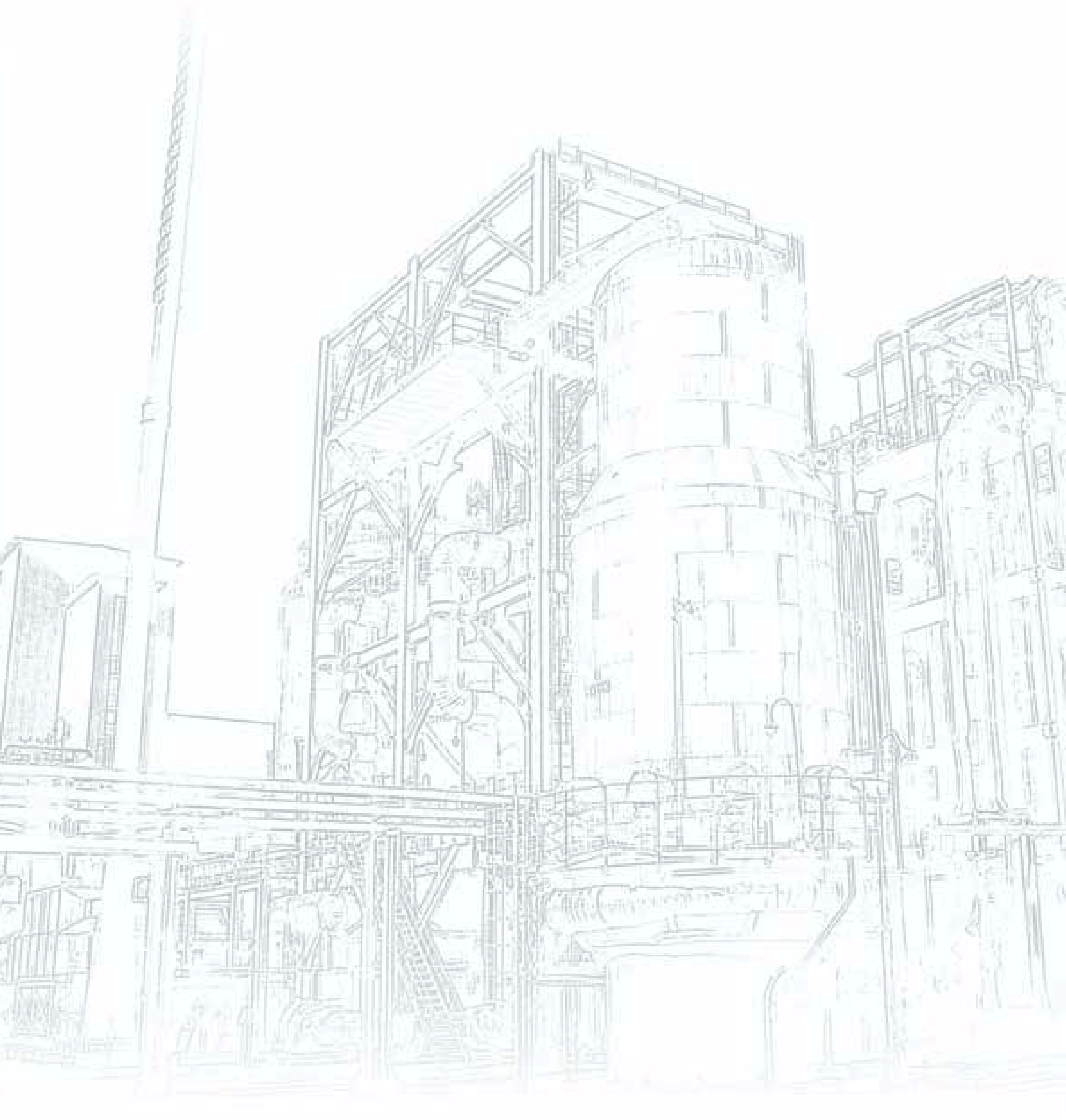
China Automation Group Limited
中國自動化集團有限公司

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

Apply Tomorrow's Technology,
Safeguard Security Today

ANNUAL REPORT 2010



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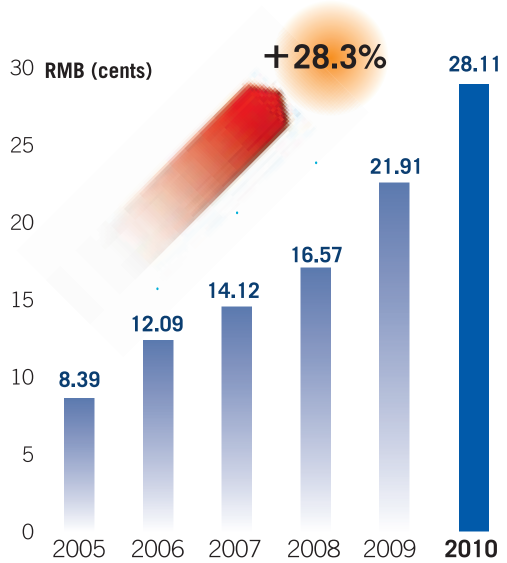
COMPANY PROFILE

China Automation Group Limited (the "Company") was established in 1999 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007. The Company and its subsidiaries (collectively referred to as the "Group") specialize in providing safety and critical control systems, together with related engineering and maintenance services to petrochemical and railway industries. The Group holds the leading positions in both industries. It is the largest integrated solution provider of safety and critical control systems for petrochemical industry and one of the largest solution providers of signaling systems for railway industry in the People's Republic of China (the "PRC"). The main products of the Group include Integrated Turbine and Compressor Control System ("ITCC"), Emergency Shutdown Devices ("ESD"), and Fire and Gas Systems ("FGS") for petrochemical sector, and Railway Interlocking Systems ("RIS"), Contralised Traffic Control System ("CTC"), Train Control Centre System ("TCC"), and Automated Train Supervision ("ATS") for railway sector. In 2011, the Group will also produce automatic control valves for the petrochemical industry. Leveraging its strong engineering capabilities and extensive distribution network, the Group's endeavors to become one of the key industrial automation system providers in the world.

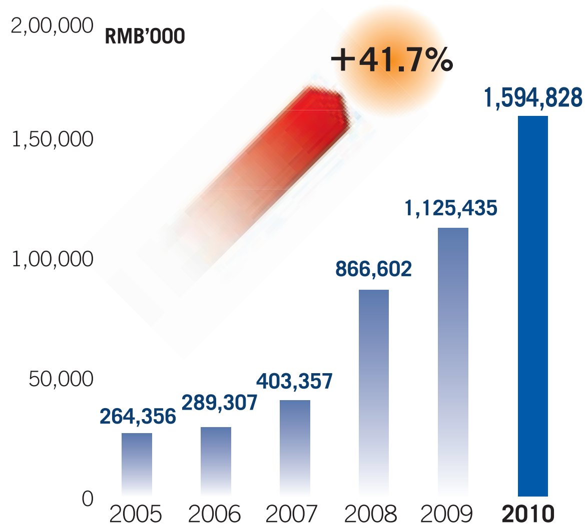
FINANCIAL HIGHLIGHTS

	2010 RMB'000	2009 RMB'000	Growth (%)
Turnover	**1,594,828**	1,125,435	41.7
Profit attributable to equity holders of the company	**285,581**	212,088	34.7
Earnings per share - basic - diluted	 **RMB28.11 cents** **27.94**	 RMB21.91 cents 21.66	 28.3 29.0
Dividend per share	**7.0 HK cents**	5.0 HK cents	40.0

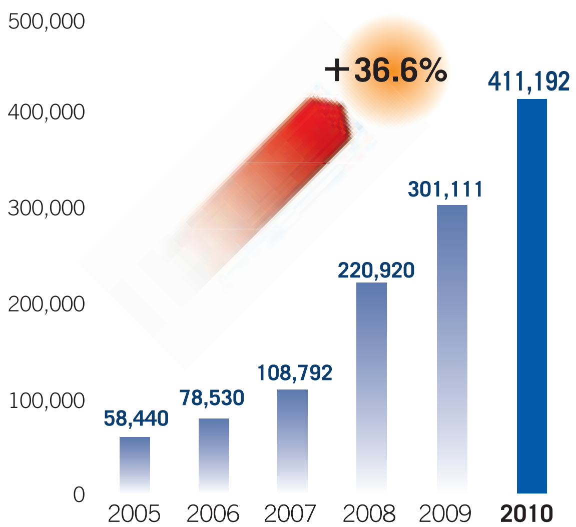
Earnings Per Share - Basic



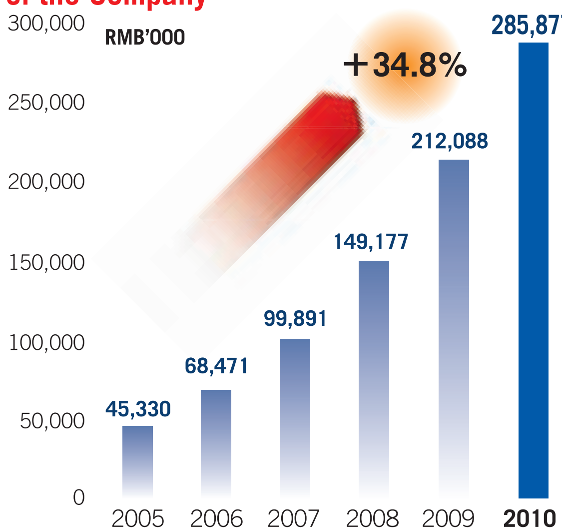
Turnover



EBITDA*



Profit Attributable to Equity Holders of the Company



* EBITDA figures shown are before duduction of share-based payment expenses and translational gain / loss.

CHAIRMAN'S STATEMENT

Dedicated to providing top quality high-tech products and services and creating safe and secured environment for our people

China Automation Group will adopt various measures to capture the enormous business opportunities presented by the State's Twelfth Five-Year Plan. With regards to the railway business, the Group will focus on optimizing its existing product mix and accelerating R&D to develop urban rail and high-speed related products. As for the petrochemical business, the Group will continue to deploy resources in R&D to enhance the development of the hardware and software of its products, expand addressable industries for its existing technology and products, as well as enlarge coverage of its installed base for after-sales engineering and maintenance services.

On behalf of the Board of Directors (the Board) of the Company, I am pleased to report the audited annual results of the Company and its subsidiaries (the Group) for the year ended 31 December, 2010.

The global economy gradually recovered from the international financial crisis in 2010. The role China played in driving the rebound of the global economy is indispensable. China overtook Japan for the first time as the world's second-largest economy in 2010. Along with the railway construction continued to accelerate in the year of 2010, the final phase of the Eleventh Five-Year Plan, the Group's railway signaling business achieved a substantial growth. Meanwhile, following the gradual recovery of the Chinese economy, the Group's petrochemical business recorded stable growth as well.

We, as the largest integrated solutions provider of safety and critical control systems for petrochemical industry and one of the largest solution providers of railway signaling systems in China, are dedicated to providing top quality high-tech products and services

and creating safe and secured environment for our people. Leveraging on our unparalleled competitive edge and great tracking records in railway signaling systems and petrochemical safety and critical control systems, the Group continued to receive outstanding results from our two business sectors by taking the opportunities of economic recovery and favorable national policies. During the year under review, turnover of the Group amounted to RMB 1,594.8 million (2009: RMB 1,125.4 million), representing growth of 41.7% as compared with that of last year. Gross profit rose 36.6% to RMB 667.9 million (2009: RMB 488.9 million). Profit attributable to shareholders increased by 34.7% to RMB 285.6 million (2009: RMB 212.1 million). Earnings per share rose 28.3% to RMB 28.11 cents. The Board proposed declaring a final dividend of HK$7 cents per share for the year, representing an increase of 40.0% when compared with the previous year.

Railway Signaling Industry Gathers Steam, Thanks to State Policies

As the Chinese economy developed rapidly in recent years, the country has increased its investment in building an optimized and upgraded railway network. During the Eleventh Five-Year Plan period, total investment in railway infrastructure in China reached 1,980 billion, 6.3 times of the total investment in the Tenth Five-Year Plan period. The investment enabled 14,700 km of new lines to be built, two times of the total length built in the Tenth Five-Year Plan period. By the end of 2010, the operational mileage of the railway in China had grown to 91,000 km. Chinese government continues to invest in infrastructure presented an excellent opportunity for development of the country's railway and transportation industry. This opportunity allowed the Group to rapidly expand its railway signaling business as well.

Beijing Jiaoda Microunion Technology Co., Ltd ("BJM"), a subsidiary of the Group engaged in the railway signaling business, is one of the four largest safety and critical control system providers for railway interlocking systems in China. It is also one of eight general contractors approved by the National Development and Reform Commission for urban rail transit projects. In 2010, the Group successfully received orders from clients such as the Ministry of Railway and urban rail transit authorities. The Group made ongoing progress as well for metro projects of Beijing Subway Line Number 15 and Chongqing Monorail Line Number 3. As the Group actively participated in tenders, the proportion of overall turnover from its railway business continued to increase during the year, rising from 48.8% in 2009 to 50.2% in 2010. In early 2011, the Group won a contract to supply its railway interlocking system ("RIS") to Beijing-Shijiazhuang-Wuhan high-speed rail line valued at approximately RMB96 million, which further reinforced the market leading position of the Group in the railway signaling industry.

ABB Microunion Launches Operation, Enriches Product Mix

The Group established an associate named ABB Microunion Traction Equipment Limited ("ABB Microunion") with a world leading manufacturer of energy and automation systems, ABB China. ABB Microunion is engaged in the production, development and sales of traction converters and provision of technical and after-sales services. During the year under review, ABB Microunion successfully commenced operations in the second half of 2010. The Group believes that ABB Microunion will further expand the Group's railway product lines.

Consolidating Leading Position in Petrochemical Industry, the Group Expands its Business to Automatic Control Valves

As for the petrochemical business, with the on-going technological innovations, the Group continues to have over 70% of market share in the petrochemical safety and critical control systems. The Group also maintains long-term and harmonious co-operation relationships with reputable clients such as China Petroleum & Chemical Corporation and China National Petroleum Corporation.

Besides organic growth, the Group is actively seeking enterprises which have high synergies with the Group's existing petrochemical at loss business. The Group has signed a cooperation framework agreement with NingXia YinXing Energy Company Limited (NingXia YinXing Energy), the largest control valve manufacturer in China, to establish a joint venture named Wuzhong Instrument Co., Ltd. ("Wuzhong Instrument"). Wuzhong Instrument began independent operations in August 2010. Wuzhong Instrument will enable the Group to enter the control valve business and extend its product mix from the existing controller to control valves for the petrochemical, coal-chemical and chemical industries. Wuzhong Instrument will create an additional engine for the Group to grow in the long run. In January 2011, the Group entered into a purchase agreement to increase the effective interest in Wuzhong Instrument to 50%, thus the Group would have more flexibility in handling the investment in and the profit from Wuzhong Instrument.

Performance in Capital Market is Recognised

Apart from business development, the Group's performance in the capital market was widely recognized by many external parties. In September 2010, the Group was selected as a constituent of the Hang Seng Composite Index and its sub-divided indexes, namely the Hang Seng Composite Industry Indexes - Information Technology and the Hang Seng Composite Small Cap Index. Being the index constituent indicated the Group had reached a considerable level in capital value and liquidity in the stock market and showed the recognition of the Group by investors. In addition, the Group was selected as "200 Best Under A Billion" in the Asia-Pacific region by Forbes, a well-known U.S. financial magazine in November 2010, representing the Group's solid strength in terms of profit and sales growth as well as return on equity.

Strategy and Prospects

Following the end of the Eleventh Five-Year Plan, the Twelfth Five-Year Plan, the blueprint of China's strategic development in next five years, was launched by the end of 2010. As stated in the Twelfth Five-Year Plan, the coming five years will be a crucial stage for in-depth economic reform and opening-up, as well as for accelerated transformation of economic development pattern. The plan indicates that China will speed up the construction of transportation passways in the next five years to build the networks of express rail and expressway and to develop high-speed railway. During this five-year transitional period, China will also accelerate petrochemical industry's structural adjustment to meet the demands of upgraded industries for higher standard petrochemical products. The Group will adopt various measures to capture the enormous business opportunities presented by the State's Twelfth Five-Year Plan, to further consolidate its market leading positions in both railway and petrochemical industries.

With regards to the railway business, the Group will focus on optimizing its existing product mix and accelerating R&D to develop urban rail and high-speed related products. As for the petrochemical business, the Group will continue to deploy resources in R&D to enhance the development of the hardware and software of its products, expand addressable industries for its existing technology and products, as well as enlarge coverage of its installed base for after-sales engineering and maintenance services. Apart from strengthening the Group's leading position in two business sectors, the Group will also seek business partners which have high synergies with the Group's existing businesses in a prudent manner.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to express my appreciation to our customers, business partners and shareholders for their continued support for the Group. I also like to thank every member of our staff for their contribution to the Group during the year. Capitalizing on our unique competitive edge, clear development strategies and experienced professional management team, the Group will continue to maximize returns for our shareholders and continue to create remarkable results.

Xuan Ruiguo
Chairman
Hong Kong
17 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION AND BUSINESS REVIEW

During the year under review, the Group has made the following marketing and operational achievements.

Railway Signaling Industry

(i) Marketing

In 2010, the Group achieved strong organic growth in the railway segment following the consistent and tremendous investments in new stations and renovations of old stations by the Ministry of Railways over the past years in the PRC. The Group maintained its leading position and market share in national railway market. As at 31 December 2010, the Group delivered approximately 251 systems, bringing the cumulative number of delivered systems to approximately 1,251. In addition, the Group also revamped 492 aged Railway Interlocking Systems ("RIS"), Centralized Traffic Control Systems ("CTC"), and other monitoring systems.

The Group completed the Section A of Phase I of Beijing Subway Line No. 15, which commenced commercial operation in December 2010. The successful launch of the Section A is considered as a great achievement of the Group. It demonstrated strong operation capacity of the Group as a general contractor for urban rail transit project, and it created a solid foundation for the Group to win urban rail transit signaling projects in the future.

During the year, the Group won a succession of conventional and high-speed rail, and urban rail transit projects. The Group was awarded contracts to supply its RIS to Beijing-Shijiazhuang-Wuhan high-speed rail line, as well as Phase II of Chongqing Monorail Line Number 3 project.

The scope of engineering and maintenance services has been broadened. More and more free lifetime maintenance services have been replaced by two- to three-year free maintenance, which will significantly improve the Group's revenue from the railway sector in the years ahead.

(ii) Research and development

The Group's persistent efforts in R&D have yielded substantial results. The Group has extended its product range from RIS to CTC, Train Control Center ("TCC"), and Automatic Train Supervision ("ATS"). In addition, the Group has taken the opportunity of cooperation with the foreign company for Beijing Subway Line Number 15 to accelerate the development and localization of on-board signaling products for urban rail transit project, such as Automatic Train Protection ("ATP") and Automatic Train Operation ("ATO"), so as to expand its signaling product series.

Petrochemical Industry

(i) Marketing

Leveraging on the key competitive advantages of the Group, its software customization ability, its localized after sales services, and its good product application track records, the Group maintained its leading position in petrochemical and coal-chemical industries in the PRC in 2010. By consolidating and refining its marketing and operating strategies, the Group has been gradually expanding the down stream petrochemical markets and developing the upstream petrochemical markets. The management believes the Group is in an excellent position to capture opportunities in the emerging market so as to increase its market share.

As at 31 December 2010, the Group successfully completed and delivered approximately 258 systems, bringing the cumulative number of delivered systems to approximately 1,858. The Group's safety and critical control systems have been widely applied in petrochemical, coal-chemical, and chemical industries. With a large and expanding installation base and widespread popularity of the customized maintenance services package, revenue generated from provision of engineering and maintenance services increased significantly in 2010. Besides, the Group has expanded its safety and critical control business to the upstream Oil & Gas pipeline market as well as other industries such as metallurgy and wind energy.

The Group was continuously awarded large-scale projects from famous petrochemical, coal-chemical and energy companies, such as Sinopec, PetroChina, CNOOC, Shenhua Group, China Datang Corporation, and Yanzhou Coal Mining Limited.

The Group's outstanding performance and track record in safety and critical control systems resulted in wide recognition by the industries. The Group obtained suppliers qualification approvals from GE Oil & Gas, MAN Turbo, Hitachi, Kobelco, Air Product, Air Liquide, Siemens, Atlas Copco, Mitsubishi, Dresser Rand, Elliott-Ebara, and YORK. The cooperation with OEMs has increased the Group's exposure to potential customers, thus helped its business expansion.

(ii) Research and development

The Group has developed and commercialized several products to provide additional functions to existing safety and critical systems, such as iMEC (Intelligent Machinery Expert Control), iSOM (Intelligent Safety Operation Management), and ITCC-OTS (Operator Training System). These new products started generating revenue and enjoyed a high margin in 2010. The Group had also completed several research projects of safety and critical control systems in TMC (turbo-machinery control) product series. These products have been applied for middle and low-end users. The Group has been constantly developing turbine and compressor control system related softwares to enhance its competitiveness of product and technology. As at 31 December 2010, the number of Group's nationwide software copyrights increased to 24.

INVESTMENT AND M&A

Apart from striving for organic growth, the Group is proactively seeking value-enhancing acquisitions to add further growth momentum which cannot be derived from organic growth. In 2010, the Group made a number of acquisitions to expand its business scope, optimize its product mix, and consolidate its leading position.

Wuzhong Instrument

In January 2011, the Group increased its equity interests in Wuzhong Instrument from 25% to 50%, with the total consideration amounted to RMB180 million. Wuzhong Instrument is engaged in the provision of industrial automation control valves. Control valves are used to control conditions such as flow, pressure, temperature, and liquid level by fully or partially opening or closing in response to signals received from controllers. Control value can be widely applied to various industries, such as petrochemical, coal-chemical, chemical, power, iron & steel and metallurgy industries. Wuzhong Instrument was the largest state-own control valve manufacturer in the PRC and has around 50 years of history. It won ISO9001 and ISO14001 certificates, and has been awarded the honorable title of State New & High-tech Enterprise. Wuzhong Instrument commenced operation in August 2010. The Group plans to acquire a further 30% equity interest in Wuzhong Instrument in 2011 so as to take greater control of its financial and operational policies. The acquisition of Wuzhong Instrument is a strategic move of the Group to get involved in the control valve business. This can horizontally expand the Group's product range from existing controller to control valve in petrochemical, coal-chemical, and chemical industries. In addition, the management of the Group believes this new control valve business possesses excellent synergy with its existing safety and critical control business.

Zhongjing

The Group also completed the acquisition of 70% equity interests of Zhongjing Engineering Software Technology Company Limited ("Zhongjing") at a consideration of RMB25 million in December 2010. Zhongjing is primarily engaged in the engineering and construction design of petrochemical plants and own EPC certification. The acquisition will bring synergy to the Group by extending its petrochemical business scope to the areas of whole package of petrochemical automation systems as well as petrochemical engineering design, so as to expand the product and service types and diversify its profit streams.

ABB Microunion

The Group established an associate with ABB (China) Limited, namely ABB Microunion, which commenced operation in first half of 2010. ABB Microunion is engaged in the R&D, design, manufacture, sales, and import/export of traction converters, auxiliary converters, and their spare parts in the PRC. It is located in the Science Park of Guangzhou´s New and High Technology Development Zone, covering a site measuring about 5,000 square meters. Traction converters and traction motors are the key devices applied to ensure the safe and reliable operation of railways, metros and light rail vehicles. ABB Microunion has successfully delivered the first set of systems to the client of the Shenzhen Metro Line No. 4 project. With the establishment of the associate, the Group has expanded its core railway signaling system business to traction converters and control systems used on trains.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2010, revenue of the Group increased by 41.7% to RMB1,594.8 million (2009: RMB1,125.4 million), compared with the previous year.

Revenue generated from petrochemical segment significantly increased by 37.8% to RMB793.9 million (2009: RMB576.2 million), whereas revenue generated from railway segment tremendously increased by 45.8% to RMB801 million (2009: RMB549.2 million) for the year ended 31 December 2010.

Turnover analysis by operating segment

	For the year ended 31 December				
	2010		2009		Change
	(RMB' million)	**%**	(RMB' million)	%	(%)
Petrochemical	**793.8**	**49.8**	576.2	51.2	37.8
Railway	**801.0**	**50.2**	549.2	48.8	45.8
	1,594.8	**100.0**	1,125.4	100.0	41.7

Turnover analysis by types of goods supplied and services rendered

	For the year ended 31 December				
	2010		2009		Change
	(RMB' million)	**%**	(RMB' million)	%	(%)
System sales					
– Petrochemical	**587.8**	**36.9**	452.6	40.2	+29.9
– Railway	**588.9**	**36.9**	424.6	37.7	+38.7
Sub-total	**1,176.7**	**73.8**	877.2	77.9	+34.1
Provision of engineering and maintenance services	**145.7**	**9.1**	97.9	8.7	+48.8
Distribution of equipment	**272.4**	**17.1**	150.3	13.4	+81.2
Total	**1,594.8**	**100.0**	1,125.4	100.0	+41.7

System sales to petrochemical industries

For the year ended 31 December 2010, revenue generated from system sales in relation to petrochemical industries increased by 29.9% to RMB587.8 million (2009: RMB452.6 million). The significant growth was mainly attributable to several reasons: (i) the Group completed quite a considerable number of coal chemical projects in light of the revival of the coal chemical projects (which were delayed in the previous year) thanks to the recovery of global economy, the anticipated rise of international oil price, as well as the increasing cost in natural gas; (ii) newly developed systems such as iMEC, iSOM, ITCC (OTS) started generating revenue; (iii) the Group explored the local chemical and fertilizer industry markets; (iv) expansion of existing products into new industries such as metallurgy and wind energy industries; and (v) the Group proactively adjusted its operating and marketing strategies to gradually develop the middle and downstream petrochemical markets; it also tapped the upstream oil & gas pipeline market.

System sales to railway industries

For the year ended 31 December 2010, revenue generated from system sales in relation to railway industries increased by 38.7% to RMB588.9 million (2009: RMB424.6 million). The significant increase was mainly attributable to (i) significant organic growth in the national railway segment following the consistent and tremendous investments in new stations and renovation of old stations by the Ministry of Railways over the past years in China; (ii) the Group's ability to grasp the opportunities to expand its urban rail transit business, in which the Group completed the first section of Phase I of Beijing Subway Line Number 15 and part Phase I of Chongqing Monorail Line Number 3 and (iii) newly developed systems such as ATS and TCC started generating revenue.

Provision of engineering and maintenance services

For the year ended 31 December 2010, revenue generated from the provision of engineering and maintenance services increased by 48.8% to RMB145.7 million (2009: RMB97.9 million). The increase was mainly due to (i) the large and expanding installation base as well as the wide acceptance by the clients of the customized maintenance services framework packages offered by the Group to the petrochemical business; and (ii) growth in engineering services businesses for the petrochemical business segment.

The management of the Group believes that more recurring income related to maintenance services will be generated as a rising number of aged installations need to be replaced following the end of their life cycle.

Distribution of equipment

For the year ended 31 December 2010, revenue in relation to equipment distribution increased by 81.2% to RMB272.4 million (2009: RMB150.3 million). The management of the Group considered the equipment distribution business incidental to its core system sales and provision of engineering and maintenance services business. Therefore it is not the core business.

In terms of types of goods and services rendered, 73.8% (2009: 77.9%) of the Group's revenue was generated from system sales, 9.1% (2009: 8.7%) from the provision of engineering and maintenance services, and 17.1% (2009: 13.4%) from equipment distribution.

In addition, in terms of operating segment, 49.8% (2009: 51.2%) of the Group's revenue was generated from petrochemical and 50.2% (2009: 48.8%) from railway.

Gross profit

Gross profit for the year ended 31 December 2010 amounted to RMB667.9 million (2009: RMB488.9 million), representing an increase of RMB179 million or 36.6% over the previous year.

The overall gross profit margin was 41.9% (2009: 43.4%) for the year ended 31 December 2010, representing a decrease of 1.5% year-on-year.

Gross profit analysis by types of goods supplied and services rendered

	For the year ended 31 December		
	2010 (%)	2009 (%)	Change (%)
System sales			
– Petrochemical	**45.5**	43.6	+1.9
– Railway	**43.5**	45.9	-2.4
Sub-total	**44.5**	44.7	-0.2
Provision of engineering and maintenance services	**68.0**	72.3	-4.3
Distribution of equipment	**17.0**	17.2	-0.2
Total	**41.9**	43.4	-1.5

Gross profit margin of system sales in relation to petrochemical industries

The gross profit margin increased by 1.9% to 45.5% (2009: 43.6%) due mainly to (i) the favourable change in the product mix of which the proportion of revenue related to the higher-margin ITCC systems increased relative to ESD and FGS; and (ii) the contribution from the higher-margin new systems such as iMEC, iSOM, ITCC (OTS) involving a higher level of software works.

Gross profit margin of system sales in relation to railway industries

The gross profit margin decreased by 2.4% to 43.5% (2009: 45.9%). The decrease in margin was mainly due to the lower-margin revenue generated from local railway industries notably metallurgy and iron & steel as well as the increase in hardware price resulted from appreciation of Japanese yen.

Gross profit margin of the provision of engineering and maintenance services

The overall gross profit margin decreased year-on-year by 4.3% to 68% (2009: 72.3%). The decrease in margin was mainly due to the increase in revenue of the proportion of lower margin spare part replacement and hardware renewal.

The management of the Group expects that given a large and expanding installation client base for both the petrochemical and railway business, there is huge potential for the after sales engineering support services to become a significant and stable source of recurring revenue.

Gross profit margin of distribution of equipment

For the year ended 31 December 2010, the gross profit margin of the equipment distribution business decreased by 0.2% to 17% (2009: 17.2%).

Other Income

For the year ended 31 December 2010, other income increased by RMB3.3 million to RMB44.4 million (2009: RMB41.1 million). Thanks to the government grants of RMB38.8 million (2009: RMB39.5 million) in relation to VAT refund from local tax bureau of preferential policy on VAT software manufacturer. The Group has a number of major operating subsidiaries which enjoy the preferential policy on VAT refund of paying 17% and refund 14% for the sales of embedded software. Such refund is expected to be recurring in the forthcoming years. In addition, the Group recorded an amount of RMB2.4 million (2009: Nil) as the subsidy received from the Government pursuant to the temporary measures promulgated by HaiDian District regarding financing subsidy to small and medium enterprises《海淀區促進中小企業融資臨時性補貼措施》. The financing subsidy is expected to be one-off in nature.

Other Losses

For the year ended 31 December 2010, other losses amounted to RMB14.4 million (2009: RMB8.5 million). The losses mainly resulted from bad debt provision amounted to RMB6.3 million (2009: RMB8.1million) and foreign exchange loss amounted to RMB8.2 million (2009: RMB0.4 million). The foreign exchange loss was recorded against the monetary assets of the holding company in Hong Kong which was not operational loss but resulted from the appreciation of RMB versus HK$.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2010 were RMB102.5 million (2009: RMB88.2 million), which increased by 16.2% year-on-year. The increase was mainly attributable to (i) an increase in staff costs resulting from a higher staff head-count as well as upward adjustment to staff salaries and benefits aimed to attract talents; (ii) more entertaining and travelling expenses incurred in line with the expanded business activities nationwide; and (iii) the increase in commission for tendering institutions in line with the large number of contracts awarded during the year under review.

However, the significant increase in revenue of the Group in 2010 resulted in a decline in selling and distribution expenses as a percentage of the Group's full year revenue from 7.8% to 6.4%.

Administrative expenses

Administrative expenses for the year ended 31 December 2010 amounted to RMB170.3 million (2009: RMB125.3 million), representing an increase of 35.9% year-on-year. The increase was mainly attributable to (i) an increase in staff costs as a result of a higher staff head-count as well as an increase in overall improved staff remuneration; (ii) a rise in travelling and entertainment expenses as well as office supplies, which were in line with the expanding business operation and emerging market opportunities; and (iii) professional and legal fees incurred in the course of contemplating M&A activities.

Nevertheless, administrative expenses as a percentage of the Group's full year revenue decreased by 0.5% to 10.6% (2009: 11.1%).

Research and development expenses

Research and development expenses for the year ended 31 December 2010 were RMB34 million (2009: RMB28.8 million), an 18.1% increase year-on-year. The expenses spent in the year under review were mainly in connection with the research and development projects concerning the development of new signalling related technology and products as well as upgrading the existing ones.

Share of results of associates

Losses arising from share of results of associates for the year ended 31 December 2010 amounted to RMB3.4 million (2009: Nil) which was mainly attributable to the losses made by ABB Microunion primarily due to significant set-up costs involved during the start-up phase of the joint venture.

Finance costs

Finance costs for the year ended 31 December 2010 increased by RMB10.8 million to RMB25.4 million (2009: RMB14.6 million). The increase was mainly attributable to a higher level of bank charges and interest expenses which was in line with the higher utilization of trade finance and invoice financing as well as working capital loans for the year under review.

Income tax expenses

Income tax expenses amounted to RMB41.8 million (2009: RMB20.7 million) for the year ended 31 December 2010, which was 101.9% higher than that of the previous year. This was mainly due to (i) higher taxable profit generated from two major operating subsidiaries in the PRC which were subject to a tax rate of 15%; and (ii) a higher level of expenses not deductible for tax purpose as compared with that of the corresponding period of previous year. As such, the effective tax rate of the Group for the year ended 31 December 2010 increased by 3.8% to 11.6% (2009: 7.8%).

Profit for the year

As a result of the foregoing, the Group recorded RMB285.6 million in profit attributable to equity holders of the Company for the year ended 31 December 2010 (2009: RMB212.1 million), representing a growth of RMB73.5 million or 34.7% when compared with that of the previous year.

Net profit margin attributable to equity holders of the Company decreased by 1.1% to 17.9% (2009: 18.8%) for the year ended 31 December 2010.

Earnings per share

Earnings per share increased by RMB6.2 cents (representing 28.3%) from that of the previous year to RMB28.11 cents (2009: RMB21.91 cents) for the year ended 31 December 2010.

Dividend

The Board recommends distribution of a final dividend of 7.0 HK cents per share, equivalent to RMB6.0 cents per share (2009: 5.0 HK cents per share, equivalent to RMB4.4 cents per share) in respect of the year, representing a total payout of RMB60 million and 21% distribution of the current year profit.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

Net cash from the Group's operating activities decreased by RMB13.3 million to RMB90.2 million (2009: RMB103.5 million) for the year ended 31 December 2010.

This was mainly attributable to the increase in trade and bills receivables as well as prepayments which was partially offset by the increase in trade and bills payables plus other payables, deposits and accruals. The increase in prepayments was mainly related to the payments made to the raw material suppliers.

Net cash used in investing activities of the Group increased by RMB183.7 million to RMB244.7 million (2009: RMB61 million) for the year ended 31 December 2010. The investments made during the year were: (i) acquisition of 25% equity interests in Wuzhong Instruments at a consideration of RMB80 million; (ii) acquisition of 70% equity interests in Zhongjing at a consideration of RMB25 million; (iii) payment of a registered capital of USD3 million (equivalent to approximately RMB19.8 million) for 50% equity interests in ABB Microunion; (iv) deposits of RMB40.8 million made for acquisition of subsidiaries; and (iii) the investment of RMB23.3 million in the construction of the Group's new building complex comprising the headquarter, R&D center and production plant.

Net cash from financing activities increased by RMB14.8 million to RMB199.9 million (2009: RMB185.1 million) for the year ended 31 December 2010. This was mainly due to (i) an increase of RMB179.8 million in net borrowings raised in 2010; and (ii) the proceeds of RMB49.3 million from issuance of long-term debenture but these two factors were mostly offset by the proceeds from issue of shares in 2009. However, no such issuance was made in 2010.

On 6 December 2010, the company signed a US$50 (equivalent to RMB333,628,000) million syndicated loan agreement (comprising US$40 million, RMB50 million and HK$22 million), of which the salient terms includes charge over 5% cash deposit or US$2.5 million equivalent to the facility amount, 3.5 years tenor with repayment in 7 installments which commencing 24 months after the signing date, interest rate for the USD and HKD tranches are set at their respective inter-bank rates plus 2.85% whilst for the RMB tranche at 4.1%. At 31 December 2010, bank borrowings of approximately RMB159.2 million were drawn. The successful launch of the syndicated loan shows the recognition from the banking community.

As at 31 December 2010, cash and bank balances (including bank deposits under conditions) amounted to RMB695.9 million (31 December 2009: RMB623.1 million). The working capital (net current assets) of the Group as at 31 December 2010 amounted to RMB1,372.1 million (31 December 2009: RMB1,050.3 million), representing an increase of 30.6% from previous year-end. The current ratio remains almost same as previous year-end at 3.0 times (31 December 2009: 3.0 times).

Gearing position

The Group's prudent financial management policies enabled it to maintain a healthy net cash and bank balance of RMB207.4 million as at 31 December 2010 (31 December 2009: RMB389.2 million). All of that was deposited with commercial banks.

As at 31 December 2010, total liabilities to shareholders equity increased to 60.3% (31 December 2009: 48.3%). Total liabilities of the Group amounted to RMB1,027.4 million (31 December 2009: RMB676.6 million).

As at 31 December 2010, the bank borrowings of the Group amounted to RMB439.1 million (31 December 2009: RMB233.9), of which the majority was related to a syndicated loan, trade finance, invoice financing and working capital loans. During the year, the Group issued a long-term debenture and the proceeds thereof amounted to RMB49.3 million.

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

Significant investments, mergers and acquisitions

For the year ended 31 December 2010, the Group has made the following investments: (i) acquisition of 25% equity interests in Wuzhong Instruments at a consideration of RMB80 million; (ii) acquisition of 70% equity interests in Zhongjing at a consideration of RMB25 million; (iii) payment of a registered capital of US$3 million for 50% equity interests in ABB Microunion.

In January 2011, the Group entered into a share purchase agreement to acquire a further 25% equity interests in Wuzhong Instruments at a consideration of RMB100 million. The acquisition has been completed in March 2011.

Contingent liabilities

As at 31 December 2010, the Group had no material contingent liabilities.

FUTURE OUTLOOK

As the largest integrated solution provider of petrochemical safety and critical control systems and one of the largest solution providers of railway signaling systems in China, the Group will continue to leverage its strengths in existing product, technology, market, manpower, and capital to further develop its technology and expand its product range within its core business area of industrial automation. The Group will persistently develop its petrochemical and railway markets, while proactively explore other industrial market as well. Based on balanced development of two business sectors, the Group aims to become the largest industrial automation company in China through strong organic growth and prudent M&A.

Railway business

The Group will continue to consolidate its leading position in railway signaling market. For a long run, the Group will dedicates itself to developing into an advanced solution provider with full range of signaling products for urban rail transit as a general contractor, and national railway as an equipment supplier.

The Group will enhance research and development, in particular, accelerate on-board signaling product development such as ATP, ATO and Communication Based Train Control ("CBTC"), to capture key growth opportunities of urban rail transit and high-speed rail. Leverage on the rapid development of railway in China, the Group will enlarge its operation scale and expand its product range so as to increase its market share. At the same time, the Group will tap overseas market along with the overseas expansion of Chinese railway construction companies.

Petrochemical business

The group will continue to make steady improvement by taking advantage of its high market share while strengthening its position as the largest safety and critical control system provider in petrochemical industry in PRC. The Group aims to pursue large-scale petrochemical engineering design project with the objective of being a whole package of automation system provider.

The group has taken actions to extend its business scope of safety and critical control systems from downstream refinery to upstream oil & gas, and expand product range from controllers to control valves. Leverage on its expertise in automation control in petrochemical industry, the Group will expand its addressable market into other industries such as chemical, nuclear, renewable energy, power grid, as well as energy saving and low carbon emission. The Group will expand revenue contribution from high-margin after-sales engineering maintenance and service through ongoing enlarged coverage of installed base. The Group will continue to deploy resources in R&D to enhance the development of the hardware and software of products. And the Group will expand overseas sales and marketing operations in order to capture opportunities outside of China.

Investment and M&A

The Group will continue to seek M&A targets in a prudent manner in order to generate synergies with the Group's core businesses in railway and petrochemical industries. The Group seeks cooperation partners with competitive edge in terms of self-developed intellectual property right, core technology, marketing, sales and engineering resources.

In general, the Group will strive to maximize returns of its stakeholders in the future.

Leveraging on the Group's unparalleled competitive edge and great tracking records in railway signaling systems and petrochemical safety and critical control systems, we continued to deliver outstanding results in our two business sectors with the opportunities of economic recovery and favorable national policies in the year 2010.

INVESTOR RELATIONS REPORT

In 2010, the Group continued to adopt a proactive and open approach while conducting extensive exchanges and communication with investors, so that they could have better knowledge and understanding of the Group's future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and lent strong support to the Group's investors to make informed and reasonable investment decisions.

On the basis of fair disclosure, the Group has maintained sincere and timely communication with investors through various channels to report the Group's latest development:

– Annual and Interim results announcement

– Road shows

– Investment forums

– Publicity through the mass media

– Continually arranging meetings between senior management and investors and site visits to the Group's facilities and customer sites

– Prompt response to investor enquiries

– The Group's website

In 2010, the Group's top management and IR team participated in over 30 investment forums and road shows. The team visited the Group's shareholders and potential investors in Europe, the USA, Singapore, Tokyo, Hong Kong, Shanghai and Shenzhen, to inform and update the Group's latest developments. Meanwhile, the Group received more than 500 investors in Hong Kong and Beijing. The visitors have witnessed the Group's rapid growth with their own eyes through site visits.

The outstanding performance of the Group has been widely recognized by professional bodies:

– In November 2010, the Group was selected as "200 Best Under A Billion" by Forbes, a well-known U.S. financial magazine. Following the year 2009, the Group's standing out again among 13,000 listed companies in the Asia-Pacific region fully reflects the Group's solid strength and acceptance by the capital market.

– In November 2010, the Group received the Excellence Innovation Award (卓越創新獎) from Frost & Sullivan.

– In September 2010, the Group was selected as a constituent of the Hang Seng Composite,Index and its sub-divided indexes, namely the Hang Seng Composite Industry Indexes - Information Technology and the Hang Seng Composite Small Cap Index, effective on 6 September 2010. Being the index constituent indicated the Group had reached a considerable level in capital value and liquidity in the stock market and showed the recognition of the Group by investors.

– In April 2010, the Group was listed as one of the Enterprise of the Year and Tasks of the Year in the Chinese Automation Industries Event (中國自動化世紀行年度企業和年度任務).

As at the end of February 2011, international investment firm FMR LLC increased its holdings in the Group to 8.05%. The shareholder structure of the Group remains in a good and stable position.

In 2011, the Group will continuously enhance investor relations. The senior management of the Group will consistently support investor relations, and the Group will persistently make transparent disclosures.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. Xuan Rui Guo (宣瑞國), aged 42, the Group's founder, Executive Director and Chairman, is mainly responsible for the overall strategic, financial planning and long-term development. Mr Xuan is also one of the winners of the Ernst & Young Entrepreneur of The Year 2009 China. Mr. Xuan graduated from the Renmin University of China (中國人民大學) with a bachelor's degree in international politics. He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He was the general manager of Boda Telecommunication and Electronics Company Ltd. in Yunnan, China, manager of Beijing Invention Biology Company Ltd. and the general manager of Beijing Consen Automation Control Co., Ltd.

Mr. Huang Zhi Yong (黃志勇), aged 44, is a co-founder of the Group and Executive Director. He is also the head of the Group's software development team. Mr. Huang holds a master's degree in mechanical engineering in Dalian University of Technology (大連理工大學). He has over four year's experience in the research & development of mechanical engineering and over twelve years' experience in the management of corporate operation, automation engineering and trading. He is in charge of the internal operations of the Group including R&D, financial management and customer service. Mr. Huang was an engineer of the Machinery Research Institute of Sinopec Tianjin Petrochemical Corp. and was the deputy general manager of Beijing Consen Automation Control Co., Ltd.

Mr. Kuang Jian Ping (匡建平), aged 47, the Group's co-founder and Executive Director and Chief Executive Officer, is mainly responsible for the Group's daily operation, merger and acquisition strategies and investors relation. Mr. Kuang holds a master's degree in mechanical engineering in Dalian University of Technology (大連理工大學) He has over 15 years of experience in sales and marketing as well as management in the instrument and automation business in the China chemical and petrochemical industry. Mr. Kuang was a sales manager of the Instrumentation Technology Company of Dalian University of Technology who was responsible for trading instruments and automation systems. He also worked as a sales manager and subsequently a deputy general manager in a subsidiary of China Chemical Industry Equipment and Instrumentation Company in Hainan province and was responsible for trading chemical equipment and instruments. Besides, Mr. Kuang worked in Beijing Consen Automation Control Co., Ltd. as the deputy general manager in charge of sales and marketing.

Independent Non-executive Directors

Mr. Tang Min (湯敏), aged 68, is as an Independent Nonexecutive Director. Mr. Tang joined the Group in June 2007. He graduated from Beijing University of Chemical Technology (北京化工大學) with a bachelor's degree specializing in organic syntheses, organic department. From 1965 to May, 1990, he served at Lanzhou Chemical Industry Corporation and was a deputy general engineer before he left the company. From June 1990 to December 2004, Mr. Tang worked in Yangtzi Petrochemical Company Limited and his last position was deputy managing director. After Mr. Tang's retirement, he had been engaged by BASF - YPC Company Limited as senior consultant from January 2005 to September 2005. In 2000, Mr. Tang was awarded by China Petrochemical Corporation as senior engineer of a professor level of qualification.

Mr. Wang Tai Wen (王泰文), aged 64, is an independent Nonexecutive Director since January 2008 while being an external director of China National Foreign Trade Transportation (Group) Corporation. Prior to joining the Company, He also held various managerial positions in Ziyang Internal Combustion Locomotive Plant; the chairman, general manager and secretary to the communist party committee of China National Railway Locomotive Corporation; and also served as chairman and secretary to the communist party committee of China Southern Locomotive Industrial Group Corporation. In November 2006, Mr. Wang joined China Railway Engineering Group Company Limited as an external director. According to the Notice on board of directors of wholly state-owned company issued by Stateowned Assets Supervision and Administration Commission of the State Council, being an external director of China National Foreign Trade Transportation (Group) Corporation, Mr. Wang's main responsibilities are to attend meetings of its board of directors and to make decision in the capacity as a director. He did not participate in any daily operation at both China National Foreign Trade Transportation (Group) Corporation and its group companies. He graduated from Dalian Railway Institute (中國大連鐵道學院), the PRC, majoring in machinery and manufacturing.

Mr. Ng Wing Fai (吳榮輝), aged 52, is an independent Nonexecutive Director. Mr. Ng joined the Group in June 2007. He has over 15 years' experience in audit, taxation and consultancy in government and non-government institutes. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a Pesident and council member of the Society of Chinese Accountants & Auditors, and a member of the Hong Kong Securities Institute. Mr. Ng holds a bachelor's degree of arts in accountancy and a master's degree of arts in international accounting from City University of Hong Kong. He also holds a bachelor's degree with Honours in English and Hong Kong law from The Manchester Metropolitan University.

SENIOR MANAGEMENT

Mr. Yang Hong Yan (楊紅岩), aged 41, is a deputy general manager of the Group. He joined the Group in September 2003. He is also a director and general manager of Beijing Transportation. He is responsible for the operation of Beijing Transportation and leading the R&D team and engineering team to develop projects of the company. Mr. Yang graduated from China Academy of Railway Science(中國鐵道部科學研究院).He worked in China Academy of Railway Science from 1993 to 2003. He was awarded the Vice Researcher Certificate in 2002. He was also awarded "The National Science Progress Award" by Ministry of Railway and State Science & Technology commission in 2001. In 2004, Mr. Yang cooperated with Beijing Consen to set up Beijing Transportation. His research achievement, MCIS system, was awarded the "Beijing Technical New Products".

Mr. Cui Da Chao (崔大潮), aged 54, is the Chief Financial Officer of the Group. He is primarily responsible for overseeing the Group's financial planning and control, accounting and financial affairs. Prior to joining the Group in 2004, Mr. Cui worked as an executive director and financial manager at a Canadian company principally engaged in trading of chemical raw materials. From 1999 to 2001, he was a partner and deputy general manager of a PRC accountancy firm. He graduated from Xiamen University(廈門大學), the PRC, with a specialization in international accounting.

Mr. Wang Wen Hui (王文輝), aged 51, the Group's Vice-President and the Chairman of Beijing Jiaoda Microunion Technology Co., Ltd.. In 1984, he graduated from the Information Research Institute of Northern Jiaotong University(北方交通大學資訊研究所), majoring in information processing, and was awarded a master degree in engineering. During the period between 1984 and 1993, Mr. Wang held a teaching post at the Information Research Institute of Northern Jiaotong University and was invited to Tokyo Institute of Technology as senior visiting scholar. During the period between 1993 and 2000, he served as department manager and general manager of Beijing Jiaotong University Technology Company and Beijing New Electrical Technology Company, respectively. Before taking up the post of the Chairman, he was a general manager of Beijing Jiaoda Microunion Technology Co., Ltd. since April 2000.

Mr. Li Hai Tao (李海濤), aged 41, is a Head of Strategic Development of the Group. Mr. Li joined the Group in March 2008, mainly responsible for investment and merger and acquisition issues of the Group. He obtained a MBA and a double bachelor's degree in engineering from Tsinghua University (清華大學). He has expensive experience in investment, strategic development and corporate management, leading various merger and acquisition, as well as integration and new business development. Mr. Li was a vice president, general manager of investment department and general manager of corporate management department at Fei Shang Group in Shenzhen. He also served as general manager of investment management department at Hua Bao Group, managing director of Hua Bao Group Shenzhen Metropolis Trading Co. Ltd. and deputy managing director of Hua Bao Group Shenzhen Metropolis Logistic Co. Ltd.. From 1998 to 2001, Mr. Li was the head of development and research department at China International Marine Containers (Group) Co., Ltd.

Mr. Duan Min (段民), aged 44, is a deputy general manager of the Group. He is primarily responsible for overseeing the sales departments of the Group. He graduated with a bachelor's degree in automation of chemical engineering in Dalian University of Technology(大連理工大學). He has over 16 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 1999.

Mr. Ji Jun (季俊), aged 41, is a deputy general manager of the Group. He is primarily responsible for overseeing the quality control in engineering projects and the development of new products and techniques of the Group. He graduated with a bachelor's degree in production process automation in Zhejiang University (浙江大學). He has over 15 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 2001.

Mr. Zhou Zheng Qiang (周政強), aged 45, is a deputy general manager of the Group. He is primarily responsible for overseeing the marketing development of the group. He graduated with a bachelor's degree of process automation in the Department of Chemical Engineering in Zhejiang University (浙江大學) and also holds the Certificate of Senior Automation Engineer in China. He has worked in China Hua Lu Engineering company for 15 years from 1988 to 2002. From April 2002 to January 2006, he was the general manager of Xian Lan Qi Control System Engineering Company Ltd (西安籃溪控制系統工程有限責任公司). He joined the Group in February 2006

Mr. Zhang Wei (張偉), aged 50, is the general manager of Beijing Jiaoda Microunion Technology Co., Ltd. (BJM). He graduated from the School of Electronic and Information Engineering of Northern Jiaotong University (北方交通大學電子資訊工程學院) in 1985, with a master's degree in engineering, majoring in Transportation Automation. From 1985 to 1993, Mr. Zhang held a teaching post at the School of Electronic and Information Engineering and Research Institute of Management and Science of Northern Jiaotong University respectively and was invited to Tokyo University as a senior visiting scholar. From 1993 to 2000, he served as the department manager and vice general manager of Beijing Jiaotong University Technology Company and Beijing New Electrical Technology Company, respectively. Since April 2000, Mr. Zhang was assistant general manager of BJM, and was subsequently promoted to general manager.

Mr. Bill Barkovitz, aged 40, is President of the Group's US operations, Inovex Corporation. He graduated from University of California, Irvine in 1993 with a bachelor's degree in Applied Physics. Upon graduating, he entered the field of control & automation. From 1994 to 2005, Mr. Barkovitz worked for Triconex Corporation, a division of Invensys. Triconex is the global leading supplier of safety, critical control, and turbomachinery systems for the process industries. He served as Sales Director of Northern Asia Pacific while based in Singapore from 1995-1998, then General Sales Manager of Europe, Middle East, & Africa from 1998-2001 while base in the UK. In 2001, Mr. Barkovitz moved to the Triconex corporate headquarters in Irvine, California to take on the role of Vice President Marketing. He moved to a start-up company in 2005, ORYXE Energy International , as Vice President of Marketing. ORYXE Energy develops emissions reduction chemical technologies for oil refiners and fuel distributors. In 2007, he left ORYXE Energy in order to form the first US corporate entity of China Automation Group called Inovex.

Mr. Tim Pieszchala, aged 53, is in charge of technical direction and R&D activities for turbomachinery products for the group. He is also the Vice President of Inovex and Tri-Sen Systems. He worked for the original Tri-Sen System from 1983 to 1992, then for Triconex Invensys until 1999, holding various technical positions culminating in the Director of Engineering position for turbomachinery. In 1999, he went to work for Dresser-Rand as their Sale and Marketing Manager responsible for world-wide controls sales. He also held position of Manager of Condition Monitoring, establishing Dresser-Rand's consolidation of those efforts. In 2005 he established his own consulting firm before joining the group in 2007. He holds two bachelor's degrees in Fine Arts and Computer Science from Indiana University and a master degree in Computer Systems Design from the University of Houston at Clear Lake.

Mr. Chow Chiu Chi (周昭智), aged 52, is the Financial Controller and Company Secretary. He joined the Group in June 2006. He graduated from the Hong Kong Polytechnic University with a bachelor of arts' degree in Accountancy. He is an associate member of the Chartered Institute of Management Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He also obtained a master's degree in business administration from the Hong Kong Polytechnic University. He has over 25 years of experience in finance, accounting and internal audit.

DIRECTOR'S REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSES OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of Comprehensive Income on page 34 of this annual report.

The Board recommends distribution of a final dividend of 7.0 HK cents per share (2009: 5.0 HK cents), amounting to a total of approximately HK$71.5 million for the year ended 31 December 2010 (2009: HK$50.4 million) to the shareholders on the register of members of the Company on Tuesday, 17 May 2011.

Upon the approval being obtained in the forthcoming annual general meeting, the above final dividend will be paid on or before 30 June 2011 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 17 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 11 May 2011 to Tuesday, 17 May 2011 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting and the entitlement of the aforementioned proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday , 9 May 2011.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 98 of this annual report. The summary of results is for comparative purposes only, and does not form an integral part of the audited financial statements.

DISTRIBUTABLE RESERVES

Movements in the reserves of the Group during the year ended 31 December 2010 are set out on page 37 of this annual report. As at the balance sheet date, the Company's distributable reserves amounted to RMB749,796,000 (2009: RMB480,217,000).

SHARE CAPITAL

Movements of the share capital of the Company is set out in note 32 to the financial statements.

CHARITABLE CONTRIBUTIONS

Charitable contribution made by the Group during the year ended 31 December 2010 amounted to RMB100,000 (2009: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2010 are set out in note 43 to the financial statements.

EMPLOYEES

As at 31 December 2010, the Group had a total of 1,236 employees (2009: 836). The emoluments payable to the employees of the Group are based on their responsibilities, qualifications, performance, experience and the related industrial practices.

DIRECTORS

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

Executive Directors

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

Independent non-executive Directors

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

Pursuant to Article 87 of the articles of association of the Company, Mr. Huang Zhi Yong and Mr Kuang Jian Ping shall retire from their offices by rotation at the forthcoming annual general meeting and shall be eligible to offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

The emoluments payable to the Directors are based on terms of their respective service contracts with the Company. The Directors' fee payable is subject to annual assessment and approval by the Board and shareholders of the Company at annual general meetings. Details of the emoluments paid and payable to the Directors for the year ended 31 December 2010 are shown in note 12 to the financial statements.

The contributions to pension schemes for the Directors for the year ended 31 December 2010 are disclosed in note 12 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 21 to 23 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option scheme of the Company as disclosed in note 40 to the financial statements, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

USE OF NET PROCEEDS FROM THE IPO EXERCISE

The Company raised an aggregate net proceeds of approximately HK$319.5 million from the issuance of equity securities pursuant to the issue of an aggregate of 230,000,000 shares of HK$0.01 each in the Company (the "Shares") pursuant to the Share Offer. As at 31 December 2010, the Group has used the net proceeds from the Share Offer as follows:-

	Net IPO proceeds(HK$ million)		
Use of Proceeds	**Available**	**Utilised**	**Unutilised**
Construction of a new complex	40.0	20.0	20.0
Research and development expenses	40.0	40.0	—
Expansion and improvement of the Group's sales network	30.0	30.0	—
Expansion and improvement of the Group's service network	25.0	25.0	—
Pursuing suitable acquisition	60.0	60.0	—
Setting up an overseas office	30.0	30.0	
General corporate purposes and working capital	94.5	94.5	—
	319.5	299.5	20.0

As at 31 December 2010, the amount of unutilised proceeds from the Share Offer was approximately HK$20 million and will be used for the construction of new complex as described in the prospectus of the Company dated 28 June 2007.

USE OF NET PROCEEDS FROM THE PLACING EXERCISE

Pursuant to a placing and subscription agreement dated 5 May 2009 entered into among the Company, Consen Group Holding Inc. ("Consen Group"), CLSA Limited, Daiwa Securities SMBC Hong Kong Limited and Mr. Xuan Rui Guo which was completed on 15 May 2009, 126,000,000 Shares then held by Consen Group were placed at a placing price of HK$2.30 per Share (the "Placing") and subsequently Consen Group subscribed for the 86,000,000 new Shares at a price of HK$2.3 per Share (the "Subscription") and such Shares ranked pari passu in all respects with the existing issued Shares on completion date of the Subscription. The Placing and the Subscription were effected to raise funds for the long-term benefit of the Company. The net proceeds from the Subscription amounting to approximately HK$193.3 million were duly received by the Company on 15 May 2009. During the year ended 31 December 2010, the Group applied part of the net proceeds from the Subscription to acquire 25% equity interests in Wuzhong Instrument Company Limited at a consideration of approximately HK$90.9 million (or RMB80 million) and 70% equity interests in Beijing Haidan Zhongjing Engineering Software Technology Company Limited at a consideration of approximately HK$28.4 million (or RMB25 million). As at 31 December 2010, the unutilized proceeds from the Subscription amounted to approximately HK$74 million. The Company intended to use such proceeds for potential acquisition or investment opportunities in related business.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Long positions in the shares of the Company

	No. of shares						
Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Interest in underlying shares pursuant to share options	Total	Approximate percentage of shareholding
Mr. Xuan Rui Guo (Note)	—	—	457,633,541	—	—	457,633,541	44.88%

Note: Consen Group was the legal and beneficial owner of 457,633,541 Shares. Consen Group was owned as to 93.80% by Consen Investments Holding Inc. ("Consen Investments"), which was in turn owned as to 50%, 25% and 25% by Mr. Xuan Rui Guo ("Mr. Xuan"), Mr. Huang Zhi Yong ("Mr. Huang") and Mr. Kuang Jian Ping ("Mr. Kuang") respectively, and owned as to 6.20% by Gembest Investment Limited ("Gembest"). Accordingly, Mr. Xuan was deemed to be interested in the 457,633,541 Shares held by Consen Group by virtue of the SFO.

(ii) Long positions in the shares of associated corporations

Name of Associated corporation	Name of Directors	No. or shares Personal interest	Family interest	Corporate interest	Interest in underlying shares pursuant to share options	Total	Percentage of shareholding
Consen Investments	Mr. Xuan	500,000	—	—	—	500,000	50%
	Mr. Huang	250,000	—	—	—	250,000	25%
	Mr. Kuang	250,000	—	—	—	250,000	25%
Consen Group (Note)	Mr. Xuan	—	—	5,000,000	—	5,000,000	93.8%

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

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the interests of persons (not being a Director or chief executive of the Company) in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	457,633,541	44.88%
Consen Investments (Note)	Interest in a controlled corporation	457,633,541	44.88%

Note: Consen Group was owned as to 93.80% by Consen Investments and 6.20% by Gembest. Therefore, Consen Investments was deemed to be interested in such 457,633,541 shares held by Consen Group under the SFO.

All the interests stated above represent long positions.

Save as disclosed above, as at 31 December 2010, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

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

As at 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 11,682,000 (2009: 27,408,000) (representing 1.15% (2009: 2.72%) of the total number of shares of the Company in issue as at the date of annual report). The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the total number of shares of the Company in issue as at 12 April 2010, The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders of the Company or independent non-executive Directors in any 12-month period in excess of 0.1% of the Company's share capital in issue and with an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

An amount of HK$1 is payable by participants on acceptance of the option as consideration for the grant within 28 days from the date upon which the offer is made. Options may be exercised at any time from twelve months from the date of grant of the share option to the five anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of the share options granted and exercised during the current year and outstanding at 31 December 2010 are as follows:

	Outstanding at 1 January 2010	Cancelled during the year	Exercised during the year	Outstanding at 31 December 2010
Key management	9,632,000	332,000	5,316,000	3,984,000
Other employees	17,776,000	2,352,000	7,726,000	7,698,000
	27,408,000	2,684,000	13,042,000	11,682,000
Exercisable at the end of the year				11,682,000

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company had not repurchased its own shares through the Stock Exchange. Details of the movements in share capital of the Company during the year are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and revenue for the year ended 31 December 2010 attributable to the Group's major suppliers and customers respectively are as follow:

	2010 %	2009 %
Purchases		
- the largest supplier	**15.4**	36.2
- the five largest suppliers combined	**62.4**	53.6
Revenue		
- the largest customer	**13.0**	28.4
- the five largest customers combined	**51.3**	55.4

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

SUBSEQUENT EVENT

Details of the subsequent event are disclosed in note 44 to the financial statements.

INDEPENDENT NON-EXECTIVE DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The consolidated financial statements of the Group for the six months ended 30 June 2010 and the year ended 31 December 2010 and the related disclosures have been reviewed and approved by the audit committee.

AUDITORS

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

On behalf of the Board

Xuan Rui Guo
Chairman
Hong Kong, 17 March 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company had complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In respect of the year ended 31 December 2010 (the "Relevant Period"), all the code provisions set out in the Code were met by the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all the Directors, and all of them had confirmed that they have complied with the required standard of dealings set out therein during the year ended 31 December 2010.

BOARD OF DIRECTORS

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

As at the date of this annual report, the Board comprised six members, consisting of three executive Directors, namely Mr. Xuan Rui Guo (the chairman), Mr. Huang Zhi Yong and Mr. Kuang Jian Ping (the chief executive officer); and three independent non-executive Directors, namely Mr. Tang Min, Mr. Wang Tai Wen and Mr. Ng Wing Fai. The roles of the chairman and chief executive officer are segregated. The profile of all the Directors, including the chairman, executive Directors and independent non-executive Directors are set out on pages 21 to 23 of this annual report. The relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are also disclosed.

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

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

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

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

	Meetings attended / Meetings held			
Name of director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Xuan Rui Guo	6/6	N/A	1/1	1/1
Mr. Huang Zhi Yong	6/6	N/A	1/1	N/A
Mr. Kuang Jian Ping	6/6	N/A	N/A	1/1
Independent non-executive Directors				
Mr. Tang Min	4/6	2/2	1/1	1/1
Mr. Wang Tai Wen	4/6	2/2	1/1	1/1
Mr. Ng Wing Fai	4/6	2/2	1/1	1/1

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

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

AUDIT COMMITTEE

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

The audit committee met twice during the Relevant Period to review and discuss with the management of the Company the internal controls and financial reporting matters including a review of the financial statements for the six months ended 30 June 2010 and the year ended 31 December 2010.

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

REMUNERATION COMMITTEE

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

The emolument policy and long term incentive schemes as well as the basis of determining the emolument payable to the directors are set out on page 65 of this report.

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

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

NOMINATION COMMITTEE

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

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

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

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the fees charged by the Company's auditors in respect of audit and taxation services amounted to approximately RMB2,883,000 (2009: RMB3,508,000 and RMB500,000 (2009: RMB400,000) respectively.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditors' Report on page 33 of this annual report.

INTERNAL CONTROL

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 97, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 of the consolidated financial statements that give a true and fair view 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 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	5	**1,594,828**	1,125,435
Cost of sales		**(926,915)**	(636,556)
Gross profit		**667,913**	488,879
Other income	7	**44,406**	41,082
Other gains and losses	8	**(14,410)**	(8,498)
Selling and distribution expenses		**(102,498)**	(88,248)
Administrative expenses		**(170,270)**	(125,292)
Research and development expenses		**(34,024)**	(28,832)
Finance costs	9	**(25,438)**	(14,576)
Share of results of associates		**(3,431)**	—
Profit before tax		**362,248**	264,515
Income tax expense	10	**(41,802)**	(20,749)
Profit for the year	11	**320,446**	243,766
Exchange differences arising on translation of foreign operations		**296**	82
Total comprehensive income for the year		**320,742**	243,848
Profit for the year attributable to:			
Owners of the Company		**285,581**	212,088
Non-controlling interests		**34,865**	31,678
		320,446	243,766
Total comprehensive income attributable to:			
Owners of the Company		**285,877**	212,170
Non-controlling interests		**34,865**	31,678
		320,742	243,848
Earnings per share	15		
Basic (RMB cents)		**28.11**	21.91
Diluted (RMB cents)		**27.94**	21.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current Assets			
Property, plant and equipment	16	**129,925**	93,591
Prepaid lease payments	17	**24,354**	24,938
Intangible assets	18	**295,282**	276,029
Goodwill	19	**85,064**	76,175
Interests in associates	21	**96,720**	—
Pledged bank deposits	26	**17,375**	—
Deferred tax assets	22	**15,159**	16,151
Available-for-sale financial assets		**3,373**	3,373
		667,252	490,257
Current Assets			
Prepaid lease payments		**584**	584
Inventories	23	**403,597**	318,598
Trade and bills receivables	24	**842,897**	590,455
Amounts due from customers for contract work	25	**10,857**	3,152
Other receivables and prepayments	24	**128,420**	52,711
Pledged bank deposits	26	**96,260**	86,538
Bank balances and cash	27	**582,238**	536,598
		2,064,853	1,588,636
Current Liabilities			
Trade and bills payables	28	**255,334**	204,655
Other payables, deposits received and accruals	29	**167,721**	129,105
Dividend payable		**3**	2
Tax liabilities		**23,157**	9,668
Borrowings	30	**246,569**	194,875
		692,784	538,305
Net Current Assets		**1,372,069**	1,050,331
Total Assets less Current Liabilities		**2,039,321**	1,540,588

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Capital and Reserves			
Share capital	32	**9,491**	9,376
Share premium and reserves	33	**1,547,648**	1,275,124
Equity attributable to owners of the Company		**1,557,139**	1,284,500
Non-controlling interests		**147,548**	117,759
Total Equity		**1,704,687**	1,402,259
Non-current liabilities			
Deferred tax liabilities	22	**41,168**	38,789
Borrowings	30	**192,560**	39,019
Long-term debenture	31	**49,288**	—
Deferred income	34	**51,618**	60,521
		334,634	138,329
Total Equity and Liabilities		**2,039,321**	1,540,588

The consolidated financial statements on pages 34 to 39 were approved and authorised for issue by the Board of Directors on 17 March 2011 and are signed on its behalf by:

Director

Zhiyong Huang

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 33a)	Statutory surplus reserves RMB'000 (Note 33b)	Contribution from owners RMB'000	Translation reserve RMB'000	Share option reserve RMB'000 (Note 33c)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	8,516	553,813	(18,335)	24,222	619	(6,147)	23,748	317,533	903,969	85,887	989,856
Profit for the year	—	—	—	—	—	—	—	212,088	212,088	31,678	243,766
Exchange difference arising on translation of foreign operations	—	—	—	—	—	82	—	—	82	—	82
Total comprehensive income for the year	—	—	—	—	—	82	—	212,088	212,170	31,678	243,848
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(1,703)	(1,703)
Contribution from non-conrolling interests	—	—	—	—	—	—	—	—	—	1,897	1,897
Appropriations to reserves	—	—	—	14,314	—	—	—	(14,314)	—	—	—
Dividend distributed (Note 14)	—	—	—	—	—	—	—	(35,090)	(35,090)	—	(35,090)
Shares issued	759	173,602	—	—	—	—	—	—	174,361	—	174,361
Transaction costs attributable to issue of shares	—	(3,681)	—	—	—	—	—	—	(3,681)	—	(3,681)
Issue of shares on exercise of share options	102	32,728	—	—	—	—	(9,728)	—	23,102	—	23,102
Transaction costs attributable to issue of shares on exercise of share options	—	(223)	—	—	—	—	—	—	(223)	—	(223)
Recognition of share-based payments (Note 40)	—	—	—	—	—	—	10,006	—	10,006	—	10,006
Share repurchased and cancelled	(1)	(113)	—	—	—	—	—	—	(114)	—	(114)
At 31 December 2009	9,376	756,126	(18,335)	38,536	619	(6,065)	24,026	480,217	1,284,500	117,759	1,402,259
Profit for the year	—	—	—	—	—	—	—	285,581	285,581	34,865	320,446
Exchange difference arising on translation of foreign operations	—	—	—	—	—	296	—	—	296	—	296
Total comprehensive income for the year	—	—	—	—	—	296	—	285,581	285,877	34,865	320,742
Acquisition of a subsidiary (Note 37)	—	—	—	—	—	—	—	—	—	6,904	6,904
Appropriations to reserves	—	—	—	16,002	—	—	—	(16,002)	—	—	—
Dividend declared to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	(11,980)	(11,980)
Dividend distributed (Note 14)	—	(43,341)	—	—	—	—	—	—	(43,341)	—	(43,341)
Issue of shares on exercise of share options	115	38,514	—	—	—	—	(12,526)	—	26,103	—	26,103
Recognition of share-based payments (Note 40)	—	—	—	—	—	—	4,000	—	4,000	—	4,000
At 31 December 2010	**9,491**	**751,299**	**(18,335)**	**54,538**	**619**	**(5,769)**	**15,500**	**749,796**	**1,557,139**	**147,548**	**1,704,687**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year Ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**362,248**	264,515
Adjustments for:			
Share of results of an associate		**3,431**	—
Finance costs		**25,438**	14,576
Depreciation of property, plant and equipment		**12,740**	7,306
Share-based payment expense		**4,000**	10,006
Deferred income released to income		**(9,667)**	(3,488)
Impairment losses on trade and other receivables		**6,259**	8,074
Prepaid lease payments released		**584**	584
Amortisation of intangible asset		**4,313**	5,181
(Gain) loss on disposal of property, plant and equipment		**(45)**	8
Interest income		**(1,562)**	(1,057)
Operating cash flows before movements in working capital		**407,739**	305,705
Increase in inventories		**(84,999)**	(118,235)
Increase in trade and bills receivables		**(246,508)**	(194,235)
Increase in other receivables and prepayments		**(34,929)**	(5,073)
Increase in amounts due from customers for contract work		**(7,705)**	(3,152)
Increase in trade and bills payables		**45,183**	120,289
Increase in deferred income		**764**	1,624
Increase in other payables, deposits received and accruals		**38,562**	21,304
Cash generated from operations		**118,107**	128,227
Income tax paid		**(29,645)**	(26,216)
Income taxes returned		**1,703**	1,451
Net cash from operating activities		**90,165**	103,462
INVESTING ACTIVITIES			
Interest received		**1,562**	1,057
Purchases of property, plant and equipment		**(47,641)**	(47,032)
Proceeds on disposal of property, plant and equipment		**103**	—
Deposits for acquisition of subsidiaries		**(40,800)**	—
Purchases of available-for-sale financial assets		**—**	(3,373)
Development costs paid		**(7,144)**	(5,822)
Repayment from shareholders of subsidiaries		**—**	2,550
Placement of pledged bank deposits		**(113,635)**	(86,538)
Withdraw of pledged bank deposits		**86,538**	83,229
Investment in associates		**(100,152)**	—
Acquisition of a subsidiary	37	**(23,519)**	—
Acquisition of additional interest in a subsidiary		**—**	(5,100)
Net cash used in investing activities		**(244,688)**	(61,029)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year Ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES			
New borrowings raised		**835,032**	471,224
Proceed from issuance of long-term debenture		**49,288**	—
Interest paid		**(25,438)**	(14,576)
Repayments of borrowings		**(629,797)**	(431,770)
Contribution from non-controlling interests		**—**	1,897
Dividends paid to owners of the Company		**(43,341)**	(35,088)
Dividends paid to non-controlling shareholders		**(11,980)**	—
Repurchase of shares		**—**	(114)
Proceeds from issue of shares		**—**	174,361
Expenses on issue of shares		**—**	(3,681)
Proceeds from issue of shares on exercise of share options		**26,103**	23,102
Expenses on issue of shares on exercise of share options		**—**	(223)
Net cash from financing activities		**199,867**	185,132
Net increase in cash and cash equivalents		**45,344**	227,565
Cash and cash equivalents at beginning of the year		**536,598**	308,918
Effect of foreign exchange rate changes		**296**	115
Cash and cash equivalents at end of the year		**582,238**	536,598
Analysis of the balances of cash and cash equivalents:			
represented by			
Bank balances and cash		**582,238**	536,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its parent is Consen Group Holding Inc. incorporated in the British Virgin Islands ("BVI") and its ultimate parent is Consen Investment Holding Limited incorporated in BVI. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The activities of its subsidiaries are set out in note 43.

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

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

In the current year, the Group has applied, for the first time, the following new and revised Standards and Interpretation ("new and revised IFRSs") issued by the International Accounting Standards Board, which are effective for the Group's financial year beginning on 1 January 2010.

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised 2008)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

Except as described below, the adoption of the new and revised IFRSs has 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 INTERNATIONAL FINANCIAL REPORTING SATANDARDS ("IFRSs") (CONT'D)

IFRS 3 (Revised 2008) "Business Combinations"

IFRS 3 (Revised 2008) "Business Combinations" has been applied prospectively from 1 January 2010. Its application has affected the accounting for the acquisition as disclosed in note 37 in the current year.

- IFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

- IFRS 3 (Revised 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- IFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The impact of adoption of IFRS 3 (Revised 2008) on the acquisition during the current period has been related to the acquisition-related costs. It requires acquisition-related costs to be accounted for separately from the business combination. As a result, the Group has recognised these costs as an expense in profit or loss, whereas previously they would have been accounted for as part of the cost of the acquisition. The acquisition costs in the current period were insignificant.

IAS 27 (Revised 2008) "Consolidated and Separate Financial Statements"

The revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries may result a goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (Revised 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds and these adjustments, if any. The adoption of IAS 27 (Revised 2008) had no material impact in the current period.

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

IAS 27 (Revised 2008) "Consolidated and Separate Financial Statements" (CONT'D)

The Group has not early applied the following new or revised Standards and Interpretation that have been issued but are not yet effective:

IFRSs

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
IAS 24 (Revised in 2009)	Related Party Disclosures[4]
IAS 32 (Amendments)	Classification of Rights Issues[2]
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[5]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. *IFRS 9 Financial Instruments* (as revised in October 2010) adds requirements for financial liabilities and for derecognition

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretation will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

The results of subsidiaries acquired of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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 in line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of consolidation (CONT'D)

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

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

Business combinations involving entities under common control

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

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

The combined statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Business combinations other than involving entities under common control

Business combinations on or after to 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations other than involving entities under common control (CONT'D)

Business combinations on or after to 1 January 2010 (CONT'D)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests was initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

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

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect previously recognised goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in an associate

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in an associate (CONT'D)

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Revenue recognition

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

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

Deposits and instalments received from purchasers prior to meeting the above criteria on revenue recognition are included in the statement of financial position under liabilities.

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

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

Revenue for software sales (that do not involve significant implementation or customisation) is recognised when the fee is determinable, collection is probable, and the products are delivered.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

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

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

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes and the leasehold land component is classified as a prepaid lease payment , the amount released over a straight-line basis over the lease term would be included as part of costs of buildings under construction during the construction period.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as deposits received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and bills receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense 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 liabilities and then as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the 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 translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies (CONT'D)

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 for which the commencement date for capitalisation is on or after 1 January 2009, 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.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which grants are intended to compensate.

Retirement benefits costs

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

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 and 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxation (CONT'D)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate 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 each reporting period, to recover or settle the carrying amount of its assets or liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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.

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 will 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 listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets (CONT'D)

Intangible assets acquired in a business combination

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

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

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

Inventories

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial asset. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, 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. Subsequent to initial recognition, loans and receivables (including Deposits for potential investment, trade and bill receivables, other receivables, bank balances and cash as well as pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets set out below).

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Effective interest method (CONT'D)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated or not classified as loans and receivables, held-to-maturity investment or financial assets at fair value through profit or loss.

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

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, the estimated future cash flows of the financial assets have been affected.

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 other financial assets, objective evidence of impairment could include:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities and equity

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

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

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 (including all fees, 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and bills payables, other payables, dividend payable, borrowings as well as long-term debenture are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on 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 and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment losses on tangible and intangible assets other than goodwill

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade and other receivables

The provision policy for trade and other receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, based on the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2010, a total allowance of doubtful debts on trade and other receivables of RMB14,629,000 (2009: RMB8,370,000) have been recognised on the Group's consolidated statement of financial position.

Indefinite useful life of license and trademarks

In prior year, the Group acquired license of RMB190,002,000 which was issued by the Ministry of Railway ("MOR") and represented the access right of the business of railway safety equipment manufacture. The MOR license and trademarks are classified as indefinite-lived intangible assets. This conclusion is supported by the fact that license and trademarks are capable of being renewed indefinitely by the government of the People's Republic of China (the "PRC") upon its expiration at insignificant cost. Based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. The Group re-evaluates the useful life of license and trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for these assets. It could change significantly as a result of the changing of admission policy of MOR and the railway accident occurred due to the railway safety equipments manufactured by the Company's subsidiary.

Deferred tax asset

As at 31 December 2010, deferred tax assets of RMB15,159,000 (2009: RMB16,151,000) in relation to the unused tax losses, impairment loss on trade and other receivables, deferred income and other temporary differences have been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised in respect of the remaining unused tax losses of RMB47,843,000 (2009: RMB29,060,000) due to the unpredictability of future profit streams. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material adjustment of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such an adjustment takes place.

Estimation of the deferred income of system sales

A subsidiary is principally engaged in providing Railway Interlocking Systems ("RIS") and Centralised Traffic Control ("CTC") products to the national railway. Being the industry practice on RIS and CTC sales, certain RIS and CTC sales contracts include an identifiable amount for warranty service, that amount is deferred and recognised as revenue over the period during which the service is performed. The warranty services included replacement of spare parts, system upgrade and system maintenance. Considering the unique nature of system product, deferred income of system sales is recorded based on the anticipated total warranty costs to incur and anticipated margin of the warranty services. It requires management to apply judgment regarding past warranty costs incurred. As at 31 December 2010, deferred income of approximately RMB51,618,000 (2009: RMB60,521,000) is made for the systems products sold as set out in note 34.

5. REVENUE

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

	2010 RMB'000	2009 RMB'000
System sales	**1,162,740**	863,842
Trading of equipments	**272,440**	150,347
Provision of maintenance and engineering services	**145,724**	94,974
Software sales	**13,924**	13,408
Rental income	**—**	2,864
	1,594,828	1,125,435

6. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Operating Management Committee ("CODM"), in order to allocate resources to the segment and to assess its performance.

The information reported to the CODM for the purposes of resource allocation and performance assessment focuses more specifically on the category of customer. The principal categories of customers are petrochemical and railway. The Group's operating segments are identified and relevant information is presented below:

Petrochemical - integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering services and sales of software products for the petrochemical, chemical, oil and gas and coal chemical industries

Railway - integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering services and sales of software products for the railway industry

6. SEGMENT INFORMATION (CONT'D)

Segment revenues and results

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

2010

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	**793,874**	**800,954**	**1,594,828**
Segment profit before tax	**189,386**	**179,933**	**369,319**
Income tax expense	**(13,667)**	**(28,135)**	**(41,802)**
Segment profit	**175,719**	**151,798**	**327,517**
Unallocated other income			**339**
Unallocated administrative expenses			**(7,077)**
Unallocated other gains and losses			**(232)**
Unallocated finance costs			**(101)**
Profit for the year			**320,446**

2009

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	576,248	549,187	1,125,435
Segment profit before tax	109,983	167,934	277,917
Income tax expense	(3,201)	(17,548)	(20,749)
Segment profit	106,782	150,386	257,168
Unallocated other income			172
Unallocated administrative expenses			(13,352)
Unallocated other gains and losses			(222)
Profit for the year			243,766

All of the segment revenue reported above is from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the post-tax profit earned by each segment without allocation of central administrative expenses, interest income, other gains and losses and finance costs of the Company. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION (CONT'D)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2010 RMB'000	2009 RMB'000
Petrochemical	**1,467,324**	1,062,349
Railway	**1,206,653**	919,311
Total segment assets	**2,673,977**	1,981,660
Other assets	**57,523**	97,233
Consolidated assets	**2,731,500**	2,078,893
Segment liabilities		
Petrochemical	**408,265**	392,866
Railway	**459,674**	280,108
Total segment liabilities	**867,939**	672,974
Other liabilities	**159,479**	3,660
Consolidated liabilities	**1,027,418**	676,634

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

- all assets are allocated to operating segments other than bank balances and cash and property, plant and equipment of the Company.

- all liabilities are allocated to operating segments other than other payables and borrowings of the Company.

6. SEGMENT INFORMATION (CONT'D)

Other segment information

Amounts included in the measure of segment profit or segment assets:

2010

	Petrochemical RMB'000	Railway RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	**92,948**	**11,745**	**—**	**104,693**
Interests in associates	**79,433**	**16,682**	**—**	**96,115**
Depreciation and amortisation	**10,667**	**6,376**	**10**	**17,053**
Release of prepaid lease payment	**584**	**—**	**—**	**584**
Gain on disposal of property, plant and equipment	**—**	**45**	**—**	**45**
Impairment losses on trade and other receivables recognised in profit or loss	**641**	**5,618**	**—**	**6,259**
Share-based payment expense	**4,000**	**—**	**—**	**4,000**
Share of results of associates	**39**	**(3,470)**	**—**	**(3,431)**

2009

	Petrochemical RMB'000	Railway RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	37,800	18,431	20	56,251
Depreciation and amortisation	6,375	6,104	8	12,487
Release of prepaid lease payment	584	—	—	584
Loss on disposal of property, plant and equipment	—	5	3	8
Impairment losses on loan receivables recognised in profit or loss	68	8,006	—	8,074
Share-based payment expense	10,006	—	—	10,006

Note: Non-current assets excluding financial instruments and deferred tax assets.

6. SEGMENT INFORMATION (CONT'D)

Geographical information

The Group operates principally in the PRC (including Hong Kong), and overseas countries (including the United States of America ("USA") and Singapore).

The Group's revenue from external customers and information about its non-current assets* by geographical location of customers and geographical location of assets respectively are detailed below:

	Revenue from external customers		Non-current assets*	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
PRC	**1,571,061**	1,096,109	**560,823**	463,551
Overseas countries	**23,767**	29,326	**14,603**	7,182
	1,594,828	1,125,435	**575,426**	470,733

* Non-current assets excluding financial instruments and deferred tax assets.

Revenue by products and services

The Group's revenue analysed by goods or services are set out in note 5.

Information about major customers

Revenue from individual customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 RMB'000	2009 RMB'000
Railway - Customer A	**207,606**	218,414
Railway - Customer B	**159,682**	—
Petrochemical - Customer C	**150,243**	157,406

7. OTHER INCOME

	2010 **RMB'000**	2009 RMB'000
Bank interest income	**1,562**	1,057
Government grant (Note)	**41,226**	39,527
Others	**1,618**	498
	44,406	41,082

Note: The amount of RMB38,783,000 (2009: RMB39,527,000) represents the value added tax ("VAT") refund from local tax bureau in accordance with the preferential policy on VAT of software manufacturers. The remaining amount of RMB2,443,000 (2009: Nil) represents the subsidy received from the government, in accordance with the temporary measures promulgated by HaiDian District regarding financing subsidy to small and medium enterprises.

8. OTHER GAINS AND LOSSES

	2010 **RMB'000**	2009 RMB'000
Net foreign exchange loss	**8,196**	416
Impairment losses on trade and other receivables	**6,259**	8,074
(Gain) loss on disposal of property, plant and equipment	**(45)**	8
	14,410	8,498

9. FINANCE COSTS

	2010 **RMB'000**	2009 RMB'000
Interest on bank borrowings wholly repayable within five years	**28,449**	14,646
Interest on long-term debenture	**939**	—
Less: Amount capitalised under construction in progress	**(3,950)**	(70)
	25,438	14,576

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 4.06% (2009: 5.94%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax charge comprises:		
PRC enterprise income tax	**38,274**	23,453
Hong Kong Profits Tax	**2,612**	463
Other jurisdictions	**8**	457
	40,894	24,373
Deferred tax (note 22)		
Current year	**908**	(3,598)
Attributable to a change in tax rate	**—**	(26)
	41,802	20,749

PRC enterprise income tax is generally calculated at 25% of the estimated assessable profit of the Company's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for both years, except for certain subsidiaries which enjoyed tax rate substantially lower than 25% due to relevant incentive policies.

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years. During the year, Beijing Sindhu Industrial Software Co., Ltd. ("Beijing Software") is under the first year of 50% tax reduction and followed by a 50% tax reduction from 2011 to 2012. Beijing Consen Automation Control Co., Ltd. ("Beijing Consen") and Beijing Tri-Control Automation Co., Ltd. ("Beijing Tri-control") are under the third year of 50% tax reduction and Beijing Shang Fang Yun Shui Software Technology Co., Ltd. ("Beijing ShangFang") is under the first year of tax exemption, and also entitled to an exemption for year 2011 and followed by a 50% tax reduction from 2012 to 2014.

Beijing Consen Transportation Technology Co., Ltd. ("Beijing Transportation"), Beijing Jiaoda Microunion Technology Co., Ltd. ("Beijing Jiaoda Microunion") and Zhongjing Engineering Software Technology Company Limited ("Zhongjing") are qualified as "New and High Tech Enterprises" and are subject to enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC from 2008 to 2010 (for Beijing Transportation and Beijing Jiaoda Microunion) and from 2010 to 2012 (for Zhongjing).

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

Taxation arising in the jurisdictions other than the PRC and Hong Kong is calculated at rates prevailing in the relevant jurisdictions.

10. INCOME TAX EXPENSE (CONT'D)

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**362,248**	264,515
Tax at the PRC income tax rate of 25% (2009: 25%)	**90,562**	66,129
Tax effect of share of results of associates	**858**	—
Tax effect of expenses not deductible for tax purpose	**10,358**	3,166
Tax effect of income not taxable for tax purpose	**(9,696)**	(11,708)
Tax effect of tax losses not recognised	**4,946**	4,601
Utilisation of tax losses previously not recognised	**(250)**	(1,946)
Effect of different tax rates of subsidiaries	**(1,373)**	104
Deferred tax changes resulting from changes in applicable tax rates	**—**	(26)
Effect of tax benefit granted to certain PRC subsidiaries	**(53,603)**	(39,571)
Tax charge for the year	**41,802**	20,749

Note: Under the PRC Tax Law, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards. During the reporting period, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries generated during the year amounting to RMB299,347,000 (2009: RMB228,799,000) 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.

11. PROFIT FOR THE YEAR

	2010 RMB'000	2009 RMB'000
Profit for the year is arrived at after charging (crediting) the following items:		
Auditors' remuneration	**2,883**	3,508
Depreciation of property, plant and equipment	**12,740**	7,306
(Gain) loss on disposal of property, plant and equipment	**(45)**	8
Release of prepaid lease payment	**584**	584
Amortisation of intangible assets (included in cost of sales)	**4,313**	5,181
Staff costs:		
Directors' emoluments (note 12)	**12,359**	12,568
Other staff costs		
- Salaries and other benefits	**134,826**	86,059
- Retirement benefits scheme contributions	**4,870**	4,117
- Share-based payments	**4,000**	10,006
	156,055	112,750
Operating lease rentals in respect of rented premises	**14,975**	12,553

12. DIRECTORS' EMOLUMENTS

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

	2010				
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Total emoluments RMB'000
Executive directors					
Mr. Xuan Rui Guo	—	1,012	12	2,978	4,002
Mr. Kuang Jian Ping	—	910	12	2,978	3,900
Mr. Huang Zhi Yong	—	957	12	2,978	3,947
Sub-total	—	2,879	36	8,934	11,849
Independent non-executive directors					
Mr. Wang Tai Wen	153	—	—	—	153
Mr. Tang Min	153	—	—	—	153
Mr. Ng Wing Fai	204	—	—	—	204
Sub-total	510	—	—	—	510
Total	510	2,879	36	8,934	12,359

12. DIRECTORS' EMOLUMENTS (CONT'D)

	2009				
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Total emoluments RMB'000
Executive directors					
Mr. Xuan Rui Guo	—	607	12	3,524	4,143
Mr. Kuang Jian Ping	—	395	12	3,524	3,931
Mr. Huang Zhi Yong	—	509	12	3,524	4,045
Sub-total	—	1,511	36	10,572	12,119
Independent non-executive directors					
Mr. Wang Tai Wen	132	—	—	—	132
Mr. Tang Min	132	—	—	—	132
Mr. Ng Wing Fai	185	—	—	—	185
Sub-total	449	—	—	—	449
Total	449	1,511	36	10,572	12,568

The performance related incentive payments of the executive directors are determined by the board and should not be more than 5% of the net profit attributable to owners of the Company for the relevant financial year.

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

13. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three directors (2009: three) for the year ended 31 December 2010, whose emoluments are disclosed in note 12 above. The emoluments of the remaining two (2009: two) individuals for the year ended 31 December 2010 are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**1,310**	1,595
Contributions to retirement benefits scheme	**25**	12
Performance related incentive payments	**2,522**	634
Share-based payments	**—**	514
	3,857	2,755

13. EMPLOYEES' EMOLUMENTS (CONT'D)

Their emoluments were within the following bands:

	Number of employees 2010	2009
HK$1,000,001 TO HK$1,500,000	**1**	2
HK$2,500,001 TO HK$3,000,000	**1**	—
	2	2

14. DIVIDENDS

Dividends recognised as distribution during the year:

	2010 RMB'000	2009 RMB'000
2009 final dividend of RMB4.4cents (2009: 2008 final dividend of RMB3.5cents) per share	**43,341**	35,090

The final dividend of HKD71,452,500 at HKD7.0 cents per share (2009: HKD50,197,000, at HKD5.0 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. 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:

Earnings

	2010 RMB'000	2009 RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**285,581**	212,088

Number of shares

	2010 '000 shares	2009 '000 shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,015,784**	968,065
Effect of dilutive potential ordinary shares for share options	**6,244**	11,017
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,022,028**	979,082

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Fixtures and electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1 January 2009	37,931	521	1,977	12,281	13,961	66,671
Additions	—	3,334	27,608	9,004	7,086	47,032
Transfers	—	4,439	(4,439)	—	—	—
Disposals	—	—	—	(106)	—	(106)
At 31 December 2009	37,931	8,294	25,146	21,179	21,047	113,597
Additions	—	2,514	23,328	11,284	10,515	47,641
Acquired on acquisition of a subsidiary (note 37)	—	—	—	598	893	1,491
Disposals	—	—	—	(892)	(407)	(1,299)
At 31 December 2010	**37,931**	**10,808**	**48,474**	**32,169**	**32,048**	**161,430**
DEPRECIATION						
At 1 January 2009	1,485	521	—	3,349	7,443	12,798
Provided for the year	1,207	351	—	3,089	2,659	7,306
Disposals	—	—	—	(98)	—	(98)
At 31 December 2009	2,692	872	—	6,340	10,102	20,006
Provided for the year	1,174	1,663	—	5,347	4,556	12,740
Disposals	—	—	—	(854)	(387)	(1,241)
At 31 December 2010	**3,866**	**2,535**	**—**	**10,833**	**14,271**	**31,505**
CARRYING VALUES						
At 31 December 2010	**34,065**	**8,273**	**48,474**	**21,336**	**17,777**	**129,925**
At 31 December 2009	35,239	7,422	25,146	14,839	10,945	93,591

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

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

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

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

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

The Group has pledged land and buildings having a carrying value of approximately RMB33,491,000 (2009: RMB34,606,000) to obtain corporate guarantee from an independent third party for the banking facilities of RMB70,000,000 (2009: RMB70,000,000) granted to the Group.

17. PREPAID LEASE PAYMENTS

Movements in the lease prepayments, which represent land use rights with the lease terms of 40 to 50 years in Mainland China, during the year are analysed as follows:

	2010 RMB'000	2009 RMB'000
CARRYING AMOUNT		
At 1 January	25,522	26,106
Released to profit or loss	(584)	(584)
At 31 December	24,938	25,522
Analysed for reporting purpose as:		
Current asset	584	584
Non-current asset	24,354	24,938

At 31 December 2010, the Group has pledged land use right with a carrying value of approximately RMB8,674,000 (2009: RMB8,905,000) to obtain corporate guarantee from an independent third party for the banking facilities of RMB70,000,000 (2009: RMB70,000,000) granted to the Group. The remaining amount of RMB16,264,000 (2009: RMB16,617,000) has been pledged to secure the banking facilities of RMB29,785,000 (2009: RMB13,874,000) as at 31 December 2010.

18. INTANGIBLE ASSETS

	Development costs RMB'000 (Note a)	Licenses RMB'000 (Note b)	Trademarks RMB'000	Backlog orders RMB'000	Patents RMB'000	Total RMB'000
COST						
At 1 January 2009	13,417	190,002	62,468	9,190	6,536	281,613
Additions	5,822	—	—	—	—	5,822
At 31 December 2009	19,239	190,002	62,468	9,190	6,536	287,435
Additions	7,144					7,144
Acquired on acquisition of a subsidiary (note 37)	—	16,422	—	—	—	16,422
At 31 December 2010	**26,383**	**206,424**	**62,468**	**9,190**	**6,536**	**311,001**
AMORTISATION						
At 1 January 2009	—	—	—	5,567	658	6,225
Provided for the year	989	—	—	3,623	569	5,181
At 31 December 2009	989	—	—	9,190	1,227	11,406
Provided for the year	3,388	556	—	—	369	4,313
At 31 December 2010	**4,377**	**556**	**—**	**9,190**	**1,596**	**15,719**
CARRYING VALUES						
At 31 December 2010	**22,006**	**205,868**	**62,468**	**—**	**4,940**	**295,282**
At 31 December 2009	18,250	190,002	62,468	—	5,309	276,029

Notes:

(a) Development costs are internally generated.

(b) Licenses of RMB16,422,000 were recognised upon the acquisition of a subsidiary during the year. The license is related to the various engineering and design licenses and in the opinion of the directors, the expected useful life of which is 2.5 years. The MOR license of RMB190,002,000 acquired in 2008 are classified as indefinite useful life intangible assets as disclosed in note 4.

18. INTANGIBLE ASSETS (CONT'D)

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

Category	Estimated useful lives
Development costs	5 years
Backlog orders	Over the service providing periods
Patents	5-15 years
Other licenses	2.5 years

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

As a result, the license and trademarks are considered by the management of the Group as having an indefinite useful life. They will be tested for impairment annually and whenever there are indications that they may be impaired. Particulars of the impairment testing are disclosed in note 20.

19. GOODWILL

	2010 **RMB'000**	2009 RMB'000
At 1 January	**76,175**	72,778
Arising on acquisition of a subsidiary (note 37)	**8,889**	—
Arising on acquisition of additional interest in a subsidiary	**—**	3,397
At 31 December	**85,064**	76,175

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

For the purposes of impairment testing, goodwill, MOR license and trademarks with indefinite useful lives set out in notes 18 and 19 have been allocated to four individual cash generating units (CGUs), including two subsidiaries engaged in railway segment and two subsidiaries engaged in petrochemical sales segment. The carrying amounts of goodwill, license and trademarks as at 31 December 2010 allocated to these units are as follows:

	Goodwill		License and trademarks	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Railway - Beijing Jiaoda Microunion Technology Co., Ltd (Unit A)	**72,778**	72,778	**251,924**	251,924
Petrochemical - Tri-sen Systems Corporation (Unit B)	**—**	—	**546**	546
Railway - Beijing Consen Transportation Technology Company Limited (Unit C)	**3,397**	3,397	**—**	—
Petrochemical - Zhongjing (Unit D)	**8,889**	—	**—**	—
Total	**85,064**	76,175	**252,470**	252,470

During the year ended 31 December 2010, management of the Group determines that there are no impairments of any of its CGUs containing goodwill, license and trademarks with indefinite useful lives.

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

The recoverable amount is determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 15.5% (2009: 17%) for Unit A and Unit C, 13.4% (2009: 14.17%) for Unit B, discount rate of 13.6% for Unit D depending on the industries in which the subsidiaries operate. One major assumption of the financial budgets is annual revenue growth rates of 16% (2009:10%) for Unit A and Unit C, 25% (2009: 15%) for Unit B, 8% for Unit D. The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady growth rate of 3% (2009: 3%). The growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance.

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

21. INTERESTS IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Cost of investments, unlisted	**100,152**	—
Share of post-acquisition loss and other comprehensive income, net of dividends received	**(3,432)**	—
	96,720	—

Details of the Group's associates are set out below.

Name of entity	Date and place of establishment	Place of operation	Fully paid up registered capital	Equity interest attributable to the Group	Principal activities
吳忠儀表有限責任公司 Wuzhong Instrument Co. Ltd ("Wuzhong ")	27 January 2010 PRC	PRC	RMB320,000,000	25%	Manufacture of industry automatic control valves
廣州 ABB 微聯牽引設備有限公司 ABB Microunion Traction Equipment Limited ("ABB Microunion")	16 July 2010 PRC	PRC	US$6,000,000	50% (Note)	Traction converters and auxiliary converters

Note: The Group holds 50% of the issued share capital of ABB Microunion. However, under a shareholders' agreement, the Group does not control ABB Microunion. The directors of the Company consider that the Group does have significant influence over ABB Microunion and it is therefore classified as an associate of the Group.

21. INTERESTS IN ASSOCIATES (CONT'D)

The summarised financial information in respect of the Group's associates which are accounted for using the equity accounting method is set out below:

	2010 RMB'000	2009 RMB'000
Total assets	560,252	—
Total liabilities	(210,039)	—
Net assets	350,213	—
Group's share of net assets of associates	96,720	—

	2010 RMB'000	2009 RMB'000
Revenue	133,738	—
Loss for the year	(6,784)	—
Group's share of losses and other comprehensive income of associates for the year	(3,432)	—

22. DEFERRED TAX ASSETS/LIABILITIES

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

	Impairment losses on trade and other receivables RMB'000	Deferred income RMB'000	Tax losses RMB'000	Fair value adjustment of intangible assets (note a) RMB'000	Distributable profits of subsidiary RMB'000	Other temporary differences (note b) RMB'000	Total RMB'000
At 1 January 2009	1,322	9,358	637	(38,332)	(1,000)	1,753	(26,262)
Credit (charge) to profit or loss	1,212	(280)	(637)	543	—	2,760	3,598
Effect of change in tax rate	—	—	—	—	—	26	26
At 31 December 2009	2,534	9,078	—	(37,789)	(1,000)	4,539	(22,638)
Acquisition of a subsidiary (Note 37)	—	—	—	(2,463)	—	—	(2,463)
Credit (charge) to profit or loss	883	(1,335)	764	84	—	(1,304)	(908)
At 31 December 2010	3,417	7,743	764	(40,168)	(1,000)	3,235	(26,009)

Notes:

(a) Deferred tax liabilities of fair value adjustment recognised by the Group represented the fair value adjustment on intangible assets arising from the business acquisitions during the current and prior years.

(b) Other temporary differences mainly represent the temporary differences arising from the leasehold improvements, unpaid payroll and unexercised share option expenses.

22. DEFERRED TAX ASSETS/LIABILITIES (CONT'D)

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

	2010 RMB'000	2009 RMB'000
Deferred income tax assets	**15,159**	16,151
Deferred income tax liabilities	**(41,168)**	(38,789)
	(26,009)	(22,638)

At 31 December 2010, the Group had unused tax losses of approximately RMB47,843,000 (2009: RMB29,060,000) available to offset against future profits of respective subsidiaries. Included in unrecognised tax losses are losses of RMB30,680,000 (2009: RMB23,453,000) that may be carried forward indefinitely.

The other tax losses unrecognised for deferred income tax assets that will expire in

	2010 RMB'000	2009 RMB'000
2013	**4,607**	—
2014	**—**	5,607
2015	**12,556**	—
Total	**17,163**	5,607

No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams of respective subsidiaries.

23. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**379,708**	300,864
Work in progress	**22,532**	14,026
Finished goods	**1,357**	3,708
	403,597	318,598

For the year ended 31 December 2010, cost of inventories of approximately RMB876,558,000 (2009: RMB566,447,000) is recognised as an expense in the consolidated statement of comprehensive income.

24. TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade and bills receivables

	2010 RMB'000	2009 RMB'000
Trade receivables	**806,452**	561,620
Less: impairment losses on trade receivables	**(14,107)**	(8,348)
	792,345	553,272
Bills receivable	**50,552**	37,183
	842,897	590,455

Denominated in the currency other than the functional currency of relevant group entities:

	2010 RMB'000	2009 RMB'000
United States Dollar ("USD")	**89,806**	73,134
Japanese Yen ("JPY")	**1**	1
European Dollar ("EUR")	**15,252**	20,292
Singapore Dollar ("SGD")	**874**	595
	105,933	94,022

At 31 December 2010, included in trade and bills receivables are retention receivable of RMB61,565,000 (2009: RMB34,657,000). Retention receivables are interest-free and recoverable at end of the retention period of individual contract from 12 to 18 months and within the Group's normal operating cycle. As at 31 December 2010, retention receivables with a carrying amount of RMB51,238,000 (2009: RMB31,084,000) are expected to be collected after 12 months from the end of the reporting period.

The normal credit period except for the retention receivables granted to the Group's customers is 90 to 365 days. 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 reporting dates:

	2010 RMB'000	2009 RMB'000
0 - 90 days	**486,663**	305,681
91 - 180 days	**105,177**	128,620
181 - 365 days	**173,673**	88,574
1 - 2 years	**66,679**	63,614
2 - 3 years	**10,386**	3,966
More than 3 years	**319**	—
	842,897	590,455

24. TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES AND PREPAYMENTS (CONT'D)

(a) Trade and bills receivables (CONT'D)

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The creditability of customers is reviewed regularly. The Group maintain strict control over the creditability of customers and its outstanding receivables. More than 90% of the trade receivables that are neither past due nor impaired are from customers with good payment history.

As at 31 December 2010, trade receivables with a carrying amount of RMB77,384,000 (2009: RMB67,580,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2010 **RMB'000**	2009 RMB'000
1-2 years	**66,679**	63,614
2-3 years	**10,386**	3,966
More than 3 years	**319**	—
Total	**77,384**	67,580

Movement in the allowance for doubtful debts

	2010 **RMB'000**	2009 RMB'000
At 1 January	**8,348**	264
Impairment losses recognised on trade receivables	**8,233**	8,147
Reversal	**(2,474)**	(63)
At 31 December	**14,107**	8,348

24. TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES AND PREPAYMENTS (CONT'D)

(b) Other receivables and prepayments

An analysis of other receivables and prepayments is as follows:

	2010 RMB'000	2009 RMB'000
Prepayments to suppliers	56,356	17,066
Other receivables (Note)	72,586	35,667
Less: impairment losses on trade receivables	(522)	(22)
	128,420	52,711

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
At 1 January	22	32
Impairment losses recognised on other receivables	500	—
Reversal	—	(10)
At 31 December	522	22

Note: At 31 December 2010, other receivables included a deposit of RMB40,800,000 (2009:Nil) to an intermediate company for the acquisition of a target company engaged in railway business. Pursuant to the terms of the agreement, the acquisition of the target company was terminated and the Group is in the process of getting back the deposit.

In determining the recoverability of the trade receivables, the Group reassesses the credit quality of the trade receivables since the credit was granted and up to the reporting date. Based on the historical experience of the Group, the directors of the Company believe that no further allowance is required.

25. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2010 RMB'000	2009 RMB'000
Constructions in progress at the end of reporting period		
Contract costs incurred plus recognised profits less recognised losses	129,172	16,808
Less: Progress billings	(118,315)	(13,656)
	10,857	3,152

26. PLEDGED BANK DEPOSITS

The pledged bank deposits have been pledged to secure banking facilities granted to the Group. Deposits amounting to RMB96,260,000 (2009: RMB86,538,000) have been pledged to secure short-term banking facilities and are therefore classified as current assets. The remaining deposits amounting to RMB17,375,000 (2009: Nil) have been pledged to secure long-term banking facilities and are therefore classified as non-current assets. The deposits carried prevailing deposit rate and the effective interest was 0.09% to 3.0% for the year (2009: 0.01% to 3.33%) per annum.

Denominated in the currency other than the functional currency of relevant group entities:

	2010 **RMB'000**	2009 RMB'000
USD	**19,388**	13,736

27. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group, and short-term bank deposits with an original maturity of three months or less which carry interest at prevailing deposit interest rate at 0.01% to 0.40% (2009: 0.01% to 1.35%) per annum.

Denominated in the currency other than the functional currency of relevant group entities:

	2010 **RMB'000**	2009 RMB'000
USD	**47,294**	14,268
JPY	**43,389**	33
EUR	**1,087**	623
Hong Kong Dollar ("HKD")	**217**	290
SGD	**26**	—
	92,013	15,214

28. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
0 - 90 days	**176,857**	179,099
91 - 180 days	**53,006**	9,824
181 - 365 days	**19,410**	8,169
1 - 2 years	**6,055**	1,058
Over 2 years	**6**	6,505
	255,334	204,655

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

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

	2010 RMB'000	2009 RMB'000
USD	**62,011**	67,234
JPY	**21,213**	—
EUR	**4,559**	821
SGD	**324**	68
	88,107	68,123

29. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2010 RMB'000	2009 RMB'000
Advance from customers	**54,565**	48,509
Accrued payroll and welfare	**30,794**	27,535
Other payables	**82,362**	53,061
	167,721	129,105

30. BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank loans:		
Secured	**156,231**	208,750
Unsecured	**282,898**	25,144
	439,129	233,894
Carrying amount repayable*:		
Within one year	**246,569**	194,875
More than one year but within two years	**14,526**	—
More than two years but within three years	**93,915**	4,684
More than three years but within four years	**84,119**	—
More than four years but within five years	**—**	34,335
	439,129	233,894
Less: Amounts due within one year shown under current liabilities	**(246,569)**	(194,875)
	192,560	39,019

* The amounts due are based on scheduled repayment dates set out in the loan agreements. At the end of 31 December 2010 and 2009, no bank loans have contained a repayment on demand clause.

The carring amout of the Group's borrowings denominated in the currency other than the functional currency of relevant group entities are as follows:

	2010 RMB'000	2009 RMB'000
USD	**124,675**	54,630
EUR	**—**	1,241
	124,675	55,871

30. BORROWINGS (CONT'D)

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

	2010	2009
Effective interest rate per annum	**3.30% to 5.84%**	2.16% to 6.69%

On 6 December 2010, the Company signed a USD50 million (equivalent to RMB 333,628,000) syndicated loan agreement (comprising of USD40 million, RMB50 million and HKD22 million), of which the salient terms include charge over 5% cash deposit or USD2.5 million equivalent of the facility amount, 3.5 years tenor with repayment in 7 installments commencing 24 months after the signing date, interest rate for the USD and HKD tranches are set at their respective inter-bank rates plus 2.85% whilst for the RMB tranche at 4.1%. At 31 December 2010, bank borrowings of approximately RMB159,209,000 was drawn down.

At 31 December 2010, bank borrowings of RMB86,231,000 (2009: RMB138,750,000) was secured by pledged bank deposits of RMB68,804,000 (2009: RMB22,059,000), prepaid lease payments with a carrying value of approximately RMB16,264,000 (2009: RMB16,617,000), trade receivables, bills receivables and other receivables of RMB84,005,000 (2009: RMB14,934,000) in aggregate and floating charge on inventories of the Company's subsidiary, i.e., Tri-Control Automation Company Limited ("Tri-control") which are set out in note 26, note 17, note 24 and note 23 respectively.

The remaining secured borrowings amounting to RMB70,000,000 (2009: RMB70,000,000) was guaranteed by an independent third party at 31 December 2010. During the year, the Group paid approximately RMB1,092,000 (2009: RMB1,759,000) to the independent third party for the corporate guarantees provided. Details of the securities provided by the Group to the independent third party for the guarantees provided and other pledge of asset are set out in note 16 and note 17 respectively.

31. LONG-TERM DEBENTURE

Pursuant to the approval [2010] No.1829 issued by National Development and Reform Commission ("NDRC") dated 13 August 2010, a subsidiary of the Company, Bejing Jiaoda Microunion was approved to issue Zhongguancun high-technology small medium enterprise collective debenture (「中關村高新技術中小企業集合債券」) with amount of RMB50,000,000. The debenture is unsecured, carries fixed interest at 5.18% per annum and will be repayable on the sixth anniversary from the date of issue.

Details of the outstanding balance at the end of the reporting period are as follows:

	2010 RMB'000	2009 RMB'000
Long term debenture issued during the year	**49,288**	—

32. SHARE CAPITAL

	2010		2009	
	Number of shares	**Amount**	Number of shares	Amount
	'000 shares	**HK'000**	'000 shares	HK'000
Authorised:				
Ordinary shares of HK$0.01	**3,000,000**	**30,000**	3,000,000	30,000
Issued and fully paid:				
At 1 January	**1,006,712**	**10,067**	909,256	9,093
Issue of new shares through placement (Note a)	**—**	**—**	86,000	860
Share repurchased and cancelled (Note b)	**—**	**—**	(84)	(1)
Issue of shares on exercise of share options (Note c)	**13,042**	**130**	11,540	115
At 31 December	**1,019,754**	**10,197**	1,006,712	10,067

	2010	2009
	RMB'000	RMB'000
Shown in the consolidated statement of financial position	**9,491**	9,376

Notes:

(a) Pursuant to a placing and subscription agreement dated 5 May 2009, 126,000,000 shares of HK$0.01 each in the share capital then held by Consen Group Holding Inc. was placed on 8 May 2009 at placing price of HK$2.30 per share and subscription of new shares of 86,000,000 by Consen Group Holding Inc. (the "subscription") at the subscription price of HK$2.30 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK$0.01 each in the share capital of the Company.

(b) On 12 January 2009, the Company repurchased certain of its own shares of 84,000 shares through the Stock Exchange at an aggregate consideration of HK$129,000 (equivalent to RMB114,000). All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK$840 (equivalent to RMB1,000) was charged in the share capital and the premium paid on repurchase of HK$128,000 (equivalent to RMB113,000) was charged against share premium in accordance with the Cayman Islands Companies Act.

Details of the shares repurchased are as follows:

Month of repurchase	**Number of shares repurchased**	**Price per share**		**Aggregate consideration Paid**
		Highest	**Lowest**	
		HK$	HK$	HK$
January 2009	84,000	1.57	1.51	128,960

(c) During the year, options to subscribe for 12,374,000 shares and 668,000 shares in the Company at HK$2.27 and HK$2.26 per share respectively were exercised. The weighted average closing prices of the Company's shares quoted on the Stock Exchange immediately before the exercise date was HK$6.155.

In last year, options to subscribe for 11,540,000 shares in the Company at HK$2.27 per share were exercised. The weighted average closing prices of the Company's shares quoted on the Stock Exchange immediately before the exercise date was HK$4.5.

Other than disclosed above, during the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

33. RESERVES

(a) Other reserve

The Group's other reserve represents amounts arising on the group reorganization (the "Group Reorganisation").

(b) Statutory surplus reserves

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

(c) Share option reserve

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

34. DEFERRED INCOME

	2010 **RMB'000**	2009 RMB'000
At 1 January	**60,521**	62,385
Addition	**764**	1,624
Released to profit or loss	**(9,667)**	(3,488)
At 31 December	**51,618**	60,521

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

35. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings and long-term debenture disclosed in note 30 and note 31 respectively, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

36. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,599,063**	1,229,440
Available-for-sale financial assets	**3,373**	3,373
Financial liabilities		
Amortised cost	**762,175**	454,273

b) Financial risk management objectives and policies

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

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

Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual debts at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

36. FINANCIAL INSTRUMENTS (CONT'D)

b) Financial risk management objectives and policies (CONT'D)

Currency risk

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

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

	Liabilities		Assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**186,686**	121,864	**156,488**	101,173
HKD	**—**	—	**217**	290
JPY	**21,213**	—	**43,390**	34
EUR	**4,559**	2,062	**16,339**	20,915
SGD	**324**	68	**900**	595

The Group currently does not have a formal foreign currency hedging policy. The management reviewed and monitored the currency risk exposure with reference to.

The following table details the Group's sensitivity to a reasonably possible change of 1% (2009: 5%) in exchange rate of each foreign currency against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% (2009: 5%) change in foreign currency rates.

The management adjusted the sensitivity rate from 5% to 1% for assessing foreign currency risk after considering the financial market conditions during the current year.

	2010	2009
	RMB'000	RMB'000
Increase (decrease) in profit post-tax for the year		
– if RMB weakens against foreign currencies	**17**	(67)
– if RMB strengthens against foreign currencies	**(17)**	67

36. FINANCIAL INSTRUMENTS (CONT'D)

b) Financial risk management objectives and policies (CONT'D)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate long-term debenture (see note 31 for details of the debenture). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group was also exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances and variable-rate bank borrowings (see note 30 for details of these borrowings). It is the Group policy to keep its borrowings at floating rate of interests and therefore the related fair value interest rate risk is considered limited.

The Group's sensitivity to cash flow interest rate risk is prepared assuming the amount of variable-rate brrowings at the end of the reporting period was outstanding for the whole year. A 100 (2009: 100) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates as a result of the gradual increase in interest rate during the current year.

	2010	2009
Reasonably possible change in interest rate	**100 basis points**	100 basis points

	2010 **RMB'000**	2009 RMB'000
Increase (decrease) in profit post-tax for the year		
as a result of increase in interest rate	**(3,742)**	(2,057)
as a result of decrease in interest rate	**3,742**	2,057

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, debenture and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at 31 December 2010, the Group has available unutilised banking facilities of approximately RMB877,086,000 (2009: RMB415,981,000).

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

36. FINANCIAL INSTRUMENTS (CONT'D)

b) Financial risk management objectives and policies (CONT'D)

Liquidity risk (CONT'D)

At 31 December 2010	Weighted average effective interest rate %	Within 3 months RMB'000	3 months to 6 months RMB'000	6 months to 1 year RMB'000	1 years to 2 years RMB'000	2 years to 3 years RMB'000	3 years to 4 year RMB'000	5 years to 6 year RMB'000	Undated RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and bills payables	—	126,497	67,141	61,696	—	—	—	—	—	255,334	255,334
Borrowings	3.75	213,720	11,442	24,451	15,125	102,601	94,531	—	—	461,870	439,129
Other payables	—	9,122	5,598	3,701	—	—	—	—	—	18,421	18,421
Divided payable	—	3	—	—	—	—	—	—	—	3	3
Long-term debenture	5.18	—	—	—	—	—	—	63,630	—	63,630	49,288
		349,342	84,181	89,848	15,125	102,601	94,531	63,630	—	799,258	762,175
Trade and bills receivables	—	380,307	186,843	274,607	—	—	—	—	—	841,757	841,757
Other receivables	—	10,498	5,390	4,745	—	—	—	—	—	20,633	20,633
Pledged bank deposits	0.99	56,868	9,773	30,625	—	—	17,429	—	—	114,695	113,635
Bank balances and cash	0.26	565,948	—	16,463	—	—	—	—	—	582,411	582,238
Available-for-sale financial assets	—	—	—	—	—	—	—	—	3,373	3,373	3,373
Deposits for potential investment	—	—	—	40,800	—	—	—	—	—	40,800	40,800
		1,013,621	202,006	367,240	—	—	17,429	—	3,373	1,603,669	1,602,436

At 31 December 2009	Weighted average effective interest rate %	Within 3 months RMB'000	3 months t 6 months RMB'000	6 months to 1 year RMB'000	1 years to 2 years RMB'000	2 years to 3 years RMB'000	4 years to 5 year RMB'000	Undated RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and bills payables	—	82,417	92,257	29,981	—	—	—	—	204,655	204,655
Borrowings	3.97	94,030	86,501	25,335	—	5,798	42,690	—	254,354	233,894
Other payables	—	7,539	2,188	5,997	—	—	—	—	15,724	15,724
		183,986	180,946	61,313	—	5,798	42,690	—	474,733	454,273
Trade and bills receivables	—	479,616	74,902	4,853	31,084	—	—	—	590,455	590,455
Other receivables	—	14,092	1,573	184	—	—	—	—	15,849	15,849
Pledged bank deposits	1.76	1,387	9,071	77,207	—	—	—	—	87,665	86,538
Bank balances and cash	0.18	532,096	—	4,545	—	—	—	—	536,641	536,598
Available-for-sale financial assets	—	—	—	—	—	—	—	3,373	3,373	3,373
		1,027,191	85,546	86,789	31,084	—	—	3,373	1,233,983	1,232,813

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

36. FINANCIAL INSTRUMENTS (CONT'D)

c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

37. ACQUISITON OF A SUBSIDIARY

On 9 December 2010, the Company's subsidiary, Beijing Liboyuan Investment Management Company Limited, has entered into a share purchase agreement on 1 July 2010, to acquire 70% equity interest in Zhongjing at a consideration of RMB25,000,000. Zhongjing is engaged in engineering design in petrochemical industry. Zhongjing was acquired so as to continue the expansion of the Group's petrochemical industry operations.

Consideration transferred

	RMB'000
Cash	25,000

Acquisition-related costs have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the consolidated statement of comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	1,491
Intangible assets	16,422
Current assets	
Trade receivables	11,693
Other receivables	480
Cash and cash equivalent	1,481
Current liabilities	
Trade payables	(5,496)
Other payables, deposits received and accruals	(54)
Deferred tax liabilities	(2,463)
Income tax payable	(539)
	23,015

The intangible assets were recognised in the cost allocation of the acquisition, mainly representing the various engineering and design licenses owned by Zhongjing.

The fair value of receivables acquired amounting to RMB 12,173,000, which principally comprised trade and other receivables, approximate the gross contractual amounts. There are no contractual cash flows not expected to be collected.

37. ACQUISITON OF A SUBSIDIARY (CONT'D)

Non-controlling interests

The non-controlling interests (30%) in Zhongjing recognised at the acquisition date was measured at the non-controlling interests' proportionate share of the fair value of the identifiable net assets and amounted to RMB6,904,000.

	RMB'000
Goodwill arising on acquisition:	
Consideration transferred	25,000
Plus: non-controlling interests (30% in Zhongjing)	6,904
Less: net assets acquired	(23,015)
Goodwill arising on acquisition	8,889

Goodwill arose in the acquisition of Zhongjing because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Zhongjing. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

Cash consideration paid	25,000
Less: cash and cash equivalents acquired	(1,481)
	23,519

Impact of acquisition on the results of the Group

Included in the profit for the year is RMB7,474,000 attributable to the additional business generated by Zhongjing. Revenue for the year includes RMB22,135,000 generated from Zhongjing.

Had the acquisition been completed on 1 January 2010, total group revenue for the period would have been RMB1,627,702,000 and profit for the year would have been RMB323,491,000. 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 at 1 January 2010, nor is intended to be a projection of future results.

38. OPERATING LEASES

The Group as lessee

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

	2010 RMB'000	2009 RMB'000
Within one year	24,971	14,902
In the second to fifth year inclusive	25,464	14,809
	50,435	29,711

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

39. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of leasehold land and building	18,871	13,084
– in respect of establishment of associate company	—	100,152
	18,871	113,236

40. SHARE-BASED PAYMENT

Equity-settled share option scheme

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

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 11,682,000 (2009: 27,408,000), representing 1.15% (2009: 2.72%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

40. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (CONT'D)

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

An amount of HK$1 is payable by eligible employee to the Company on acceptance of the option as consideration for the grant. Options may be excerised at any time from 12 months to the fifth anniversary of the date of grant. The options are exercisable in three tranches at the first, second and third anniversary from date of grant respectively, each with one third of the total options granted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

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

The options (2007A) have been replaced by the grant of 2007(B) during the year ended 31 December 2007. The incremental fair value were expensed over the remaining vesting period of which RMB532,000 (2009: RMB1,441,000) was expensed in 2010.

The fair values were calculated using the Binomial Model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Expected volatility for 2008A was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavior considerations.

40. SHARE-BASED PAYMENT (CONT'D)

Equity-settled share option scheme (CONT'D)

Details of the share options outstanding at 31 December 2010 and 2009 are as follows:

	Outstanding at 31 December 2009	Lapsed during the year (note)	Exercised during the year	**Outstanding at 31 December 2010**
Key management	9,632,000	(332,000)	(5,316,000)	**3,984,000**
Other employees	17,776,000	(2,352,000)	(7,726,000)	**7,698,000**
	27,408,000	(2,684,000)	(13,042,000)	**11,682,000**
Exercisable at the end of the year				**11,682,000**
Weighted average exercise price				**HK$ 6.155**

	Outstanding at 31 December 2008	Reclassified during the year	Exercised during the year	Outstanding at 31 December 2009
Key management	13,800,000	200,000	(4,368,000)	9,632,000
Other employees	25,148,000	(200,000)	(7,172,000)	17,776,000
	38,948,000	—	(11,540,000)	27,408,000
Exercisable at the end of the year				14,844,000
Weighted average exercise price				HK$ 4.5

Note: During the current year, totally 2,684,000 share options were lapsed.

In respect of the share options exercised during the year, the share price at the dates of exercise is HK$4.99 to HK$6.36 (2009: HK$4.64 to HK$5.00).

The Group recongised the total expense of RMB4,000,000 (2009: RMB10,006,000) for the year ended 31 December 2010 in relation to share options granted by the Company.

41. RETIREMENT BENEFITS SCHEME

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

The total cost charged to profit or loss of RMB4,906,000 (2009: RMB4,153,000) represented contributions paid or payable to these schemes by the Group in respect of respective reporting period.

42. RELATED PARTY TRANSACTIONS

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

	2010 **RMB'000**	2009 RMB'000
Salaries and other benefits	**13,969**	9,282
Retirement benefit scheme contributions	**158**	149
Share-based payments	**1,130**	4,294
	15,257	13,725

43. PARTICULAR OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2010 %	2009 %	Principal activities
Tricon International Group Inc.	BVI	Ordinary shares US$1	100	100	Investment holding
Trisen International Limited	BVI	Ordinary shares US$5,000	100	100	Investment holding
Inovex Corporation	USA	Ordinary shares US$1	100	100	Business development and provision of engineering services in overseas Markets
Tri-sen Systems Corporation	USA	Ordinary shares US$1	100	100	Business development and provision of turbomachinerycontrols to the process industries
日本イノベックス株式会社 Inovex Japan Corporation	Japan	Ordinary shares JPY10,000,000	100	100	Business development and provision of control equipment
Trisen Asia Control Pte.Ltd	Singapore	Ordinary shares S$1,000,000	60	60	Distribution,training and engineering of instrumentation and control products

43. PARTICULAR OF SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2010 %	2009 %	Principal activities
Consen Automation (Singapore) Pte. Ltd.	Singapore	Ordinary shares S$1,000,000	100	100	Overseas business development and provision of engineering services
北京康吉森自動化設備技術有限責任公司 * Beijing Consen Automation Control Co., Ltd.	PRC	Registered capital RMB230,000,000	100	100	Provision of systems design and development, trading of equipment and maintenance services of safety and critical control systems
北京康吉森交通技術有限公司 * Beijing Consen Transportation Technology Company Ltd.	PRC	Registered capital RMB20,000,000	100	100	Design, development and sales of railway interlocking system
北京創康自動化工程有限公司 * Beijing Tri-Control Automation Co., Ltd.	PRC	Registered capital US$1,000,000	100	100	Provision of systems design and development, trading of equipment and engineering and maintenance services of safety and critical control systems
北京天竺興業軟件技術有限公司 * Beijing Sindhu Industrial Software Company Ltd.	PRC	Registered capital US$20,000,000	100	100	Research and development as well as software programming and licensing
北京交大微聯科技有限公司 * Beijing Jiaoda Microunion Technology Company Limited	PRC	Registered capital RMB100,000,000	76.7	76.7	Design, development and sales of railway interlocking system
北京力博遠投資管理有限公司 * Beijing Liboyuan Investment Management Company Limited	PRC	Registered capital RMB10,000,000	100	100	Investment holding

43. PARTICULAR OF SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2010 %	2009 %	Principal activities
北京恒通方大新材料技術有限公司 * Beijing Hengtong Fangda New Materials Company Limited	PRC	Registered capital RMB10,000,000	100	100	Design, development and sales of construction material for railway and highroad as well as technology service
北京康吉森油氣過程控制設備有限公司 * Beijing Consen Oil and Gas Process Control Company Limited	PRC	Registered capital RMB20,000,000	100	100	Trading of equipment of safety and critical control systems as well as technology service
北京恒優聯科技有限公司 * Beijing Heng Youlian Technology Company Limited	PRC	Registered capital RMB20,000,000	100	100	Imports and exports of goods and technology as well as an agent of imports and exports
北京康吉森過程控制 * 技術有限公司 Beijing Consen Process Control Technology Company Limited	PRC	Registered capital RMB20,000,000	100	100	Development and trading of prochemical automation control system
北京中自化物資裝備技術有限公司 * Beijing CAG Material & Equipment Technology Co. Ltd	PRC	Registered capital RMB1,000,000	100	100	Trading of equipment of safety and critical control systems
北京康吉森儀器儀錶有限公司 * Beijing Consen Instrument Company Limited	PRC	Registered capital RMB1,000,000	100	100	Development and trading of instrument
北京上方雲水軟件技術有限公司 * Beijing Shang Fang Yun Shui Software Technology Co.,ltd	PRC	Registered capital RMB10,000,000	100	—	Software development and integrated circuit design

43. PARTICULAR OF SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2010 %	2009 %	Principal activities
北京海淀中京工程設計軟件技術有限公司 * Beijing Zhongjing Engineering Software Technology Company Limited	PRC	Registered capital RMB12,300,000	70	—	Engineering design
Tri-Control Automation Co., Ltd	Hong Kong	Ordinary shares HKD10,000,000	100	100	Trading of automation products
Consen International (Hong Kong) Ltd ("Consen International")	Hong Kong	Ordinary shares HK$1	100	100	Trading of automation products

* These subsidiaries are registered as wholly foreign-owned enterprise under PRC law.

44. EVENTS AFTER THE REPORTING PERIOD

(a) On 4 January 2011, 332,000 options were exercised at an exercise price of HK$2.26. And on 10 January 2011, 664,000 options were exercised at an exercise price of HK$2.27. All subscription monies in full in respect of exercise of the said options had been received by the Company.

(b) The Company's subsidiary, Consen International, has entered into a share purchase agreement with Cowin Global Investments Limited on 24 January 2011, to acquire 100% equity interest in 科文投資（中國）有限公司(Cowin Global Investments China Limited) which holds 25% equity interest in Wuzhong, an existing associate of the Group at a consideration of RMB100,000,000. The acquisition hasn't been completed as at the issuance date of this report.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	289,037	403,357	886,602	1,125,435	**1,594,828**
Profit before tax	74,152	99,736	190,039	264,515	**362,248**
Income tax (expense) credit	(5,290)	386	(21,500)	(20,749)	**(41,802)**
Profit attributable to equity holder of the parent	68,471	99,891	149,177	212,088	**285,581**

ASSETS AND LIABILITIES

	At 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	30,159	46,776	440,631	490,257	**667,252**
Current assets	254,648	636,319	1,047,656	1,588,636	**2,064,853**
Current liabilities	(138,170)	(119,795)	(396,714)	(538.305)	**(692,784)**
Net current assets	116,478	516,524	650,942	1,050,331	**1,372,069**
Total assets less current liabilities	146,637	563,300	1,091,573	1,540,588	**2,039,321**

Note:

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

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

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

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SENIOR MANAGEMENT

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

STOCK CODE

Hong Kong Stock Exchange 569

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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INVESTOR RELATIONS

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Ms Wan Qin
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Shunyi District
Beijing
PRC

HEAD OFFICE IN BEIJING

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Global Trade Center
36 Beisanhuan Road East
Dongcheng District
Bejing
PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Hong Kong:

Australia and New Zealand Banking Group Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRC:

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

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong law

Woo, Kwan, Lee & Lo

As to Cayman Islands law

Conyers Dill & Pearman

As to PRC law

Commerce & Finance Law Offices