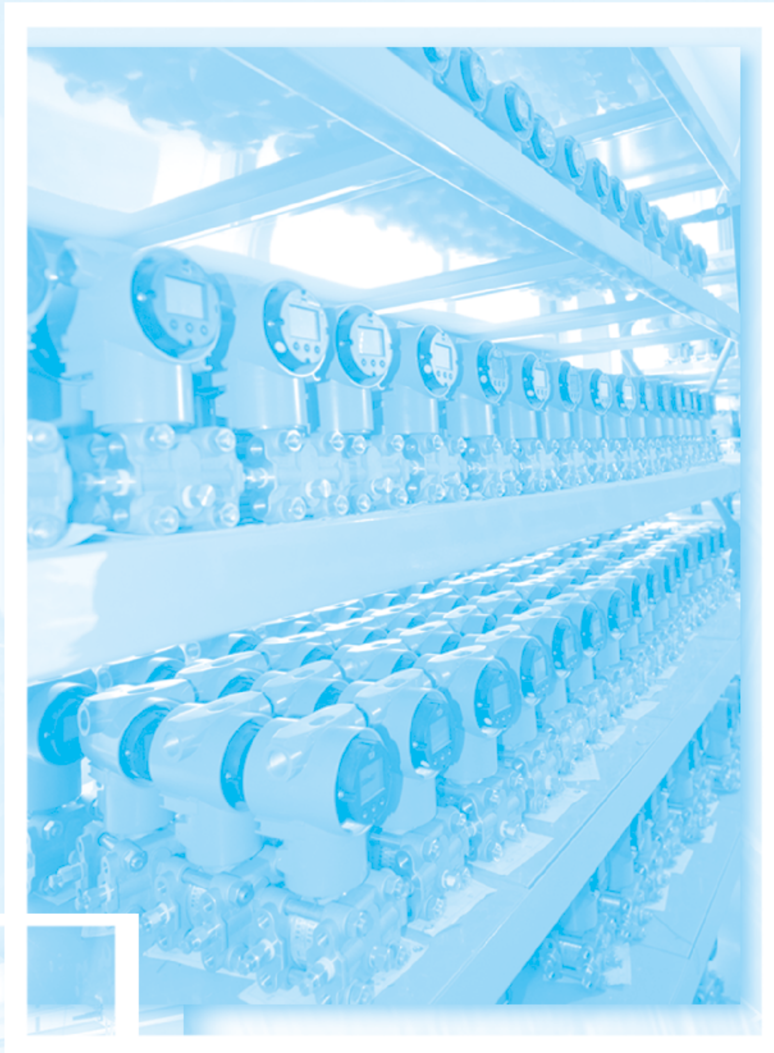
中國高精密自動化集團有限公司
CHINA HIGH PRECISION AUTOMATION GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 591

CHINA HIGH PRECISION AUTOMATION GROUP LIMITED

ANNUAL REPORT 2010

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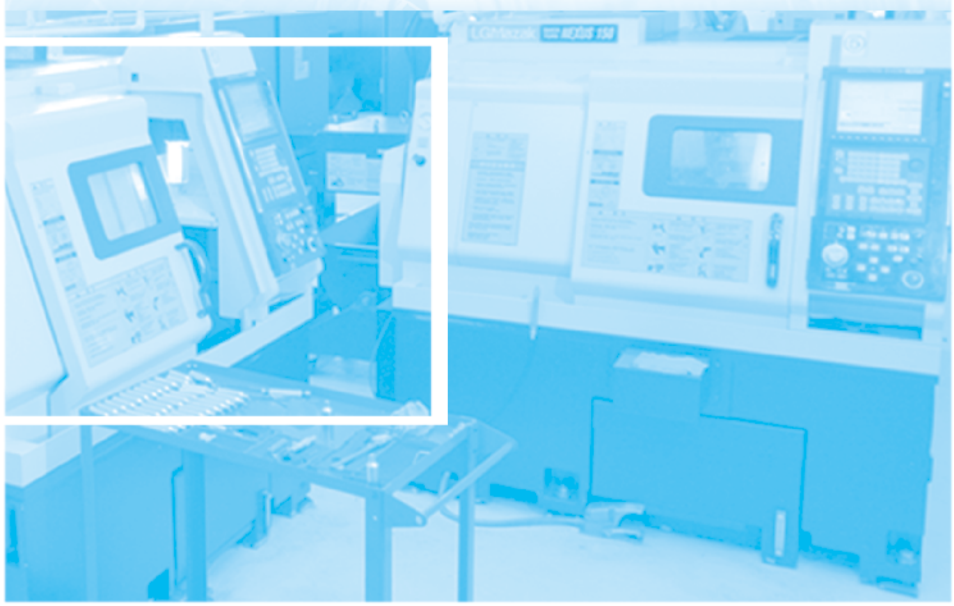

Financial Highlights

	2010 RMB'000	2009 RMB'000	Increase/ (decrease) %
Turnover	**667,583**	620,003	7.7
Profit from operations (Note 1)	**281,182**	248,566	13.1
Net profit attributable to equity shareholders of the Company	**227,658**	199,957	13.9
Earnings per share (cents)			
— basic	**24.47 cents**	26.66 cents	(8.2)
— diluted	**24.47 cents**	26.66 cents	(8.2)
Shareholders' equity	**1,733,404**	370,031	368.4

Note 1: Included in the profit from operations were IPO related expenses of approximately RMB13,323,000.

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 Limited
China CITIC Bank Corporation Limited
Bank of Communications Co., Ltd.

STOCK CODE

591

Chairman's Statement

On behalf of the Board of China High Precision Automation Group Limited (the "Company"), I am pleased to present to the shareholders the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2010 (the "Year").

INDUSTRIAL AUTOMATION INSTRUMENT INDUSTRY BENEFITING FROM STATE POLICIES ON ENERGY SAVING AND EMISSION REDUCTION

With rapid economic growth in China, the Group is aware of the state policies on speeding up elimination of production with low productivity and promoting development of advanced production technology with low energy consumption and low pollution during the Year. As energy saving and emission reduction has become key strategic measures of the PRC government, significant focus has been placed on such measures in various industries in China, thus creating huge demands for modification aiming at energy-saving, comprehensive utilization of resources and new green energy production. According to the Comprehensive Working Program on Energy Saving and Emission Reduction (節能減排綜合性工作方案) issued by the State Council, industrial automation instrument should be considered as essential tool for energy saving and emission reduction. The PRC government has suggested to increase the investment and full implementation of key energy-saving projects, ten of which are on utilization of heat and pressure waste in high energy consumption industries, such as iron and steel, nonferrous metals, petrochemicals, chemicals and construction materials, petrol conservation and substitution, mechanical system energy conservation as well as optimization of energy system. All the above ten key energy-saving projects are favorable for the applications of industrial automation instrument. Further, operations of advanced industrial equipment is indispensable to the improvement of energy-saving technology, comprehensive utilization of resources or generation of new green energy as the core technology involved an intense coordination of the operation of the core equipment and detector and controller. Serving as the "nerve center", "operation center" and "safety net" of the entire industrial equipment, industrial automation instrument can secure safe and reliable operations of such industrial equipment with maximum efficiency.

IMPRESSIVE RESULTS BY PROACTIVE MARKET EXPANSION

Benefiting from economic restructuring in China and recent state policies, the industrial automation instrument market in China expanded during the Year. The Group has achieved impressive operating results with significant improvements through implementations of appropriate marketing strategies.

For the year ended 30 June 2010, revenue of the Group increased by approximately 7.7% to approximately RMB667,583,000 as compared to that of last year. The Group's gross profit increased by approximately 6.9% to approximately RMB316,622,000 as compared to that of last year. Net assets was approximately RMB1,733,404,000, representing an increase of approximately 368.4% over the last year.

During the Year, the 2nd phase development of the Group was launched and the 3rd phase was under construction. The Group will seize the opportunities arising from the launch of investment project and, by conducting effective marketing activities and providing comprehensive pre-sales and after-sales services, expand the scale of production and sale of two core stream of products of the Group namely automation instrument and technology products and horological instruments, as well as narrow down the gap with other multinational corporations in terms of technology and brand. Besides, the Group will continue to seek and develop related products in the industry with potential for market development.

Looking ahead, with increasing investment in fixed assets in various regions in China, there will be growing emphasis on industrial restructuring and innovating enhancement. Technological upgrade of domestically-made industrial automation instrument and control system together with capability enhancement in fulfilling requirements of domestic enterprises will be the future highlights of industrial automation instrument industry in China. As the industrial automation instrument industry is expected to sustain high growth in the next 5 to 10 years, this provides favorable conditions to the future development of the Group.

In conclusion, the Board expresses sincere gratitude to fellow directors, the Group's senior management and staff for their innovation, dedication and contribution to the Group. The continuing support from the Group's business partners and shareholders is also highly appreciated.

Wong Fun Chung
Chairman

Hong Kong, 13 October 2010

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 annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2010 (the "Year").

MARKET AND BUSINESS REVIEW

The Group observed that the economic conditions in China have improved and the economy has resumed double-digit growth during the Year. As an emerging high-growth business, the industry of industrial automation instrument in China sustained rapid growth even amid the previous financial turmoil. During the Year, the PRC government implemented various economic stimulus packages and made extensive investment in various industries and infrastructure development and the Group has been benefiting from policies such as "domestic procurement" and "domestic research and development" which provide a direct boost for the growth of the Group. Apart from the policy factor, the rapid growth of the industry of industrial automation instrument is also attributable to the following key factors:

(1) China has a significantly lower degree of industrial automation as compared to the western countries, and the demand for industrial automation instrument is rapidly growing as the nation demands for more sophisticated production technology and product quality.

(2) the application of industrial automation instrument provides an effective solution to the increasing difficulties in recruitment of workers in view of increasing labour costs.

(3) industrial automation instrument plays an important role in energy conservation against potential depletion given increasing demand for energy arising from China's rapid economic growth.

The Company is pleased to report the success in commencement of production of its 2nd phase plant development in 2010. With the huge market demand and its relatively high profitability, pressure transmitters are the first products produced in the 2nd phase plant. The Company has also purchased numerous high precision mechanical processing equipment during the Year, which is expected to provide a positive effect on the quality and precision levels of products manufactured under the new capacities. The 2nd phase plant is expected to operate at full capacity around December 2010.

In the horological instruments segment, the Company increased its production capacity in the resurgent market benefiting from the withdrawal of certain competitors. The 2nd phase plant has also featured a fully-automated horological instruments production line based on in-house research and development. This production line is expected to have a positive impact on production efficiency.

SEGMENT INFORMATION

The Group has adopted the following reportable business segment information:

Automation instrument and technology products

During the Year, sales of high precision industrial automation instrument and technology products amounted to approximately RMB527,954,000 (2009: RMB462,425,000), representing approximately 79.1% (2009: 74.6%) 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 RMB242,855,000 (2009: approximately RMB199,375,000), representing an increase of 21.8% as compared to that of 2009.

Horological instruments

Sales of horological instruments were approximately RMB139,629,000 (2009: approximately RMB157,578,000), which accounts for approximately 20.9% (2009: 25.4%) of the Group's total turnover during the Year. This segment recorded reportable segment profit of approximately RMB49,879,000, as compared to approximately RMB49,260,000 in 2009.

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 was close to its maximum level 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 during 2010 and is expected to reach its full-scale production around 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 in progress and the production is expected to be commenced around June 2011, with its expected full-scale production 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

At present, China remains dependent on imports for industrial automation instrument, especially in the segment of medium to high-end applications, which is dominated by international players. The Group is optimistic about its market prospects, as it strives to narrow down the gap with foreign brands and to become one of the few domestic manufacturers of industrial automation instrument truly comparable to foreign products and ultimately be qualified as direct import substitutes. While the PRC government is expected to slow down its investments in fixed assets as the economy continues to recover, the Group remains optimistic about its business prospects, given the country's demand for industrial automated production and strong government drive for environmental protection and energy conservation.

The growth of the Company relies on its emphasis on research and development. In this regard, the Group has plans to increase investment in research and development in future by expanding manpower and capabilities thereof and to continue its cooperation with tertiary institutions for the ongoing research and development of new models and products.

The 3rd phase plant development will be primarily focused on the manufacture of the Company's new product — actuators. The Company expects to complete plant construction by December 2010 and to commence production around June 2011, and it is expected to be operating at its full capacity in about 2 years' time. While the production of actuators requires a very high level of technological sophistication, the Company expects to manufacture actuators with impeccable quality as its team of technicians gradually master related technologies with the assistance of equipment acquired.

FINANCIAL REVIEW

Turnover

Turnover of the Group amounted to approximately RMB667,583,000 for the Year (2009: approximately RMB620,003,000), representing an increase of about 7.7% as compared to that of last year. It is attributable to the new production capacity contributed from the completion of our second phase development in 2010.

Gross profit and profit from operations

During the Year, the Group's gross profit and profit from operations amounted to approximately RMB316,622,000 (2009: approximately RMB296,241,000) and RMB281,182,000 (2009: approximately RMB248,566,000) respectively.

The segment gross profit margin of automation instrument and technology products segment slightly decreased from 51.0% for 2009 to 50.3% for the Year. It was mainly due to the effect of changes in product mix during the Year. The average selling price for individual products remained relatively stable over the two years.

The segment gross profit margin of horological instruments segment slightly decreased from 38.4% for 2009 to 36.7% for the Year. It was because average selling price per unit was gradually decreased from RMB1.85 for 2009 to RMB1.74 for the Year. The Group reduced its selling prices to maintain market share in an intensely price competitive market.

During the Year, the Group recognised approximately RMB13,323,000 listing related expenses. Together with the increase in interest income on short-term loan to a shareholder of approximately RMB4,447,000, and the decrease in equity-settled share-based payment expenses of approximately RMB22,605,000, the Group's profit from operations increased by 13.1% for the Year.

Net profit

The profit attributable to the equity shareholders of the Company for the Year was approximately RMB227,658,000, as compared to that of approximately RMB199,957,000 in 2009. It was the net effect of factors as mentioned above and the increase in bank loan interest of RMB4,043,000.

Earnings per share

The basic and diluted earnings per share for the Year was RMB24.47 cents (2009: RMB26.66 cents) and RMB24.47 cents (2009: RMB26.66 cents) respectively.

Liquidity and Financial Resources

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

As at 30 June 2010, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB1,369,617,000 (30 June 2009: approximately RMB203,474,000), RMB1,519,834,000 (30 June 2009: approximately RMB246,185,000) and RMB1,751,370,000 (30 June 2009: approximately RMB387,816,000) respectively.

Borrowings

As at 30 June 2010, 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 30 June 2010 increased by approximately RMB1,363,373,000 to approximately RMB1,733,404,000 (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 30 June 2010 was approximately 0.1 (30 June 2009: approximately 0.8).

USE OF PROCEEDS FROM THE PLACING AND THE PUBLIC OFFER

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("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), and the net proceeds from the placing and the public offer 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 efforts;
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.

During the Year, the Group has utilized the Net Proceeds as follows:

1. Approximately HK$38 million were used for establishment of production facilities for new products of the Group;
2. Approximately HK$8 million were used for research and development efforts;
3. Approximately HK$4 million were used for network development and sales support services; and
4. Approximately HK$1 million were used for the Group's information system development.

The remaining balance of the Net Proceeds has been placed in the short-term deposits with financial institutions.

SHARE CAPITAL

Details of changes in the Company's share capital during the Year were set out in page 83 of this annual report.

SIGNIFICANT INVESTMENTS

The Group had no significant investment held during the Year.

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 Year.

EMPLOYEES AND SHARE OPTION SCHEME

As at 30 June 2010, the Group employed a total of 1,233 employees (30 June 2009: 888). It is the Group's policy to review its employee's pay levels and performance bonus system regularly to ensure the competitiveness of the Group's remuneration policy within the relevant industry. During the Year, the employment cost (including

Directors' emoluments) amounted to approximately RMB33,184,000 (2009: approximately RMB48,442,000). 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 Year, no option has been granted, exercised, cancelled or lapsed and there is no share option outstanding under the Scheme.

CHARGE ON ASSETS

As at 30 June 2010, 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 7, the Group had no future plans for material investments as at 30 June 2010.

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 primarily in United States dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi yuan 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 Year and will continue to closely monitor such risk exposures from time to time.

CAPITAL COMMITMENTS

As at 30 June 2010, in respect of capital expenditures, the Group had contracted for but not provided in the financial statements and authorized but not contracted for capital commitments in the financial statements amounted to approximately RMB201,015,000 (30 June 2009: RMB12,480,000) and RMB483,629,000 (30 June 2009: RMB184,127,000) respectively.

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any material contingent liabilities.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Wong Fun Chung (黃訓松), aged 57, is the chairman of the Board, the chief executive officer of the Company and founder of the Group. He was appointed as an executive Director of the Company on 29 November 2007 and has served the Group for 19 years. Mr. Wong has been brought up and lived in the PRC for a substantial period of time and graduated from Tianjin University (天津大學) in 1978 specialising in high precision timing instruments (計時儀器專業) and has over 20 years' experience in the production of horological instruments. During his career in the horological industry, Mr. Wong was recognised as one of the top one hundred youth factory managers in China, which is awarded jointly by China Youth Magazine (中國青年雜誌社), China Enterprise Management Association (中國企業管理協會), Central Propaganda Department of the Chinese Communist Youth League (中國共產主義青年團中央宣傳部) and China Central Television Station (中央電視台). In 1987, Mr. Wong was the factory manager of the Fuzhou Watch Factory (福州手錶廠), a state-owned enterprise. In 1989, Mr. Wong was approved as an engineer by the Fujian Provincial Bureau of Personnel (福建省人事局). In 1990, one of the quartz clock movement products developed by Mr. Wong was awarded third prize in the technological advancement award by the National Science and Technology Advancement Award Adjudication Committee (國家科學技術進步評審委員會). Mr. Wong is responsible for the formulation of the Group's corporate strategy, overseeing its production operations and the overall steering of the Group's strategic development. Mr. Wong is a shareholder and a director of Fortune Plus Holdings Limited which was interested in 96,824,704 shares of the Company as at 30 June 2010.

Mr. Zou Chong (鄒崇), aged 40, was appointed as an executive Director of the Company on 2 July 2008 and is the deputy general manager of the Group. Mr. Zou graduated from the Sichuan University (四川大學) in 1991 specialising in computer application (計算機應用專業). Mr. Zou has served the Group for 19 years and participated in the development of the "WP-series Multi-channel Embedded-type Colored Paperless Recorder" (WP-系列多通道嵌入式彩色顯示無紙記錄儀), which, together with Mr. Tang Chong Sen, was awarded the "Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)" by Fuzhou Municipal Government in 2006. Mr. Zou is responsible for the technical service centre, system integration, purchasing and sales and marketing of the Group.

Mr. Su Fang Zhong (蘇方中), aged 60, was appointed as an executive Director of the Company on 2 July 2008 and is the deputy general manager of the Group. He graduated from Fujian Broadcasting Television University (福建廣播電視大學) in 1990 specializing in financial accounting (財務會計). In 1991, Mr. Su successfully completed quality management (計量管理) training provided by the State Bureau of Technical Supervision (國家技術監督局). He has served the Group for 18 years. In 2003, he was approved as an electrical engineer (intermediate level) (中級電子工程師) by the Intermediate and Primary Level Adjudication Committee of the Fuzhou City Rural Enterprise Engineering Department (福州市鄉鎮企業工程系列中、初級評委會). Mr. Su was recognized by the Fuzhou Bureau of Light Industry (福州市輕工業局) as an outstanding performer in the technological development of light industry system (輕工系統技術開發優秀工作者) in 1989 and also as a pioneer worker in production management (生產管理先進工作者) in 1991. Mr. Su is responsible for the warehouse management, production workshops and quality control of the Group.

Mr. Cheung Chuen (張全), aged 36, was appointed as an executive Director of the Company since 2 April 2008. He is also the company secretary of the Company. Mr. Cheung graduated from the Hong Kong Shue Yan College (presently Hong Kong Shue Yan University) in 1999 majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over a decade gained experience in accounting and auditing. He is currently an independent non-executive director of Anxin-China Holdings Limited and Kingwell Group Limited, both of which are companies listed on the Main Board of the Stock Exchange. Mr. Cheung is responsible for the management reporting and planning of the Group, and is in charge of all the Group's financial and statutory reporting.

Independent Non-executive Directors

Dr. Hu Guo Qing (胡國清博士), aged 46, was appointed as an independent non-executive Director of the Company since 2 April 2008. Dr. Hu graduated from the Department of Aviation Automation Control (航空自動控制系) of the Northwestern Polytechnical University (西北工業大學) in 1987 and acquired his doctorate degree from the Department of Hydraulic Engineering (水利工程系) of the Chengdu University of Science and Technology (成都科技大學) in 1993. Since 1993, Dr. Hu has been involved in scientific research and academic teaching in areas such as MEMS technology, sensor technology, industrial automation, mechanical control engineering and automation control. Dr. Hu is currently a Professor at the College of Industrial Equipment and Control Engineering of the South China University of Technology (華南理工大學).

Ms. Ji Qin Zhi (吉勤之), aged 69, was appointed as an independent non-executive Director of the Company since 2 April 2008. Ms. Ji graduated from the Department of Precision Instruments Engineering (精密儀器工程系) of Tianjin University (天津大學) in 1964 and acquired the qualification of Senior Engineer in 1988. She was appointed as an independent non-executive director of Shenzhen Fiyta Holdings Limited, a company listed on Shenzhen Stock Exchange, in 2006 and 2009. She is currently the vice president of the Horology Association of the People's Republic of China.

Mr. Chan Yuk Hiu, Taylor (陳玉曉), aged 32, was appointed as an independent non-executive Director of the Company since 2 April 2008. Mr. Chan holds an Honours Diploma in Accounting from Hong Kong Shue Yan College (presently Hong Kong Shue Yan University), and a Master Degree in Professional Accounting from The Hong Kong Polytechnic University. He is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Since graduation he has acquired various accounting, auditing and company secretarial work experience both from certified public accountants firms and listed companies. Mr. Chan is currently the company secretary of FAVA International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan has over eight years of experience in professional accounting and auditing practice.

SENIOR MANAGEMENT

Mr. Tang Chong Sen (唐崇森), aged 70, graduated from the Mechanical Engineering Department (電機系) of the Harbin Institute of Technology (哈爾濱工業大學) in 1964 specialising in electrical measurement technology (電氣測量技術專業). In 1992, he was an associate professor of the Electrical Engineering Department of Fuzhou University specializing in industrial electrical automation system (工業電氣自動化). He has served the Group for 15 years. Mr. Tang had been the researcher of various provincial new product development projects. In 2002, the WP-series Intelligent Flow Controller for Natural Gas (WP-系列天然氣智能流量控制儀) co-developed by Mr. Tang also received the "Grade Three of Fujian Science and Technology Advancement Award (福建省科學技術獎三等獎)" by Fujian Provincial Government of the PRC. In 2006, the "WP-series Multi-channel Embedded-type Colored Paperless Recorder" (WP-系列多通道嵌入式彩色顯示無紙記錄儀) which was co-developed by Mr. Tang and Mr. Zou Chong was awarded "Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)" by Fuzhou Municipal Government. Mr. Tang is the chief electrical engineer of the Group and is responsible for overseeing the design and processing of electrical products and electronic software research and development of the Group.

Mr. Gao Wen Jiang (高文江), aged 68, graduated from the Agricultural Machinery Department (農業機械系) of the Fujian Institute of Agriculture (福建農學院) specialising in agricultural mechanisation (農業機械化專業) in 1964. In 1990, Mr. Gao was the deputy technical factory manager of Nanchang Watch Factory (南昌手錶廠). From 1993 to 2004, he was the deputy general manager of Guang Yu Electronic Industrial Co., Ltd. (廣宇電子實業有限公司). Mr. Gao joined the Group as a chief mechanical engineer in 2004 and has been holding the same position since then. He is responsible for overseeing the crafts processing and high precision mechanical research and development of the Group.

Corporate Governance Report

The Group is committed to upholding statutory and regulatory corporate governance standards and adhering to the principles of corporate governance emphasising accountability, transparency, independence, fairness and responsibility.

The Company has complied 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 the date of this annual report (the "Review Period"), except for the deviation from the code provision A.2.1 of the Code as described in the following sections.

A. SECURITIES TRANSACTIONS BY DIRECTORS

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.

Having made specific enquiries of all Directors, all Directors confirmed to the Company that they have complied with the Model Code throughout the Review Period.

B. BOARD OF DIRECTORS

1. Composition of the Board of Directors

As at 30 June 2010, the Board consisted of four executive Directors, namely Mr. Wong Fun Chung, Mr. Zou Chong, Mr. Su Fang Zhong, and Mr. Cheung Chuen, and three independent non-executive Directors, namely Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Each of Directors' respective biographical details is set out in the section headed "Biographical Information of Directors and Senior Management" of this annual report.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Company, save as disclosed in the section headed "Biographical Information of Directors and Senior Management" of this annual report, there is no financial, business, family or other material/relevant relationship among members of the Board (including the Chairman and the Chief Executive Officer).

2. Functions of the Board of Directors

The Board is responsible for the oversight of the Company's business and affairs with the objective of enhancing shareholder value. The Board also makes decisions on matters such as approving the annual results and interim results of the Group, notifiable and connected transactions of the Company, appointment and re-appointment of Directors, declaring dividend and adopting accounting policies, etc. Details of the experience and qualifications of Directors are set out in the section headed "Biographical Information of Directors and Senior Management" in this annual report.

The Board delegates the authority and responsibility for implementing daily operations, business strategies and management of the Group's businesses to the executive Directors and the senior management. When the Board delegates different aspects of its management and administrative functions to the senior management, it has given clear directions in relation to the scope of powers of the senior management, in particular, with respect to the circumstances regular report of progress from the senior management and prior approval be obtained from the Board before making decisions or entering into any commitments on behalf of the Company.

3. Board Meetings and Board Practices

During the Relevant Period, the Board conducted twenty meetings and the Board will meet on other occasions when a board-level decision on a particular matter is required. The attendance records of those meetings held are set out below:

Members	No. of attendance
Executive Directors	
Mr. Wong Fun Chung *(Chairman and Chief Executive Officer)*	20/20
Mr. Zou Chong	20/20
Mr. Su Fang Zhong	20/20
Mr. Cheung Chuen	20/20
Independent Non-executive Directors	
Dr. Hu Guo Qing	19/20
Ms. Ji Qin Zhi	19/20
Mr. Chan Yuk Hiu, Taylor	19/20

The Directors will receive details of agenda and minutes of committee meetings in advance of each Board meeting. The company secretary will distribute relevant documents to Directors in a timely manner to enable the Directors to make informed decisions on matters discussed in the Board meetings. The company secretary will ensure the procedures of the Board meetings are observed and provide to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings. Minutes of the Board meetings are kept by the company secretary.

4. Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing which is more than one-third of the Board. Among the three independent non-executive Directors, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The independent non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the independent non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based on the said confirmations, the Board considers that all the independent non-executive Directors are independent.

5. Chairman and Chief Executive Officer

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. Such deviation from Code provision A.2.1 is deemed appropriate as it is considered to be more efficient to have one single person as the Chairman of the Company as well as to discharge the executive functions of a chief executive officer, and it provides the Group with strong and consistent leadership in the development and execution of long term business strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises highly experienced individuals. There are three independent non-executive Directors on the Board. All of them possess adequate independence and therefore the Board considers the Company has achieved balance and provided sufficient protection of its interests.

6. Appointment, Re-election and Removal of Directors

Mr. Wong Fun Chung has entered into a service contract with the Company for an initial term of 3 years commencing from 29 November 2007 and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Mr. Cheung Chuen has entered into a service contract with the Company for an initial term of 3 years commencing from 2 April 2008 and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Mr. Zou Chong and Mr. Su Fang Zhong have entered into a service contract with the Company for an initial term of 3 years both commencing from 2 July 2008 and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Each of independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year commencing from 2 April 2008 with automatic renewal, subject to termination by either party giving the other not less than 3 months' prior written notice.

In accordance with the articles of association of the Company, all Directors (including executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years.

C. BOARD COMMITTEES

1. Remuneration Committee

The Group established its remuneration committee (the "Remuneration Committee") on 25 August 2008 with written terms of reference in compliance with paragraph B1 of the Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of the Directors and the senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises all three 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 Remuneration Committee.

During the Review Period, two meetings were held to review the remuneration package of the Board and the senior management. The attendance records of the Remuneration Committee meetings held are set out below:

Members	**No. of attendance**
Dr. Hu Guo Qing	2/2
Ms. Ji Qin Zhi	2/2
Mr. Chan Yuk Hiu, Taylor	2/2

The remuneration of Directors is determined by the Board, upon recommendation of the Remuneration Committee with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

2. Audit Committee

The Group established its audit committee (the "Audit Committee") on 25 August 2008 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of 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 comprises all three 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 Audit Committee.

During the Review Period, the Audit Committee performed the following tasks:

(i) review of the auditor's report for the audit of final results of the Group for the year ended 30 June 2010;

(ii) review of the draft consolidated financial statements for the audited consolidated financial statement for the year ended 30 June 2010 with a recommendation to the Board for approval;

(iii) review of the draft results announcement and annual report of the Group for the year ended 30 June 2010 with a recommendation to the Board for publication and approval;

(iv) review of the interim report of the Group for the six months ended 31 December 2009 with a recommendation to the Board for publication and approval;

(v) review of the internal control system and report of the Audit Committee's review to the Board;

(vi) review of the audit fees payable to the external auditors for the year ended 30 June 2010 with a recommendation to the Board for approval;

(vii) review of the external auditors' independence, with a recommendation to the Board for the re-appointment of the external auditors at the forthcoming annual general meeting.

There have been two meetings of the Audit Committee since its authorities and duties were adopted.

The attendance records of the Audit Committee meetings held are set out below:

Members	No. of attendance
Dr. Hu Guo Qing	2/2
Ms. Ji Qin Zhi	1/2
Mr. Chan Yuk Hiu, Taylor	2/2

3. 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 all 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.

There has been no meeting of the Nomination Committee since its authorities and duties were adopted.

D. ACCOUNTABILITY AND AUDIT

1. Directors' Responsibility for the Consolidated Financial Statements

The Board acknowledges that it holds responsibility for:

(i) Overseeing the preparation of the financial statements of the group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group; and

(ii) Selecting suitable accounting policies and applying the selected accounting policies consistently with the support of reasonable and prudent judgment and estimates.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board will continue to prepare the consolidated financial statements on a going concern basis.

2. Internal Controls

The Board places great importance on internal controls and is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The Board had conducted review of the effectiveness of the system of internal control of the Group covering all material controls, including financial, operation, compliance control and risk management functions. The Group's internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations related to the business of the Group. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operation systems and achievement of the Group's objectives. The Audit Committee was satisfied that the internal control system has functioned effectively. During the Year, no irregularity or material weakness was noted within any function or process and the Board considers that the internal control system is effective and adequate for the Group as a whole.

3. Auditors' Remuneration

During the year ended 30 June 2010, the remuneration paid/payable to the Company's auditors, KPMG, is set out as follows:

Nature of Services	**Fee paid/payable RMB'000**
Audit services	2,510
Non-audit services	—
Total:	2,510

E. INVESTOR AND SHAREHOLDERS RELATIONS

The Company continues to pursue a proactive policy in promoting investor relations and communications with the shareholders of the Company. The Board also recognised that effective communication with investors is the key to establish investor confidence and to attract new investors.

The Company communicates with its shareholders and investors through various channels including publication of interim and annual reports, press announcements and information on the website of the Stock Exchange and the Company's website at www.chpag.net.

The Company encourages its shareholders to attend the forthcoming annual general meeting as an important opportunity for constructive communication with the Board. The Chairman as well as the chairmen of the Audit, Remuneration and Nomination Committees, or in their absence, members of the relevant committees are available to answer any questions raised by the shareholders.

The Group regularly releases corporate information, such as awards received, and the latest news of the Group's developments on the Company's website. The public are welcome to give their comments and make their enquiries through the Company's website and the management will give their prompt response thereto.

The Directors have pleasure in submitting their annual report together with the audited consolidated financial statements of the Group for the year ended 30 June 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the Year are set out in note 12 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the Year and the state of the Company's and the Group's affairs as at 30 June 2010 are set out in the financial statements on pages 31 to 99.

DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.05 (equivalent to approximately RMB0.0436) per share for the year ended 30 June 2010. The final dividend, subject to shareholders' approval at the forthcoming annual general meeting to be held on 26 November 2010, will be paid on or around 17 December 2010 to its shareholders whose names appear on the register of members of the Company on 26 November 2010.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 November 2010 to 26 November 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on 19 November 2010.

TRANSFER TO RESERVES

Profit for the year attributable to equity shareholders of the Company of RMB227,658,000 (2009: RMB199,957,000) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 36.

DISTRIBUTABLE RESERVES

At 30 June 2010, the aggregate amount of reserves available for distribution to the equity shareholders of the Company are set out in note 28(d)(vii) to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

COMMITMENTS

Particulars of the commitments of the Group as at 30 June 2010 are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

DIRECTORS

The Directors during the Year and up to the date of this annual report are:

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

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

Brief biographical information of the Directors are set out in the "Biographical Information of Directors and Senior Management" section on pages 11 to 13 of this annual report.

In accordance with article 84 of the Company's articles of association, Mr. Wong Fun Chung, Mr. Cheung Chuen and Ms. Ji Qin Zhi shall retire as Directors by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors listed below has entered into a service agreement with the Company for a term of three years, which shall be terminated in accordance with the provisions thereof or by either party giving the other not less than three months' prior written notice. Each of the independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year with automatic renewal, subject to termination by either party giving the other not less than three months' notice. The appointment dates of each of the Directors are as follows:

Executive Directors	
Mr. Wong Fun Chung	29 November 2007
Mr. Zou Chong	2 July 2008
Mr. Su Fang Zhong	2 July 2008
Mr. Cheung Chuen	2 April 2008
Independent Non-executive Directors	
Dr. Hu Guo Qing	2 April 2008
Ms. Ji Qin Zhi	2 April 2008
Mr. Chan Yuk Hiu, Taylor	2 April 2008

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTOR'S INTERESTS 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, 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 30 June 2010, 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 30 June 2010, 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 THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2010, 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 and 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
Standard Bank Group Limited	3	143,249,926	13.81
Fortune Plus Holdings Limited		96,824,704	9.33
Standard Bank Plc		72,524,782	6.99
Standard Bank Asia Limited		70,725,144	6.82
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
Standard Securities Asia Limited	7	67,124,805	6.47
Wong Sun Hoi		56,250,162	5.42

Notes:

1. As at 30 June 2010, 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 70,725,144 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 143,249,926 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.

7. Standard Securities Asia Limited, a wholly-owned subsidiary of Standard Bank Group Limited, held 67,124,805 shares as the custodian for Orchid Asia IV, L.P..

Saved as disclosed above, as at 30 June 2010, 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.

SHARE CAPITAL

Details of share capital of the Company during the Year are set out in note 28(c) to the financial statements.

SHARE OPTION SCHEME

The Company adopted the share option scheme (the “Scheme”) on 28 October 2009, the principal terms of which are set out in Note 27(b) to the financial statements. During the Year, no option has been granted, exercised, cancelled or lapsed and there is no share option outstanding under the Scheme.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections headed “Directors’ and chief executives’ interests and short positions in shares and underlying shares” and “Share option scheme” above, at no time during the Year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTOR’S INTERESTS IN CONTRACTS

Save as disclosed in notes 8 and 31 to the financial statements, there was no contract of significance in relation to the Company’s business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had, whether directly or indirectly, a material interest at the end of the Year or at any time during the Year.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the Year, except for those disclosed in note 31 to the financial statements, the Group had no transactions with related or connected parties. The transaction is defined by the Listing Rules as "connected transactions" and is exempt from the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

BANKING FACILITIES

Particulars of the banking facilities of the Company as at 30 June 2010 are set out in note 22 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	7.8%	
Five largest customers in aggregate	30.3%	
The largest supplier		27.4%
Five largest suppliers in aggregate		72.2%

At no time during the Year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the Year are set out in note 6(b) to the financial statements.

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). During the Year and up to the date of this annual report, the Audit Committee has met twice to review the interim and annual results of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

Wong Fun Chung
Chairman

Hong Kong, 13 October 2010

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

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China High Precision Automation Group Limited ("the Company") set out on pages 31 to 99, which comprise the consolidated and company balance sheets as at 30 June 2010, 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 year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

13 October 2010

Consolidated Income Statement

For the year ended 30 June 2010
(Expressed in Renminbi Yuan)

	Note	2010 RMB'000	2009 RMB'000
Turnover	4	**667,583**	620,003
Cost of sales		**(350,961)**	(323,762)
Gross profit		**316,622**	296,241
Other revenue	5	**12,075**	1,436
Other net income	5	**1,785**	63
Distribution costs		**(5,679)**	(3,833)
Administrative expenses		**(43,621)**	(45,341)
Profit from operations		**281,182**	248,566
Finance costs	6(a)	**(9,818)**	(5,775)
Profit before taxation	6	**271,364**	242,791
Income tax	7(a)	**(43,706)**	(42,834)
Profit for the year attributable to equity shareholders of the Company		**227,658**	199,957
Earnings per share	11		
— basic		**24.47 cents**	26.66 cents
— diluted		**24.47 cents**	26.66 cents

The notes on pages 38 to 99 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 28(b).

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010
(Expressed in Renminbi Yuan)

	2010 RMB'000	2009 RMB'000
Profit for the year attributable to equity shareholders of the Company	**227,658**	199,957
Other comprehensive income for the year		
Exchange differences on translation of financial statements of operations outside the PRC (excluding Hong Kong)	**(6,089)**	(272)
Total comprehensive income for the year	**221,569**	199,685

The notes on pages 38 to 99 form part of these consolidated financial statements.

Consolidated Balance Sheet

At 30 June 2010
(Expressed in Renminbi Yuan)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13	**166,040**	57,256
Construction in progress	14	**30,308**	71,043
Lease prepayments	15	**10,315**	10,656
Prepayments for construction costs		**3,682**	—
Deposits for the purchase of property, plant and equipment		**18,702**	—
Deferred tax assets	25(b)	**2,489**	2,676
		231,536	141,631
Current assets			
Inventories	18	**38,462**	28,630
Trade and other receivables	19	**284,269**	289,875
Cash and cash equivalents	20	**1,369,617**	203,474
		1,692,348	521,979
Current liabilities			
Trade and other payables	21	**159,454**	159,011
Bank loans	22	**—**	78,997
Amount due to a shareholder	24	**—**	5,731
Amount due to a related party	24	**—**	20,413
Current taxation	25(a)	**11,921**	10,587
Provision for warranty	26	**1,139**	1,055
		172,514	275,794
Net current assets		**1,519,834**	246,185
Total assets less current liabilities		**1,751,370**	387,816

Consolidated Balance Sheet

At 30 June 2010
(Expressed in Renminbi Yuan)

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Deferred tax liabilities	25(b)	**17,966**	17,785
		17,966	17,785
NET ASSETS		**1,733,404**	370,031
CAPITAL AND RESERVES	28		
Share capital		**91,360**	342
Reserves		**1,642,044**	369,689
TOTAL EQUITY		**1,733,404**	370,031

Approved and authorised for issue by the board of directors on 13 October 2010

Wong Fun Chung
Director

Cheung Chuen
Director

The notes on pages 38 to 99 form part of these consolidated financial statements.

Balance Sheet

At 30 June 2010
(Expressed in Renminbi Yuan)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	16	1,046,330	342
Current assets			
Amount due from a subsidiary	17	50,000	—
Prepayments and other receivables	19	175	14,036
Cash and cash equivalents	20	86	—
		50,261	14,036
Current liabilities			
Amounts due to subsidiaries		—	11,825
Amount due to a related party		—	3,887
Other payables	21	1,579	2,451
		1,579	18,163
Net current assets/(liabilities)		48,682	(4,127)
NET ASSETS/(LIABILITIES)		1,095,012	(3,785)
CAPITAL AND RESERVES	28(a)		
Share capital		91,360	342
Reserves		1,003,652	(4,127)
TOTAL EQUITY		1,095,012	(3,785)

Approved and authorised for issue by the board of directors on 13 October 2010

Wong Fun Chung
Director

Cheung Chuen
Director

The notes on pages 38 to 99 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010
(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company								
	Note	Share capital	Share premium (note 28(d)(i))	Capital reserve (note 28(d)(ii))	Surplus reserve (note 28(d)(iii))	Share-based compensation reserve (note 28(d)(iv))	Other reserve (note 28(d)(v))	Exchange reserve (note 28(d)(vi))	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 year ended 30 June 2009:										
Total comprehensive income for the year		–	–	–	–	–	–	(272)	199,957	199,685
Equity settled share-based payments	27	–	–	–	–	22,605	–	–	–	22,605
Interim dividend declared and paid	28(b)	–	–	–	–	–	–	–	(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 year ended 30 June 2010:										
Issuance of convertible bonds		–	–	2,018	–	–	–	–	–	2,018
Shares issued upon issuance of convertible bonds	28(a)	1	–	–	–	–	–	–	–	1
Redemption of shares upon conversion of convertible bonds	28(a)	(1)	–	–	–	–	–	–	–	(1)
Shares issued upon conversion of convertible bonds	23, 28(a)	78	223,383	(2,018)	–	–	–	–	–	221,443
Capitalisation issue	28(a)	65,625	(65,625)	–	–	–	–	–	–	–
Shares issued under placing and public offering, net of share issuing expenses	28(a)	25,315	893,028	–	–	–	–	–	–	918,343
Total comprehensive income for the year		–	–	–	–	–	–	(6,089)	227,658	221,569
Balance at 30 June 2010		91,360	1,050,786	–	70,216	27,365	2,982	(2,576)	493,271	1,733,404

The notes on pages 38 to 99 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2010
(Expressed in Renminbi Yuan)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	20(b)	**264,250**	291,128
PRC income tax paid		**(42,004)**	(27,714)
Net cash generated from operating activities		**222,246**	263,414
Investing activities			
Payment for the purchase of property, plant and equipment		**(29,895)**	(7,570)
Payment for construction in progress		**(52,687)**	(40,664)
Interest received		**8,414**	1,436
Net cash used in investing activities		**(74,168)**	(46,798)
Financing activities			
Proceeds from bank loans		**158,174**	140,605
Repayment of bank loans		**(237,171)**	(117,632)
Interest paid		**(16,388)**	(5,775)
Proceeds from issuance of convertible bonds		**238,990**	—
Payment for convertible bonds issuing expenses		**(23,611)**	—
Proceeds from issuance of new shares under placing and public offering		**1,012,575**	—
Payment for share issuing expenses		**(94,091)**	—
(Decrease)/increase in amount due to a related party		**(20,413)**	8,285
Dividend paid		**—**	(230,326)
Net cash generated from/(used in) financing activities		**1,018,065**	(204,843)
Net increase in cash and cash equivalents		**1,166,143**	11,773
Cash and cash equivalents at beginning of the year		**203,474**	191,701
Cash and cash equivalents at end of the year	20(a)	**1,369,617**	203,474

MAJOR NON-CASH TRANSACTION:

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 38 to 99 form part of these consolidated financial statements.

Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

1 REPORTING ENTITY AND CORPORATE REORGANISATION

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.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all 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 and the disclosure requirements of the Hong Kong Companies Ordinance. These 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. A summary of the significant accounting policies adopted by the Group 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 and the Company. 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 financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2010 comprise the Company and its subsidiaries.

The consolidated 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The measurement basis used in the preparation of the 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 these financial statements and major sources of estimation uncertainty are discussed in note 32.

(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 are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated 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 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.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 2(h)(ii)).

(d) Lease prepayments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

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

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:

— Plant and machinery	10 years
— Buildings and infrastructure	20 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)(ii)). 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(i) Impairment of trade and other receivables (continued)

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.

(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;

— construction in progress;

— lease prepayments;

— prepayments for construction costs;

— deposits for the purchase of property, plant and equipment; and

— investments in subsidiaries.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment of doubtful debts (see note 2(h)(i)), 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)(i)).

(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 component 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 bond is converted or redeemed.

If the convertible bonds are converted, the capital reserve, together with the carrying amount 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 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 appropriate 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) (continued)

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.

(q) Income tax

(i) Income tax for the year 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

(iii) (continued)

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 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 investments 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 expenditures for the asset are 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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*

3 CHANGES IN ACCOUNTING POLICIES (continued)

The amendments to HKFRS 2 have had no material impact on the Group's 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 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.

— 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 year presented is as follows:

	2010 RMB'000	2009 RMB'000
Sales of automation instrument and technology products	**527,954**	462,425
Sales of horological instruments	**139,629**	157,578
	667,583	620,003

During the year ended 30 June 2010, there was no customer with whom transactions have exceeded 10% of the Group's turnover (2009: Nil).

5 OTHER REVENUE AND OTHER NET INCOME

	2010 RMB'000	2009 RMB'000
Other revenue		
Bank interest income	**3,967**	1,436
Loan interest income (note (i))	**4,447**	—
Government grants (note (ii))	**3,661**	—
	12,075	1,436

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.

	2010 RMB'000	2009 RMB'000
Other net income		
Net exchange gain	**1,785**	63

6 PROFIT BEFORE TAXATION

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

	2010 RMB'000	2009 RMB'000
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**9,818**	5,775
Interest on convertible bonds (note 23)	**11,386**	—
Less: Borrowing costs capitalised as construction in progress	**(11,386)**	—
	9,818	5,775

The borrowing costs during the year have been capitalised at a rate of 15.84% per annum (2009: Nil) for construction in progress.

	2010 RMB'000	2009 RMB'000
(b) Staff costs:		
Contributions to defined contribution retirement plans	**694**	630
Equity-settled share-based payment expenses (note 27)	**—**	22,605
Salaries, wages and other benefits	**32,490**	25,207
	33,184	48,442

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)

	2010 RMB'000	2009 RMB'000
(c) Other items:		
Depreciation (note 13)	**8,732**	7,424
Amortisation (note 15)	**114**	—
Reversal of impairment losses on trade and other receivables (note 19(b))	**(1,831)**	—
Research and development costs	**10,066**	7,235
Increase in provision for warranty (note 26)	**264**	462
Auditors' remuneration	**2,510**	20
Operating lease charges:		
minimum lease payments — properties	**1,835**	1,925
Listing expenses	**13,323**	—
Cost of inventories (note 18(b))	**350,961**	323,762

Note: Cost of inventories includes RMB26,700,000 (2009: RMB20,257,000) relating to staff costs, depreciation and amortisation expenses, amounts of which are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2010 RMB'000	2009 RMB'000
Current tax — PRC Enterprise Income Tax		
Provision for the year	**43,338**	31,923
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**368**	10,911
	43,706	42,834

(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 does not have assessable profits subject to Hong Kong Profits Tax during the year (2009: Nil).

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 Precision Instruments Co., Ltd. ("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 entitles 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.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

(iii) (continued)

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 Automation Limited 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 25(c)).

At 30 June 2010, temporary differences relating to the undistributed profits of the Group's foreign-invested enterprise amounted to RMB606,472,000 (2009: RMB352,500,000). Deferred tax liabilities of RMB12,698,000 (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:

	2010 **RMB'000**	2009 RMB'000
Profit before taxation	**271,364**	242,791
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdiction concerned	**70,076**	46,556
Tax concessions	**(29,766)**	(20,365)
Tax effect of non-deductible expenses	**3,396**	4,713
Withholding tax on undistributed profits of the PRC subsidiary (note 25(b))	**–**	11,930
Actual income tax expense	**43,706**	42,834

8 DIRECTORS' REMUNERATION

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

2010

	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	–	798	7	–	–	805
Mr. Wong Sun Hoi (resigned on 16 August 2009)	–	–	–	–	–	–
Mr. Zou Chong	–	382	3	–	–	385
Mr. Su Fang Zhong	–	382	2	–	–	384
Mr. Cheung Chuen	–	713	11	–	264	988
Independent non-executive directors						
Dr. Hu Guo Qing	70	–	–	–	–	70
Ms. Ji Qin Zhi	70	–	–	–	–	70
Mr. Chan Yuk Hiu, Taylor	88	–	–	–	–	88
Total	228	2,275	23	–	264	2,790

8 DIRECTORS' REMUNERATION (continued)

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	—	165	—	—	—	165
Mr. Wong Sun Hoi	—	—	—	678	—	678
Mr. Zou Chong (appointed on 2 July 2008)	—	144	3	3,617	—	3,764
Mr. Su Fang Zhong (appointed on 2 July 2008)	—	144	3	3,617	—	3,764
Mr. Cheung Chuen	—	573	11	904	—	1,488
Independent non-executive directors						
Dr. Hu Guo Qing	—	—	—	—	—	—
Ms. Ji Qin Zhi	—	—	—	—	—	—
Mr. Chan Yuk Hiu, Taylor	44	—	—	—	—	44
Total	44	1,026	17	8,816	—	9,903

During the year, 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 27(a), there was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 30 June 2010 (2009: Nil).

(Expressed in Renminbi Yuan unless otherwise indicated)

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

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

	2010	2009
	RMB'000	RMB'000
Contributions to retirement benefit scheme	**10**	12
Salaries and other emoluments	**484**	325
	494	337

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

	2010	2009
HK$ Nil to HK$1,000,000	**1**	1

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB32,848,000 (2009: RMB24,030,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2010	2009
	RMB'000	RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(32,848)**	(24,030)
Interim dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**–**	230,326
Company's (loss)/profit for the year (note 28(a))	**(32,848)**	206,296

Details of dividends paid and payable to equity shareholders of the Company are set out in note 28(b).

11 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 of RMB227,658,000 (2009: RMB199,957,000) and the weighted average of 930,230,000 ordinary shares (2009: 750,000,000 shares) in issue during the year, calculated as follows:

	2010 RMB'000	2009 RMB'000
Earnings:		
Net profit (basic and diluted)	**227,658**	199,957

	2010 '000	2009 '000
Weighted average number of ordinary shares:		
Issued ordinary shares at beginning of the year	**3,800**	3,800
Effects of shares issued upon conversion of convertible bonds	**561**	—
Number of ordinary shares issued under capitalisation issue (note 28(c))	**745,321**	746,200
Effect of ordinary shares issued upon placing and public offering	**180,548**	—
Weighted average number of ordinary shares (basic)	**930,230**	750,000

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 year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB227,658,000 (2009: RMB199,957,000) and weighted average number of shares in issue adjusted for the potential dilutive effect caused by the convertible bonds (note 23), assuming they were converted.

11 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

Net profit for the purpose of calculation of earnings per share for the year ended 30 June 2010 is the same as that for basic earnings per share, as the entire amount of interest expense on the convertible bonds for the year ended 30 June 2010 was capitalised under the cost of construction in progress in accordance with the accounting policy set out in note 2(v).

	2010	2009
	'000	'000
Weighted average number of shares (basic)	**930,230**	750,000
Effect of conversion of convertible bonds	**301**	—
Weighted average number of shares (diluted)	**930,531**	750,000

12 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 purposes 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 other corporate assets. Segment liabilities include trade and other payables as well as provision for warranty 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.

12 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 reporting 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 years ended 30 June 2010 and 2009 is set out below.

	Automation instrument and technology products		Horological instruments		Total	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment revenue	**527,954**	462,425	**139,629**	157,578	**667,583**	620,003
Reportable segment profit (adjusted profit from operations)	**242,855**	199,375	**49,879**	49,260	**292,734**	248,635

	Automation instrument and technology products		Horological instruments		Total	
	At 30 June	At 30 June	**At 30 June**	At 30 June	**At 30 June**	At 30 June
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment assets	**403,758**	315,850	**148,130**	128,119	**551,888**	443,969
Addition to non-current segment assets during the year	**55,091**	34,212	**10,715**	234	**65,806**	34,446
Reportable segment liabilities	**94,557**	96,085	**60,619**	52,746	**155,176**	148,831

(Expressed in Renminbi Yuan unless otherwise indicated)

12 SEGMENT REPORTING (continued)

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

	2010 RMB'000	2009 RMB'000
Revenue		
Reportable segment revenue	667,583	620,003
Consolidated turnover	667,583	620,003

	2010 RMB'000	2009 RMB'000
Profit		
Reportable segment profit	292,734	248,635
Unallocated head office and corporate expenses	(21,370)	(5,844)
Consolidated profit before taxation	271,364	242,791

	2010 RMB'000	2009 RMB'000
Assets		
Reportable segment assets	551,888	443,969
Unallocated head office and corporate assets	1,371,996	219,641
Consolidated total assets	1,923,884	663,610

	2010 RMB'000	2009 RMB'000
Liabilities		
Reportable segment liabilities	155,176	148,831
Unallocated head office and corporate liabilities	35,304	144,748
Consolidated total liabilities	190,480	293,579

12 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, lease prepayments, prepayments for construction costs and deposits for the purchase of property, plant and equipment ("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		Specified non-current assets	
			At 30 June	At 30 June
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong	**40,175**	62,510	**186**	274
PRC (excluding Hong Kong)	**627,408**	557,493	**228,861**	138,681
	667,583	620,003	**229,047**	138,955

(Expressed in Renminbi Yuan unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machineries RMB'000	Buildings 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 14)	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	—	—	(4)	—	(3)	(7)
Additions	26,240	—	1,179	1,542	934	29,895
Transferred from construction in progress (note 14)	47,632	39,990	—	—	—	87,622
At 30 June 2010	149,754	39,990	3,957	2,464	3,790	199,955
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
Exchange adjustment	—	—	(4)	—	(2)	(6)
Charge for the year	7,582	167	390	163	430	8,732
At 30 June 2010	29,417	167	1,819	370	2,142	33,915
Net book value:						
At 30 June 2010	120,337	39,823	2,138	2,094	1,648	166,040
At 30 June 2009	54,047	—	1,349	715	1,145	57,256

14 CONSTRUCTION IN PROGRESS

	The Group RMB'000
At 1 July 2008	31,354
Additions	40,664
Transfer to property, plant and equipment (note 13)	(975)
At 30 June 2009	71,043
At 1 July 2009	71,043
Additions	46,887
Transfer to property, plant and equipment (note 13)	(87,622)
At 30 June 2010	30,308

Construction in progress comprises costs incurred on plant and machineries and buildings not yet completed at the respective balance sheet dates.

15 LEASE PREPAYMENTS

	The Group RMB'000
Cost:	
At 1 July 2008, 30 June 2009 and 30 June 2010	10,656
Accumulated amortisation:	
At 1 July 2008 and 30 June 2009	—
Charge for the year	114
At 30 June 2010	114
Net book value:	
At 30 June 2010	10,542
At 30 June 2009	10,656

(Expressed in Renminbi Yuan unless otherwise indicated)

15 LEASE PREPAYMENTS (continued)

	The Group	
	2010	2009
	RMB'000	RMB'000
Representing:		
Non-current portion	**10,315**	10,656
Current portion — included in "Other prepayments, deposits and receivables" (note 19)	**227**	—
	10,542	10,656

Lease prepayments represent payments for land use rights in the PRC with lease term expiring in 2056. No amortisation was provided for the year ended 30 June 2009 as the land was not yet ready for its intended use.

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted equities, at cost	**342**	342
Amounts due from subsidiaries	**1,045,988**	—
	1,046,330	342

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, except for the amount as disclosed in note 17, the amounts due from subsidiaries will not be repaid within twelve months from the end of the reporting period and are, therefore, presented in the balance sheet as non-current.

Details of the Company's subsidiaries at 30 June 2010 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	Hong Kong	10,000 shares of HK$1 each	100%	—	Investment holding
Fujian Wide Plus Precision Instrument Co., Ltd.*	PRC	US$60,000,000	—	100%	Manufacture and sale of high precision industrial automation instrument and technology products and multi-functional all plastic quartz watch movements

* Fujian Wide Plus Precision Instrument Co., Ltd. is a wholly foreign owned enterprise.

17 AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amount will be repaid within twelve months from the end of the reporting period.

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2010	2009
	RMB'000	RMB'000
Raw materials and consumables	**29,046**	19,932
Work in progress	**3,002**	2,969
Finished goods	**6,414**	5,729
	38,462	28,630

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost of inventories sold (note 6(c))	**350,961**	323,762

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**281,936**	261,661	**–**	–
Less: Allowance for doubtful debts (note 19(b))	**(1,824)**	(3,655)	**–**	–
	280,112	258,006	**–**	–
Prepayments for inventories purchase	**–**	15,000	**–**	–
Prepaid listing expenses	**–**	13,463	**–**	13,463
Other prepayments, deposits and receivables	**4,157**	3,406	**175**	573
	4,157	31,869	**175**	14,036
	284,269	289,875	**175**	14,036

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year. The Group's credit policy is set out in note 29(a). The Group generally grants credit periods of 120 days to 150 days from the date of billing to its 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:

	The Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired (current)	**278,688**	240,823
Less than 1 month past due	**664**	–
1 to 3 months past due	**760**	8,463
More than 3 months but less than 12 months past due	**–**	8,720
Amounts past due	**1,424**	17,183
	280,112	258,006

19 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis (continued)

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.

(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)(i)).

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

	2010 **RMB'000**	2009 RMB'000
At 1 July 2009/2008	**3,655**	3,655
Write-back of impairment losses	**(3,655)**	—
Impairment loss recognised	**1,824**	—
At 30 June 2010/2009	**1,824**	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 RMB1,824,000 (2009: Nil) were recognised. 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 (2010:Nil) were assigned and charged in favour of a bank in the PRC as a security for loans of RMB5,997,000 (see note 22(a)).

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		**The Company**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Time deposits	**586,656**	—	**—**	—
Cash at bank and in hand	**782,961**	203,474	**86**	—
	1,369,617	203,474	**86**	—

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

	Note	**2010**	2009
		RMB'000	RMB'000
Profit before taxation		**271,364**	242,791
Adjustments for:			
— Depreciation	6(c)	**8,732**	7,424
— Amortisation	6(c)	**114**	—
— Finance costs	6(a)	**9,818**	5,775
— Interest income	5	**(8,414)**	(1,436)
— Equity-settled share based payment expenses	6(b)	**—**	22,605
— Listing expenses	6(c)	**13,323**	—
— Unrealised exchange differences		**(2,823)**	(261)
Operating profit before changes in working capital		**292,114**	276,898
(Increase)/decrease in inventories		**(9,832)**	4,725
Increase in trade and other receivables		**(7,631)**	(25,882)
(Decrease)/increase in trade and other payables		**(4,754)**	34,083
(Decrease)/increase in amount due to a shareholder		**(5,731)**	894
Increase in provision for warranty		**84**	410
Cash generated from operations		**264,250**	291,128

(c) As at 30 June 2010, cash and bank balances that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB1,359,287,000 (2009: RMB202,912,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**116,026**	115,280	**–**	–
Other payables and accruals	**43,428**	43,731	**1,579**	2,451
	159,454	159,011	**1,579**	2,451

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 120 days to 150 days.

	The Group	
	2010	2009
	RMB'000	RMB'000
Due within 1 month or on demand	**10,131**	17,187
Due after 1 month but within 3 months	**61,074**	74,394
Due after 3 months but within 6 months	**44,821**	23,699
	116,026	115,280

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

22 BANK LOANS

As at 30 June 2010, the bank loans were repayable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**–**	78,997
Representing:		
Secured bank loans (note (a)):		
— secured by trade receivables (note 19(c))	**–**	5,997
Unsecured bank loans (note (b)):		
— guaranteed by related parties (note 31(b)(ii)) and a third party	**–**	55,000
— others	**–**	18,000
	–	73,000
	–	78,997

22 BANK LOANS (continued)

(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:

	2010	2009
	RMB'000	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 year ended 30 June 2010. At 30 June 2010, no banking facilities are obtained by the Group.

23 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 holder of the CBs has 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.

23 CONVERTIBLE BONDS (continued)

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:

		The Group and the Company			
	Note	**Liability component**	**Derivative component**	**Equity component**	**Total**
		RMB'000	RMB'000	RMB'000	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 year	6(a)	11,386	—	—	11,386
Interest paid during the year		(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 30 June 2010		—	—	—	—

24 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.

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Provision for PRC Enterprise Income Tax	**11,921**	10,587

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

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

	The Group			
	Provisions	Accelerated tax depreciation	Undistributed profits of PRC subsidiary	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
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))	(187)	(181)	—	(368)
At 30 June 2010	2,489	(341)	(17,625)	(15,477)

	2010	2009
	RMB'000	RMB'000
Deferred tax assets recognised on the consolidated balance sheet	**2,489**	2,676
Deferred tax liabilities recognised on the consolidated balance sheet	**(17,966)**	(17,785)
	(15,477)	(15,109)

(c) Deferred tax not recognised:

At 30 June 2010, temporary differences relating to the undistributed profits of the Group's foreign-invested enterprise amounted to RMB606,472,000 (2009: RMB352,500,000). Deferred tax liabilities of RMB12,698,000 (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.

26 PROVISION FOR WARRANTY

	The Group 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	264
Provision utilised	(180)
At 30 June 2010	1,139

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.

27 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.

(Expressed in Renminbi Yuan unless otherwise indicated)

27 EQUITY COMPENSATION BENEFITS (continued)

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

(i) The terms and conditions of the options granted 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 director 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.

The pre-IPO share option scheme was terminated pursuant to a resolution passed in a meeting of the board of directors of the Company on 18 August 2009. No share option was granted to directors and employees during the year ended 30 June 2010.

(ii) The number and weighted average exercise prices of options are 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 2010	—	—
Exercisable at 30 June 2009 and 2010	—	—

(Expressed in Renminbi Yuan unless otherwise indicated)

27 EQUITY COMPENSATION BENEFITS (continued)

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

(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 granted.

(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 (vi) any adviser or consultant of any member of the Group or any Invested Entity to subscribe for the shares of the Company.

27 EQUITY COMPENSATION BENEFITS (continued)

(b) Share option scheme (continued)

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. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

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.

28 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital	Share premium	Capital reserve	Share-based compensation reserve	Exchange reserve	Accumulated losses	Total reserve
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2008	342	–	–	4,760	–	(7,454)	(2,352)
Changes in equity for the year							
Equity-settled share-based payments	–	–	–	22,605	–	–	22,605
Total comprehensive income for the year	–	–	–	–	(8)	206,296	206,288
Dividend declared and paid	–	–	–	–	–	(230,326)	(230,326)
Balance at 30 June 2009 and 1 July 2009	342	–	–	27,365	(8)	(31,484)	(3,785)
Changes in equity for the year							
Issuance of convertible bonds	–	–	2,018	–	–	–	2,018
Shares issued upon issuance of convertible bonds	1	–	–	–	–	–	1
Redemption of shares upon conversion of convertible bonds	(1)	–	–	–	–	–	(1)
Shares issued upon conversion of convertible bonds	78	223,383	(2,018)	–	–	–	221,443
Capitalisation issue	65,625	(65,625)	–	–	–	–	–
Shares issued under placing and public offering, net of share issuing expenses	25,315	893,028	–	–	–	–	918,343
Total comprehensive income for the year	–	–	–	–	(10,159)	(32,848)	(43,007)
Balance at 30 June 2010	91,360	1,050,786	–	27,365	(10,167)	(64,332)	1,095,012

28 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2010 RMB'000	2009 RMB'000
Interim dividend declared and paid during the year	–	230,326
Final dividend proposed after the balance sheet date of HK$0.05 (equivalent to approximately RMB0.0436) per ordinary share (2009: Nil)	45,256	—
	45,256	230,326

Interim dividend declared and paid during 2009 represents dividend declared prior to the listing of the Company. The rate of dividend per share is not presented for such dividend as it is not indicative of the rate at which future dividends will be declared.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(c) Authorised and issued share capital

Movements of the authorised share capital of the Company during the year are as follows:

	Note	Par value Class A shares HK$	 Class B shares HK$	Number of shares Class A shares '000	 Class B shares '000	Nominal value of ordinary shares HK$'000	 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 30 June 2010		0.1	—	10,000,000	—	1,000,000	880,500

28 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Authorised and issued share capital (continued)

A summary of the movements in the Company's issued share capital during the year 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
Issue of shares under placing and public offering	(ii)(d)	0.1	—	287,500	—	28,750	25,315
At 30 June 2010		0.1	—	1,037,500	—	103,750	91,360

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 and HK$502,000 was redesignated and reclassified into 5,000,000 Class A shares of HK$0.1 each and 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.

28 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Authorised and issued share capital (continued)

Notes: (continued)

(i) Authorised share capital (continued)

(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 issuance 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 HK$0.001 each.

(b) Issue of shares upon conversion of convertible bonds

As set out in note 23, 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 share 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 a 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 global initial 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 30 June 2010, 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.

28 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserve

(i) Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) 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).

(iii) 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.

(iv) 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 27.

(v) Other reserve

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

(vi) 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).

28 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserve (continued)

(vii) Distributable reserve

At 30 June 2010, the aggregate amount of reserves available for distribution to the equity shareholders of the Company, including the distributable amounts disclosed in note 28(d)(i), were RMB986,454,000 (2009: RMBNil). After the balance sheet date, the directors proposed a final dividend of HK$0.05 per ordinary share (2009: Nil), amounting to RMB45,256,000 (2009: Nil). This dividend has not been recognised as a liability at the balance sheet date.

(e) 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 30 June 2010 was RMB1,688,148,000 (2009: RMB375,762,000).

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.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, commodity price, supply and 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 days 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 8% (2009: 9%) and 32% and (2009: 35%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 30 June 2010.

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 56% of total cash and cash equivalents were deposited at one financial institution in the PRC (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.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (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 and the Company can be required to pay:

The Group

	2010			2009		
	Contractual undiscounted cash outflow			Contractual undiscounted cash outflow		
	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	**159,454**	**159,454**	**159,454**	159,011	159,011	159,011
Amount due to a shareholder	**–**	**–**	**–**	5,731	5,731	5,731
Amount due to a related party	**–**	**–**	**–**	20,413	20,413	20,413
	159,454	**159,454**	**159,454**	265,667	265,667	264,152

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

The Company

	2010			2009		
	Contractual undiscounted cash outflow			Contractual undiscounted cash outflow		
	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
Other payables	**1,579**	**1,579**	**1,579**	2,451	2,451	2,451
Amounts due to subsidiaries	**—**	**—**	**—**	11,825	11,825	11,825
Amount due to a related party	**—**	**—**	**—**	3,887	3,887	3,887
	1,579	**1,579**	**1,579**	18,163	18,163	18,163

(c) Interest rate risk

The interest rates and maturity information of the Group's bank loans are disclosed in note 22. 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.

(Expressed in Renminbi Yuan unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile

	The Group			
	2010		2009	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate instruments:				
Time deposits	**0.85%**	**586,656**	—	—
Variable rate instruments:				
Cash at bank	**0.35%**	**782,634**	0.36%	203,134
Bank loans	**—**	**—**	6%	(78,997)
		782,634		124,137
Total instruments		**1,369,290**		124,137

(ii) Sensitivity analysis

At 30 June 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately $12,134,000 (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 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.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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 and components in a timely manner and at a stable cost. During the year ended 30 June 2010, the Group's supplies of raw materials from the five largest suppliers represented 72% (2009: 73%) of the Group's total raw materials purchases.

(f) Currency risk

(i) 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 operations to which they relate.

The currencies giving rise to this risk are primarily United States dollars ("USD") and Hong Kong dollars ("HKD"). During the year, sales denominated in these foreign currencies represented 6% (2009: 10%) of the Group's total turnover. The Group does not employ any financial instruments for hedging its exposures to foreign currency risk.

(ii) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations 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 23, 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.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Currency risk (continued)

(iii) *Exposure to currency risk*

The following table details the Group's and the Company'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 entity to which they relate.

The Group

	Exposure to foreign currencies (expressed in Renminbi Yuan)			
	2010		2009	
	Hong Kong Dollars $'000	**United States Dollars $'000**	Hong Kong Dollars $'000	United States Dollars $'000
Trade and other receivables	**10,678**	**281**	27,008	3,913
Cash and cash equivalents	**130,864**	**241,942**	1,408	202
Bank loan	**—**	**—**	(5,998)	—
Trade and other payables	**(160)**	**(634)**	(2,631)	—
Amount due to a shareholder	**—**	**—**	(5,509)	—
Amount due to a related party	**—**	**—**	(20,118)	—
Overall exposure	**141,382**	**241,589**	(5,840)	4,115

The Company

	Exposure to foreign currencies (expressed in Renminbi Yuan)	
	2010	2009
	United States Dollars $'000	United States Dollars $'000
Cash and cash equivalents	**86**	—
Amounts due from subsidiaries	**355,486**	—
Overall exposure	**355,572**	—

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Currency risk (continued)

(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.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits
		RMB'000		RMB'000
HKD	**5%**	**6,009**	5%	(248)
	(5)%	**(6,009)**	(5)%	248
USD	**5%**	**13,342**	5%	175
	(5)%	**(13,342)**	(5)%	(175)

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 RMB 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 2009.

(g) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2010 and 2009. The amounts due to a related party and a shareholder as at 30 June 2009 are unsecured, interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose their fair values.

30 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating leases

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**1,894**	1,244
After 1 year but within 5 years	**4,970**	3,658
After 5 years	**7,677**	8,727
	14,541	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.

The Company had no operating lease commitments at 30 June 2010 and 2009.

(b) Capital commitments

Capital commitments outstanding at 30 June 2010 not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Contracted for	**201,015**	12,480
Authorised but not contracted for	**483,629**	184,127
	684,644	196,607

The Company had no capital commitments at 30 June 2010 and 2009.

31 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 30 June 2010, 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, 16, 17, 22 and 24, the Group entered into the following material related party transactions.

(a) Recurring transactions

	2010 **RMB'000**	2009 RMB'000
Transactions with a shareholder		
Lease of a property to the Group		
— Ms. He Yuzhu (Note)	**–**	36

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 her 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.

31 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring transactions

	2010 **RMB'000**	2009 RMB'000
Transactions with related parties		
Short-term advances to the Group		
— Wide Plus	**–**	8,286
Transactions with the shareholder		
Settlements of rental expenses on the Group's behalf		
— Mr. Wong Fun Chung (Note (i))	**872**	882

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 has been repaid during the year ended 30 June 2010.

(c) Balances with related parties

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

	The Group	
	2010 **RMB'000**	2009 RMB'000
Amount due to a shareholder of the Company		
— Mr. Wong Fun Chung	**–**	5,731
Amount due to a related party		
— Wide Plus	**–**	20,413

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

31 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:

	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**2,935**	1,827
Share-based payments	**—**	14,015
Contribution to retirement benefit schemes	**23**	29
	2,958	15,871

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

32 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 27 and 29 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 26, 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.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty (continued)

(b) Impairments of assets

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 of impairment loss and affect the Group's net asset value.

Allowance for impairment loss for 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 collectibility. 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 losses would affect the net profit in future years.

(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 the assets and their residual values, 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.

(Expressed in Renminbi Yuan unless otherwise indicated)

33 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. Further details of these developments are disclosed in note 3.

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

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

Financial Summary

RESULTS

	For the year ended 30 June			
	2007 RMB'000 (Note 1)	2008 RMB'000 (Note 1)	2009 RMB'000 (Note 1)	**2010** **RMB'000**
Turnover	479,251	600,904	620,003	**667,583**
Profit before taxation	200,219	238,997	242,791	**271,364**
Income tax expenses	(15,574)	(26,925)	(42,834)	**(43,706)**
Profit attributable to equity shareholders of the Company	184,645	212,072	199,957	**227,658**

ASSETS AND LIABILITIES

	At 30 June			
	2007 RMB'000 (Note 1)	2008 RMB'000 (Note 1)	2009 RMB'000 (Note 1)	**2010** **RMB'000**
Non-current assets	67,870	99,712	141,631	**231,536**
Current assets	320,260	489,029	521,979	**1,692,348**
Current liabilities	(126,053)	(204,907)	(275,794)	**(172,514)**
Net current assets	194,207	284,122	246,185	**1,519,834**
Total assets less current liabilities	262,077	383,834	387,816	**1,751,370**
Non-current liabilities	(3,808)	(5,767)	(17,785)	**(17,966)**
Total equity	258,269	378,067	370,031	**1,733,404**

Note:

1. The figures for the three years ended 30 June 2007, 2008 and 2009 have been extracted from the prospectus of the Company dated 2 November 2009.