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

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

Interim Report 2011

CORPORATE MISSION :
Energy Metering & Energy Saving Expert

CORPORATE VISION :
Continual Innovation Contributing to Wasion's Centennial History

MOTTOS OF OPERATION :
Perfect Work with Passion, and Success achieved with Integrity

CORPORATE SPIRIT :
Be Cohesive, Ambitious, Down-to-Earth and Creative

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Corporate Information

Executive Directors

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

Independent Non-executive Directors

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

Company Secretary

Mr. Choi Wai Lung Edward

Authorised Representatives

Mr. Ji Wei
Mr. Choi Wai Lung Edward

Audit Committee

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

Principal Bankers

In Hong Kong:

The Hong Kong and Shanghai Banking
Corporation Limited
Bank of Communications Hong Kong Branch

In the People's Republic of China:

China Construction Bank
Bank of Communications

Legal Adviser

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Principal Place of Business

Room B2A–B, 20/F, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Company Website

www.wasion.com

Stock Code

3393

Corporate Profile

Leading Energy Measurement and Total Solution Provider

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

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

Management Discussion and Analysis

Financial Review

Financial Highlights

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Turnover	**915,479**	462,565
Gross profit	**267,656**	200,660
Profit from operations	**131,219**	97,820
Profit attributable to equity shareholders of the Company	**102,415**	77,496
Basic earnings per share (RMB cents)	**11.0**	8.3
Diluted earnings per share (RMB cents)	**10.9**	8.2

Key Financial Figures

	Six months ended 30 June	
	2011	2010
Gross profit margin (%)	**29**	43
Operating profit margin (%)	**14**	21
Net profit margin (%)	**11**	17
Interest coverage (in times)	**6.16**	7.75

Turnover

During the period under review, turnover increased by 98% to RMB915.48 million (Six months ended 30 June 2010 ("Period 2010"): RMB462.57 million).

Gross Profit

The Group's gross profit increased by 33% to RMB267.66 million for the six months ended 30 June 2011. The overall gross profit margin is 29% in the first half of 2011.

Other revenue and gains

The other revenue and gains of the Group amounted to RMB47.03 million (Period 2010: RMB12.22 million) which was mainly comprised of exchange gain, interest income, dividend income and government subsidy.

Operating Expenses

In the first half of 2011, the Group's operating expenses amounted to RMB183.47 million (Period 2010: RMB115.06 million). The increase in operating expenses was mainly due to the increase in selling expenses, depreciation of production plant, amortisation of intangible assets and expenditure on research and development. Operating expenses accounted for 20% of the Group's turnover in the first half of 2011, representing a decrease of 5% as compared with 25% in the first half of 2010.

Finance Costs

For the six months ended 30 June 2011, the Group's finance costs amounted to RMB21.30 million (Period 2010: RMB12.62 million). The increase was attributable to the increase of bank borrowings during the period.

Operating Profit

Earnings before finance costs and tax for the six months ended 30 June 2011 amounted to RMB131.22 million (Period 2010: RMB97.82 million), representing an increase of 34% as compared with the same period of last year.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2011 grew by 32% to RMB102.42 million (Period 2010: RMB77.50 million) as compared with the corresponding period of last year.

Capital Structure

For the six months ended 30 June 2011, an employee has exercised 100,000 share options at an exercise price of HK$2.225 under which the issued and fully paid share capital of the Company has been increase by HK$1,000.

Liquidity and Financial Resources

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

As at 30 June 2011, the Group's current assets amounted to approximately RMB2,873.30 million (31 December 2010: RMB2,306.75 million), with cash and cash equivalents totaling approximately RMB160.10 million (31 December 2010: RMB553.53 million).

As at 30 June 2011, the Group's total bank loans amounted to approximately RMB969.12 million (31 December 2010: RMB501.33 million), of which RMB658.12 million (31 December 2010: RMB391.33 million) will be due to repay within one year and the remaining RMB311 million (31 December 2010: RMB110 million) will be due after one year. Net book value of the Group's pledged assets for the bank loans was approximately RMB193.59 million (31 December 2010: RMB166.27 million). In the first half of 2011, the interest rate for the Group's bank borrowings ranged from 3.48% to 7.26% per annum (31 December 2010: 2.28% to 5.85% per annum).

The gearing ratio (total borrowings divided by total assets) increases from 14% on 31 December 2010 to 23% on 30 June 2011 as a result of increase in the Group's bank borrowings.

Exchange Rate Risk

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

Emolument Policy

As at 30 June 2011, the Group had 3,235 (31 December 2010: 2,999) staff. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB77.16 million in the first half of 2011 (Period 2010: RMB48.27 million). Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB1.56 million for the six months ended 30 June 2011 (Period 2010: RMB1.86 million).

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

Share Option Scheme

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 26 November 2005 whereby the Directors are authorised, at their discretion, to invite eligible participants, including directors of any company in the Group, to take up options to subscribe for ordinary shares in the Company.

The exercise price of options granted, as specified in the rules governing the Share Option Scheme, is to be not less than the highest of the official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of the options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options and the nominal value of an ordinary share of the company. For acceptance of options granted by the Company, an eligible participant is required to duly sign the duplicate offer document constituting acceptance of the options and remit HK$1 to the company within 30 days from the date of receiving the offer of the options.

The movements in the Company's share options during the period are as follows:

Name and category of participants	Number of share options: As at 1 January 2011	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 30 June 2011	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options* HK$	Share price of the Company as at the date of the grant of share options** HK$
Directors										
Wang Xue Xin	1,900,000	–	–	–	1,900,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Cao Zhao Hui	1,600,000	–	–	–	1,600,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Zeng Xin	1,500,000	–	–	–	1,500,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Zheng Xiao Ping	1,600,000	–	–	–	1,600,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Liao Xue Dong	1,200,000	–	–	–	1,200,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Hui Wing Kuen	200,000	–	–	–	200,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Pan Yuan	100,000	–	–	–	100,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Wu Jin Ming	100,000	–	–	–	100,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Sub-total	8,200,000	–	–	–	8,200,000					
Other employees	4,873,000	–	(100,000)	–	4,773,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Other employees	3,035,000	–	–	–	3,035,000	7 February 2007	7 February 2007 to 6 February 2009	7 February 2009 to 6 February 2017	3.200	3.200
Other employees	6,875,000	–	–	–	6,875,000	7 February 2007	7 February 2007 to 6 February 2010	7 February 2010 to 6 February 2017	3.200	3.200
Sub-total	14,783,000	–	(100,000)	–	14,683,000					
Total	22,983,000	–	(100,000)	–	22,883,000					

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

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

The valuation was conducted based on the binomial model with the following data and assumptions:

Grant date	23 February 2006	23 February 2006	7 February 2007	7 February 2007	7 February 2007	7 February 2007
Fair value per share option	HK$0.835	HK$0.697	HK$1.255	HK$1.301	HK$1.001	HK$1.104
Expected volatility	45% per annum	45% per annum	40% per annum	40% per annum	40% per annum	40% per annum
Expected life	7.74 years	5.80 years	7.24 years	7.69 years	5.04 years	5.93 years
Expected dividend	4.5% per annum	4.5% per annum	2% per annum	2% per annum	2% per annum	2% per annum
Risk-free rate of interest	4.15% per annum	4.12% per annum	4.23% per annum	4.23% per annum	4.20% per annum	4.21% per annum
Rate of leaving service	Nil	5% per annum	Nil	Nil	8% per annum	8% per annum

The binomial model was developed to value option plans which contain vesting and performance conditions. Such option pricing model requires input of highly subjective assumptions, including the expected volatility of the Company's share price which was determined with reference to the historical movements of the share prices of the Company and its comparators. Changes in subjective input assumptions could materially affect the fair value estimate. The binomial model does not necessarily provide a reliable measure of the fair value of share options.

Charge on Assets

As at 30 June 2011, the pledge deposits are denominated in Renminbi and Hong Kong dollars and are pledged to banks as security for bills facilities granted to the Group. In addition, certain of the Group's land and buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 30 June 2011, the capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the interim financial information amounted to RMB200.83 million (31 December 2010: RMB14.04 million).

Contingent Liabilities

As at 30 June 2011, the Group had no material contingent liabilities.

Market Review

Advanced Metering Infrastructure ("AMI") is the first step to the construction of the smart grid. The power consumption data collection system with smart meters as its core has taken the lead and entered into the full-scale construction stage since early 2010. The centralized procurement of smart meters undertaken by the headquarters of the State Grid ("State Grid") since 2010 is still under process till now. The aggregated volume of tender in 2010 reached 45.36 million units of smart meters. In 2011, the State Grid plans to invite tenders for 50 million to 60 million units of smart meters, and expects to undertake five tenders. During the first half of the year, bids in three places (Nanjing, Nanchang, Xining) were completed. The tender frequency is more balanced than in 2010, contributing to the balanced production and cost control. The accumulated volume of tender reached 38 million units. The actual volume of tender for the entire year of 2011 is expected to exceed that in last year. Given that the large-scale centralized procurement in 2010 exerts certain pressure on prices, prices showed steady growing trend in the three bids in 2011 due to changes in the bidding rules of the State Grid and the changing trend in the meter industry.

In January 2011, the State Council issued "Decision on Expediting the Reform and Development of Water Conservancy" No. 1 document and suggested expediting the construction of water conservancy projects and improvement in the management system of water resources, aggressive promotion of water price reform. Therefore, implementation of escalating fee-charging scale for water pricing and "one meter per household" are destined. Currently, a number of regional cities have adopted the escalating fee-charging scale for water pricing on a trial basis. However, the old water meters are unable to simultaneously calculate the escalating fee-charging scale for water pricing and record all the data, which could be interpreted as huge potential in the smart water metering market. The Group will seize new opportunities arising from the evolvement of smart water metering and water resources management, leverage on its experience and expertise in providing mature integrated solutions in the power metering field, as well as applying technology and product cooperation so as to speed up in developing a full series of competitive products and solutions and thus be the first-mover in the market and grow into a high-end supplier in China's smart water metering service industry.

As a clean and highly-efficient energy, natural gas now accounts for 4% of the energy consumption in China, which is far below the global average level of 24%. China has already formulated energy strategies to intensively develop natural gas. It is expected that the annual consumption of natural gas will doubled from 100 billion cubic meters in 2010 to 200 billion cubic meters in 2015. Among this, a very important application will be used in the civil natural gas market consisting of the existing and new residences in urban areas. This definitely will drive the rapid increase in the demand for smart gas meters. The smart gas meters produced by Wasion Group are of high quality and widely recognized. They have already entered the market of the two large gas companies including Kunlun Gas and China Gas. The market share and sales volume will thus swiftly increase.

China has always attached great importance to energy saving and emissions reduction works. Household heat metering reform is a significant national mandatory measure for saving on architecture. With the mandatory implementation of heat charging fee on a per household basis, there will be rapid increase in the demand for heat metering products, which is beneficial to the Group's heat meter sales.

The energy saving and environmental protection industry is now listed as the first strategic emerging industry among the seven in China's "twelfth five-year plan". High-efficient energy saving is even leading the direction for the 24 industries. With the government reinforced the goal of testing procedures in respect of the energy saving and emissions reduction works as well as increasing its financial support, and with the continuous improvement on EPC energy saving service mode, development of the energy saving industry is now taking off. In July this year, the NDRC and MOF jointly issued documents, classifying the eight cities including Beijing, Shanghai, Chongqing, Changsha as integrated demonstration cities for energy saving and emissions reduction under China's "twelfth five-year plan". In the next three years, support on projects, policies and funding will be given. This will be the chance and an important supporting point for the Group to rapidly develop in the energy efficiency management area.

Business Review

Domestic Markets

Along with the consolidation of the industry and the massive production caused by centralized procurement, Wasion Group leveraged on the comprehensive strength in brand, technology, market, quality and scale, and achieved great results in all the bids. It is one of the few companies whose 11 types of smart meters have all passed the test of the State Grid and are eligible for the bids and with all products bidden in every tender participated, and is also one of the very few companies who ranked among the top of all the tendering companies in terms of the volume of each successful tender. In the three State Grid centralized bids in 2011, the accumulated tender value of the Group amounted to approximately RMB599 million. Among the products, the Group accounted for an absolute majority of the market share in terms of the three-phase 0.2S smart meter which is the highest end products. Meanwhile, the market share of single-phase products is also rapidly increasing, further enhancing the Group's leading position in the power metering field.

Thanks to the market clout of the Group as proven by the leading position in the State Grid centralized tenders showed, together with the positive word-of-mouth of Wasion Group, the power retail business showed a relatively sharp increase in the first half of 2011. Meanwhile, Wasion Group also achieved good results in the tender of China Southern Power Grid and has won contracts with value of approximately RMB126 million which ranked number one in this tender.

According to the overall construction requirements by smart grids, as well as realizing the overall goal of constructing a system of collecting information on the power consumption of electricity users of "complete coverage, collection and prepayment", the market demand for data collection terminals has increased significantly since 2010. Currently, the power grid companies in each province in China have conducted large-scale terminal tenders. Wasion Group performed outstandingly in the provincial-level tenders. In the areas of transformer terminals and low-pressured terminals of centralised meter reading, Wasion bade a majority of the bidding sets. This also showed the leading position of the Group in the high-technology products area.

Electronic Power Meters

During the period under review, sales of electronic power meters remained the major source of revenue of the Group. Turnover from sales of three-phase electronic power meters and single-phase electronic power meters for the six months ended 30 June 2011 amounted to RMB383.55 million and RMB329.60 million respectively, representing an increase of 84% and 223% respectively as compared with the corresponding period of last year and contributed to 42% and 36% of the Group's turnover respectively (Period 2010: 45% and 22%).

Data Collection Terminals and Power Management Systems

In the first half of 2011, revenue from sales of data collection terminals and power management systems amounted to RMB169.21 million, representing an increase of 46% as compared with the corresponding period of last year and accounted for 19% (Period 2010: 25%) of the Group's turnover.

Water, Gas and Heat Meters

Revenue from sales of water, gas and heat meters in the first half of 2011 amounted to RMB21.20 million and accounted for 2% (Period 2010: 8%) of the Group's turnover.

Energy Efficient Business

In terms of the energy efficient business, in the first half of 2011, the Group underwent reorganization and clearer positioning for its businesses and the market development direction. In terms of energy saving services, the Group focused on comprehensive high-efficient energy saving solutions for the commercial users. In terms of renewable energy, the Group focused on carrying out the integrated applications of industrial residual heat and the promotion and applications of the Cogeneration of Cold, Heat and Power ("CCHP"). In terms of market expansion, the Group focused on deeply digging the resources of enterprises, continuously expanding the energy saving projects, and at the same time form alliances with the energy saving service corporations under the power grid companies in various areas in order to cover the market across the nation. In the first half of 2011, the Group's revenue from the energy efficient business was RMB 11.91 million (Period 2010: nil), accounting for 1% of the total turnover.

International Markets

In the first half of 2011, the Group achieved steady growth in the international markets with revenue reaching RMB 25.76 million, representing an increase of 499% over the same period in 2010. The sales of existing products in existing markets remained steady while obvious breakthrough was also achieved in exploration of new markets and development of new products.

In the Africa market, the Group continued to maintain its market shares in several existing markets such as Egypt, Zambia and Mozambique, and explored new markets such as Tunis and Nigeria. The Group successfully won the international tender of the loan of World Bank in Tanzania in the first half of the year. In the second half of the year, the Group will enter into a contract, which further strengthens the Group's brand image in the Africa market. The market share in each of the existing markets in South East Asia was maintained. With Indonesia reinforcing the reform on prepaid power meters, larger breakthrough is expected to be achieved. The Group achieved significant breakthrough in the South America market including Cuba, Peru and Brazil. As for the North America market, the Group cooperated with American partners to jointly participate in the pilot program of introducing advanced communication technology into the China market, and successfully achieved the staged goal of on-site installation and adjustment that it will soon proceed to the marketing stage. The Group also explored the new water meter market in Turkey and secured trial sales orders. When the trial is completed during the year, extensive sales will be started. In addition, the Group further completed the product design planning and development of the export smart power meters, laying a solid foundation for its next step to comprehensively participate in the international AMI projects.

Research and Development

Leveraging on the continuous innovative corporation core value, the Group focused on enhancing the research and development of new energy efficiency products and new measurement technology. The research expenses for the first half of 2011 (including the capitalized part) was approximately RMB62.79 million, representing 6.9% of the total turnover of the Group.

In the first half of the year, the Group aggressively carried out some fruitful work on the four areas including transferring results of existing technologies and products, development of new products, research and development of communication and sharing technologies, and post-doctorate subjects studies. Products including digital power meters, adjustment and testing devices for digital meters, 0.1S grid meters and impact load power meters were launched in the market this year and achieved extensive sales. The new products developed in the first half of the year were mainly electric automobile D.C. power meters, distribution network smart fault indicator and large diameter industrial smart water meters, and the technological development particularly of chips and communication modules.

Production Capacity

Wasion Science and Technology Park is equipped with the most advanced production techniques and tools in the industry. It formulated standardized production techniques management process, therefore establishing a steady and reliable large-scale production capacity for various single-phase and three-phase electronic power meters. In 2011, electronic equipment workshop added two high-speed SMT lines, finished product workshop expanded the meter examination capability, which further balanced and optimised the production capacity.

The Group has started the second-phase construction of Wasion Science and Technology Park to provide robust hardware support for the future development of the Group's overseas and energy efficiency business.

Prospect

The State Grid plans to replace 300 million units of smart power meters from 2010 to 2014. The tender volume from 2010 to 2011 is approximately 100 million units. Therefore the market demand for smart power meters in the next three years will remain strong. China Southern Power Grid also plans to launch a new plan on smart power meters. With China's clearer macro policies, the implementation of the escalating fee-charging scale for power pricing will be inevitable. In the long run, Demand Response will also be launched gradually. The development of the smart power meter market remains rapid, making China destined to be the largest smart power meter market in the world. Meanwhile, with the rapid development of the smart services industry in China, the market of smart sub-meters for internal corporate departments will also become a giant market. The Group has already made specific preparations for this market that special product line teams have been set up in terms of the management of product research and development, and a special channel sales department has been set up in terms of market exploration. It is believed that there will still be huge development potential in the Group's smart power measurement business in the future.

The Group will focus on accelerating the industrialization of high-end measurement products so as to further increase the sales volume. The gross margin of high-end measurement products is higher so that the product will gradually become an important complement to the Group's profit. For example, with the accelerating construction speed of the digital substation, the sales volume of electronic power meters which are particularly used in digital substations, shows an obvious increasing trend.

Under the situation of the overall development of AMI, the growth in the demand for various data collection terminals remains strong, thus data collection terminals will remain a key source of the Group's revenue and profit. With the accelerating construction speed of smart grids, the smart distribution network market is meeting another peak period of development. Sizing up the situation, Wasion Group has aggressively started the research and development of automatic power distribution related products since the first half of 2010. After a year of preparation, the automatic power distribution products with the leading characteristics of Wasion products will be marketed in batches in the second half of 2011. This will be a new growth engine of the Group's profit.

The Group has had a concrete plan to provide the customers with a brand-new business model in data measurement services on a trial basis in the second half of the year. It seeks business innovation and expansion ranging from equipment solution providers to data services providers.

In terms of its energy efficiency business, Wasion Group has confirmed the energy saving services value of 3S+ (Saving, Safety, Service and more), which is, while providing the customers with higher efficient energy saving technologies and products, the Group will also integrate the enhancement of energy consumption safety for the customers in the solution, and will strive to provide comprehensive energy saving services throughout the life-cycle for the customers. The Group's energy efficiency business will begin with innovative market model and innovative business model, and will focus on large-scale energy efficiency supervision and energy efficiency assessment business, energy saving technologies and products, uses of industrial residual heat, and the integrated high efficient uses of gas CCHP. While achieving the transformation from a "product-oriented" business model to a "service-oriented" business model, the Group will also intensively boost the increase in its results.

Looking into the future, we are facing huge business opportunities provided by the initiatives on global energy saving and emissions reduction. With the huge domestic and international demand and opportunities, the Group will focus and breakthrough in the areas of production innovation, market innovation and business model innovation, keep moving towards the corporate mission of becoming an "Energy Metering and Energy Saving Expert" in order to continuously provide the markets and the customers with high quality products and services with a view to realizing the strategic objective of focusing on three markets, namely the power industry market, the non-power industry market and the international market, to progress towards the goal of "Continual Innovation Contributing to Wasion's Centennial History".

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

Directors' Interests in Shares and Underlying Shares

At 30 June 2011, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ji Wei	Interest of controlled corporation (Note 1)	473,888,888	51.01%
Wang Xue Xin	Beneficial owner (Note 2)	912,000	0.10%
Cao Zhao Hui	Beneficial owner	400,000	0.04%
Zeng Xin	Beneficial owner	500,000	0.05%
Zheng Xiao Ping	Beneficial owner (Note 2)	912,000	0.10%
Liao Xue Dong	Beneficial owner	400,000	0.04%
Hui Wing Kuen	Beneficial owner	380,000	0.04%
Pan Yan	Beneficial owner	100,000	0.01%
Wu Jin Ming	Beneficial owner	100,000	0.01%

Notes:

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

(2) *512,000 shares and 400,000 shares are held by Mr. Wang Xue Xin and Ms. Zheng Xiao Ping respectively. Ms. Zheng Xiao Ping is the spouse of Mr. Wang Xue Xin.*

(b) *Share options*

Name of Director	Number of options to subscribe for shares	Capacity	Number of underlying ordinary shares	Percentage of the issued share capital of the Company
Wang Xue Xin	1,900,000	Beneficial owner	1,900,000	0.20%
Cao Zhao Hui	1,600,000	Beneficial owner	1,600,000	0.17%
Zeng Xin	1,500,000	Beneficial owner	1,500,000	0.16%
Zheng Xiao Ping	1,600,000	Beneficial owner	1,600,000	0.17%
Liao Xue Dong	1,200,000	Beneficial owner	1,200,000	0.13%
Hui Wing Kuen	200,000	Beneficial owner	200,000	0.02%
Pan Yuan	100,000	Beneficial owner	100,000	0.01%
Wu Jin Ming	100,000	Beneficial owner	100,000	0.01%

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 30 June 2011.

Substantial Shareholders

As at 30 June 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued capital of the Company
Ji Wei	Interest in controlled corporation	473,888,888	51.01%
Star Treasure	Beneficial owner	473,888,888	51.01%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2011.

Audit Committee

The audit committee of the Company (the "Audit Committee") is responsible for assisting the Board in safeguarding the Group's assets by providing an independent review of the effectiveness of the financial reporting process and the internal controls and risk management systems of the Group. It also oversees other duties as assigned by the Board.

All the members of our Audit Committee are independent non-executive directors.

The interim results of the Group for the six months ended 30 June 2011 have been reviewed by the auditors of the Company, Deloitte Touche Tohmatsu, and the Audit Committee.

Compliance with the Code of Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

In the opinion of the Board, the Company has been in compliance throughout the six months ended 30 June 2011 with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Board acknowledges its responsibility for the Group's systems of internal controls and has assumed this responsibility through formalizing the Group's financial and legal procedures.

Model Code for Securities Transactions

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

Specific enquiry has been made with all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2011.

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

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2011, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

Facility Agreement with Specific Performance Covenants

The Company has entered into a facility agreement (the "Facility Agreement") dated 30 June 2011 with two banks, and a facility in the aggregate amount of US$30,000,000 was made available to the Company. Pursuant to the Facility Agreement, it will be an event of default if Mr. Ji Wei, the chairman, executive director and a controlling shareholder of the Company (i) does not or ceases to legally and beneficially own, directly or indirectly, at least 40% of the entire issued share capital of and equity interests of the Company; (ii) does not or ceases to either directly or indirectly remain as the single largest shareholder of the Company; and (iii) does not or ceases to exercise control over the management and affairs of the Group and/or the composition of the board of directors of the Company. At 30 June 2011, the Company did not utilize the facility and the facility had a tenure of three years.

Other than as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.18 of the Listing Rules.

Appreciation

The Board would like to take this opportunity to express gratitude to our shareholders, customers, banks, professional parties and employees for their continuous patronage and support.

By order of the Board

Ji Wei
Chairman

Hong Kong, 19 August 2011

Report on Review of Interim Financial Information

Deloitte.
德勤

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

Introduction

We have reviewed the interim financial information set out on pages 18 to 34, which comprises the condensed consolidated balance sheet of Wasion Group Holdings Limited and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	NOTES	Six months ended 30 June **2011** **RMB'000** **(unaudited)**	 2010 RMB'000 (unaudited)
Turnover	3	**915,479**	462,565
Cost of sales		**(647,823)**	(261,905)
Gross profit		**267,656**	200,660
Other revenue and gains		**47,030**	12,218
Administrative expenses		**(72,944)**	(46,233)
Selling expenses		**(79,926)**	(41,643)
Research and development expenses		**(30,597)**	(27,182)
Finance costs	5	**(21,298)**	(12,615)
Profit before taxation		**109,921**	85,205
Income tax expense	6	**(7,506)**	(7,709)
Profit for the period	7	**102,415**	77,496
Other comprehensive expense			
Exchange differences arising on translation		**(5,890)**	(1,228)
Fair value loss on available-for-sale investments		**(1,049)**	—
Other comprehensive expense for the period		**(6,939)**	(1,228)
Total comprehensive income for the period		**95,476**	76,268
Earnings per share	9		
Basic		**RMB11.0 cents**	RMB8.3 cents
Diluted		**RMB10.9 cents**	RMB8.2 cents

Condensed Consolidated Balance Sheet

At 30 June 2011

	NOTES	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	**681,210**	665,766
Investment property		**8,906**	8,997
Prepaid lease payments		**73,155**	73,984
Intangible assets		**211,870**	214,336
Available-for-sale investments		**55,555**	56,604
Goodwill		**110,326**	110,326
Life insurance product	11	**22,184**	—
Long-term receivable		**178,200**	178,200
		1,341,406	1,308,213
Current assets			
Inventories		**541,402**	443,085
Trade and other receivables	12	**1,876,749**	1,144,766
Amounts due from related parties		**20,933**	21,338
Prepaid lease payments		**1,655**	1,655
Pledged bank deposits		**272,462**	142,378
Bank balances and cash		**160,096**	553,530
		2,873,297	2,306,752
Current liabilities			
Trade and other payables	13	**971,944**	832,729
Amount due to a related party		**90**	205
Tax liabilities		**13,015**	28,294
Borrowings — due within one year	14	**658,124**	391,332
		1,643,173	1,252,560
Net current assets		**1,230,124**	1,054,192
		2,571,530	2,362,405
Capital and reserves			
Share capital	15	**9,407**	9,406
Reserves		**2,234,990**	2,225,291
		2,244,397	2,234,697
Non-current liabilities			
Borrowings — due after one year	14	**310,998**	110,000
Deferred tax liability		**16,135**	17,708
		327,133	127,708
		2,571,530	2,362,405

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Merger reserve** RMB'000 (Note i)	**Exchange reserve** RMB'000	**PRC statutory reserves** RMB'000 (Note ii)	**Other reserve** RMB'000 (Note iii)	**Share option reserve** RMB'000	**Investment revaluation reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2010 (audited)	9,427	1,240,898	49,990	(57,053)	107,684	33,164	19,827	–	743,938	2,147,875
Profit for the period	–	–	–	–	–	–	–	–	77,496	77,496
Other comprehensive expense for the period	–	–	–	(1,228)	–	–	–	–	–	(1,228)
Total comprehensive income (expense) for the period	–	–	–	(1,228)	–	–	–	–	77,496	76,268
Issue of shares upon exercise of share options	2	642	–	–	–	–	(170)	–	–	474
Repurchase of own shares	(24)	(11,953)	–	–	–	–	–	–	–	(11,977)
Recognition of equity-income settled share-based payments	–	–	–	–	–	–	172	–	–	172
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(90,196)	(90,196)
At 30 June 2010 (unaudited)	9,405	1,229,587	49,990	(58,281)	107,684	33,164	19,829	–	731,238	2,122,616
Profit for the period	–	–	–	–	–	–	–	–	113,737	113,737
Other comprehensive income (expense) for the period	–	–	–	(5,660)	–	–	–	3,573	–	(2,087)
Total comprehensive income (expense) for the period	–	–	–	(5,660)	–	–	–	3,573	113,737	111,650
Transfer to PRC statutory reserves	–	–	–	–	20,137	–	–	–	(20,137)	–
Issue of shares upon exercise of share options	1	567	–	–	–	–	(137)	–	–	431
At 31 December 2010 (audited)	9,406	1,230,154	49,990	(63,941)	127,821	33,164	19,692	3,573	824,838	2,234,697
Profit for the period	–	–	–	–	–	–	–	–	102,415	102,415
Other comprehensive expense for the period	–	–	–	(5,890)	–	–	–	(1,049)	–	(6,939)
Total comprehensive income (expense) for the period	–	–	–	(5,890)	–	–	–	(1,049)	102,415	95,476
Issue of shares upon exercise of share options	1	246	–	–	–	–	(59)	–	–	188
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(85,964)	(85,964)
At 30 June 2011 (unaudited)	9,407	1,230,400	49,990	(69,831)	127,821	33,164	19,633	2,524	841,289	2,244,397

Notes:

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

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

(iii) Other reserve represents the excess of the balance of plan asset over the carrying amount of shares held under share award plan of the Company, which was recognised upon termination of the plan during the year ended 31 December 2009.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(227,670)**	(338,992)
Net cash used in investing activities		
Advance of short-term loans receivables	**(330,000)**	–
(Increase) decrease in pledged bank deposits	**(130,084)**	41,501
Purchase of property, plant and equipment	**(32,269)**	(68,191)
Investment in an available-for-sale investment	**—**	(8,000)
Other investing cash flows	**(33,489)**	(20,619)
	(525,842)	(55,309)
Net cash from financing activities		
Repayment of borrowings	**(315,332)**	(171,467)
Dividend paid	**(85,964)**	(90,196)
New borrowings raised	**784,766**	345,342
Shares repurchased	**—**	(11,977)
Other financing cash flows	**(22,519)**	(12,444)
	360,951	59,258
Net decrease in cash and cash equivalents	**(392,561)**	(335,043)
Cash and cash equivalents at beginning of the period	**553,530**	644,668
Effect of foreign exchange rate changes	**(873)**	(25)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**160,096**	309,600

1. Basis of Preparation

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

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical costs basis except for certain financial instruments, which are measured at fair values.

The accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

Adoption of new and revised HKFRSs effective in the current period

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised HKFRSs") issued by the HKICPA:

- Improvements to HKFRSs issued in 2010
- HKAS 24 (Revised) Related Party Disclosure
- Amendments to HKAS 32 Classification of Rights Issues
- Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
- HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs has had no material effect on the amounts in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

New and revised HKFRSs that are not yet effective

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

The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 19 (Revised)	Employee Benefits[1]
HKAS 27 (Revised)	Separate Financial Statements[1]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[1]

2. Principal Accounting Policies (Continued)

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

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012

The above five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013.

Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgment.

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

3. Segment Information

The Group's operating segments, identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance, are summarised as follows:

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

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

(c) energy efficiency solution segment, which engages in providing energy efficiency solution services (the operations of the energy efficiency solution segment commenced during the six months ended 31 December 2010).

3. Segment Information (Continued)

The following is an analysis of the Group's turnover and results by operating segments for the periods under review:

For the six months ended 30 June 2011

	Electronic meters RMB'000	Data collection terminals RMB'000	Energy efficiency solution RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
Turnover						
External sales	734,352	169,213	11,914	915,479	—	915,479
Inter-segment sales *	1,770	22,424	1,044	25,238	(25,238)	—
Total	736,122	191,637	12,958	940,717	(25,238)	915,479
Segment profit	74,427	47,882	1,330	123,639	—	123,639
Unallocated income						20,928
Central administration costs						(13,348)
Finance costs						(21,298)
Profit before taxation						109,921

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

3. Segment Information (Continued)

For the six months ended 30 June 2010

	Electronic meters RMB'000	Data collection terminals RMB'000	Energy efficiency solution RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
Turnover						
External sales	346,834	115,731	—	462,565	—	462,565
Inter-segment sales *	4,342	2,809	—	7,151	(7,151)	—
Total	351,176	118,540	—	469,716	(7,151)	462,565
Segment profit	71,130	31,307	—	102,437	—	102,437
Unallocated income						6,323
Central administration costs						(10,940)
Finance costs						(12,615)
Profit before taxation						85,205

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

Segment profit represents the profit earned by each segment without allocation of other revenue and gains, central administration costs, directors' salaries, finance costs and taxation. This is the measure reported to the Group's Chief Executive Officer, its chief operating decision maker, for the purposes of resources allocation and performance assessment.

4. Seasonality of Operations

The Group's operations are subject to seasonal fluctuations. The Group sees the second half of every year as its peak season of operations when demands for its products are significantly higher due to the increase of purchases by the power grid customers in the second half of the year. Accordingly, the interim result for the six months ended 30 June 2011 is not necessarily an indication of the operations of the Group that would be achieved for the year ending 31 December 2011.

5. Finance Costs

	Six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Interest on borrowings wholly repayable within five years	**21,642**	12,990
Less: amounts capitalised in property, plant and equipment	**(344)**	(375)
	21,298	12,615

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.06% (six months ended 30 June 2010: 4.58%) per annum to expenditures on qualifying assets.

6. Income Tax Expense

	Six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Current tax—The PRC Enterprise Income Tax ("EIT")		
Current period	**8,653**	10,008
Under(over) provision in prior years	**426**	(695)
	9,079	9,313
Deferred tax credit — current period	**(1,573)**	(1,604)
Income tax expense	**7,506**	7,709

6. Income Tax Expense (Continued)

Notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income that was subject to Hong Kong Profits Tax during each of the six months ended 30 June 2010 and 2011.

(ii) PRC

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

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holdings and concessions have been expired during the year ended 31 December 2010.

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

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

(iii) Other jurisdictions

Taxation arising in other jurisdictions is calculated at the rate prevailing in the respective jurisdictions. Under the Decree Law No. 58/99/M Chapter 2, Article 12, dated 18 October 1999, a Macao company incorporated under that Law ("58/59/M Company") is exempted from Macao Complementary Tax (Macao Income Tax) as long as the 58/59/M Company does not sell its products to a Macao resident company.

No deferred taxation has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries arising on or after 1 January 2008 as the directors consider that such earnings will not be distributed in the foreseeable future.

7. Profit for the Period

	Six months ended 30 June	
	2011 **RMB'000** **(unaudited)**	2010 RMB'000 (unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**17,254**	15,157
Release of prepaid lease payments	**829**	1,215
Depreciation of investment property	**91**	91
Amortisation of intangible assets	**35,222**	26,701
Interest income	**(15,444)**	(2,539)
Dividend income from an available-for-sale investment	**(5,554)**	(3,416)
Exchange gain	**(10,293)**	(2,568)

8. Dividends

During the period, a cash dividend of HK$0.11, equivalent to RMB0.093 (six months ended 30 June 2010: HK$0.11, equivalent to RMB0.097) per share was declared and paid to the shareholders as the final dividend for 2010. The aggregate amount of the final dividend declared and paid in the current interim period amounting to RMB85,964,000 (six months ended 30 June 2010: RMB90,196,000).

The directors do not recommend the payment of an interim dividend for the period (six months ended 30 June 2010: nil).

9. 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:

	Six months ended 30 June	
	2011 **RMB'000** **(unaudited)**	2010 RMB'000 (unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**102,415**	77,496
	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**928,965,360**	929,870,774
Effects of dilutive potential ordinary shares in respect of share options	**8,597,926**	12,113,701
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**937,563,286**	941,984,475

10. Movements in Property, Plant and Equipment

During the period, the Group incurred RMB8,421,000 (six months ended 30 June 2010: RMB60,331,000) on the construction of new factory and office premises and RMB24,192,000 (six months ended 30 June 2010: RMB8,235,000) on additions of the property, plant and equipment in order to upgrade its manufacturing capabilities.

11. Life Insurance Product

In June 2011, the Company entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the beneficiary and policy holder is the Company, and the total insured sum is approximately US$7,557,000 (equivalent to RMB49,005,000). The Company is required to pay an upfront payment of US$3,421,000 (equivalent to RMB22,184,000). The Company may request a partial surrender or full surrender of the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged. In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified surrender charge. At the inception date, the upfront payment is separated into deposit placed and prepayment of life insurance premium. The prepayment of life insurance premium is amortised to profit or loss over the insured period and the deposit placed is carried at amortised cost using the effective interest method. The insurance company will pay the Company a guaranteed interest rate of 4.25% per annum for the first year, followed by minimum guaranteed interest rate of 3% per annum for the following years.

12. Trade and Other Receivables

The Group allows a credit period ranging from 90 days to 365 days to its trade customers.

The following is an analysis of the Group's trade and bills receivables by age, presented based on the invoice date and net of allowance for doubtful debts:

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Trade and bills receivables:		
0–90 days	**517,690**	411,677
91–180 days	**203,237**	187,073
181–365 days	**232,472**	209,707
Over 1 year	**103,200**	10,864
	1,056,599	819,321
Retentions held by trade customers	**118,454**	83,109
Short-term loans receivables *(Note)*	**345,000**	15,000
Deposits, prepayments and other receivables	**356,696**	227,336
	1,876,749	1,144,766

Note: The Group, in order to make the best utilisation of excessive liquid funds, entered into several entrusted loan contracts with several independent third parties to advance short-term entrusted loans to them via banks. These entrusted loans are unsecured, carry interest at 12% per annum and are to be repaid within 12 months from the end of the reporting period.

13. Trade and Other Payables

The following is an analysis of the Group's trade and bills payables by age, presented based on the invoice date:

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Trade and bills payables:		
0–90 days	**413,476**	425,745
91–180 days	**248,657**	220,305
181–365 days	**224,708**	13,105
Over 1 year	**3,844**	9,723
	890,685	668,878
Other payables	**81,259**	163,851
	971,944	832,729

14. Borrowings

During the period, the Group obtained bank loans of approximately RMB784,766,000 (six months ended 30 June 2010: RMB345,342,000) and repaid bank loans of approximately RMB315,332,000 (six months ended 30 June 2010: RMB171,467,000). The loans carry interest at market rates ranging from 3.48% to 7.26% (six months ended 30 June 2010: 1.10% to 5.84%) per annum and are repayable in instalments over a period of 5 years. The proceeds were used for general working capital purposes and to finance the acquisition of property, plant and equipment.

15. Share Capital

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2010, 30 June 2010, 31 December 2010 and 30 June 2011	100,000,000,000	1,000,000
		RMB'000
Issued and fully paid:		
At 1 January 2010	931,256,675	9,427
Issue of shares upon exercise of share options	200,000	2
Shares repurchased *(Note)*	(2,788,000)	(24)
At 30 June 2010	928,668,675	9,405
Issue of shares upon exercise of share options	200,000	1
At 31 December 2010	928,868,675	9,406
Issue of shares upon exercise of share options	100,000	1
At 30 June 2011	928,968,675	9,407

Note: During the six months ended 30 June 2010, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	***Number of ordinary shares of HK$0.01 each repurchased***	***Price per share — Highest price paid*** *HK$*	***Price per share — Lowest price paid*** *HK$*	***Aggregate consideration paid*** *HK$'000*
January 2010	*1,500,000*	*5.30*	*5.08*	*7,820*
June 2010	*1,288,000*	*4.65*	*4.45*	*5,846*
	2,788,000			*13,666*

The aggregate consideration paid of HK$13,666,000 is equivalent to approximately RMB11,977,000.

16. Share-Based Payments

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

	Number of share options '000
Outstanding at 1 January 2010	23,383
Exercised during the period	(200)
Outstanding at 30 June 2010	23,183
Exercised during the period	(200)
Outstanding at 31 December 2010	22,983
Exercised during the period	(100)
Outstanding at 30 June 2011	22,883

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the current period was HK$5.34.

17. Capital Commitments

	At 30 June 2011 **RMB'000** **(unaudited)**	At 31 December 2010 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated balance sheet	**200,828**	14,044

18. Related Party Disclosures

(i) Related party transactions

Pursuant to a lease agreement signed by the Group with Mr. Liang Ke Nan ("Mr. Liang"), brother of Mr. Ji Wei, the Group was granted the right to use an office premise and a staff quarter. Mr. Ji Wei is an executive director of the Company and the beneficial owner of Star Treasure Investments Holdings Limited, the controlling shareholder of the Company. The rental expenses paid to Mr. Liang during the period amounted to RMB93,000 (six months ended 30 June 2010: RMB110,000).

(ii) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the period was as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short-term employee benefits	**2,004**	2,379
Post employment benefits	**59**	57
Share-based payment expenses	**—**	7
	2,063	2,443