Changsha in 2007. She was also awarded with the honourary titles of "Star of Woman Venturer" and "Excellent Entrepreneur of Changsha Hi Tech Zone" in 2008.

Mr. Zeng Xin (曾辛), aged 40, is an executive Director and the vice president. Mr. Zeng graduated from the State Security Technology University with a degree in system engineering in 1992. During 1992 to 1993, he studied in the Qinghua University for a postgraduate degree programme. In 1995, Mr. Zeng obtained a master degree in engineering from the China Academy of Space Technology (中國空間技術研究院) and participated in several research projects in the China Academy of Space Technology (中國空間技術研究院) during his studies and after graduation. Mr. Zeng worked with Hunan Weisheng as a system engineer, vice-director of research, director of research and director of system between 1995 and 1999 and as the general manager with Hunan Willfar between 1999 and July 2004, and a director from December 1999 to January 2005. Mr. Zeng joined the Group in July 2004 and was appointed as an executive Director with effect from 1 September 2005.

Ms. Zheng Xiao Ping (鄭小平), aged 47, is an executive Director, the chief engineer and the director of quality control. Ms. Zheng graduated from the Taiyuan University of Technology with a degree in industrial automation. She obtained a master degree in engineering from the North China Institute of Technology. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the Taiyuan University of Technology. She lectured at the Taiyuan University of Technology between 1988 and 1993 and was appointed as the research director of Hunan Weisheng from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Company. Ms. Zheng was appointed as the executive Director with effect from 1 September 2005. Ms. Zheng was appointed as a director of Changsha Weisheng in March 2004 and an executive director in September 2005. Ms. Zheng was awarded the "Technical Expert with Outstanding Achievement" in 1998 and 2000 respectively by the Changsha High and New Technological Development Zone. In 2003, Ms. Zheng was awarded as an "Individual with Advanced Technology Creation in Hunan" by the Hunan Economic and Trade Committee. She was also awarded with the honourary titles of "Excellent Entrepreneur of Changsha Hi Tech Zone", "Legendary Women Pioneer Individual" and "Ten Most Outstanding Women of Changsha" in 2008. Ms. Zheng is the spouse of Mr. Wang Xue Xin.

Mr. Wang Xue Xin (王學信), aged 48, is an executive Director and the general manager of International marketing of the Company. Mr. Wang obtained a master degree in automation from the Harbin Industrial University in 1987 and was certified as a senior engineer. Mr. Wang lectured at the Taiyuan University of Technology between 1987 and 1990 and was the director of the development team of Taiyuan University of Technology Technological Development Company from 1990 to 1993. Mr. Wang worked as the engineer and the deputy manager of Hunan Weisheng from 1993 to 2000. Mr. Wang joined the Group in 2000 and is responsible for carrying out the research and development functions of the Group. Mr. Wang obtained the Changsha Award for Scientific Advancement and Elite Expert of Changsha in 1998 and 2003 respectively. Mr. Wang was a director of Hunan Willfar from February 2000 to January 2005, a director of Hunan Weike Power Meters Company Limited from May 2002 to January 2005 and a director of Hunan Weiming Technology Co., Ltd. from May 2002 to May 2004. Mr. Wang was appointed as an executive Director with effect from 3 March 2005. Mr. Wang is the spouse of Ms. Zheng Xiao Ping.

Mr. Liao Xue Dong (廖學東), aged 48, is an executive Director and the director of risk management. Mr. Liao graduated from the Central South University with a degree in mechanical equipment. Mr. Liao has worked with Hunan International Economic Development (Group) Company (湖南省國際經濟開發（集團）公司) and Hunan Weisheng prior to joining the Group in 2000. Mr. Liao was appointed as an executive Director with effect from 1 September 2005.

Independent Non-Executive Directors

Mr. Wu Jin Ming (吳金明), aged 47, is an independent non-executive Director. Mr. Wu graduated from the Agricultural University of Hunan in 1986 with a degree in agricultural economics and undertook further studies in 1987 in economics at the Wuhan University. Mr. Wu was an assistant professor, a vice-dean and a lecturer at the faculty of economics of the Agricultural University of Hunan. He was a visiting scholar at the Shiga University of Japan. Mr. Wu has been a professor of the College of Commerce of the Central South University since 2001 and is now the instructor of doctorial students and doctors of economics. Mr. Wu was a member of the Chinese People's Political Consultative conference of Hunan Province in 2003 and was appointed as the advisory consultant as regards the decisions on substantial projects of the Hunan provincial government in June 2004. Mr. Wu was appointed as an independent non-executive Director in September 2005.

Mr. Pan Yuan (潘垣), aged 77, is an independent non-executive Director. Mr. Pan graduated from the Electricity Faculty of the Central China Industrial College (華中工學院電力系) and worked in the Second Ministry of Mechanical Industry (第二機械工業部) 401 Institute, 585 Institute and at the China Academy of Sciences and was a researcher, a teaching assistant and a director of the academic study of the Institute of Plasma Science and Technology of the China Academy of Sciences. Mr. Pan was a visiting scholar at the European United Tokamak Fusion Centre and at the Fusion Centre of the University of Texas. Mr. Pan was appointed as an academician of the China Engineering Institute (中國工程學院) in 1997. Mr. Pan is currently a professor at the Central China Technical University (華中科技大學), a mentor for doctorate students and the honourary dean of the Electricity and Electronic Engineering College and the vice-director of the academic committee of the Central China Technical University. Mr. Pan was responsible for researching on the theory and the new application on the improvement of tokamak magnetic confinement performance (改善托卡馬克等離子體磁約束性能的新理論和新途徑), a major project sponsored by the National Natural Science Fund. Mr. Pan was appointed as an independent non-executive Director in September 2005.

Mr. Hui Wing Kuen (許永權), aged 62, is an independent non-executive Director. Mr. Hui has extensive experience in taxation and financial management. Mr. Hui worked in the Inland Revenue Department of Hong Kong for more than 24 years and was an assistant commissioner at his retirement in 1995. Mr. Hui is a member of the Taxation Institute of Australia, the Australian Society of Certified Practising Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries. Mr. Hui was appointed as an independent non-executive Director in September 2005.

SENIOR MANAGEMENT OF THE GROUP

Mr. Li Zhengchun (李正春), aged 45, obtained a master degree in business and administration (MBA) from the Murdoch University in Australia. Between 1988 and 1994, Mr. Li was the finance director of Hunan Province International Economic Development (Group) Company (湖南國際經濟開發集團公司). Between 1994 and 1996, he was appointed as the director and administration manager of the Hunan Hong Kong Investment Company Limited in Hong Kong and he was the director and chief accountant of San Xiang Group Limited in Hong Kong between 1996 and 2006. In 2006, Mr. Li joined the Group as the director of risk management. He was appointed as the director of internal audit of the Group in 2009, and is responsible for the risk management and control of the Group.

Mr. Huang Qing (黃慶), aged 43, graduated from the Wuhan Industrial College (武漢工業學院) with a degree in computer accounting (會計電算化). Between 1988 and 1997, Mr. Huang was the finance manager of Hunan International and he was the finance manager of Hunan Weisheng between 1997 and 2000. He joined Changsha Weisheng as a sales manager in 2000 and is responsible for carrying out the sales functions of the Group. He began as being responsible for the preparation and construction work for Wasion Science and Technology Park in 2006, and was appointed as the chief operating officer of the Group in 2009.

Mr. Feng Xijun (馮喜軍), aged 43, obtained a master degree in mechanics from the Shanxi Mining Industry College (山西礦業學院). He was an industrial safety engineer of coal mines of the Shanxi Taiyuan Xishan Mining Bureau and was the deputy director and a director of Shanxi Power Company High and New Technology Development Company Research Institute and the deputy general manager of Hunan Willfar. Mr. Feng joined the Group in 2004 and was the deputy general manager of Changsha Weisheng Information Technology Company Limited. He was appointed as the director of development of the Group in 2009.

Ms. Li Hong (李鴻), aged 35, obtained EMBA from the People's University of China (中國人民大學). She joined the Company in 1994, and was the manager of public relations and company secretarial department, the manager of human resources department and the director of human resources of the Company. She was awarded the "Outstanding HR Manager in China" as rated by China Human Resources annually in 2007 and 2008, Third Class Award of Brilliant Personnel in Changsha City Personnel System, a "Brilliant Personnel" for Ideology Promotion in Changsha City and one of the representatives for the new social stratum in Changsha City.

Mr. Choi Wai Lung Edward (蔡偉龍), aged 41, is the financial controller and company secretary of the Company. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 19 years of experience in accounting, auditing and finance.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 39 of the annual report. No interim dividend was paid to the shareholders during the year.

The directors recommend the payment of a final dividend, of HK$0.11 (equivalent to RMB0.097) per share to the shareholders on the register of members on 10 May 2010.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2009 comprised the merger reserve and retained profits of RMB199,267,000 in aggregate.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ji Wei *(Chairman)*
Cao Zhao Hui *(Chief Executive Officer)*
Zeng Xin
Zheng Xiao Ping
Wang Xue Xin
Liao Xue Dong

Independent non-executive directors:

Wu Jin Ming
Pan Yuan
Hui Wing Kuen

In accordance with article 87 of the Articles of Association of the Company (the "Articles"), one-third of the directors for the time being shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement at least once every three years. Mr. Ji Wei and Ms. Zheng Xiao Ping, the executive directors and Mr. Pan Yuan, the independent non-executive director, shall retire from their offices at the Annual General Meeting and shall be eligible to offer themselves for re-election pursuant to articles 87 and 88 of the Articles of Association of the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ji Wei	Interest of controlled corporation (Note 1)	466,888,888	50.14%
Wang Xue Xin	Beneficial owner (Note 2)	862,000	0.09%
Cao Zhao Hui	Beneficial owner	400,000	0.04%
Zeng Xin	Beneficial owner	500,000	0.05%
Zheng Xiao Ping	Beneficial owner (Note 2)	862,000	0.09%
Liao Xue Dong	Beneficial owner	400,000	0.04%
Hui Wing Kuen	Beneficial owner	200,000	0.02%
Pan Yan	Beneficial owner	100,000	0.01%
Wu Jin Ming	Beneficial owner	100,000	0.01%

Notes:

(1) The shares are held by Star Treasure Investments Holdings Limited ("Star Treasure"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ji Wei.

(2) 462,000 shares and 400,000 shares are held by Mr. Wang Xue Xin and Ms. Zheng Xiao Ping respectively. Ms. Zheng Xiao Ping is the spouse of Mr. Wang Xue Xin.

(b) Share options

Name of Director	Number of options to subscribe for shares	Capacity	Number of Underlying ordinary shares	Percentage of the issued share capital of the Company
Wang Xue Xin	1,900,000	Beneficial owner	1,900,000	0.20%
Cao Zhao Hui	1,600,000	Beneficial owner	1,600,000	0.17%
Zeng Xin	1,500,000	Beneficial owner	1,500,000	0.16%
Zheng Xiao Ping	1,600,000	Beneficial owner	1,600,000	0.17%
Liao Xue Dong	1,200,000	Beneficial owner	1,200,000	0.13%
Hui Wing Kuen	300,000	Beneficial owner	300,000	0.03%
Pan Yuan	100,000	Beneficial owner	100,000	0.01%
Wu Jin Ming	100,000	Beneficial owner	100,000	0.01%

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 31 December 2009.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and independent non-executive directors entered into service agreements with the Company for a term of three years and one year respectively and either the Company or the executive director/independent non-executive director may terminate the appointment by giving the other a prior notice of three months in writing before its expiration.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions — Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued capital of the Company
Ji Wei	Interest in controlled corporation	466,888,888	50.14%
Star Treasure	Beneficial owner	466,888,888	50.14%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2009.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options", at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

Name and category of participation	Number of share options: As at 1 January 2009	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2009	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options*	Share price of the Company as at the date of grant of share options**
Directors										
Wang Xue Xin	2,600,000	—	(700,000)	—	1,900,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Cao Zhao Hui	2,000,000	—	(400,000)	—	1,600,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Zeng Xin	2,000,000	—	(500,000)	—	1,500,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Zheng Xiao Ping	2,000,000	—	(400,000)	—	1,600,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Liao Xue Dong	1,600,000	—	(400,000)	—	1,200,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Hui Wing Kuen	300,000	—	—	—	300,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Pan Yuan	200,000	—	(100,000)	—	100,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Wu Jing Ming	200,000	—	(100,000	—	100,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Sub-total	10,900,000	—	(2,600,000)	—	8,300,000					
Other employees	22,980,000	—	(17,957,000)	—	5,023,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Other employees	7,000,000	—	(3,940,000)	—	3,060,000	7 February 2007	7 February 2007 to 6 February 2009	7 February 2009 to 6 February 2017	3.200	3.200
Other employees	7,000,000	—	—	—	7,000,000	7 February 2007	7 February 2007 to 6 February 2010	7 February 2010 to 6 February 2017	3.200	3.200
Sub-total	36,980,000	—	(21,897,000)	—	15,083,000					
Total	47,880,000	—	(24,497,000)	—	23,383,000					

* The exercise price of share options is subject to adjustment made in respect of the alteration in capital structure of the Company.

** The share price of the Company as at the date of the grant of share options was the closing price as quoted on the Stock Exchange of the trading day on the date of the grant of share options.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SHARE AWARDS

The share award plan (the "Plan") of the Company was adopted by the Board on 10 October 2008. The Plan became effective on 10 October 2008 and, unless otherwise terminated or amended, will remain in force for 10 years. Eligible employees, but not directors, are entitled to participate in the Plan.

The purpose of the Plan is to recognise and reward the contribution of the employees to the growth and development of the Group through an award of shares of the Company. Under the Plan, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit select an employee for participation in the Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Scheme (but not counting any which have lapsed or have been forfeited) exceed 2% of the total number of issued shares as at the beginning of that financial year.

As announced by the Company on 21 July 2009, the Plan was terminated by the Board as it would increase the administration burden and affect the Company's preparation of its consolidated financial statement as the Company will be required to comply with several PRC regulations. Since no shares award has ever been awarded to any eligible employee since the adoption of the Plan, and taking into account that the Plan may not be an efficient method to reward and provide incentive to the employees of the Group, the Board considered it is in the best interests of the Company to terminate the Plan.

The balance of the plan asset upon the termination has been dealt with in accordance with the terms of the Plan and the net proceeds has been returned to the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 28 to 36 of the annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 21 July 2009, the Company entered into placing and subscription agreement (the "Agreement") with Star Treasure which is wholly owned by Mr. Ji Wei, Total Right Holdings Limited ("Total Right") which holds the Share Award Plan and a placing agent.

Pursuant to the Agreement,

(a) 80,000,000 and 13,461,000 existing shares of the Company which are held by Star Treasure and Total Right, respectively, will be placed to independent third parties at a placing price of HK$7.00 per share;

(b) 62,000,000 new shares of the Company will be issued to Star Treasure at a subscription price of HK$7.00 per share; and

(c) 18,000,000 shares which had been issued to the employees of the Group upon exercise of share options will be purchased by Star Treasure at a price of HK$7.00 per share.

The placing and subscription was completed on 28 July 2009, with the 62,000,000 new shares being issued on the same day. Details of the issuance of the new shares are set out in the Company's announcement dated 28 July 2009.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total sales and total purchases of the Group respectively.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 31 December 2009.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 98 of the annual report.

AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2009.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messers. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Ji Wei
CHAIRMAN

Hong Kong
30 March 2010

Corporate Governance Report

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules. The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all of the Code Provisions. The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that board procedures and all applicable rules and regulations are followed.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer of the Company (the "Chief Executive Officer") and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises nine members, consisting of six executive Directors and three independent non-executive Directors. Their biographical details are set out on pages 17 to 19 of this annual report.

The Board of the Company comprises the following Directors:

Executive Directors:

Ji Wei, chairman of the Board (the "Chairman") and nomination committee of the Company (the "Nomination Committee"), and member of remuneration committee of the Company (the "Remuneration Committee")

Cao Zhao Hui
Zeng Xin
Zheng Xiao Ping
Wang Xue Xin
Liao Xue Dong

Independent Non-executive Directors:

Hui Wing Kuen, chairman of audit committee of the Company (the "Audit Committee") and Remuneration Committee, and member of Nomination Committee

Wu Jin Ming, member of Audit Committee, Remuneration Committee and Nomination Committee

Pan Yuan, member of Audit Committee

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the year under review, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the executive Directors is engaged in a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice. All the independent non-executive Directors are appointed for a specific term. The terms of their appointments are as follows:

Hui Wing Kuen	:	up to the 2010 annual general meeting
Wu Jin Ming	:	up to the 2010 annual general meeting
Pan Yuan	:	up to the 2010 annual general meeting

Pursuant to the Articles, all Directors are subject to retirement by rotation once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting and the next following annual general meeting respectively.

Training for Directors

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

In 2009, the Company has held eight board meetings. The Company will endeavour to hold at least four regular board meetings a year.

The attendance of the Directors at board meetings held during the year is set out below:

Directors	**Attendance/ Number of Meetings**
Executive Directors:	
Ji Wei *(Chairman)*	8/8
Cao Zhao Hui	8/8
Zeng Xin	8/8
Zheng Xiao Ping	8/8
Wang Xue Xin	8/8
Liao Xue Dong	8/8
Independent Non-Executive Directors:	
Hui Wing Kuen	8/8
Wu Jin Ming	8/8
Pan Yuan	8/8

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, chief financial officer and company secretary of the Company attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the company secretary of the Company. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. So, the posts of the Chairman and Chief Executive Officer are held separately by Mr. Ji Wei and Ms. Cao Zhao Hui respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. With support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

COMMITTEES

The Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Committees of the Company are established with defined written terms of reference. The terms of reference of the Committees will be posted on the Company's website and are available upon request.

The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under "Composition" of this report on page 29.

The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

NOMINATION COMMITTEE

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessment of the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Two Nomination Committee meetings have been held during the year to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The attendance of individual members at Nomination Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Ji Wei *(Chairman)*	2/2
Hui Wing Kuen	2/2
Wu Jin Ming	2/2

In accordance with the Articles, Mr. Ji Wei, Ms. Zheng Xiao Ping and Mr. Pan Yuan shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for developing policies for the remuneration of the executive Directors and for fixing the remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for ensuring the remuneration packages which are sufficient to attract and retain the Directors for running the Company successfully; to avoid over-paying and to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management and other related matters. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman about these recommendations on remuneration policy and structure and remuneration packages.

Two Remuneration Committee meetings have been held during the year to review the remuneration policy and structure of the Company and remuneration packages of the executive Directors and the senior management.

The attendance of individual members at Remuneration Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Hui Wing Kuen *(Chairman)*	2/2
Ji Wei	2/2
Wu Jin Ming	2/2

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Hui Wing Kuen *(Chairman)*	3/3
Wu Jin Ming	2/3
Pan Yuan	2/3

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2009 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2009.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2009.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 37 to 38 of this annual report.

The Company's external auditor is Deloitte Touche Tohmatsu. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2009 amounted to RMB2.5 million, which comprises RMB2.0 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2009 and RMB0.5 million for the review of the Group's interim report for the six months ended 30 June 2009.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Company's assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The management of the Company is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

Independent Auditor's Report

TO THE BOARD OF DIRECTORS OF WASION GROUP HOLDINGS LIMITED
威勝集團控股有限公司
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wasion Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 97, which comprise the consolidated balance sheet as at 31 December 2009 and the consolidated statement of comprehensive income, 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong 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
30 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	**1,078,165**	1,059,390
Cost of sales		**(592,853)**	(561,773)
Gross profit		**485,312**	497,617
Other revenue	6	**13,820**	23,097
Administrative expenses		**(91,756)**	(93,547)
Selling expenses		**(90,419)**	(91,970)
Research and development expenses		**(30,946)**	(29,655)
Loss on disposal of available-for-sale investment		**—**	(3,070)
Finance costs	7	**(14,277)**	(19,614)
Profit before taxation	8	**271,734**	282,858
Income tax expense	9	**(9,693)**	(21,328)
Profit for the year		**262,041**	261,530
Exchange difference arising on translation, representing other comprehensive expense for the year		**(1,437)**	(18,429)
Total comprehensive income for the year		**260,604**	243,101
Earnings per share	12		
Basic		**RMB31 cents**	RMB32 cents
Diluted		**RMB30 cents**	RMB31 cents

Consolidated Balance Sheet

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**627,085**	437,275
Deposit paid for acquisition of property, plant and equipment		**3,355**	—
Prepaid lease payments	14	**124,894**	95,608
Intangible assets	15	**251,912**	247,948
Available-for-sale investment	16	**4,961**	4,961
Goodwill	17	**110,326**	110,326
		1,122,533	896,118
CURRENT ASSETS			
Inventories	18	**327,423**	255,578
Trade and other receivables	19	**943,710**	766,573
Amounts due from related parties	32	**21,233**	110,690
Prepaid lease payments	14	**2,714**	2,078
Pledged bank deposits	20	**113,746**	73,645
Bank balances and cash	21	**644,668**	439,160
		2,053,494	1,647,724
CURRENT LIABILITIES			
Trade and other payables	22	**568,951**	472,085
Amounts due to related parties	32	**559**	179,831
Tax liabilities		**11,410**	21,451
Borrowings — due within one year	23	**250,210**	234,137
		831,130	907,504
NET CURRENT ASSETS		**1,222,364**	740,220
		2,344,897	1,636,338
CAPITAL AND RESERVES			
Share capital	24	**9,427**	8,384
Reserves		**2,138,448**	1,376,719
		2,147,875	1,385,103
NON-CURRENT LIABILITIES			
Borrowings — due after one year	23	**169,000**	220,000
Deferred tax liability	25	**28,022**	31,235
		197,022	251,235
		2,344,897	1,636,338

The consolidated financial statements on pages 39 to 97 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

Ji Wei
DIRECTOR

Cao Zhao Hui
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Merger reserve** RMB'000 (Note i)	**Exchange reserve** RMB'000	**PRC statutory reserves** RMB'000 (Note ii)	**Shares held for share award plan** RMB'000	**Other reserve** RMB'000 (Note iii)	**Share option reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2008	8,422	696,477	49,990	(37,187)	68,300	—	—	28,971	408,305	1,223,278
Profit for the year	—	—	—	—	—	—	—	—	261,530	261,530
Exchange difference arising on translation	—	—	—	(18,429)	—	—	—	—	—	(18,429)
Total comprehensive income (expense) for the year	—	—	—	(18,429)	—	—	—	—	261,530	243,101
Transfer to PRC statutory reserves	—	—	—	—	22,588	—	—	—	(22,588)	—
Purchase of shares under share award plan	—	—	—	—	—	(16,902)	—	—	—	(16,902)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	6,945	—	6,945
Issue of shares upon exercise of share options	16	4,752	—	—	—	—	—	(1,204)	—	3,564
Effect of share options lapsed after vesting period	—	—	—	—	—	—	—	(253)	253	—
Repurchase of own shares	(54)	(7,962)	—	—	—	—	—	—	—	(8,016)
Dividend recognised as distribution (note 11)	—	—	—	—	—	—	—	—	(66,867)	(66,867)
At 31 December 2008	8,384	693,267	49,990	(55,616)	90,888	(16,902)	—	34,459	580,633	1,385,103
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**262,041**	**262,041**
Exchange difference arising on translation	**—**	**—**	**—**	**(1,437)**	**—**	**—**	**—**	**—**	**—**	**(1,437)**
Total comprehensive income (expense) for the year	**—**	**—**	**—**	**(1,437)**	**—**	**—**	**—**	**—**	**262,041**	**260,604**
Transfer to PRC statutory reserves	**—**	**—**	**—**	**—**	**16,796**	**—**	**—**	**—**	**(16,796)**	**—**
Cancellation of the share award plan	**—**	**—**	**—**	**—**	**—**	**16,902**	**33,164**	**—**	**—**	**50,066**
Recognition of equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,990**	**—**	**1,990**
Issue of shares upon exercise of share options	**216**	**67,852**	**—**	**—**	**—**	**—**	**—**	**(16,622)**	**—**	**51,446**
Issue of shares to settle consideration for acquisition of subsidiaries in 2008 (note 29)	**281**	**109,747**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**110,028**
Issue of shares for share placement	**546**	**382,024**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**382,570**
Share issue expenses	**—**	**(11,992)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(11,992)**
Dividend recognised as distribution (note 11)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(81,940)**	**(81,940)**
At 31 December 2009	**9,427**	**1,240,898**	**49,990**	**(57,053)**	**107,684**	**—**	**33,164**	**19,827**	**743,938**	**2,147,875**

Notes:

(i) Merger reserve represents the difference between the nominal value of shares of the subsidiary acquired over the nominal value of the shares used by the Company in exchange thereafter.

(ii) PRC statutory reserves are reserves required by the relevant laws in the People's Republic of China (the "PRC") applicable to the Group's PRC subsidiaries.

(iii) Other reserve represents the excess of the balance of plan asset over the carrying amount of shares held under share award plan of the Company, which was recognised upon termination of the plan during the year.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**271,734**	282,858
Adjustments for:			
Finance costs		**14,277**	19,614
Interest income		**(2,450)**	(3,923)
Dividends from available-for-sale investment		**(4,535)**	(278)
Loss on disposal of property, plant and equipment		**17**	338
Depreciation of property, plant and equipment		**20,503**	17,450
Release of prepaid lease payments		**1,902**	1,813
Amortisation of intangible assets		**50,688**	52,684
Share-based payment expenses		**1,990**	6,945
Loss on disposal of available-for-sale investment		**—**	3,070
Allowance for doubtful debts		**—**	672
Operating cash flows before movements in working capital		**354,126**	381,243
Increase in inventories		**(71,845)**	(101,827)
Increase in trade and other receivables		**(174,331)**	(149,933)
Decrease in trade and other payables		**60,991**	192,804
Cash generated from operations		**168,941**	322,287
Income tax paid		**(22,947)**	(14,719)
NET CASH FROM OPERATING ACTIVITIES		**145,994**	307,568
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(189,841)**	(217,160)
Expenditure on development projects		**(54,652)**	(27,612)
Purchase of available-for-sale investment		**—**	(20,333)
(Increase) decrease in pledged bank deposits		**(40,101)**	7,740
Deposit paid for acquisition of property, plant and equipment		**(3,355)**	—
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	29	**(384)**	(47,749)
Dividends received from available-for-sale investment		**4,535**	278
Interest received		**2,450**	3,923
Repayment of advances to related parties		**89,457**	32,482
Payment for contingent consideration payable for the acquisition of subsidiaries in prior year		**—**	(129,000)
Proceeds on disposal of available-for-sale investment		**—**	17,263
NET CASH USED IN INVESTING ACTIVITIES		**(191,891)**	(380,168)

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
FINANCING ACTIVITIES		
Repayment of borrowings	**(598,127)**	(127,474)
Dividends paid	**(81,940)**	(66,867)
(Repayment of) advances from related parties	**(69,244)**	34,519
Interest paid on borrowings	**(34,495)**	(30,280)
Expenses on issue of shares	**(11,992)**	—
Proceeds on cancellation of share award plan	**50,066**	—
Proceeds on issue of shares upon exercise of share options	**51,446**	3,564
Proceeds on issue of shares	**382,570**	—
New borrowings raised	**563,210**	234,137
Shares repurchased under share award plan	**—**	(16,902)
Shares repurchased	**—**	(8,016)
NET CASH FROM FINANCING ACTIVITIES	**251,494**	22,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**205,597**	(49,919)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(89)**	(19,664)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**439,160**	508,743
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**644,668**	439,160

1. GENERAL

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

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

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

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

In the current year, the Group has applied the following new and revised standards, amendments to the standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

Adoption of new and revised HKFRSs effective in the year

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 5).

New and revised HKFRSs that are not yet effective

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosure[6]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

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

New and revised HKFRSs that are not yet effective (Continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent'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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below.

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

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated balance sheet as an intangible asset.

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

On 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.

Revenue recognition

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

Deposits and instalments received from customers prior to meeting the above criteria on revenue recognition are include in the consolidated balance sheet under current liabilities.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

Property, plant and equipment

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

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

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

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

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expenses on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

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

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

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest 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 other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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

Available-for-sale financial assets

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

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

Inventories

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

Equity-settled share-based payment transactions

Share options/awarded shares granted to employees

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

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

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

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group which are stated at functional currency of the respective group entity other than RMB are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Government subsidy

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and is reported separately under "other income".

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally 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, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of intangible assets

The Group tests whether intangible assets have suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of intangible assets have been determined based on discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and no impairment was recognised during the year. Where the actual future cash flows is different from the original estimate, an impairment loss may arise. The carrying amount of intangible assets at the balance sheet date was approximately RMB251.9 million (2008: RMB247.9 million).

Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit ("CGU") to which goodwill has been allocated. This calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGU containing goodwill using a suitable discount rate. Where the expected future cash flows arising from the relevant CGU differ from the original estimation, an impairment loss may arise. The carrying amount of goodwill of approximately RMB110.3 million (2008: RMB110.3 million) as at 31 December 2009 was allocated to the electronic meters segment. Details of the recoverable amount calculation are disclosed in note 17.

Estimated impairment of trade and bill receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of trade and bill receivables is approximately RMB699.6 million (2008: RMB608.5 million), net of allowance for doubtful debts of approximately RMB16.6 million (2008: RMB16.6 million).

5. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Summarised details of each of the two operating segments are as follows:

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

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

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2009

	Electronic meters RMB'000	Data collection terminals RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER				
External sales	828,472	249,693	—	1,078,165
Inter-segment sales*	3,952	19,531	(23,483)	—
Total	832,424	269,224	(23,483)	1,078,165
Segment profit	202,905	100,129	—	303,034
Unallocated income				5,806
Central administration costs				(22,829)
Finance costs				(14,277)
Profit before taxation				271,734

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

5. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2008

	Electronic meters RMB'000	Data collection terminals RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER				
External sales	784,341	275,049	—	1,059,390
Inter-segment sales*	824	30,697	(31,521)	—
Total	785,165	305,746	(31,521)	1,059,390
Segment profit	224,059	100,490	—	324,549
Unallocated income				5,633
Central administration costs				(24,640)
Loss on disposal of available-for-sale investment				(3,070)
Finance costs				(19,614)
Profit before taxation				282,858

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

Segment profit represents profit attributable to each segment without allocation of other income, central administration costs and directors' salaries, loss on disposal of available-for-sale investment and finance costs. This is the measure reported to the Group's Chief Executive Officer, its chief operating decision maker, for the purposes of resources allocation and assessment of segment performance.

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	2009 RMB'000	2008 RMB'000
SEGMENT ASSET		
Electronic meters	**1,740,370**	1,508,403
Data Collection terminals	**395,957**	260,735
Total segment assets	**2,136,327**	1,769,138
Unallocated assets	**1,039,700**	774,704
Consolidated assets	**3,176,027**	2,543,842
SEGMENT LIABILITIES		
Electronic meters	**482,186**	367,438
Data Collection terminals	**28,361**	63,231
Total segment liabilities	**510,547**	430,669
Unallocated liabilities	**517,605**	728,070
Consolidated liabilities	**1,028,152**	1,158,739

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than certain property, plant and equipment, prepaid lease payments, available-for-sale investment, other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash; and

- all liabilities are allocated to reportable segments other than certain other payables, amounts due to related parties, tax liabilities, borrowings and deferred tax liability.

5. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2009

	Electronic meters RMB'000	**Data collection terminals RMB'000**	**Total RMB'000**
Amounts included in the measure of segment profit or segment assets and liabilities:			
Additions to non-current assets	**183,935**	**77,249**	**261,184**
Depreciation and amortisation of property, plant and equipment and intangible assets	**55,751**	**14,162**	**69,913**
Release of prepaid lease payments	**1,481**	**126**	**1,607**
Loss on disposal of property, plant and equipment	**17**	**—**	**17**

For the year ended 31 December 2008

	Electronic meters RMB'000	Data collection terminals RMB'000	Total RMB'000
Amounts include in the measure of segment profit or segment assets and liabilities:			
Additions to non-current assets	355,188	12,347	367,535
Depreciation and amortisation of property, plant and equipment and intangible assets	55,261	12,967	68,228
Release of prepaid lease payments	1,510	—	1,510
Allowance for doubtful debts	672	—	672
Loss on disposal of property, plant and equipment	338	—	338

Revenue from major customers

The directors do not aware of any customer that individually contributing over 10% of the consolidated turnover from external customers for both years.

5. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's turnover by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Turnover from external customers Year ended 31 December		Non-current assets (note)	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
PRC	**1,044,204**	944,320	**1,114,065**	891,157
Overseas	**33,961**	115,070	**3,507**	—
	1,078,165	1,059,390	**1,117,572**	891,157

Note: Non-current assets excluded financial instruments.

6. OTHER REVENUE

	2009 RMB'000	2008 RMB'000
Other revenue includes:		
Refund of value-added tax ("VAT", note)	**5,857**	6,828
Dividend income from available-for-sale investment	**4,535**	278
Bank interest income	**2,450**	3,923
Net exchange gain	**—**	10,201

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

7. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on borrowings wholly repayable within five years	**34,495**	30,280
Less: amounts capitalised in property, plant and equipment	**(20,218)**	(10,666)
	14,277	19,614

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.13% (2008: 5.20%) per annum to expenditures on qualifying assets.

8. PROFIT BEFORE TAXATION

	2009 RMB'000	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs including directors' emoluments:		
Salaries and benefits	**77,108**	72,868
Retirement benefit scheme contributions	**4,868**	5,621
Share-based payment expenses	**1,990**	6,945
	83,966	85,434
Auditor's remuneration	**2,047**	2,210
Loss on disposal of property, plant and equipment	**17**	338
Depreciation of property, plant and equipment	**20,503**	17,450
Release of prepaid lease payments	**1,902**	1,813
Amortisation of intangible assets	**50,688**	52,684
Allowance for doubtful debts	**—**	672
Cost of inventories recognised as expense	**592,853**	561,773
Net exchange loss	**643**	—

9. INCOME TAX EXPENSE

	2009 RMB'000	2008 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
Current year	**13,417**	25,694
Overprovision in prior years	**(511)**	(2,285)
	12,906	23,409
Deferred taxation (note 25)		
Current year	**(3,213)**	(2,081)
	9,693	21,328

Notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income that was subject to Hong Kong Profits Tax during both years.

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for the followings:

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holidays and concessions will expire between 2008 and 2010.

(b) Certain PRC subsidiaries which are approved as enterprises that satisfied the condition as high technology development enterprises and obtained the Certificate of High New Technology Enterprise will continue to be subject to a preferential rate of 15%.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), the tax holidays and concessions from EIT entitled as set out in (a) above continue to be applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the "New Law"). The preferential treatment set out in (b) above continues on the implementation of the New Law.

For entities which were entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. Certain PRC subsidiaries are loss making up to 2008 and their respective tax holdings are therefore deemed to commence in 2008.

9. INCOME TAX EXPENSE (Continued)

Notes: (Continued)

(iii) Other jurisdictions

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

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

	2009 RMB'000	2008 RMB'000
Profit before taxation	**271,734**	282,858
Tax at the income tax rate of 25% (2008: 25%)	**67,933**	70,715
Tax effect of expenses not deductible for tax purpose	**4,809**	5,314
Tax effect of income not taxable for tax purpose	**(738)**	(734)
Tax effect of tax losses not recognised	**631**	689
Utilisation of tax loss previously not recognised	**(153)**	—
Effect of tax concessions/exemption granted to PRC and Macao subsidiaries	**(62,278)**	(52,371)
Overprovision in prior years	**(511)**	(2,285)
Tax charge for the year	**9,693**	21,328

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The employments paid or payable to each of the nine (2008: nine) directors were as follows:

(a) Directors' emoluments

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

2009

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000 (note)	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Ji Wei ("Mr. Ji")	—	1,057	—	11	—	1,068
Cao Zhao Hui	—	565	51	9	—	625
Wang Xue Xin	—	565	209	9	—	783
Zheng Xiao Ping	—	414	30	9	—	453
Liao Xue Dong	—	384	30	9	—	423
Zeng Xin	—	484	35	9	—	528
Wu Jin Ming	132	—	—	—	—	132
Pan Yuan	132	—	—	—	—	132
Hui Wing Kuen	335	—	—	—	—	335
	599	3,469	355	56	—	4,479

2008

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

No directors waived any emoluments for both years.

Note: Discretionary bonuses are recommended by the Remuneration Committee and is decided by the board of directors, having regard to the Group's operating results, individual performance and comparable market statistics.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2009 included four (2008: four) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining one (2008: one) individual for the year are as follows:

	2009 **RMB'000**	2008 RMB'000
Salaries and other benefits	**1,127**	936
Retirement benefit scheme contributions	**11**	11
Share-based payment expenses	**23**	285
	1,161	1,232

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

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

11. DIVIDENDS

	2009 **RMB'000**	2008 RMB'000
Dividends recognised as distribution during the year:		
2008 final dividend — HK$0.11, equivalent to RMB0.097, per share (2008: 2007 final dividend of HK$0.09, equivalent to RMB0.08, per share)	**81,940**	66,867
Dividends proposed after the end of the reporting period:		
2009 final dividend — HK$0.11, equivalent to RMB0.097, per share (2008: 2008 final dividend of HK$0.11, equivalent to RMB0.097, per share)	**90,332**	81,940

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

12. EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**262,041**	261,530

	2009	2008
Number of shares		
Weighted average number of ordinary shares of purpose of basic earnings per share	**845,982,009**	816,589,803
Effect of dilutive potential ordinary shares in respect of:		
Share options	**21,919,074**	8,451,704
Contingently issuable shares for acquisition of subsidiaries	**9,170,927**	19,511,188
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**877,072,010**	844,552,695

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award plan of the Company, as set out in note 26, prior to its termination on 21 July 2009.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2008	59,060	4,834	52,734	7,583	13,672	84,527	222,410
Additions	—	534	29,995	1,319	3,721	192,257	227,826
Acquired on acquisition of subsidiaries (note 29)	15,336	637	638	288	130	24,843	41,872
Transfer	27,028	—	787	—	—	(27,815)	—
Disposals	—	—	(1,051)	(4)	—	—	(1,055)
Exchange realignment	—	(41)	—	(20)	(67)	—	(128)
At 31 December 2008	101,424	5,964	83,103	9,166	17,456	273,812	490,925
Additions	5,115	557	20,825	4,209	3,782	175,571	210,059
Acquired on acquisition of subsidiaries (note 29)	—	—	—	—	—	229	229
Transfer	104,247	—	—	—	—	(104,247)	—
Disposals	—	—	(16)	(6)	—	—	(22)
Exchange realignment	—	(1)	—	1	(2)	43	41
At 31 December 2009	**210,786**	**6,520**	**103,912**	**13,370**	**21,236**	**345,408**	**701,232**
DEPRECIATION							
At 1 January 2008	5,397	2,930	21,573	3,464	3,600	—	36,964
Provided for the year	2,431	535	11,759	1,211	1,514	—	17,450
Eliminated on disposals	—	—	(713)	(4)	—	—	(717)
Exchange realignment	—	(33)	—	(6)	(8)	—	(47)
At 31 December 2008	7,828	3,432	32,619	4,665	5,106	—	53,650
Provided for the year	2,478	437	14,202	1,921	1,465	—	20,503
Eliminated on disposals	—	—	(2)	(3)	—	—	(5)
Exchange realignment	—	(1)	—	—	—	—	(1)
At 31 December 2009	**10,306**	**3,868**	**46,819**	**6,583**	**6,571**	**—**	**74,147**
CARRYING VALUES							
At 31 December 2009	**200,480**	**2,652**	**57,093**	**6,787**	**14,665**	**345,408**	**627,085**
At 31 December 2008	93,596	2,532	50,484	4,501	12,350	273,812	437,275

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

The carrying amount of the Group's property interests comprises properties erected on land outside Hong Kong held under:

	2009	2008
	RMB'000	RMB'000
Long leases	**41,066**	41,650
Medium-term leases	**159,414**	51,946
	200,480	93,596

At 31 December 2009, certain property interests of the Group (including those under construction) with aggregate carrying values of RMB176,675,000 (2008: RMB250,321,000) were pledged to banks to secure banking facilities granted to the Group and buildings with an aggregate carrying value of approximately RMB5,099,605 (2008: nil) were erected on land for which formal titles have not been granted to the Group.

14. PREPAID LEASE PAYMENTS

	2009 **RMB'000**	2008 RMB'000
The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under:		
long leases	**47,999**	48,809
medium-term leases	**79,609**	48,877
	127,608	97,686
Analysed for reporting purposes as:		
Non-current assets	**124,894**	95,608
Current assets	**2,714**	2,078
	127,608	97,686

The Group had paid substantially all the consideration for the land use rights in the PRC. However, the relevant government authorities have not yet granted formal title to certain of these land use rights to the Group. As at 31 December 2009, the carrying amount of the land use rights for which the Group had not yet been granted formal title amounted to approximately RMB31,718,000 (2008: nil). In the opinion of the directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title to these land use rights will be granted to the Group in due course.

At 31 December 2009, certain leasehold land of the Group with aggregate carrying values of RMB60,592,647 (2008: RMB97,686,000) were pledged to banks to secure banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Acquired technology RMB'000	Customer relationship and contracts RMB'000	Premium on land RMB'000	Total RMB'000
COST						
At 1 January 2008	64,190	55,821	50,730	37,220	46,713	254,674
Additions	27,612	—	—	—	—	27,612
Acquired on acquisition of subsidiaries (note 29)	5,636	—	30,579	697	33,931	70,843
At 31 December 2008	97,438	55,821	81,309	37,917	80,644	353,129
Additions	54,652	—	—	—	—	54,652
At 31 December 2009	**152,090**	**55,821**	**81,309**	**37,917**	**80,644**	**407,781**
AMORTISATION						
At 1 January 2008	16,017	24,896	6,341	4,653	590	52,497
Provided for the year	22,486	7,418	13,899	7,530	1,351	52,684
At 31 December 2008	38,503	32,314	20,240	12,183	1,941	105,181
Provided for the year	17,812	7,418	16,262	7,584	1,612	50,688
At 31 December 2009	**56,315**	**39,732**	**36,502**	**19,767**	**3,553**	**155,869**
CARRYING VALUES						
At 31 December 2009	**95,775**	**16,089**	**44,807**	**18,150**	**77,091**	**251,912**
At 31 December 2008	58,935	23,507	61,069	25,734	78,703	247,948

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

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

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

16. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents unlisted equity securities issued by a private entity incorporated in the PRC, amounting to RMB4,961,000 (2008: RMB4,961,000).

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

17. GOODWILL

	RMB'000
CARRYING AMOUNTS	
At 1 January 2008	56,831
Acquired on acquisition of subsidiaries (note 29)	53,495
At 31 December 2008 and 2009	110,326

For the purposes of impairment testing, goodwill set out above has been allocated to a CGU, electronic meters segment.

During the year ended 31 December 2009, management of the Group determines that there is no impairment of its CGU containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 7% (2008: 8%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 8% (2008: 9%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

18. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**192,254**	145,808
Work in progress	**75,400**	50,458
Finished goods	**59,769**	59,312
	327,423	255,578

19. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade and bills receivables	**716,198**	625,163
Less: Allowance for doubtful debts	**(16,623)**	(16,623)
	699,575	608,540
Retentions held by trade customers	**67,216**	53,247
Deposits, prepayments and other receivables	**176,919**	104,786
	943,710	766,573

The Group allows credit periods ranging from 90 days to 365 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2009 RMB'000	2008 RMB'000
0–90 days	**467,503**	395,045
91–180 days	**100,011**	103,277
181–365 days	**123,787**	110,218
Over 1 year	**8,274**	—
	699,575	608,540

19. TRADE AND OTHER RECEIVABLES (Continued)

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 98% (2008: 98%) of the trade receivables that are neither past due nor impaired have good credit rating.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB9,767,000 (2008: RMB1,330,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 365 days (2008: approximately 323 days).

The entire balance of the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB16,623,000 (2008: RMB16,623,000) which had been in severe financial difficulties. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts are as follows:

	RMB'000
At 1 January 2008	15,951
Impairment loss recognised on receivables	672
At 31 December 2008 and 2009	16,623

The Group would provide fully for all receivables over 2 years because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss is considered necessary based on the Group's assessment of the credit standings of the customers and the payment history.

At 31 December 2009, trade receivables of the Group amounting RMB18,073,000 (2008: RMB11,629,000) were denominated in foreign currency of United States dollars ("USD").

Retentions held by trade customers are expected to be realised after twelve months from the end of the reporting period.

20. PLEDGED BANK DEPOSITS

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

The deposits carry fixed interest rate at 0.36% (2008: ranging from 0.72% to 0.81%) per annum.

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry fixed interest rates ranging from 0.01% to 3.6% (2008: 0.01% to 3.15%) per annum and have original maturity of three months or less.

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

	2009 RMB'000	2008 RMB'000
Hong Kong dollars ("HKD")	**65,300**	32,175
USD	**13,083**	8,912
	78,383	41,087

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
0–90 days	**172,469**	327,798
91–180 days	**184,349**	64,418
181–365 days	**68,012**	11,659
Over 1 year	**52,856**	—
Trade payables	**477,686**	403,875
Other payables	**91,265**	68,210
	568,951	472,085

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

23. BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank loans and trust receipt loans	**419,210**	454,137
Analysed as:		
Secured	**281,800**	308,137
Unsecured	**137,410**	146,000
	419,210	454,137

The Group's borrowings are repayable:

	2009			2008		
	Fixed-rate borrowings RMB'000	**Floating-rate borrowings RMB'000**	**Total RMB'000**	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000
Within one year	**73,846**	**176,364**	**250,210**	194,137	40,000	234,137
More than one year, but not exceeding two years	**—**	**34,000**	**34,000**	—	85,000	85,000
More than two years, but not exceeding five years	**—**	**135,000**	**135,000**	—	135,000	135,000
	73,846	**345,364**	**419,210**	194,137	260,000	454,137
Less: Amounts due within one year shown under current liabilities	**(73,846)**	**(176,364)**	**(250,210)**	(194,137)	(40,000)	(234,137)
Amounts due after one year	**—**	**169,000**	**169,000**	—	220,000	220,000

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

	2009	2008
Effective interest rate:		
Fixed-rate borrowings	**5.31% to 5.76% per annum**	6.23% to 9.53% per annum
Variable-rate borrowings	**3.75% to 5.84% per annum**	4.86% to 7.74% per annum

23. BORROWINGS (Continued)

At 31 December 2009, borrowings of the Group amounting RMB28,410,000 (2008: RMB19,137,000) were denominated in foreign currency of USD.

At the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2009 RMB'000	2008 RMB'000
Expiring within one year	**106,889**	40,000
Expiring beyond one year	**—**	15,000
	106,889	55,000

24. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Ordinary shares of HK$0.01 each		
Authorised		
At 1 January 2008, 31 December 2008 and 31 December 2009	100,000,000,000	1,000,000

	Notes	**Number of shares**	**Nominal value** RMB'000
Issued and fully paid			
At 1 January 2008		816,927,787	8,422
Issue of shares upon exercise of share options	(i)	1,780,000	16
Shares repurchased	(ii)	(5,828,000)	(54)
At 31 December 2008		812,879,787	8,384
Issue of shares upon exercise of share options	(i)	24,497,000	216
Issue of shares to settle consideration for acquisition of subsidiaries in 2008 (note 29)	(iii)	31,879,888	281
Issue of shares for share placement	(iv)	62,000,000	546
At 31 December 2009		931,256,675	9,427

24. SHARE CAPITAL (Continued)

Notes:

(i) During the year, 24,497,000 (2008: 1,780,000) ordinary shares of HK$0.01 each in the Company were issued on exercise of share options under the share option scheme of the Company as set out in note 26 with proceeds of approximately HK$58,347,000 (equivalent to approximately RMB51,446,000 (2008: HK$3,961,000) (equivalent to approximately RMB3,564,000)).

(ii) During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Month of repurchase	Number of ordinary shares of HK$0.01 each repurchased	Price per share: Highest price paid HK$	Price per share: Lowest price paid HK$	Aggregate consideration paid RMB'000
2008				
June	258,000	3.00	2.88	671
July	428,000	3.10	2.79	1,158
August	560,000	2.88	2.39	1,331
September	270,000	2.00	1.90	482
October	2,400,000	1.00	0.73	2,023
November	476,000	1.38	1.12	548
December	1,436,000	1.48	1.20	1,803
	5,828,000			8,016

(iii) In May 2008, the Group entered into a sale and purchase agreement for the acquisition of two subsidiaries from Mr. Ji by the issue of a maximum of 31,879,888 ordinary shares of HK$0.01 each in the Company as part of the consideration. 31,879,888 shares of the Company have been issued during the year ended 31 December 2009. Details of the acquisition are set out in note 29.

(iv) On 21 July 2009, the Company has entered into placing and subscription agreement (the "Agreement") with Star Treasure (a private limited company wholly owned by Mr. Ji), Total Right Holdings Limited ("Total Right", a trustee holds the share award plan of the Company as set out in note 26 on the Company's behalf), and a placing agent.

Pursuant to the Agreement,

(a) 80,000,000 and 13,461,000 existing shares of the Company which are held by Star Treasure and Total Right, respectively, will be placed to independent third parties at a placing price of HK$7 per share;

(b) 62,000,000 new shares of the Company will be issued to Star Treasure at a subscription price of HK$7 per share; and

(c) 18,000,000 existing shares of the Company which had been issued to the employees of the Group in previous years upon exercise of share options will be purchased by Star Treasure at a price of HK$7 per share.

The placing and subscription was completed on 28 July 2009, with the 62,000,000 new shares being issued to Star Treasure on the same day. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company on 15 May 2009 and rank pari passu with other shares in issue in all respects.

25. DEFERRED TAX LIABILITY

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

	Fair value adjustments on business combinations RMB'000
At 1 January 2008	21,896
Acquired on acquisition of subsidiaries (note 29)	11,420
Credit to profit or loss	(2,081)
At 31 December 2008	31,235
Credit to profit or loss	(3,213)
At 31 December 2009	28,022

At the end of the reporting date, the Group had unused tax losses of approximately RMB7,526,000 (2008: RMB5,614,000). No deferred tax asset has been recognised in respect of any the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years from the dates of incurrence.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to consolidated accumulated profits of PRC subsidiaries amounting RMB404.9 million (2008: RMB208.0 million) as 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.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

26. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the date of listing. The limit may be increased to 10% of the then issued share capital of the Company from time to time upon shareholders' approval at a general meeting of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time unless prior approval has been obtained from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

As at 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,383,000 (2008: 47,880,000), representing approximately 2.5% (2008: 5.9%) of the then issued share capital of the Company.

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

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

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

Category	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.1.2008	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2009
Directors	23.2.2006	23.2.2008 to 22.2.2016	2.225	11,600,000	(700,000)	—	10,900,000	(2,600,000)	—	8,300,000
				11,600,000	(700,000)	—	10,900,000	(2,600,000)	—	8,300,000
Employees	23.2.2006	23.2.2008 to 22.2.2016	2.225	25,200,000	(1,080,000)	(1,140,000)	22,980,000	(17,957,000)	—	5,023,000
	7.2.2007	7.2.2009 to 6.2.2017	3.200	7,000,000	—	—	7,000,000	(3,940,000)	—	3,060,000
	7.2.2007	7.2.2010 to 6.2.2017	3.200	7,000,000	—	—	7,000,000	—	—	7,000,000
				39,200,000	(1,080,000)	(1,140,000)	36,980,000	(21,897,000)	—	15,083,000
Total				50,800,000	(1,780,000)	(1,140,000)	47,880,000	(24,497,000)	—	23,383,000
Exercisable at year end							33,880,000			16,383,000
Weighted average exercise price (HK$)					2.225	2.225		2.664	—	

For the year ended 31 December 2009, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$7.63 (2008: HK$3.47).

The Group recognised the share-based payment expense of RMB1,990,000 for the year ended 31 December 2009 (2008: RMB6,945,000) in relation to share options granted by the Company.

Share award plan

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

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

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share award plan (Continued)

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

During the year ended 31 December 2008, 13,461,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$19,010,000 (equivalent to approximately RMB16,902,000).

Following the adoption of the Plan, the management of the Company has further communicated with its PRC lawyers and noticed that if the Board of Directors decides to award any share to potential eligible employees (most of them being PRC citizens employed in the PRC), the Company will be required to comply with several PRC regulations, which also increase the administration burden and affect the Company's preparation of its consolidated financial statement.

As a result, a resolution has been passed by the board of directors to terminate the Plan on 21 July 2009 in accordance with its rules and procedures. At no time prior to the termination of the Plan had any participants been awarded any share under the Plan. Details of the termination are set out in the Company's announcement dated 21 July 2009.

27. CAPITAL RISK MANAGEMENT

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

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

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

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loan and receivables:		
Trade and other receivables	**782,496**	662,929
Amounts due from related parties	**21,233**	110,690
Pledged bank deposits	**113,746**	73,645
Bank balances and cash	**644,668**	439,160
	1,562,143	1,286,424
Available-for-sale financial assets:		
Available-for-sale investments	**4,961**	4,961
	1,567,104	1,291,385
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	**484,485**	407,205
Amounts due to related parties	**559**	179,831
Borrowings	**419,210**	454,137
	904,254	1,041,173

(b) Financial risk management objectives and polices

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

Market risk

(i) Currency risk

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

28. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**65,300**	32,175	**—**	—
USD	**31,156**	20,541	**28,410**	19,137
	96,456	52,716	**28,410**	19,137

Sensitivity analysis

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

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

	HKD		USD	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year	**(3,265)**	(1,609)	**(130)**	(67)

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

28. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk

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

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of borrowings. The analysis is prepared assuming the amount of the outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease/increase by RMB1,726,000 (2008: RMB1,300,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

28. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

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

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

Liquidity risk

The Group has net current assets amounting to approximately RMB1,222,364,000 at 31 December 2009 (2008: RMB740,220,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flows from operations.

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

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

Liquidity risk tables

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount at 31 December 2009 RMB'000
2009								
Non-derivative financial liabilities								
Trade and other payables	—	204,554	157,501	84,002	38,428	—	484,485	484,485
Amounts due to related parties	—	559	—	—	—	—	559	559
Borrowings	4.74%	62,675	111,858	82,578	182,986	—	440,097	419,210
		267,788	269,359	166,580	221,414	—	925,141	904,254

28. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity risk tables (Continued)

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

The amounts included above for variable interest rate investments for non-derivative financial liabilities is subject to change of changes in variable interest notes determined at the end of reporting period.

(c) Fair value

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

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

The Group has no financial instruments that are measured subsequently to initial recognition at fair value at the end of the reporting period.

29. ACQUISITION OF SUBSIDIARIES

(i) For the year ended 31 December 2009

On 25 October 2009, the Group acquired the entire equity interest of 長沙瑞生電子科技有限公司 Changsha Ruisheng Electronic Company Limited ("Changsha Ruisheng") at a cash consideration of RMB1,000,000. The transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction are as follows:

	2009 Acquiree's carrying amount before combination and fair value RMB'000
Net assets acquired:	
Property, plant and equipment	229
Prepaid lease payments	31,824
Trade and other receivables	4,206
Bank balances and cash	616
Trade and other payables	(35,875)
	1,000
Total consideration satisfied by:	
Cash	1,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(1,000)
Bank balances and cash acquired	616
	(384)

During the year ended 31 December 2009, the subsidiary acquired contributed a loss of approximately RMB127,000 to the Group's profit for the year between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total group revenue for the year would have been RMB1,082,294,000, and profit for the year would have been RMB262,010,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

29. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) For the year ended 31 December 2008

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

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

(b) the remaining balance of the consideration, which was determined based on the net profit after tax of Hunan Weiming for the year ended 31 December 2008 multiplied by a price-earnings ratio of 6 times and deducting the First Payment but in any event shall not be more than RMB101,000,000, was satisfied by issue and allotment of new shares of the Company (the "Consideration Shares") within 30 days from the day on which the audited accounts of Hunan Weiming prepared under the PRC Generally Accepted Accounting Practice for the year ended 31 December 2008 had been issued by the auditor appointed by the Company, which was issued in the first half of 2009. The Consideration Shares were determined at a deemed price of HK$3.58 per share pursuant to the relevant sale and purchase agreement. 31,879,888 Consideration Shares have been issued by the Company during the year ended 31 December 2009.

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

29. ACQUISITION OF SUBSIDIARIES (Continued)

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

The net assets acquired in the transaction, 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	25,639	16,233	41,872
Prepaid lease payments	52,687	—	52,687
Intangible assets (Note a)	7	70,836	70,843
Available-for-sale investment	4,961	—	4,961
Inventories	3,845	—	3,845
Trade and other receivables	13,271	—	13,271
Amounts due from related parties	62,958	—	62,958
Bank balances and cash	1,251	—	1,251
Trade and other payables	(2,075)	—	(2,075)
Amounts due to related parties	(34,660)	—	(34,660)
Borrowings	(98,000)	—	(98,000)
Deferred tax liabilities	—	(11,420)	(11,420)
	29,884	75,649	105,533
Goodwill			53,495
			159,028
Total consideration satisfied by:			
Cash			49,000
Consideration shares (Note b)			110,028
			159,028
Net cash outflow arising on acquisition:			
Cash consideration paid			(49,000)
Bank balances and cash acquired			1,251
			(47,749)

29. ACQUISITION OF SUBSIDIARIES (Continued)

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

Notes:

(a) Intangible assets identified separately by the Group upon the acquisition mainly comprises of customer relationship and contracts, technology, and premium on land.

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

The subsidiaries acquired contributed approximately RMB24,281,000 to the Group's profit for the period between the date of acquisition and 31 December 2008.

The director consider the goodwill arising on acquisition of subsidiaries for the year ended 31 December 2008 is attributable to the anticipated future operating synergies of the Group's business of development, manufacture and sale of electronic meters after the acquisitions.

If the acquisition had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been RMB1,067,065,000, and profit for the year ended 31 December 2008 would have been RMB264,782,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

30. OPERATING LEASE COMMITMENTS

The Group as lessee

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**4,243**	3,793

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**2,155**	2,494
In the second to fifth year inclusive	**2,328**	1,147
	4,483	3,641

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

31. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**94,983**	7,642

32. RELATED PARTY DISCLOSURES

(i) Transactions

Company/individual	Transactions	2009 RMB'000	2008 RMB'000
Changsha Weihua Property Development Ltd. ("Weihua Property") (Note a)	Rental expense paid	—	729
Liang Ke Nan ("Mr. Liang") (Note b)	Rental expense paid	226	254

Notes:

(a) The Group entered into a lease agreement with Weihua Property under which the Group was granted the right to use a manufacturing plant. Mr. Ji has controlling interest in Weihua Property. The lease agreement has been expired during the year ended 31 December 2008.

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

In addition, during the year ended 31 December 2008, the Group has acquired two subsidiaries from Mr. Ji. Details are set out in note 29.

(ii) Balances

(a) Particulars of amounts due from related parties

			Maximum amounts outstanding for the year ended 31 December	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Companies controlled by certain directors of the Company	21,233	110,690	110,690	110,690

The amounts are unsecured, interest-free and expected to be recovered within one year.

32. RELATED PARTY DISCLOSURES (Continued)

(ii) Balances (Continued)

(b) Particulars of amounts due to related parties

	2009 RMB'000	2008 RMB'000
Mr. Liang	**559**	38,224
Companies controlled by certain directors of the Company	**—**	141,607
	559	179,831

The amounts are unsecured, interest-free and repayable on demand.

(iii) Credit facilities

Details of the borrowings of the Group which are secured by assets held by related parties are as follows:

Related party	Assets pledged as securities by the related party	Banking facilities utilised by the Group 2009 RMB'000	Banking facilities utilised by the Group 2008 RMB'000
Weihua Property	Property, plant and equipment	**7,800**	20,000
Hunan Classic Investment Co., Ltd. ("Hunan Classic") (Note)	Leasehold land	**—**	40,000

Note: Certain directors of the Company have beneficial interests in Hunan Classic.

32. RELATED PARTY DISCLOSURES (Continued)

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

	2009 RMB'000	2008 RMB'000
Short-term benefits	**4,106**	3,982
Retirement benefit scheme contributions	**67**	72
Share-based payment expense	**23**	1,021
	4,196	5,075

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

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly		Indirectly		Principal activities
			2009	2008	**2009**	2008	
Oceanbase Group Limited	BVI/Hong Kong	US$1,000,000	**100%**	100%	**—**	—	Investment holding
Power Well Creation Limited	Hong Kong	HK$2	**100%**	100%	**—**	—	Investment holding
Changsha Wasion Industrial Investment Company Limited ("Wasion Industrial") (note (iii))	The PRC	RMB60,000,000	**—**	—	**100%**	100%	Investment holding
Changsha Weisheng Energy Industrial Technology Company Limited ("Weisheng Energy") (note (ii))	The PRC	HK$50,000,000	**—**	—	**100%**	100%	Development, manufacture and sale of energy saving products
Changsha Weisheng Enterprise Management Company Limited ("Weisheng Enterprise") (note (iv))	The PRC	RMB3,000,000	**—**	—	**—**	100%	Provision of enterprise management consultancy

33. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly		Indirectly		Principal activities
			2009	2008	**2009**	2008	
Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (note (iii))	The PRC	RMB2,000,000	**—**	—	**100%**	100%	Trading of power meters
Changsha Weisheng Information Technology Company Limited ("Weisheng Information") (note (ii))	The PRC	RMB250,000,000	**—**	—	**100%**	100%	Development, manufacture and sale of power meters, data collection terminals and related services
Changsha Ruisheng (note (iii))	The PRC	RMB10,000,000	**—**	—	**100%**	—	Dormant
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	**—**	—	**100%**	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited ("Hunan Weike") (note (ii))	The PRC	HK$50,000,000	**—**	—	**100%**	100%	Development, manufacture and sale of power meters
Hunan Weiming (note (ii))	The PRC	HK$50,000,000	**—**	—	**100%**	100%	Development, manufacture and sale of water, gas and heat meters
Wasion Group Limited (previously known as Changsha Weisheng Electroncis Company Limited) ("Changsha Weisheng") (note (i))	The PRC	RMB450,000,000	**—**	—	**100%**	100%	Development, manufacture and sale of power meters
Wasion Singapore Private Limited	Singapore	SG$1,000,000	**—**	—	**100%**	—	Inactive
Wasion Technology Shenzhen Company Limited ("Wasion Shenzhen") (note (iii))	The PRC	RMB10,000,000	**—**	—	**100%**	—	Development and sale of power meters

33. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

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

(ii) Weisheng Energy, Weisheng Information, Hunan Weike and Hunan Weiming are sino-foreign enterprises.

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

(iv) Weisheng Enterprise was a limited liability company established in the PRC and has been deregistered during the year.

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

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

Financial Summary

RESULTS

	Year ended 31 December				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
Profit for the year	115,972	151,736	212,896	261,530	**262,041**

ASSETS AND LIABILITIES

	As at 31 December				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
Total assets	744,195	929,613	1,915,555	2,543,842	**3,176,027**
Total liabilities	(272,609)	(343,737)	(692,277)	(1,158,739)	**(1,028,152)**
Shareholders' funds	471,586	585,876	1,223,278	1,385,103	**2,147,875**