中國高精密自動化集團有限公司

CHINA HIGH PRECISION AUTOMATION GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 591

INTERIM REPORT

2009/10

INTERIM 09/10 REPORT

Highlights

- Turnover of the Group for the six months ended 31 December 2009 amounted to approximately RMB343,663,000, representing an increase of about 2.2% as compared with the corresponding period in 2008;
- Profit from operations for the six months ended 31 December 2009 amounted to approximately RMB139,214,000, representing a decrease of about 0.3% as compared with the corresponding period in 2008;
- Included in the profit from operations were Initial Public Offering related expenses of approximately RMB13,323,000;
- Net profit attributable to equity shareholders of the Company for the six months ended 31 December 2009 amounted to approximately RMB107,531,000, representing a decline of about 8.0% as compared with the corresponding period in 2008;
- Basic and diluted earnings per share for the six months ended 31 December 2009 were RMB13.04 cents and RMB13.03 cents respectively;
- Shareholders' equity reached approximately RMB1,619,514,000 at 31 December 2009.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Fun Chung *(Chairman and Chief Executive Officer)*
Mr. Zou Chong
Mr. Su Fang Zhong
Mr. Cheung Chuen

Independent Non-executive Directors

Mr. Chan Yuk Hiu, Taylor
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

AUDIT COMMITTEE

Mr. Chan Yuk Hiu, Taylor *(Chairman)*
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

REMUNERATION COMMITTEE

Mr. Chan Yuk Hiu, Taylor *(Chairman)*
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

NOMINATION COMMITTEE

Mr. Chan Yuk Hiu, Taylor *(Chairman)*
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

COMPANY SECRETARY

Mr. Cheung Chuen,*CPA, AICPA*

AUTHORISED REPRESENTATIVES

Mr. Cheung Chuen
Mr. Wong Fun Chung

REGISTERED OFFICE

Cricket Square,
Hutchins Drive, PO Box 2681,
Grand Cayman,
KY1-1111,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 1 Cha Shan Road,
Mawei Hi-Tech Development Zone,
Fuzhou 350015,
The PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2805, China Resources Building,
26 Harbour Road,
Wanchai,
Hong Kong

COMPANY'S WEBSITE

www.chpag.net

COMPLIANCE ADVISER

Sun Hung Kai International Limited

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong law
Fred Kan & Co.

As to PRC law
Helun Law Offices

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House,
68 Fort Street,
P.O. Box 609,
Grand Cayman KY1-1107,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China CITIC Bank
Bank of Communications Co., Ltd.

STOCK CODE

591

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF CHINA HIGH PRECISION AUTOMATION GROUP LIMITED

We have audited the consolidated interim financial statements of China High Precision Automation Group Limited ("the Company") and its subsidiaries (collectively, the "Group") set out on pages 4 to 55, which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these interim financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the 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 interim financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the six month period then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 1 to the consolidated interim financial statements which states that the comparative amounts for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement in respect of the six month period ended 31 December 2008 and related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts. These comparative amounts have not been audited and we therefore do not express an audit opinion on them.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2010

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2009
(Expressed in Renminbi Yuan)

	Note	Six months ended 31 December 2009 RMB'000	2008 RMB'000 (unaudited)
Turnover	4	**343,663**	336,243
Cost of sales		**(184,829)**	(175,412)
Gross profit		**158,834**	160,831
Other revenue	5	**7,966**	792
Other net income	5	**1,330**	131
Distribution costs		**(2,819)**	(2,315)
Administrative expenses		**(26,097)**	(19,737)
Profit from operations		**139,214**	139,702
Finance costs	6(a)	**(9,921)**	(2,900)
Profit before taxation	6	**129,293**	136,802
Income tax	7(a)	**(21,762)**	(19,884)
Profit for the period attributable to equity shareholders of the Company		**107,531**	116,918
Earnings per share	10		
— basic		**13.04 cents**	15.61 cents
— diluted		**13.03 cents**	15.15 cents

The notes on pages 9 to 55 form part of these interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2009
(Expressed in Renminbi Yuan)

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Profit for the period attributable to equity shareholders of the Company	**107,531**	116,918
Other comprehensive income for the period		
Exchange differences on translation of financial statements of operations outside the PRC (excluding Hong Kong)	**148**	(337)
Total comprehensive income for the period	**107,679**	116,581

The notes on pages 9 to 55 form part of these interim financial statements.

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Renminbi Yuan)

	Note	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Non-current assets			
Property, plant and equipment	12	57,225	57,256
Construction in progress	13	86,691	71,043
Lease prepayments	14	10,656	10,656
Deferred tax assets	22(b)	2,446	2,676
		157,018	141,631
Current assets			
Inventories	15	33,849	28,630
Trade and other receivables	16	258,066	289,875
Cash and cash equivalents	17	1,348,067	203,474
		1,639,982	521,979
Current liabilities			
Bank loans	19	—	78,997
Trade and other payables	18	141,661	159,011
Amount due to a shareholder	21	6,165	5,731
Amount due to a related party	21	294	20,413
Current taxation	22(a)	10,312	10,587
Provision for warranty	23	1,228	1,055
		159,660	275,794
Net current assets		1,480,322	246,185
Total assets less current liabilities		1,637,340	387,816
Non-current liabilities			
Deferred tax liabilities	22(b)	17,826	17,785
		17,826	17,785
NET ASSETS		1,619,514	370,031
CAPITAL AND RESERVES			
Share capital	25(a)	91,360	342
Reserves		1,528,154	369,689
TOTAL EQUITY		1,619,514	370,031

Approved and authorised for issue by the board of directors on 24 March 2010

Wong Fun Chung
Director

Cheung Chuen
Director

The notes on pages 9 to 55 form part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2009
(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company								
	Note	Share capital	Share premium (note 26(a))	Capital reserve (note 26(b))	Surplus reserve (note 26(c))	Share-based compensation reserve (note 26(d))	Other Reserve (note 26(e))	Exchange reserve (note 26(f))	Retained profits	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2008		342	—	—	70,216	4,760	2,982	3,785	295,982	378,067
Changes in equity for the six months ended 31 December 2008:										
Total comprehensive income for the period		—	—	—	—	—	—	(337)	116,918	116,581
Equity settled share-based transactions		—	—	—	—	8,947	—	—	—	8,947
Balance at 31 December 2008 (unaudited) and 1 January 2009		342	—	—	70,216	13,707	2,982	3,448	412,900	503,595
Changes in equity for the six months ended 30 June 2009:										
Total comprehensive income for the period		—	—	—	—	—	—	65	83,039	83,104
Equity settled share-based transactions		—	—	—	—	13,658	—	—	—	13,658
Dividend declared and paid during the period		—	—	—	—	—	—	—	(230,326)	(230,326)
Balance at 30 June 2009 and 1 July 2009		342	—	—	70,216	27,365	2,982	3,513	265,613	370,031
Changes in equity for the six months ended 31 December 2009:										
Issuance of convertible bonds		—	—	2,018	—	—	—	—	—	2,018
Shares issued upon issuance of convertible bonds	25(a)	1	—	—	—	—	—	—	—	1
Redemption of shares upon conversion of convertible bonds	25(a)	(1)	—	—	—	—	—	—	—	(1)
Shares issued upon conversion of convertible bonds	20,25(a)	78	223,383	(2,018)	—	—	—	—	—	221,443
Capitalisation issue	25(a)	65,625	(65,625)	—	—	—	—	—	—	—
Shares issued under placing and public offering, net of share issuing expenses	25(a)	25,315	893,028	—	—	—	—	—	—	918,343
Total comprehensive income for the period		—	—	—	—	—	—	148	107,531	107,679
Balance at 31 December 2009		91,360	1,050,786	—	70,216	27,365	2,982	3,661	373,144	1,619,514

The notes on pages 9 to 55 form part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2009
(Expressed in Renminbi Yuan)

		Six months ended 31 December	
	Note	2009 RMB'000	2008 RMB'000 (unaudited)
Operating activities			
Cash generated from operations	17(b)	154,127	176,566
PRC income tax paid		(21,766)	(13,452)
Net cash generated from operating activities		132,361	163,114
Investing activities			
Payment for the purchase of property, plant and equipment		(3,914)	(810)
Payment for construction in progress		(7,236)	(33,636)
Interest received		5,126	792
Net cash used in investing activities		(6,024)	(33,654)
Financing activities			
Proceeds from bank loans		158,174	94,330
Repayment of bank loans		(237,171)	(68,436)
Interest paid		(16,491)	(2,900)
(Decrease)/increase in amount due to a related party		(20,119)	4,462
Proceeds from issuance of convertible bonds		238,990	—
Payment of convertible bonds issuing expenses		(23,611)	—
Proceeds from issuance of new shares under placing and public offering		1,012,575	—
Payment of share issuing expenses		(94,091)	—
Net cash generated from financing activities		1,018,256	27,456
Net increase in cash and cash equivalents		1,144,593	156,916
Cash and cash equivalents at beginning of the period		203,474	191,701
Cash and cash equivalents at end of the period	17(a)	1,348,067	348,617

Major non-cash transaction:

(i) Pursuant to a meeting of the board of directors of the Company on 28 October 2009, an amount of RMB65,625,000 standing to the credit of the share premium account of the Company was approved to be capitalised by allotment of 745,320,558 shares of HK$0.10 each to the existing shareholders of the Company, credited as fully paid.

The notes on pages 9 to 55 form part of these interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

China High Precision Automation Group Limited ("the Company") was incorporated in the Cayman Islands on 29 November 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 33 of 1961, as consolidated and revised) of the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and principal place of business at Room 2805, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

Pursuant to a reorganisation ("the Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") to rationalise the group structure in the preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the Group on 3 April 2008. Details of the Reorganisation are set out in the prospectus of the Company dated 2 November 2009. The Company's shares were listed on the Stock Exchange on 13 November 2009.

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

Name of subsidiary	Place of incorporation/ establishment and operation	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Wide Plus High Precision Automation Limited ("Wide Plus High Precision")	Hong Kong	10,000 shares of HK$1 each	100%	—	Investment holding
Fujian Wide Plus Precision Instrument Co., Ltd. ("Fujian Wide Plus")*	PRC	US$40,000,000	—	100%	Manufacture and sale of high precision industrial automation instrument and technology products and multi-functional all plastic quartz watch movements

* Fujian Wideplus is a wholly foreign owned enterprise.

The comparative amounts for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement in respect of the six months ended 31 December 2008 and related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts and have not been audited.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated interim financial statements for the six months period ended 31 December 2009 (also referred to as "interim financial statements") have been prepared in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*, and all other applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of these interim financial statements is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these interim financial statements.

(b) Basis of preparation of the interim financial statements

The interim financial statements include the results of operations of the companies comprising the Group.

The interim financial statements are presented in Renminbi Yuan ("RMB"), rounded to the nearest thousand, the functional currency of the Company and its subsidiary in Hong Kong is Hong Kong dollars, and the functional currency of the Company's subsidiary in Fujian, the PRC is RMB.

The measurement basis used in the preparation of the interim financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the interim financial statements and major sources of estimation uncertainty are discussed in note 30.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the interim financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the interim financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Lease prepayments

Lease prepayments represent payments made to acquire leasehold land. Leasehold land is carried at cost less accumulated amortisation and impairment losses (see note 2(h)). Amortisation is charged to profit or loss on a straight-line basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leasehold land.

(e) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(h)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Machinery and equipment	10 years
—	Leasehold improvements	Over the shorter of 5 years and the lease term
—	Motor vehicles	10 years
—	Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(h)). Cost comprises direct costs of construction as well as borrowing costs (see note 2(v)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at cost or amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For other current receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments; and

— construction in progress.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and (ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(h)).

(k) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. The derivative components embedded in the convertible bonds is accounted for as a derivative financial instrument (see note 2(n)).

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The derivative component is initially measured at fair value. Any excess of proceeds over the amount initially recognised as the liability component and the derivative component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability, derivative and equity components in proportion to the allocation of proceeds. The portion relating to derivative component is recognised immediately to profit or loss.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The derivative component is subsequently remeasured in accordance with note 2(n). The equity component is recognised in the capital reserve until either the convertible bonds are converted or redeemed.

If the convertible bonds are converted, the capital reserve, together with the carrying amounts of the liability component and derivative component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, the capital reserve is released directly to retained profits.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade and other payables

Trade and other payables, including amounts due to related parties, are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to mandatory provident fund in Hong Kong and appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at the grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting dates, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to the retained profits).

If the grant of share options is cancelled or settled during the vesting period (other than grant cancelled by forfeiture when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax

(i) Income tax in the interim financial statements comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable (provided they are not part of a business combination), and temporary differences relating to investment in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Unconditional government grants that compensate the Group for expenses incurred are recognised in profit or loss as revenue when the grants become receivable.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC (excluding Hong Kong) are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC (excluding Hong Kong), the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties

For the purposes of the financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. The following developments are relevant to the Group's financial statements:

— HKFRS 8, *Operating segments*

— HKAS 1 (revised 2007), *Presentation of financial statements*

— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— Amendments to HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*

— HKAS 23 (revised 2007), *Borrowing costs*

— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

The amendments to HKFRS 2 have had no material impact on the Group's interim financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's interim financial statements. The impact of the remainder of these developments is as follows:

— HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This is consistent with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on product types. The adoption of HKFRS 8, however, has resulted in additional disclosures which explain the basis of preparation of the segment information and reconciliation of reportable segment revenue, profit, assets and liabilities. Corresponding amounts have been provided on a basis consistent with the revised segment information.

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous period have not been restated.

3 CHANGES IN ACCOUNTING POLICIES (continued)

— HKAS 23 (revised 2007) requires capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. The option of immediately expensing those borrowing costs, which was the accounting policy previously adopted by the Group in its financial statements, has been removed. In accordance with the transitional provisions, the Group has applied HKAS 23 (revised 2007) prospectively to all borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

4 TURNOVER

The principal activities of the Group are the manufacture and sales of high precision industrial automation instrument and technology products as well as horological instruments.

Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes. The amount of each significant category of revenue recognised during the period presented is as follows:

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Sales of automation instrument and technology products	**269,017**	235,210
Sales of horological instruments	**74,646**	101,033
	343,663	336,243

For the six months ended 31 December 2009, there was no customer with whom transactions have exceeded 10% of the Group's turnover (six months ended 31 December 2008: Nil (unaudited)).

5 OTHER REVENUE AND OTHER NET INCOME

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Other revenue		
Bank interest income	**679**	792
Loan interest income (note (i))	**4,447**	—
Government grants (note (ii))	**2,840**	—
	7,966	792

Notes:

(i) Loan interest income represents the interest income earned from a short-term interest bearing loan of USD21.7 million (equivalent to RMB148.2 million) granted to a shareholder, Fortune Plus Holdings Limited on 8 July 2009. The loan carried interest at LIBOR plus a margin of 8% per annum and was repayable on demand. The loan was fully repaid on 13 November 2009.

(ii) Government grants represent various forms of incentives and subsidies granted to the PRC subsidiary by the local authorities.

5 OTHER REVENUE AND OTHER NET INCOME (continued)

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Other net income		
Net exchange gain	**1,330**	131

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		Six months ended 31 December	
		2009	2008
		RMB'000	RMB'000
			(unaudited)
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**9,921**	2,900
	Interest on convertible bonds (note 20)	**11,386**	—
	Less: Borrowing costs capitalised as construction in progress	**(11,386)**	—
		9,921	2,900

The borrowing costs during the six months ended 31 December 2009 have been capitalised at a rate of 15.84% per annum (six months ended 31 December 2008: Nil (unaudited)) for construction in progress.

		Six months ended 31 December	
		2009	2008
		RMB'000	RMB'000
			(unaudited)
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**313**	294
	Equity-settled share-based payment expenses (note 24)	**—**	8,947
	Salaries, wages and other benefits	**14,759**	14,695
		15,072	23,936

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme ("the Scheme") organised by the PRC municipal government authority in the Fujian province whereby the Group is required to make a contribution at the rate of 18% of the eligible employees' salaries to the Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the social security office in the Fujian province when the contributions become due. The social security office in the Fujian province is responsible for making the benefit payments to the retired employee covered under the Scheme.

The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the employees' relevant income (up to a cap of monthly relevant income of HK$20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes beyond the annual contributions described above.

6 PROFIT BEFORE TAXATION (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

		Six months ended 31 December	
		2009	2008
		RMB'000	RMB'000
			(unaudited)
(c)	Other items:		
	Depreciation (note 12)	**3,944**	3,546
	Reversal of impairment losses on trade and other receivables (note 16(b))	**(1,703)**	—
	Research and development costs	**4,445**	2,727
	Increase in provision for warranty (note 23)	**270**	235
	Auditors' remuneration	**1,268**	11
	Operating lease charges in respect of leasehold land and properties	**952**	963
	Listing expenses	**13,323**	—
	Cost of inventories (note 15(b))	**184,829**	175,412

Note: Cost of inventories includes RMB12,742,000 (six months ended 31 December 2008: RMB13,569,000 (unaudited)) relating to staff costs and depreciation, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Current tax — PRC Enterprise Income Tax		
Provision for the year	**21,491**	13,215
Deferred tax		
Origination and reversal of temporary differences (note 22(b))	**271**	6,669
	21,762	19,884

(i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the six months ended 31 December 2009 (six months ended 31 December 2008: Nil (unaudited)).

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Income tax in the consolidated income statement represents: (continued)

(iii) Prior 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits.

Being a production-type foreign investment enterprise situated in the Mawei District of Fuzhou, which was an Economic and Technological Development Zone, Fujian Wide Plus was entitled to a preferential income tax rate of 15% and was granted an income tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses ("2 + 3 tax holiday") as approved by Rong Kai Guo Shui Han (2004) No. 74 issued by Fuzhou Economic and Technological Development Zone State Tax Bureau. Fujian Wide Plus commenced its 2 + 3 tax holiday on 1 January 2004. Accordingly, Fujian Wide Plus was exempted from income tax from 1 January 2004 to 31 December 2005 and was subject to income tax at 7.5% from 1 January 2006 to 31 December 2007.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the new CIT Law"), which took effect on 1 January 2008. As a result of the CIT Law, the statutory income tax rate for enterprises in the PRC has been reduced from 33% to 25%. On 6 and 26 December 2007, the State Council released the *Implementation Rules to the Corporate Income Tax Law* ("Implementation Rules") and Guo Fa [2007] No. 39 *Notice on Carrying out the Transitional Preferential Policies concerning Corporate Income Tax* ("Circular 39"), respectively. The new CIT Law, the Implementation Rules and Circular 39 provide a 5-year transitional period from 1 January 2008 for those entities which were established before 16 March 2007 and which were entitled to a preferential lower income tax rate under the then effective tax laws and regulations, as well as grandfathering on the 2 + 3 tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for calendar years 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Further, under the new CIT Law, a recognised Advanced and New Technology Enterprise ("ANTE") that meets the conditions according to the *Notice on Issuance of the Administrative Measures governing the Recognition of Advanced and New Technology Enterprises* issued on 14 April 2008 is entitled to a reduced income tax rate of 15%.

On 12 December 2008, Fujian Wide Plus was recognised as an ANTE under the new CIT Law as approved by the relevant authorities for a period of 3-year effective retroactively from 1 January 2008 to 31 December 2010. According to Circular 39, where the transitional preferential income tax policies and the preferential policies prescribed under the new CIT Law and the Implementation Rules overlap, an enterprise shall choose to carry out the most preferential policy, but shall not enjoy multiple preferential policies. Fujian Wide Plus has chosen to enjoy the 2 + 3 tax holiday grandfathering treatment until its expiry on 31 December 2008. Accordingly, Fujian Wide Plus is subject to income tax at 9% from 1 January 2008 to 31 December 2008 and at 15% from 1 January 2009 to 31 December 2010.

In addition, under the new CIT Law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion*, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to Cai Shui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed profits generated prior to 1 January 2008 are exempt from such withholding tax. Accordingly, dividends receivable by Wide Plus High Precision from Fujian Wide Plus in respect of profits earned since 1 January 2008 is subject to 5% withholding tax. Deferred tax liabilities have been recognised for undistributed retained profits of Fujian Wide Plus earned since 1 January 2008 to the extent that the profits are likely to be distributed in the foreseeable future (see note 22(b)).

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Income tax in the consolidated income statement represents: (continued)

(iii) (continued)

At 31 December 2009, temporary differences relating to the undistributed profits of the Group's foreign-invested enterprise amounted to RMB481,809,000 (30 June 2009: RMB352,500,000). Deferred tax liabilities of RMB6,465,000 (30 June 2009: Nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of the foreign-invested enterprise and the directors have determined that a portion of these profits will not be distributed in the foreseeable future.

(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Profit before taxation	**129,293**	136,802
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	**34,173**	24,777
Tax concessions	**(15,105)**	(13,228)
Tax effect of non-deductible expenses	**2,694**	1,646
Withholding tax on undistributed profits of the PRC subsidiary (note 22(b))	**—**	6,689
Actual income tax expense	**21,762**	19,884

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Six months ended 31 December 2009

	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to retirement benefit scheme RMB'000	Share-based payments RMB'000	Bonuses RMB'000	Total RMB'000
Executive directors						
Mr. Wong Fun Chung	—	224	2	—	—	226
Mr. Wong Sun Hoi (resigned on 16 August 2009)	—	—	—	—	—	—
Mr. Zou Chong	—	125	2	—	—	127
Mr. Su Fang Zhong	—	125	2	—	—	127
Mr. Cheung Chuen	—	282	5	—	264	551
Independent non-executive directors						
Dr. Hu Guo Qing	18	—	—	—	—	18
Ms. Ji Qin Zhi	18	—	—	—	—	18
Mr. Chan Yuk Hiu, Taylor	35	—	—	—	—	35
Total	71	756	11	—	264	1,102

8 DIRECTORS' REMUNERATION (continued)

Six months ended 31 December 2008 (unaudited)

	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to retirement benefit scheme RMB'000	Share-based payments RMB'000	Bonuses RMB'000	Total RMB'000
Executive directors						
Mr. Wong Fun Chung	—	83	—	—	—	83
Mr. Wong Sun Hoi	—	—	—	268	—	268
Mr. Zou Chong (appointed on 2 July 2008)	—	72	1	1,432	—	1,505
Mr. Su Fang Zhong (appointed on 2 July 2008)	—	72	1	1,432	—	1,505
Mr. Cheung Chuen	—	265	5	358	—	628
Independent non-executive directors						
Dr. Hu Guo Qing	—	—	—	—	—	—
Ms. Ji Qin Zhi	—	—	—	—	—	—
Mr. Chan Yuk Hiu, Taylor	—	—	—	—	—	—
Total	—	492	7	3,490	—	3,989

During the six months ended 31 December 2009, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. Except as disclosed in note 24(a), there was no arrangement under which a director waived or agreed to waive any remuneration during the six months ended 31 December 2009 (six months ended 31 December 2008: Nil (unaudited)).

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four individuals were also directors of the Company for the six months ended 31 December 2009 (six months ended 31 December 2008: four (unaudited)) whose remuneration is disclosed in note 8 above. The remuneration in respect of the remaining individual is as follows:

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Contributions to retirement benefit scheme	**5**	5
Salaries and other emoluments	**273**	132
	278	137

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS (continued)

The emoluments of the remaining individual is within the following band:

	Six months ended 31 December	
	2009	2008 (unaudited)
HK$ Nil to HK$1,000,000	1	1

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 31 December 2009 of RMB107,531,000 (six months ended 31 December 2008: RMB116,918,000 (unaudited)) and the weighted average number of 824,710,000 ordinary shares (six months ended 31 December 2008: 749,121,000 ordinary shares (unaudited)) in issue during the period, calculated as follows:

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Earnings:		
Net profit (basic and diluted)	107,531	116,918

	Six months ended 31 December	
	2009 '000	2008 '000 (unaudited)
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July	3,800	3,800
Effect of shares issued upon conversion of convertible bonds	249	—
Number of ordinary shares issued under capitalisation issue (note 25(a))	745,321	745,321
Effect of ordinary shares issued under placing and public offering	75,340	—
Weighted average number of ordinary shares (basic)	824,710	749,121

The weighted average number of ordinary shares issued pursuant to capitalisation issue is calculated as if the shares had been outstanding throughout the current and prior periods.

10 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 31 December 2009 of RMB107,531,000 (six months ended 31 December 2008: RMB116,918,000 (unaudited)) and weighted average number of ordinary shares in issue adjusted for the potential dilutive effects caused by the share options granted under the Pre-IPO share option scheme (note 24) and the convertible bonds (note 20), assuming they were exercised or converted.

Net profit for the purpose of calculation of diluted earnings per share for the six months ended 31 December 2009 is the same as that for basic earnings per share, as the entire amount of interest expense on the convertible bonds for the six months ended 31 December 2009 was capitalised under the cost of construction in progress in accordance with the accounting policy set out in note 2(v).

	Six months ended 31 December	
	2009	2008
	'000	'000
		(unaudited)
Weighted average number of ordinary shares (basic)	**824,710**	749,121
Effect of deemed issue of shares under the Company's Pre-IPO share option scheme (note 24)	**—**	22,500
Effect of conversion of convertible bonds (note 20)	**596**	—
Weighted average number of ordinary shares (diluted)	**825,306**	771,621

11 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Automation instrument and technology products: the manufacture and trading of intelligent display instruments, flow accumulate instruments, pressure transmitters and logging control instruments.

Horological instruments: the manufacture and trading of multi-functional all-plastic quartz watch movements.

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade and other payables, provision for warranty and current tax payable attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

11 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

The measure used for reporting segment profit is "adjusted profit from operations". To arrive at reportable segment profit, the Group's profit from operations is adjusted for items not specifically attributed to individual segments, such as head office or corporate administrative costs. In addition to receiving segment information concerning adjusted profit from operations, management is provided with segment information concerning revenue and additions to non-current segment assets.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 31 December 2009 and 2008 is set out below.

	Automation instrument and technology products Six months ended 31 December		Horological instruments Six months ended 31 December		Total Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)	**2009 RMB'000**	2008 RMB'000 (unaudited)	**2009 RMB'000**	2008 RMB'000 (unaudited)
Reportable segment revenue	**269,017**	235,210	**74,646**	101,033	**343,663**	336,243
Reportable segment profit (adjusted profit from operations)	**120,894**	112,648	**27,985**	36,617	**148,879**	149,265

	Automation instrument and technology products		Horological instruments		Total	
	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000	**At 31 December 2009 RMB'000**	At 30 June 2009 RMB'000	**At 31 December 2009 RMB'000**	At 30 June 2009 RMB'000
Reportable segment assets	**332,263**	315,850	**112,791**	128,119	**445,054**	443,969
Additions to non-current segment assets during the period	**18,223**	34,212	**1,339**	234	**19,562**	34,446
Reportable segment liabilities	**84,379**	96,085	**51,644**	52,746	**136,023**	148,831

11 SEGMENT REPORTING (continued)

(b) Reconciliations of reportable segment revenues, profit, assets and liabilities

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Revenue		
Reportable segment revenue	343,663	336,243
Consolidated turnover	343,663	336,243

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Profit		
Reportable segment profit	148,879	149,265
Unallocated head office and corporate expenses	(19,586)	(12,463)
Consolidated profit before taxation	129,293	136,802

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Assets		
Reportable segment assets	445,054	443,969
Unallocated head office and corporate assets	1,351,946	219,641
Consolidated total assets	1,797,000	663,610

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Liabilities		
Reportable segment liabilities	136,023	148,831
Unallocated head office and corporate liabilities	41,463	144,748
Consolidated total liabilities	177,486	293,579

11 SEGMENT REPORTING (continued)

(c) Geographical segments

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, construction in progress and lease prepayments ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset.

	Revenues from external customers Six months ended 31 December		Specified non-current assets	
	2009 RMB'000	2008 RMB'000 (unaudited)	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Hong Kong	20,231	46,748	206	274
The PRC (excluding Hong Kong)	323,432	289,495	154,366	138,681
	343,663	336,243	154,572	138,955

12 PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost:					
At 1 July 2008	68,373	2,101	922	2,502	73,898
Exchange adjustment	—	1	—	1	2
Additions	7,214	—	—	356	7,570
Transfer from construction in progress (note 13)	295	680	—	—	975
At 30 June 2009	75,882	2,782	922	2,859	82,445
At 1 July 2009	75,882	2,782	922	2,859	82,445
Exchange adjustment	—	—	—	(1)	(1)
Additions	2,603	—	958	353	3,914
At 31 December 2009	78,485	2,782	1,880	3,211	86,358
Accumulated depreciation:					
At 1 July 2008	15,676	648	124	1,317	17,765
Charge for the year	6,159	785	83	397	7,424
At 30 June 2009	21,835	1,433	207	1,714	25,189
At 1 July 2009	21,835	1,433	207	1,714	25,189
Charge for the period	3,430	239	64	211	3,944
At 31 December 2009	25,265	1,672	271	1,925	29,133
Net book value:					
At 31 December 2009	53,220	1,110	1,609	1,286	57,225
At 30 June 2009	54,047	1,349	715	1,145	57,256

13 CONSTRUCTION IN PROGRESS

	RMB'000
At 1 July 2008	31,354
Additions	40,664
Transfer to property, plant and equipment (note 12)	(975)
At 30 June 2009	71,043
At 1 July 2009	71,043
Additions	15,648
At 31 December 2009	86,691

Construction in progress comprises costs incurred on plants and leasehold improvements not yet completed at the respective balance sheet dates.

14 LEASE PREPAYMENTS

Lease prepayments represent prepayments for land use rights in the PRC with a lease term expiring in 2056. No amortisation was provided for the six months ended 31 December 2009 (six months ended 31 December 2008: Nil (unaudited)) as the land was not yet ready for its intended use.

15 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Raw materials and consumables	24,068	19,932
Work in progress	2,764	2,969
Finished goods	7,017	5,729
	33,849	28,630

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Cost of inventories sold (note 6(c))	184,829	175,412

16 TRADE AND OTHER RECEIVABLES

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Trade receivables	253,840	261,661
Less: Allowance for doubtful debts (note 16(b))	(1,952)	(3,655)
	251,888	258,006
Prepayments for inventories purchase	—	15,000
Prepaid listing expenses	—	13,463
Other prepayments, deposits and receivables	6,178	3,406
	6,178	31,869
	258,066	289,875

All of the trade and other receivables are expected to be recovered within one year. The Group's credit policy is set out in note 27(a). The Group generally grants credit periods of 4–5 months from the date of billing to its trade customers.

(a) Ageing analysis

An ageing analysis of trade receivables (net of allowance for doubtful debts) as of the balance sheet date is as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Neither past due nor impaired (current)	247,124	240,823
Less than 1 month past due	2,250	—
1 to 3 months past due	2,514	8,463
More than 3 months but less than 12 months past due	—	8,720
Amounts past due	4,764	17,183
	251,888	258,006

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a wide range of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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 over these balances.

16 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 2(h)).

The movement in the allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

	RMB'000	RMB'000
At 1 July 2009/1 July 2008	**3,655**	3,655
Recovery of doubtful debts	**(3,655)**	—
Impairment loss recognised	**1,952**	—
At 31 December 2009/30 June 2009	**1,952**	3,655

The individually impaired receivables related to customers and other third parties that were in financial difficulties and management assessed that only a portion of the receivables are expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,952,000 were recognised for the six months ended 31 December 2009 (year ended 30 June 2009: Nil). The Group does not hold any collateral over these balances.

(c) Bank loans secured by trade receivables

As at 30 June 2009, trade receivables of the Group amounted to RMB6,663,000 (31 December 2009: Nil) were assigned and charged in favour of a bank in the PRC as a security for loans of RMB5,997,000 (see note 19(a)).

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Time deposits	**176,091**	—
Cash at bank and in hand	**1,171,976**	203,474
	1,348,067	203,474

17 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Six months ended 31 December 2009 RMB'000	2008 RMB'000 (unaudited)
Profit before taxation		129,293	136,802
Adjustments for:			
— Depreciation	6(c)	3,944	3,546
— Finance costs	6(a)	9,921	2,900
— Interest income	5	(5,126)	(792)
— Equity-settled share-based payment expenses	6(b)	—	8,947
— Listing expenses	6(c)	13,323	—
— Unrealised exchange differences		3,414	(306)
Operating profit before changes in working capital		154,769	151,097
(Increase)/decrease in inventories		(5,219)	9,105
Decrease/(increase) in trade and other receivables		21,320	(6,798)
(Decrease)/increase in trade and other payables		(17,350)	22,427
Increase in amount due to a shareholder		434	500
Increase in provision for warranty		173	235
Cash generated from operations		154,127	176,566

(c) As at 31 December 2009, cash and bank balances that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB1,004,569,000 (30 June 2009: RMB202,912,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

18 TRADE AND OTHER PAYABLES

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Trade payables	101,378	115,280
Other payables and accruals	40,283	43,731
	141,661	159,011

18 TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date. The credit periods granted by various suppliers generally range from 90 days to 120 days.

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Due within 1 month or on demand	8,796	17,187
Due after 1 month but within 3 months	50,213	74,394
Due after 3 months but within 6 months	42,369	23,699
	101,378	115,280

All of the trade and other payables are expected to be settled within one year.

19 BANK LOANS

As at 31 December 2009 and 30 June 2009, the bank loans were repayable as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Within 1 year	—	78,997
Representing:		
Secured bank loans (note (a)):		
— secured by trade receivables (note 16(c))	—	5,997
Unsecured bank loans (note (b)):		
— guaranteed by a related party (note 29(b)(ii)) and a third party	—	55,000
— others	—	18,000
	—	73,000
	—	78,997

(a) The secured loan as at 30 June 2009 bore interest at a rate of 3 month HIBOR which ranged from 0.36% to 3.66% for the year ended 30 June 2009.

At 30 June 2009, certain of the Group's assets were pledged to secure loans and banking facilities to the PRC subsidiary as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Trade receivables	—	6,663

(b) The unsecured bank loans as at 30 June 2009 bore fixed interest rate at 5.35% to 8.96% per annum.

(c) At 30 June 2009, banking facilities obtained by the Group amounted to RMB83,997,000, which were utilised to the extent of RMB78,997,000. All the bank loans as at 30 June 2009 were repaid during the six months ended 31 December 2009. At 31 December 2009, no banking facilities are obtained by the Group.

20 CONVERTIBLE BONDS

On 8 July 2009, the Company issued convertible bonds (the "CBs") with a principal amount of USD35,000,000 (equivalent to RMB238,990,000) to Standard Bank Plc, an unrelated party. The CBs bear interest at 8% to 14% per annum, payable semi-annually in arrear, and are repayable on 8 July 2014 (the "Maturity Date").

Subject to the terms of the CB Subscription Deed, on 17 August 2009, part of the CBs in the principal amount of USD17,000,000 (equivalent to RMB116,081,000) was transferred by Standard Bank Plc to two unrelated parties, Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited as to USD16,660,000 (equivalent to RMB113,759,000) and USD340,000 (equivalent to RMB2,322,000) respectively.

The holders of the CBs have the right at any time, prior to the Maturity Date, to convert all or any portion of the CBs into conversion shares ("Voluntary Conversion"), or in the event of a Qualified IPO as defined in the CB Subscription Deed, a mandatory conversion of all outstanding principal amounts into conversion shares ("Mandatory Conversion"). The number of conversion shares to be issued pursuant to a Voluntary Conversion or a Mandatory Conversion will be determined by a conversion price of USD39.8 per share, subject to anti-dilution adjustment.

The outstanding principal amount of the CBs together with any unpaid interest shall, unless previously converted into shares or redeemed, be repaid in full if the Qualified IPO has not occurred on the Maturity Date.

On 10 November 2009 and in accordance with the terms and conditions of the CB Subscription Deed, the whole principal amount of the CBs issued to Standard Bank Plc, Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited was converted to 452,284, 418,615 and 8,543 Class A shares of the Company, representing 7.25%, 6.71% and 0.14% interests in the Company prior to the capitalisation issue respectively.

Movements of the convertible bonds are as follows:

	Note	**Liability component RMB'000**	**Derivative component RMB'000**	**Equity component RMB'000**	**Total RMB'000**
At 1 July 2009		—	—	—	—
Issuance of convertible bonds, net of direct transaction cost		203,371	9,990	2,018	215,379
Interest charged for the period	6(a)	11,386	—		11,386
Interest paid during the period		(6,532)	—	—	(6,532)
Change in fair value of derivative component — embedded currency swap		—	3,228	—	3,228
Conversion into ordinary shares of the Company		(208,225)	(13,218)	(2,018)	(223,461)
At 31 December 2009		—	—	—	—

21 AMOUNTS DUE TO A SHAREHOLDER AND A RELATED PARTY

The amounts due to a shareholder and a related party are unsecured, interest-free and have no fixed repayment terms.

22 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Provision for PRC Enterprise Income Tax	10,312	10,587

(b) Deferred tax assets/(liabilities) recognised:

Deferred tax arising from:	Provisions RMB'000	Accelerated tax depreciation RMB'000	Undistributed profits of PRC subsidiary RMB'000	Total RMB'000
At 1 July 2008	1,569	(72)	(5,695)	(4,198)
Credited/(charged) to profit or loss	1,107	(88)	(11,930)	(10,911)
At 30 June 2009	2,676	(160)	(17,625)	(15,109)
At 1 July 2009	2,676	(160)	(17,625)	(15,109)
Charged to profit or loss (note 7(a))	(230)	(41)	—	(271)
At 31 December 2009	2,446	(201)	(17,625)	(15,380)

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Deferred tax assets recognised on the consolidated balance sheet	2,446	2,676
Deferred tax liabilities recognised on the consolidated balance sheet	(17,826)	(17,785)
	(15,380)	(15,109)

(c) Deferred tax not recognised:

At 31 December 2009, temporary differences relating to the undistributed profits of the Group's foreign-invested enterprise amounted to RMB481,809,000 (30 June 2009: RMB352,500,000). Deferred tax liabilities of RMB6,465,000 (30 June 2009: Nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of the foreign-invested enterprise and the directors have determined that a portion of these profits will not be distributed in the foreseeable future.

23 PROVISION FOR WARRANTY

	RMB'000
At 1 July 2008	645
Additional provision made	462
Provision utilised	(52)
At 30 June 2009	1,055
At 1 July 2009	1,055
Additional provision made	270
Provision utilised	(97)
At 31 December 2009	1,228

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within 18 months of delivery of automation instrument and technology products to customers. Provision is therefore made for the best estimate of the expected settlements under these agreements in respect of sales made prior to the balance sheet dates. The amount of provision takes into account the Group's recent claim experience and provision is only made where a warranty claim is probable.

24 EQUITY COMPENSATION BENEFITS

(a) Pre-IPO share option scheme

Pursuant to an ordinary resolution passed on 17 April 2008, the Company adopted a pre-IPO share option scheme for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are available to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The pre-IPO share option scheme remains in force for a period of approximately 4.2 years from adoption of such scheme and will expire on 30 June 2012.

(i) The terms and conditions of the options outstanding as at 31 December 2008 were as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
— 21 April 2008	6,460,000	0.9 year from the date of grant	2.2 years
	6,470,000	1.2 years from the date of grant	3.2 years
	6,570,000	2.2 years from the date of grant	4.2 years
Options granted to employees:			
— 21 April 2008	11,800,000	0.9 year from the date of grant	2.2 years
	11,800,000	1.2 years from the date of grant	3.2 years
	6,900,000	2.2 years from the date of grant	4.2 years
	50,000,000		

On 21 January 2009, all of the 50,000,000 options granted were unconditionally cancelled by the Company's directors and employees. In accordance with the accounting policy set out in note 2(p)(iii), the cancellation of options was accounted for as an acceleration of vesting and the amount that would have been recognised for services rendered over the remainder of the vesting period was recognised immediately in profit or loss. No share option was granted to directors and employees during the six months ended 31 December 2009.

24 EQUITY COMPENSATION BENEFITS (continued)

(a) Pre-IPO share option scheme (continued)

(ii) The number and weighted average exercise prices of options were as follows:

	Weighted average exercise price	**Number of options**
Outstanding at 1 July 2008	HK$2.2	50,000,000
Cancelled on 21 January 2009	—	(50,000,000)
Outstanding at 30 June 2009 and 31 December 2009	—	—
Exercisable at 30 June 2009 and 31 December 2009	—	—

(iii) Fair value of options granted and assumptions

The fair value of services received in return for options granted in 2008 was measured by reference to the fair value of options granted. The estimate of the fair value of the services received was measured based on the Binomial Option Pricing Model. The contractual life of the option was used as an input into this model.

Fair value at measurement date	HK$0.56–HK$0.70
Share price	HK$2.23
Exercise price	HK$2.20
Expected volatility	45.82%–48.69%
Expected option life	4.2 years
Expected dividends	3.11%
Risk free interest rate	1.62%–2.12%

The expected volatility was based on the historic volatility of comparable listed companies (calculated based on the weighted average remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends were based on historical dividends.

There was no market conditions associated with the share option grant.

24 EQUITY COMPENSATION BENEFITS (continued)

(b) Share option scheme

The Company has also adopted a share option scheme (the "Scheme") pursuant to a meeting of the board of directors of the Company (the "directors") on 28 October 2009. The Scheme will remain in force for a period of 10 years from the effective date of such scheme and will expire on 13 November 2019.

Under the Scheme, the directors may at their discretion grant options to (i) any employee of any member of the Group or any entity in which any member of the Group holds any equity interest (the "Invested Entity"); (ii) any executive and non-executive directors of any member of the Group or any Invested Entity; (iii) any supplier and customer of any member of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; or (iv) any adviser or consultant of any member of the Group or any Invested Entity to subscribe for the shares of the Company.

The maximum number of shares in respect to which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised at any time from date of grant of the option to the 10th anniversary of the date of grant as may be determined by the directors. The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options; (ii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the options; or (iii) the nominal value of a share.

No options have been granted by the Company under the Scheme since its date of adoption.

25 SHARE CAPITAL

(a) Authorised and issued share capital

Movements of the authorised share capital of the Company during the six months ended 31 December 2009 and year ended 30 June 2009 are as follows:

	Note	Par value Class A shares HK$	Par value Class B shares HK$	Number of shares Class A shares '000	Number of shares Class B shares '000	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Authorised:							
At 1 July 2008	(i)(a)	0.1	—	3,800	—	380	342
Increase in authorised share capital on 19 March 2009	(i)(b)	0.1	0.001	1,220	—	122	100
Redesignation of shares	(i)(b)	0.1	0.001	(20)	2,000	—	—
At 30 June 2009 and 1 July 2009		0.1	0.001	5,000	2,000	502	442
Cancellation of shares	(i)(c)	0.1	0.001	—	(2,000)	(2)	(2)
Increase in authorised share capital on 10 November 2009	(i)(d)	0.1	—	9,995,000	—	999,500	880,060
At 31 December 2009		0.1	—	10,000,000	—	1,000,000	880,500

A summary of the movements in the Company's issued share capital during the six months ended 31 December 2009 and year ended 30 June 2009 are as follows:

	Note	Par value Class A shares HK$	Par value Class B shares HK$	Number of shares Class A shares '000	Number of shares Class B shares '000	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued and fully paid:							
At 1 July 2008, 30 June 2009 and 1 July 2009		0.1	—	3,800	—	380	342
Issue of shares upon issuance of convertible bonds	(ii)(a)	0.1	0.001	—	879	1	1
Redemption of shares upon conversion of convertible bonds	(i)(c)	0.1	0.001	—	(879)	(1)	(1)
Issue of shares upon conversion of convertible bonds	(ii)(b)	0.1	—	879	—	88	78
Capitalisation issue	(ii)(c)	0.1	—	745,321	—	74,532	65,625
Issues of shares under placing and public offering	(ii)(d)	0.1	—	287,500	—	28,750	25,315
At 31 December 2009		0.1	—	1,037,500	—	103,750	91,360

25 SHARE CAPITAL (continued)

(a) Authorised and issued share capital (continued)

Notes:

(i) AUTHORISED SHARE CAPITAL

(a) The Company was incorporated on 29 November 2007 with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each.

(b) By an ordinary resolution of the Company passed on 19 March 2009, the Company's authorised share capital was increased to HK$502,000 by the creation of an additional 1,220,000 shares of HK$0.1 each. Following the increase, the Company's authorised share capital of HK$502,000 was redesignated and reclassified into 5,000,000 class A shares of HK$0.1 each of 2,000,000 Class B shares of HK$0.001 each, having the rights and privileges and subject to the restrictions set out in the Articles of Association of the Company.

(c) Pursuant to the CB Subscription Deed entered into by the Company, upon mandatory conversion of the CBs on 10 November 2009, all Class B shares subscribed by the holders of the CBs were automatically redeemed by the Company at nil consideration and cancelled.

(d) By an ordinary resolution of the Company passed on 28 October 2009, immediately upon the conversion of the CBs as mentioned in (c) above, the authorised share capital of the Company be increased from HK$500,000 to HK$1,000,000,000 by the creation of an additional 9,995,000,000 shares of HK$0.1 each, ranking pari passu in all respects with the existing shares.

(ii) ISSUED SHARE CAPITAL

(a) Issue of shares upon issue of convertible bonds

On 8 July 2009, 879,442 Class B shares were issued to Standard Bank Plc, the subscriber of CBs at par value of HKD0.001 each.

(b) Issue of shares upon conversion of convertible bonds

As set out in note 20, on 10 November 2009, the entire principal amount of CBs was converted into 879,442 Class A shares of the Company.

(c) Capitalisation issue

Pursuant to the written resolutions on 28 October 2009, an amount of RMB65,625,000 standing to the credit of the share premium account of the Company was capitalised by allotment of 745,320,558 shares of HK$0.10 each to the existing shareholders of the Company, credited as fully paid.

(d) Issue of shares under placing and public offering

On 13 November 2009, the Company issued 250,000,000 shares with a par value of HK$0.10 each, at a price of HK$4 per share upon listing of the shares of the Company on the Stock Exchange by way of placing and public offering. On 19 November 2009, the Company issued an additional 37,500,000 shares with a par value of HK$0.10 each, at a price of HK$4 per share upon the exercise of the over-allotment option in connection with the placing and public offering. Net proceeds from such issues amounted to RMB918,343,000 (after offsetting listing expenses of RMB94,232,000), out of which RMB25,315,000 was recorded in share capital and RMB893,028,000 was recorded in share premium.

(iii) As at 31 December 2009, the holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

25 SHARE CAPITAL (continued)

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines "capital" as including all components of equity plus advance from shareholders with no fixed terms of repayment, less unaccrued proposed dividends. On this basis, the amount of capital employed at 31 December 2009 and 30 June 2009 were RMB1,625,679,000 and RMB375,762,000 respectively.

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group or the requirements of the company laws of the jurisdictions concerned for each of the entities comprising the Group. The results of the directors' review of the Group's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared.

The Group was not subject to externally imposed capital requirements either during the six months ended 31 December 2009 or prior period.

26 RESERVES

The nature and purpose of reserves are set out below:

(a) Share premium

The application of share premium account is governed by the Companies Law (Revised) of the Cayman Islands.

(b) Capital reserve

The capital reserve comprises the value of unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 2(k).

(c) Surplus reserve

Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profits of the Group's subsidiary operating in the PRC are transferred to the surplus reserve. The amounts of profits transferred to the surplus reserve are determined by the board of directors of the subsidiary. The reserve is restricted as to use and is not available for distribution.

(d) Share-based compensation reserve

Share-based compensation reserve represents value of employee services in respect of share options granted under the pre-IPO share option scheme set out in note 24.

(e) Other reserve

Other reserve arose from the Group's Reorganisation completed on 3 April 2008.

26 RESERVES (continued)

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies set out in note 2(t).

(g) Distributable reserve

At 31 December 2009, the aggregate amounts of distributable reserves of the companies comprising the Group were RMB373,144,000 (30 June 2009: RMB265,613,000).

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, commodity price, supply and foreign currency risks arises in the normal course of the Group's business. These risks are managed by the Group's financial risk management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables are presented net of the allowance for impairment of doubtful debts. Credit risks and exposures are controlled and monitored on an on-going basis by performing credit evaluation on customers on a case-by-case basis. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 120 to 150 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

At the balance sheet date, the Group has a certain concentration of credit risk arising from trade receivables as 10% (30 June 2009: 9%) and 36% (30 June 2009: 35%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2009.

The Group's bank deposits are placed with major financial institutions and the Group considers the credit risk to be insignificant. At the balance sheet date, the Group has a certain concentration of credit risk arising from deposit with banks as more than 44% of total cash and cash equivalents were deposited at one financial institution in the PRC (30 June 2009: 99%).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

The Group does not provide any guarantees which would expose the Group to credit risk.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of short-term fluctuations in cash flows. The Group's corporate finance department is responsible for maintaining a balance between continuity and flexibility of funding through the use of bank facilities in order to meet the Group's liquidity requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash outflows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	At 31 December 2009			At 30 June 2009		
	Within 1 year or on demand RMB'000	**Total RMB'000**	**Balance sheet carrying amount RMB'000**	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	**—**	**—**	**—**	80,512	80,512	78,997
Trade and other payables	**141,661**	**141,661**	**141,661**	159,011	159,011	159,011
Amount due to a shareholder	**6,165**	**6,165**	**6,165**	5,731	5,731	5,731
Amount due to a related party	**294**	**294**	**294**	20,413	20,413	20,413
	148,120	**148,120**	**148,120**	265,667	265,667	264,152

(c) Interest rate risk

The interest rates and maturity information of the Group's bank loans are disclosed in note 19. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its debt obligations.

The Group's interest rate risk arises primarily from bank borrowings. The Group's bank borrowings at 30 June 2009 were issued at variable rates and therefore expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

	At 31 December 2009		At 30 June 2009	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate instruments:				
Time deposits	**0.13%**	**176,091**	—	—
Variable rate instruments:				
Cash at bank	**0.23%**	**1,171,524**	0.36%	203,134
Bank loans	**—**	**—**	6%	(78,997)
		1,171,524		124,137
Total instruments		**1,347,615**		124,137

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB10,605,000 (30 June 2009: RMB1,055,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for all non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 30 June 2009.

(d) Commodity price risk

The major components used in the production of the Group's products included copper coils. The Group is exposed to fluctuations in the prices of copper coils which are influenced by global as well as regional supply and demand conditions. Fluctuations in the price of copper coils could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Supply risk

The Group sources most of main raw materials from a limited group of suppliers. Interruption or reduction of supply of these raw materials could adversely affect the Group's financial performance. The Group's policy is to regularly monitor the stock level of raw materials to ensure that it maintains sufficient raw materials to meet its production schedules and commitments to customers in the short and longer term. Management does not expect that there will be difficulties to obtain adequate supplies of raw materials in a timely manner and at a stable cost. During the six months ended 31 December 2009, the Group's supplies of raw materials from the five largest suppliers represented 70% (six months ended 31 December 2008: 73% (unaudited)) of the Group's total raw materials purchases.

(f) Foreign currency risk

(i) Foreign currency transactions

The Group is exposed to foreign currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a currency other than the functional currency of the operation to which they relate.

The currencies giving rise to this risk are primarily USD and HKD. During the six months ended 31 December 2009, sales denominated in foreign currencies represented 0.3% (six months ended 31 December 2008: 0.2% (unaudited)) of the Group's total turnover. The Group does not employ any financial instruments for hedging its exposures to foreign currency risk.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Foreign currency risk (continued)

(ii) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than the functional currency of the operation to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Except for the convertible bonds issued as described in note 20, all the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(iii) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the operation to which they relate.

	Exposure to foreign currencies (expressed in Renminbi Yuan)			
	31 December 2009		30 June 2009	
	Hong Kong Dollars '000	**United States Dollars '000**	Hong Kong Dollars '000	United States Dollars '000
Trade and other receivables	**14,367**	**182**	27,008	3,913
Cash and cash equivalents	**248**	**277,993**	1,408	202
Bank loans	**—**	**—**	(5,998)	—
Trade and other payables	**—**	**(328)**	(2,631)	—
Amount due to a shareholder	**(5,943)**	**—**	(5,509)	—
Amount due to a related party	**—**	**—**	(20,118)	
Overall exposure	**8,672**	**277,847**	(5,840)	4,115

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	At 31 December 2009		At 30 June 2009	
	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**369**	5%	(248)
	(5)%	**(369)**	(5)%	248
United States dollars	**5%**	**11,809**	5%	175
	(5)%	**(11,809)**	(5)%	(175)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Foreign currency risk (continued)

(iv) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi Yuan at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside the PRC into the Group's presentation currency. The analysis is performed on the same basis for the comparative period.

(g) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 30 June 2009. The amounts due to a related party and a shareholder are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

28 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Within 1 year	**1,720**	1,244
After 1 year but within 5 years	**5,153**	3,658
After 5 years	**8,233**	8,727
	15,106	13,629

The Group is the lessee in respect of a number of properties held under operating leases. The lease of a property located in Hong Kong runs for an initial period of 2 years and the leases of land and properties located in the PRC run for an initial period of 15 years. The leases have options to renew when all terms are renegotiated. The leases do not include contingent rentals.

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Capital commitments

Capital commitments outstanding as at 31 December 2009 and 30 June 2009 and not provided for in the financial statements were as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Contracted for	157,423	12,480
Authorised but not contracted for	170,049	184,127
	327,472	196,607

29 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 31 December 2009, the directors are of the view that the following company is a related party of the Group:

Name of party	Relationship
Wide Plus Precision Instruments Company Limited ("Wide Plus")	Effectively 56.02% owned by Mr. Wong Fun Chung, controlling shareholder of the Company

In addition to the related party information disclosed in notes 5, 19 and 21, the Group entered into the following material related party transactions:

(a) Recurring transaction

	Six months ended 31 December	
	2009 RMB'000	2008 RMB'000 (unaudited)
Transactions with a shareholder		
Lease of a property to the Group		
— Ms. He Yuzhu (note)	—	31

Note: Allied Basic Limited is wholly owned by Ms. He Yuzhu and is one of the ex-shareholders of the Company. Ms. He Yuzhu ceased to be a related party of the Group effective from 2 February 2009, when Ms. He Yuzhu disposed of its entire interest in Allied Basic Limited to an independent third party.

The directors of the Company are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

29 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring transactions

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Transactions with related parties		
Short-term advances to the Group		
— Wide Plus	**—**	4,462
Transactions with a shareholder		
Settlements of rental expenses on the Group's behalf		
— Mr. Wong Fun Chung (note (i))	**440**	441

Notes:

(i) The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

(ii) At 30 June 2009, a bank loan of RMB55,000,000 was guaranteed by Mr. Wong Fun Chung with no assets pledged. The bank loan was repaid during the six months ended 31 December 2009.

(c) Balances with related parties

As at the balance sheet dates, the Group had the following balances with related parties:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Amounts due to a shareholder of the Company		
— Mr. Wong Fun Chung	**6,165**	5,731
Amount due to a related party		
— Wide Plus	**294**	20,413

The balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

29 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
		(unaudited)
Short-term employee benefits	**1,236**	708
Share-based payments	**—**	5,548
Contribution to retirement benefit schemes	**11**	7
	1,247	6,263

Total remuneration is included in "staff costs" (see note 6(b)).

30 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain.

Notes 24 and 27 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments respectively. Other key areas of estimation uncertainty are as follows:

(a) Warranty provision

As explained in note 23, the Group makes provision for the warranty it gives on sales of automation technology products based on the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that the Group will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(b) Impairments

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision for impairment loss and affect the Group's net asset value.

Allowance for impairment of doubtful debts in respect of trade and other receivables is assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

30 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty (continued)

(c) Write-down of inventories

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy as set out in note 2(i). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value.

(d) Provision for taxation

Judgement is required in determining the provision for income tax. There are transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. Additional provision is made in the consolidated financial statements to cover the expected outcome of the ultimate tax determination to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

(e) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews regularly the useful lives of an asset and its residual value, if any. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDING 30 JUNE 2010

Up to the date of issue of the interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 30 June 2010 and which have not been adopted in the interim financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 2	Share-based payment — Group cash-settled share-based payment transactions	1 January 2010
Improvements to HKFRSs 2009		1 January 2010
Amendments to HKAS 32	Financial instruments: Presentation — Classification of rights issues	1 February 2010
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Revised HKAS 24	Related party disclosures	1 January 2011
HKFRS 9	Financial instruments	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the "Board") of directors (the "Directors") of China High Precision Automation Group Limited (the "Company") is pleased to announce the audited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2009 (the "Period").

MARKET REVIEW

The global economic crisis has adversely affected the world economies since late 2008. Despite the challenging commercial environment, the shares of the Company were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 November 2009.

BUSINESS REVIEW

The Group is one of the market leaders in the high precision industrial automation instrument and technology products industry in China and operates under the brand of "Wide Plus". The Group is principally engaged in the research and development, manufacturing and sale of high precision industrial automation instrument and technology products, targeting the middle to high-end segments of the industrial automation instruments markets.

The Group's high precision industrial automation instrument and technology products are extensively used in wide range of industries including aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery industries.

The Group is also engaged in the manufacturing of horological instruments products for use in the manufacture of quartz watches.

After experiencing the gloomiest time in the first half of 2009, the economy gradually reverted to normal. According to the China Economic Information Network, the GDP growth rate in PRC rebounded from 6.1% to 7.9% in the second quarter of 2009, 9.1% and 10.7% in the third and fourth quarter, respectively. For the period form January to November 2009, the total revenue from the industrial instruments industry in PRC amounted to approximately RMB442 billion and the total asset for the industry recorded approximately RMB449 billion. The products of the Group much targeted on the mid to high-end market, which was less affected by the financial crisis. The high precision ideology applied to our industrial automation products creates entrance barriers against local competitions, enabling us to maintain our niche among our competitors.

The production of the industrial automation segment had been experiencing capacity constraints since 2008. The revenues are expected to grow after the launch of the 2nd phase development project. In the 2nd phase production plant, there are in total 10 production chambers, 2 of them had started operation before the Lunar New Year. We expect 1 new chamber will commence production in every coming month.

The quartz watch movement segment is an indispensable business for the Group. Originally the world's quartz watch movement market, including China, was dominated by international players. After keen competitions in the past decade, many of our competitors were driven out of the business. Without major international competitors and after financial crisis, the demand of quartz watch movements well exceeds its supply, which allows for upward price adjustments. Our management will study the market situation intently and take appropriate action when the market situation becomes more favorable.

SEGMENT INFORMATION

The Group has adopted business segment information as its primary reporting format.

Automation instrument and technology products

During the Period, sales of high precision industrial automation instrument and technology products amounted to RMB269,017,000 (six months ended 31 December 2008: RMB235,210,000), representing approximately 78.3% (six months ended 31 December 2008: 70.0%) of the Group's total turnover. The Group continued to focus on production and expansion of high precision industrial automation instrument and technology products and to manage its inventory levels and its distribution network. Reportable segment profit of this business segment was approximately RMB120,894,000 (six months ended 31 December 2008: approximately RMB112,648,000), representing an increase of about 7.3% as compared to that of the corresponding period in 2008.

Horological instruments

Sales of horological instruments was approximately RMB74,646,000 (six months ended 31 December 2008: approximately RMB101,033,000), which accounts for approximately 21.7% (six months ended 31 December 2008: 30.0%) of the Group's total turnover during the Period. This segment recorded reportable segment profit of approximately RMB27,985,000, as compared to approximately RMB36,617,000 in the corresponding period of 2008.

MANUFACTURING FACILITIES

The Group has large-scale production facilities and is expanding its productivity to enhance its competitive strength when the market recovers.

The existing manufacturing facility (1st phase development) of the Group at Lot No. 15, Kuaian Road, Mawei Science and Technology Park, Fuzhou (福州馬尾科技園區快安大道15號地) is currently running close to its full production capacity.

As the utilization rate of the above existing plant has reached its maximum since 2008, the Group planned for an expansion and upgrade of its production capacity in two phases (i.e. 2nd and 3rd phase developments). Both developments are located at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC, covering a total site area of approximately 47,665 square metres.

The 2nd phase development is solely for the expansion of the Group's production capacity of its existing products. The factory on site commenced production, with its expected full-scale production capacity in December 2010. The Directors believes that by the time the new facilities are in full operation, the Group's production capacity of its existing products will be doubled.

The 3rd phase development is solely for actuators, one of the Group's new products. The construction is scheduled in the second half of 2010 and is expected to be completed by June 2011, with its expected full-scale production capacity in June 2013. In light of the uncertainties in the global market during the slow recovery from the economic crisis, the Directors will proceed with the future developments cautiously.

PROSPECT

We started the research and development of the actuator more than five years ago and the products had been sent to users among different industries for testing and trial operation. Our management is confident of launching this production line and we are optimistic that the above 3rd phase development will be ready in operation on schedule. To further ensure the success of the above 3rd phase development, as well as for our long term development, we are attempting to hire experienced local and overseas industry experts to join our management and technical teams. We are eager to acquire advanced international management skills and seek for continuous improvements.

In early 2009, the Central People's Government of PRC announced the Promotion Scheme for the Mission-Critical Equipment Industry and Manufacturing Industry (重大裝備製造業振興計劃), one of the measures was to encourage PRC enterprises to procure domestic made equipments. The detailed measures have not been announced and the degree of implementation by various provincial governments are different. In May, the State Council of PRC announced suggestions for encouraging the trial run of domestic produced equipments. The suggestions included subsidizing the purchase of the first machine and the setting up of risk compensation mechanisms which would probably be in form of machine insurance for the trial run users. As an example, in Shanghai, after the equipment was officially recognized as mission-critical equipment, funds would be provided for end users compensating the risks of using the first domestic made equipment. The Shanghai government planned to give subsidy not exceeding 10 percent of the value of the machine or 50 percent of the premium, capped at a maximum amount of RMB8 million. We expect this scheme will enhance the Group's sale performance.

FINANCIAL REVIEW

Turnover

Turnover of the Group amounted to approximately RMB343,663,000 for the Period (six months ended 31 December 2008: approximately RMB336,243,000), representing a slight increase of about 2.2% as compared to the corresponding period last year. The turnover was comparable to that of the same period last year because our manufacturing facilities have been running at close to full capacity since 2008.

Gross profit and operating profit

During the Period, the Group's gross profit and operating profit amounted to approximately RMB158,834,000 (six months ended 31 December 2008: approximately RMB160,831,000) and RMB139,214,000 (six months ended 31 December 2008: approximately RMB139,702,000) respectively.

The segment gross profit margin of automation instrument and technology products segment decreased from 51.7% for the six months ended 31 December 2008 to 48.8% for the six months ended 31 December 2009. The decrease in overall segment gross profit margin was mainly due to the effect of changes in product mix. The average selling price for individual products remained relatively stable over the periods.

The segment gross profit margin of horological instruments segment slightly decreased from 38.8% for the six months ended 31 December 2008 to 37.0% for the six months ended 31 December 2009. It was because average selling price per unit was gradually decreased from RMB1.92 for the six months ended 31 December 2008 to RMB1.73 for the six months ended 31 December 2009. The Group reduced its selling prices to maintain market share in an intensely price competitive market.

During the Period, the Group recognised approximately RMB13,323,000 for Initial Public Offering related expenses. Together with the increase in interest income on short-term loan to a shareholder of RMB4,447,000 and the decrease in equity-settled share-based payment expenses of RMB8,947,000, the Group's operating profit remained at similar level as compared to the same period in 2008.

Net profit

The profit attributable to the shareholders of the Company for the Period was approximately RMB107,531,000, as compared to that of approximately RMB116,918,000 in the corresponding period of 2008. It was mainly attributable to the increase in finance cost and the higher income tax expense due to the increase in applicable tax rate.

Earnings per share

The basic and diluted earnings per share for the Period were RMB13.04 cents (2008: RMB15.61 cents) and RMB13.03 cents (2008: RMB15.15 cents) respectively.

Liquidity and Financial Resources

For the Period, the Group's working capital requirement was principally financed by its internal resources.

As at 31 December 2009, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB1,348,067,000 (30 June 2009: approximately RMB203,474,000), approximately RMB1,480,322,000 (30 June 2009: approximately RMB246,185,000) and approximately RMB1,637,340,000 (30 June 2009: approximately RMB387,816,000) respectively.

Borrowings

As at 31 December 2009, the Group had no bank borrowings (30 June 2009: approximately RMB78,997,000).

Equity

Total equity attributable to the shareholders of the Group as at 31 December 2009 increased by approximately RMB1,249,483,000 to approximately RMB1,619,514,000 (30 June 2009: approximately RMB370,031,000).

Gearing ratio

The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: total equity) of the Group as at 31 December 2009 was approximately 0.1 (30 June 2009: approximately 0.8).

USE OF PROCEEDS FROM THE PLACING AND THE PUBLIC OFFERING

The Company's shares were listed on the Main Board of the Stock Exchange with a total of 287,500,000 offer shares (including shares issued as a result of the exercise of the over-allotment option). The net proceeds from the placing and the public offering of approximately HK$1,043,000,000 (the "Net Proceeds") will mainly be utilized as follows:

1. Approximately HK$711 million will be used for establishment of production facilities for new products of the Group;

2. Approximately HK$129 million will be used for research and development;

3. Approximately HK$81 million will be used for network development and sales support services;

4. Approximately HK$18 million will be used for the Group's information system development; and

5. Approximately HK$104 million will be used for general working capital.

The Group has not utilized the Net Proceeds as at 31 December 2009 and the Net Proceeds have been placed in short-term deposits with financial institutions.

SHARE CAPITAL

Details of changes in the Company's share capital during the Period were set out in note 25 to the consolidated interim financial statements of this interim report.

SIGNIFICANT INVESTMENTS

The Group had no significant investment held during the Period.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries or associated companies by the Group during the Period.

EMPLOYEES AND SHARE OPTION SCHEME

As at 31 December 2009, the Group employed a total of 1,047 employees (31 December 2008: 1,044 employees). It is the Group's policy to review its employees' pay levels and performance bonus system regularly to ensure the competitiveness of the Group's remuneration policy within the relevant industry. During the Period, staff cost (including Directors' emoluments) amounted to approximately RMB15,072,000 (2008: RMB23,936,000). In order to provide incentives to the staff, Directors and consultants of the Group, share options would be granted to staff, Directors and consultants under the Company's share option scheme (the "Scheme") adopted on 28 October 2009. During the Period, no option has been granted, exercised, cancelled or lapsed and there is no share option outstanding under the Scheme.

CHARGE ON ASSETS

As at 31 December 2009, the Group did not have any charges on its assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Apart from the expansion of manufacturing facilities as described in page 57, the Group had no future plans for material investments as at 31 December 2009.

The Group will continue to monitor the industry closely and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies principally in United States dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affects the Group's result of operations. The Group did not use any financial instruments to hedge its exposure to currency risk during the Period and will continue to closely monitor such risk exposures from time to time.

CAPITAL COMMITMENT

As at 31 December 2009, in respect of capital expenditures, the Group had capital commitment contracted for but not provided in the financial statements and capital commitment authorized but not contracted for amounted to approximately RMB157,423,000 and RMB170,049,000 respectively.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any material contingent liabilities.

DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 31 December 2009.

INTERIM RESULTS

The consolidated interim results of the Group for the six months ended 31 December 2009 have been reviewed by the Audit Committee and audited by the auditor of the Company, KPMG. The comparative amounts for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement and related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts and have not been audited.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the interests and short positions of the Directors and chief executives of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the 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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the ordinary shares and underlying shares of the Company:

	Number of ordinary shares and underlying shares held, capacity and nature of interest			
Directors	**Directly held interest**	**Through controlled corporation**	**Total**	**Approximate percentage of the issued share capital of the Company**
Wong Fun Chung	341,175,082	96,824,704 (note 2)	437,999,786	42.22%

Notes:

1. As at 31 December 2009, the total number of issued shares of the Company was 1,037,500,000.

2. 96,824,704 shares were held by Fortune Plus Holdings Limited, a company incorporated in the British Virgin Islands and in which Mr. Wong has 66.6% equity interest.

Saved as disclosed above, as at 31 December 2009, none of the Directors or the chief executives of the Company or their respective associates had registered any interests or short positions in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, according to the register of members kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person(s)/entity(ies) (other than the Directors or chief executives of the Company) had an interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Long positions in the ordinary shares of the Company:

Shareholders	Notes	**Number of Shares**	**Approximate percentage of the issued share capital of the Company**
Wong Fun Chung	2	437,999,786	42.22
Fortune Plus Holdings Limited		96,824,704	9.33
Standard Bank Group Limited	3	76,125,121	7.34
Standard Bank Plc		72,524,782	6.99
Lam Lai Ming	6	68,474,925	6.60
Li Gabriel	6	68,474,925	6.60
YM Investment Limited	4, 6	68,474,925	6.60
Orchid Asia IV, L.P.	5	67,124,805	6.47
Orchid Asia IV Group Management, Limited	5	67,124,805	6.47
Orchid Asia IV Group, Limited	5	67,124,805	6.47
Orchid Asia IV Investment, Limited	5	67,124,805	6.47
Wong Sun Hoi		56,250,162	5.42
DnB NOR Asset Management (Asia) Limited		51,913,000	5.00

Notes:

1. As at 31 December 2009, the total number of issued shares of the Company was 1,037,500,000.

2. 96,824,704 shares were indirectly held by Mr. Wong Fun Chung through Fortune Plus Holdings Limited (in which Mr. Wong Fun Chung is deemed to be interested by virtue of his 66.6% equity interest in Fortune Plus Holdings Limited for the purposes of the SFO).

3. 72,524,782 shares were held by Standard Bank Plc and 3,600,339 shares were held by Standard Bank Asia Limited. As both Standard Bank Plc and Standard Bank Asia Limited are wholly-owned subsidiaries of Standard Bank Group Limited, Standard Bank Group Limited was deemed to be interested in a total of 76,125,121 shares.

4. 1,350,120 shares were held by Orchid Asia Co-investment, Limited and 67,124,805 shares were held by Orchid Asia IV, L.P.. As Orchid Asia Co-investment, Limited was a direct wholly-owned subsidiary of YM Investment Limited, YM Investment Limited is therefore deemed to have the same interest as held by Orchid Asia Co-investment, Limited. YM Investment Limited was the ultimate controlling shareholder of Orchid Asia IV, L.P. and was therefore deemed to have the same interest held by Orchid Asia IV, L.P..

5. YM Investment Limited was the ultimate holding company of Orchid Asia IV, L.P.. The immediate holding company of Orchid Asia IV, L.P. was Orchid Asia IV Group Management, Limited. Orchid Asia IV Group Management, Limited was in turn a wholly-owned subsidiary of Orchid Asia IV Group, Limited, which was a wholly-owned subsidiary of Orchid Asia IV Investment, Limited. As YM Investment Limited owned approximately 92.61% in the issued share capital of Orchid Asia IV Investment, Limited, YM Investment Limited was therefore deemed to be interested in the same shares held by Orchid Asia IV, L.P..

6. Li Gabriel and Lam Lai Ming were the founders of a discretionary trust, YM Investment Limited and were therefore deemed to be interested in the same shares held by it.

Saved as disclosed above, as at 31 December 2009, no person (other than the Directors) who was recorded in the register of the Company had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Saved as disclosed under the section headed "Share Options" and "Directors' Interests and Short Positions in Shares and Underlying Shares" above, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective associates (as defined in the Listing Rules), or were any such rights exercised by them, or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The shares of the Company were listed on the Main Board of the Stock Exchange on 13 November 2009. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after listing.

CORPORATE GOVERNANCE

The Company has compiled with most of the code provisions stipulated in 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 of Hong Kong Limited (the "Listing Rules") since the listing of the Company on the Main Board of the Stock Exchange on 13 November 2009 to 31 December 2009, except for the deviation from the code provision A.2.1 of the Code as described below.

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Wong Fun Chung is the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long term business strategies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have compiled with the required standards set out in the Model Code since the Company's listing on 13 November 2009.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

REMUNERATION COMMITTEE

The remuneration committee of the Company, currently comprising three independent non-executive Directors, namely Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu Taylor, is responsible for advising the Board on the remuneration policy and framework of the Directors and senior management of the Company, as well as reviews and determines the remuneration of all the executive Directors and senior management of the Company with reference to the Company's objectives from time to time.

NOMINATION COMMITTEE

The Group established a nomination committee (the "Nomination Committee") on 25 August 2008 with written terms of reference as recommended under the Code. The primary duties of the Nomination Committee are to make recommendations to the Board on appointment and removal of Directors and management of the succession of the Board. The Nomination Committee comprises 3 independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor was appointed as the Chairman of the Nomination Committee.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 25 August 2008 with written terms of reference which are in compliance with the Code. The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee currently comprises three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor (Chairman). The Audit Committee has reviewed the audited interim financial statements and the interim report for the six months ended 31 December 2009.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The Company's 2009 interim results announcement and this interim report are published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.chpag.net.

By order of the Board
Wong Fun Chung
Chairman

Hong Kong, 24 March 2010