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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3393)

**ANNOUNCEMENT OF THE INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

FINANCIAL HIGHLIGHTS

- Turnover amounted to RMB462.57 million (Period 2009: RMB411.66 million), representing an increase of 12%.
- Revenue from sales of three-phase electronic power meters amounted to RMB208.59 million and maintained at same level as compared with Period 2009.
- Revenue from sales of single-phase electronic power meters increased by 2% to RMB102 million as compared with Period 2009.
- Revenue from data collection terminals and power management systems products increased by 42% to RMB115.73 million as compared with Period 2009.
- Revenue from sales of water, gas and heat meters increased by 64% to RMB36.25 million as compared with Period 2009.
- Profit for the period amounted to RMB77.50 million (Period 2009: RMB73.34 million), representing an increase of 6%.
- Basic earnings per share for the period was RMB8.3 cents (Period 2009: RMB8.9 cents).
- The board of directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

The board of directors (the “Board”) of Wasion Group Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the “Group” or “Wasion Group”) for the six months ended 30 June 2010, together with the unaudited comparative figures for the corresponding period in 2009 (“Period 2009”), as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months ended 30 June	
		2010	2009
	<i>Notes</i>	RMB’000	RMB’000
		(unaudited)	(unaudited)
Turnover	3	462,565	411,657
Cost of sales		(268,888)	(225,330)
Gross profit		193,677	186,327
Other income		9,650	8,135
Other gains and losses		2,568	(357)
Administrative expenses		(46,233)	(45,736)
Selling expenses		(41,643)	(38,508)
Research and development expenses		(20,199)	(18,668)
Finance costs		(12,615)	(8,404)
Profit before taxation		85,205	82,789
Income tax expense	5	(7,709)	(9,451)
Profit for the period	6	77,496	73,338
Exchange differences arising on translation, representing other comprehensive (expense) income for the period		(1,228)	2,818
Total comprehensive income for the period		76,268	76,156
Earnings per share	8		
Basic		RMB8.3 cents	RMB8.9 cents
Diluted		RMB8.2 cents	RMB8.6 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2010

		At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
	Notes		
Non-current assets			
Property, plant and equipment		669,792	627,085
Deposit paid for acquisition of property, plant and equipment		3,355	3,355
Investment property		9,089	—
Prepaid lease payments		123,679	124,894
Intangible assets		250,081	251,912
Available-for-sale investments		12,961	4,961
Goodwill		110,326	110,326
		<u>1,179,283</u>	<u>1,122,533</u>
Current assets			
Inventories		406,220	327,423
Trade and other receivables	9	1,120,006	943,710
Amounts due from related parties		21,233	21,233
Prepaid lease payments		2,714	2,714
Pledged bank deposits		72,245	113,746
Bank balances and cash		309,600	644,668
		<u>1,932,018</u>	<u>2,053,494</u>
Current liabilities			
Trade and other payables	10	356,239	568,951
Amounts due to related parties		631	559
Tax liabilities		12,910	11,410
Borrowings — due within one year		457,485	250,210
		<u>827,265</u>	<u>831,130</u>
Net current assets		<u>1,104,753</u>	<u>1,222,364</u>
		<u>2,284,036</u>	<u>2,344,897</u>
Capital and reserves			
Share capital		9,405	9,427
Reserves		2,113,213	2,138,448
		<u>2,122,618</u>	<u>2,147,875</u>
Non-current liabilities			
Borrowings — due after one year		135,000	169,000
Deferred tax liability		26,418	28,022
		<u>161,418</u>	<u>197,022</u>
		<u>2,284,036</u>	<u>2,344,897</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009. In addition, the Group adopted the following new accounting policy during the period.

Investment property

Investment property is property held to earn rentals or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment property over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Reclassification from property, plant and equipment to investment property is made when there is a change in use, evidenced by the end of owner occupation. The carrying amount of the related property is transferred to investment property upon change of use.

Adoption of new and revised HKFRSs effective in the current period

In the current interim period, the Group has applied, for the first time, the following revised standards, amendments and interpretation (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2010:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) “*Business Combinations*” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “*Consolidated and Separate Financial Statements*” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The adoption of other new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

3. TURNOVER AND SEGMENT INFORMATION

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

- (a) electronic meters segment, which engages in the development, manufacture and sale of electronic power, water, gas and heat meters; and
- (b) data collection terminals and power management systems segment, which engages in the development, manufacture and sale of data collection terminals and power management systems.

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

For the six months ended 30 June 2010

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

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

For the six months ended 30 June 2009

	Electronic meters <i>RMB'000</i> (unaudited)	Data collection terminals and power management systems <i>RMB'000</i> (unaudited)	Segment total <i>RMB'000</i> (unaudited)	Elimination <i>RMB'000</i> (unaudited)	Consolidated <i>RMB'000</i> (unaudited)
TURNOVER					
External sales	330,236	81,421	411,657	—	411,657
Inter-segment sales*	—	3,643	3,643	(3,643)	—
Total	<u>330,236</u>	<u>85,064</u>	<u>415,300</u>	<u>(3,643)</u>	<u>411,657</u>
Segment profit	<u>71,607</u>	<u>24,062</u>	<u>95,669</u>	<u>—</u>	<u>95,669</u>
Unallocated income					5,537
Central administration costs					(10,013)
Finance costs					(8,404)
Profit before taxation					<u>82,789</u>

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

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

4. SEASONALITY OF OPERATIONS

The Group's operations are subject to seasonal fluctuations. The Group sees the second half of every year as its peak season of operations when demands for its products are significantly higher due to the increase of purchases by the power grid customers in the second half of the year. Accordingly, the interim result for the six months ended 30 June 2010 is not necessarily an indication of the operations of the Group that would be achieved for the year ending 31 December 2010.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax — The PRC Enterprise Income Tax ("EIT")		
— current period	10,008	9,569
— (over)underprovision in prior years	(695)	1,508
	9,313	11,077
Deferred tax credit — current period	(1,604)	(1,626)
Income tax expense	7,709	9,451

Notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax during each of the six months ended 30 June 2009 and 2010.

(ii) PRC

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

- (a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax concessions will expire between 2008 and 2010.
- (b) Certain PRC subsidiaries which are approved as enterprise that satisfied the condition as high technology development enterprises and obtained the Certificate of High New Technology Enterprise will continue to be subject to a preferential rate of 15%.

- (c) A PRC subsidiary which is approved as enterprise that satisfied the conditions as engaged in the development of software and integrated circuit businesses is exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. Such tax concession will expire in 2013.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2008] No. 39), the tax concession from EIT entitled as set out in (a) above continue to be applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the “New Law”). The preferential treatment set out in (b) above continues on the implementation of the New Law.

For entities which were entitled to unutilised tax holidays (including two-year exemption and three-year 50% reduction in the applicable tax rate) under the then existing preferential tax treatments, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. Certain PRC subsidiaries which are loss making up to 2008, respective tax holidays are therefore deemed to commence in 2008.

According to the Circular of the State Council on the Preferential Policies for Enterprise Income Tax (Caishui [2008] No. 1), the preferential treatment set out in (c) above continues on the implementation of the New Law.

(iii) Macau

The subsidiary in Macau established under the Macau Offshore law as a Macau offshore company has been exempted from Macau income tax during each of the six months ended 30 June 2009 and 2010.

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

6. PROFIT FOR THE PERIOD

Six months ended 30 June	
2010	2009
<i>RMB’000</i>	<i>RMB’000</i>
(unaudited)	(unaudited)

Profit for the period has been arrived at after charging
(crediting) the following items:

Depreciation of property, plant and equipment	15,157	10,672
Release of prepaid lease payments	1,215	1,100
Depreciation of investment property	91	—
Amortisation of intangible assets	26,701	24,225
Bank interest income	(2,539)	(1,260)
Dividend income from an available-for-sale investment	(3,416)	(4,535)
Exchange (gain) loss (included in other gains and losses)	(2,568)	357

7. DIVIDENDS

During the period, a cash dividend of HK\$0.11, equivalent to RMB0.097 (2009: HK\$0.11, equivalent to RMB0.097) per share was declared and paid to the shareholders as the final dividend for 2009.

The directors do not recommend the payment of an interim dividend for the period (2009: nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>77,496</u>	<u>73,338</u>
	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	929,870,774	826,594,922
Effects of dilutive potential ordinary shares in respect of:		
Share options	12,113,701	10,239,758
Contingently issuable shares for acquisition of subsidiaries issued in 2009	<u>—</u>	<u>18,493,858</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>941,984,475</u>	<u>855,328,538</u>

9. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 3 months to 12 months to its trade customers.

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

	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Trade and bills receivables:		
0–90 days	351,264	467,503
91–180 days	122,880	100,011
181–365 days	255,187	123,787
Over 1 year	<u>73,820</u>	<u>8,274</u>
	803,151	699,575
Retentions held by trade customers	74,755	67,216
Deposits, prepayments and other receivables	<u>242,100</u>	<u>176,919</u>
	<u>1,120,006</u>	<u>943,710</u>

As at 30 June 2010, value-added tax amounting to RMB77,941,000 is included in the balance of trade receivables (whereas the turnover is disclosed net of value-added tax).

10. TRADE AND OTHER PAYABLES

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

	At 30 June 2010 <i>RMB'000</i> (unaudited)	At 31 December 2009 <i>RMB'000</i> (audited)
Trade and bills payables:		
0–90 days	169,785	172,469
91–180 days	92,507	184,349
181–365 days	37,153	68,012
Over 1 year	1,079	52,856
	<u>300,524</u>	477,686
Other payables	55,715	91,265
	<u>356,239</u>	<u>568,951</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Smart grid is the latest movement in the development and transformation of the global power system nowadays, representing an important scientific and technological innovation of the power system and the development trend in the 21st century. The pilot programs of smart grids are being carried out widely and rapidly throughout the country as scheduled, such as distribution network automation projects for the smart power distribution and smart power consumption, grid connecting projects of distributed renewable energies, electric automobile charging station projects and intelligent residential district projects. The construction of the smart grid in China will move from the pilot stage to the full-scale construction stage in 2011, when the investment in the smart grid will be significantly increased with the total amount exceeding RMB4 trillion by 2020 in China, which will provide a large market to domestic power equipment manufacturing enterprises. Wasion Group will continue to rely on its edges on technological research and development and seek for innovative technologies to ensure that the Group can continuously launch more advanced technologies and products along with the new businesses in the power distribution and consumption via the smart grid. On the basis of continuing to lead the development of the smart meter field, the Group will continuously expand new products and new markets under the smart grid.

Advanced Metering Infrastructure (“AMI”) is the first step to the construction of the smart grid. In fact, the power consumption data collection system with smart meters as its core took the lead and entered into the full-scale construction stage at early 2010. The headquarters of the State Grid planned to undertake the four centralized procurement of smart meters in 2010, among which the two tenders

undertaken with respect to Shanghai, Chongqing, and Shenyang had been completed in the first half of the year with an aggregated volume of tender reached 26 million units. Although the large-scale centralized procurement put pressure on prices, it contributed to the consolidation of the industry, the massive production and the decrease in cost. Leveraging on the comprehensive strength in brand, technology, market, quality and scale, Wasion Group achieved great results in all the bids, and it is one of the few companies whose 11 types of smart meters have all passed the test of the State Grid and who were eligible for the bids, and is also one of the very few companies who ranked among the top of all the tendering companies in terms of the volume of each successful tender. In terms of accumulated tender value, the Group ranked the top in three-phase meters, the third in single-phase meters, and the second in the whole industry, which implied that the market share of the Group in single-phase meters was rapidly increased while maintaining its leading position in the three-phase meters market share through centralized procurement. Meanwhile, in the first half of the year, Wasion Group is the only enterprise that won bids of all the seven products of power meters and data collection terminals during the large-scale tender of Guangdong Power Grid, the biggest provincial company of China Southern Power Grid, which again indicated the leading position of the Group in the power field.

Benefited from the growing popularization of power consumption data collection system of the power companies, the demand of data collection terminals has been considerably increased. The State Grid has established unified technological standards for the power consumption data collection terminals which would be subject to unified tests. Relying on the strong capacity of research and development, Wasion Group rapidly developed a series of terminal products that met the new standards, and was one of the first companies that passed the tests of China Electric Power Research Institute, which helped it seize the business opportunities. In addition, due to the better understanding of the power companies towards the wireless communication technology, the application of micro-power wireless communication technology has been gradually increasing in the power consumption data collection system. The WILLFAR micro-power wireless communication technology developed by the Wasion Group has already fully mature and its pilot programs in places like Guangdong and Shandong have successfully passed the acceptance test while such technologies has been widely applied in Guangxi. The Group is one of the few enterprises that can independently master the wireless communication technology, and such edge will contribute to the competitive strengths of the Group in the power consumption data collection market.

To establish a water-saving society is an integral element in the establishment of a conservation-minded society, and the accurate measurement and the precise management of water resources have gradually come to the awareness of water supply companies and water consumption enterprises throughout the country. Along with the increase in the water prices and the promotion of escalating fee-charging scale for water pricing, on the one hand, more capital will become available for water supply enterprises for the procurement in the smart water metering equipment, and on the other hand, traditional water meters will not be able to meet the requirements of relevant policies on the pricing of water and will not be able to provide the technology support necessary for the water supply enterprises to change from traditional management mode to modern management mode. Wasion Group has put extra efforts in brand building, technology and product development as well as market exploration in the water meter market in the recent years such that the comprehensive and competitive strength of Wasion Group in the smart water metering field has become significantly stronger. On the one hand, Wasion Group has applied the

experience and expertise in providing mature integrated solutions in the power metering field to smart water metering, such as District Metering Area (DMA) and other high-end products and integrated solutions. On the other hand, Wasion has already established a marketing network that covers the whole country. All of such edges of the Group show that the Group will make a hit in the smart water metering field, and achieve rapid growth and become a leading enterprise in the smart water metering industry by leveraging on the most advanced technology and the leading position in the field.

Due to the continuous growth of the economy in China and the extension of the coverage of the West-East National Gas Transmission Project, the demand of gas is increasing, and its scope of application area is also widening. As the cost and the safety requirements of gas application are relatively high, and gas meters cannot be installed outdoors, smart gas meters are widely used in China. The market of gas meters, especially wireless smart gas meters with remote meter reading function and the gas meters with the function of prepayment, enjoys quite a promising prospect in future. Currently, the Group has been successfully selected as a qualified supplier of large gas companies, including Kunlun Gas, the largest gas group in China, and this helps the Group to lay a solid foundation for market exploration.

Heat meter is a new energy metering product market that rapidly grows in recent years. In accordance with the strict requirements of the policies and objectives in energy conservation in China, a charging mode where heat expenses are charged on family base will be applied in areas with strong demand on heat supply in Northern China and this results in a promising prospect for the heat metering product market. The Group actively explored the sales channels in the first half of the year and has now passed the sales qualification examinations of heat meters in many provinces, including Xinjiang, Jilin, Shandong, Inner Mongolia, Hebei and Liaoning, through which the Group will achieve a new breakthrough and progress in the heat metering products.

The State Council of the PRC issued the Opinions on Accelerating the Implementation of Energy Management Contracting to Promote the Development of Energy Saving Service Industry (《關於加快推行合同能源管理促進節能服務產業發展的意見》) on 2 April 2010, implying the dawn of a new era in which rapid growth in the domestic energy performance management business is evident. The State also promulgated a series of policies and documents thereafter on supporting the energy saving and emissions reduction and energy performance contract businesses, to further guide and carry out the implementation of the promotion of energy performance contract in China, and to eventually realize the objectives for energy saving and emissions reduction as stipulated in the “Eleventh Five-Year Plan” and other relevant objectives in the future. Wasion Group will seek for breakthroughs and innovation on energy saving services, energy saving products and energy saving programs in the energy management field on basis of “consumption reduction by management and energy conservation by technology”. First of all, by leveraging on the Energy Saving 120 service center founded by the Group, the Group conducted reviews and inspections in respect of energy performance to the users, further assisted them to draw up technological and management measures for energy saving and emissions reduction, and participated in the development of follow-up businesses of the users. Up until now, the Group has provided energy audit and energy conservation testing services for approximately 100 customers in this mode.

To consolidate the edges on social resources and promote the rapid development of the energy saving service industry, the MOF and the NDRC jointly issued the “Circular on Printing and Distributing the Interim Regulations on the Management of Financial Rewards for Energy Performance Contract” in June, which implied that the State would put more efforts to achieve a rapid development in the innovative business mode of Energy Performance Contract (EPC). The Group has paid special attention to the market opportunity that may arise from such policy and will develop its business of energy performance management mainly through the development of EPC business. Currently, the Group has successfully carried out two EPC pilot programs in two universities in Shanghai and Chongqing.

BUSINESS REVIEW

Domestic Markets

In terms of the domestic marketing, following the initiative of centralized procurement undertaken by the State Grid, the Group focused its efforts on developing power retail and non-power industry markets. In the first half of 2010, the Group effectively seized the opportunities in the power retail market. Meanwhile, the Group has also made significant growth in smart water and gas metering markets, and gained a great breakthrough in the heat metering market and the EPC pilot programs. Facing up to fierce competitions in the market, the Group still enjoys strong competitive edges in its brand and overall capabilities. In the tenders for several centralized procurements of the State Grid in the first half of the year, the Group has ranked in the front of all the tendering companies in terms of tender value every time and the total tender value reaching RMB450 million. 20% of the tenders with respect to three-phase power meters was successful, making the Company the top in the market share, leading the second by two times.

Electronic Power Meters

During the period under review, sales of electronic power meters remained the major source of revenue of the Group. For the six months ended 30 June 2010, turnover from sales of three-phase electronic power meters amounted to RMB208.59 million, maintaining at the same level with the corresponding period last year while the turnover from sales of single-phase electronic power meters amounted to RMB102 million, representing an increase of 2% as compared with the corresponding period last year, and contributed to 45% and 22% (corresponding period in 2009: 51% and 24%) of the Group’s total turnover respectively.

Data Collection Terminals and Power Management Systems

In the first half of 2010, revenue from sales of data collection terminals and power management systems amounted to RMB115.73 million, representing an increase of 42% as compared with the corresponding period last year, and accounted for 25% (corresponding period in 2009: 20%) of the Group’s total turnover.

Water, Gas and Heat Meters

In the first half of 2010, revenue from sales of water, gas and heat meters amounted to RMB36.25 million, representing an increase of 64% as compared with the corresponding period last year and accounted for 8% of the Group's total turnover.

Energy saving and pollutants discharged reduction service

In 2010, the Group further stipulated specific development objectives of energy saving services, energy saving products and energy saving programs in the corporate energy management field in accordance with the requirements of the national policies on the fields of energy saving and emissions reduction, energy saving on architecture and energy performance contracting. The Group promoted its brand of energy performance management on the basis of energy saving services, improved the technological characteristics and competitiveness of its core energy saving products, and promoted the application of its energy performance management in a mode where energy saving programs are integrated with EPC, among which, the Group successfully carried out two EPC pilot programs in two universities in Shanghai and Chongqing in the first half of the year.

International Markets

In terms of international businesses, the Group has established branches in Singapore and Shenzhen to put more efforts on the exploration of the markets in Southeast Asia and America with some new markets explored during the period, including Nepal, Malaysia, the Philippines, Vietnam, Central America, New Zealand, Chile and Uruguay. In addition, the cooperation projects on AMI technology in United States and Japan are under smooth development, and once the pilot tests and the pilot sale are completed, the market competitiveness and the development prospect of the Group's AMI will be considerably improved. The international market and the research and development team established in Shenzhen and its partners have developed products that are targeted at the South American market and some products have been delivered to the power companies in South America for testing and evaluation. Meanwhile, the Group has established a research and development team to be responsible for the communication and the smart water meter sectors in the international market, in order to initiate the research on the solutions of smart grids and smart water meters, and some of the technologies have begun to be applied in international pilot programs. The keypad power meters and systems individually developed by the Group have fully passed the STS international certification, and the ANSI products have also passed relevant American certifications, which has laid a solid foundation for its next step to explore the international markets.

Research and Development

In face of the great market opportunities arising from energy conservation and emissions reduction, the Group furthered its efforts in the research and development of new products and new technologies in the energy performance management field in the first half of the year, to further seek for the innovation and breakthrough in the business mode of energy saving and emissions reduction. With the efforts made by the Group in such aspect, the Group was awarded as the “Enterprise with the Greatest Developing Potential in the Energy Saving and Emissions Reduction Industry in China” and the “National Energy Saving Contribution Awards”, which, on one hand, demonstrated that the Group was fully recognized by the relevant departments of the country for its efforts and capability in the field, and, on the other hand, further strengthened the competitiveness of the Group in the field.

Entry into a Strategic Cooperation Framework Agreement with Siemens

The Group entered into a strategic cooperation framework agreement with Siemens Ltd., China (“Siemens”) in May 2010 to conduct research on the feasibility of undertaking the smart grid pilot projects together in China. Pursuant to the terms of the Cooperation Agreement, Wasion Group and Siemens will establish a joint strategic cooperation team to conduct feasibility researches in the areas including smart consumption of electricity, smart home, smart transmission and smart distribution of electricity for the China market. Currently, both parties have established mechanism for normal contact and communication on the basis of the framework agreement and have had various exchanges and have now initially determined several business scopes and projects for further discussion and cooperation.

FINANCIAL REVIEW

Turnover

During the period under review, turnover increased by 12% to RMB462.57 million (Period 2009: RMB411.66 million).

Gross Profit

The Group’s gross profit increased by 4% to RMB193.68 million for the six months ended 30 June 2010. The overall gross profit margin has been dropped from 45% in Period 2009 to 42% in the first half of 2010.

Other Income

The other income of the Group amounted to RMB9.65 million (Period 2009: RMB8.14 million) which was mainly comprised of bank interest income, dividend income and government subsidy.

Operating Expenses

In the first half of 2010, the Group's operating expenses amounted to RMB108.08 million (Period 2009: RMB102.91 million). The increase in operating expenses was mainly due to the increase in selling expenses, depreciation of production plant and expenditure on research and development. Operating expenses accounted for 23% of the Group's turnover in the first half of 2010, representing a decrease of 2% as compared with 25% in the first half of 2009.

Finance Costs

For the six months ended 30 June 2010, the Group's finance costs amounted to RMB12.62 million (Period 2009: RMB8.40 million). The increase was attributable to the reduction of interest on borrowings capitalised upon the completion of the construction of new production plant.

Operating Profit

Earnings before finance costs and tax for the six months ended 30 June, 2010 amounted to RMB97.82 million (Period 2009: RMB91.19 million), representing an increase of 7% as compared with the same period last year.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2010 grew by 6% to RMB77.50 million as compared with the corresponding period of last year.

Capital Structure

For the six months ended 30 June 2010, certain employees have exercised 100,000 share options at an exercise price of HK\$2.225 and 100,000 share options at an exercise price of HK\$3.200 under which the issued and fully paid share capital of the Company has been increase by HK\$2,000.

Liquidity and Financial Resources

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

As at 30 June 2010, the Group's current assets amounted to approximately RMB1,932.02 million (31 December 2009: RMB2,053.49 million), with cash and cash equivalents totaling approximately RMB309.60 million (31 December 2009: RMB644.67 million).

As at 30 June 2010, the Group's total bank loans amounted to approximately RMB592.49 million (31 December 2009: RMB419.21 million), of which RMB457.49 million (31 December 2009: RMB250.21 million) will be due to repay within one year and the remaining RMB135 million (31 December 2009: RMB169 million) will be due in the next three years. Net book value of the Group's pledged assets for the bank loans was approximately RMB261.16 million (31 December 2009: RMB237.27 million). In the first half of 2010, the interest rate for the Group's bank borrowings ranged from 1.10% to 5.84% per annum (Period 2009: 2.98% to 8.22% per annum).

The gearing ratio (total borrowings divided by total assets) increase from 13% on 31 December 2009 to 19% on 30 June 2010 as a result of increase in the Group's bank borrowings.

Exchange Rate Risk

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

Charge on Assets

As at 30 June 2010, the pledge deposits are denominated in Renminbi and Hong Kong dollars and are pledged to banks as security for certain loans and bills facilities granted to the Group. In addition, certain of the Group's land and buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 30 June 2010, the capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated balance sheet amounted to RMB15.63 million (31 December 2009: RMB94.98 million).

Contingent Liabilities

As at 30 June 2010, the Group had no material contingent liabilities.

PROSPECT

According to the requirements of the State Grid on the progress of the power consumption data collection system, the installation of all the terminals of special transformers shall be completed within the year and the coverage rate of centralised meter reading shall reach 15% with the annual modification rate for the coming two years be all over 20%. As such, the Group anticipates that, in the second half of the year and in the coming few years, the domestic demand for the markets of smart power meters and data collection terminals will remain strong, from which it will be benefited by leveraging on its leading position in the power metering field.

Due to the strong domestic market demand for energy saving and emissions reduction and the strong support of the national policies on energy saving and emissions reduction, the prospect of water, gas, heat metering businesses of the Group is promising. The Group will take full advantage of the market opportunities resulted from the price reform of energy products and resource products in China such as water, gas and heat, actively participate in the construction of smart energy network stipulated in the “Twelfth Five-Year Plan”, and put extra efforts in the development of water, gas and heat metering business to make them the new breakthroughs in the development of the Group.

In the aspect of energy performance management business, the Group has raised the energy performance management business to a higher strategic profile, implying that, for the present and a period of time in the future, the Group will simultaneously focus on the development of the energy metering and the energy performance management businesses. However, the Group will eventually be developed from a supplier that mainly focuses on the provision of energy metering products into a service provider that mainly focuses on the provision of energy performance management. Meanwhile, in terms of the market, the Group has formulated a new strategy with three focuses, namely in the power industry market, the non-power industry market and the international market. In terms of resource allocation, the Group has provided more support to the energy performance management business in the non-power industry market, and formulated a series of measures and solutions. It is expected that the energy performance contract business of the Group will achieve new breakthroughs.

The focus of the Group in the second half of the year includes the following aspects:

- (1) In terms of the exploration of external markets, for the domestic market, the Group needs to maintain its leading position in terms of the market share in the centralized procurements of the State Grid and consolidate and strengthen the development of the power retailing business. Meanwhile, it will focus on the business development of the non-power industry market, adjust the structure of the sales resources and the business development mode, and put more efforts in major industries and customers in all districts to lay a foundation for a rapid business growth, promote the development of energy metering businesses, including water, gas and heat meters, and strongly drive the development of energy saving services and the energy performance management business through further innovating business modes. In terms of international markets, the Group will put more efforts to carry out market researches and extend the market network, make sufficient surveys of the product demands in a timely manner, and strengthen the cultivation of its technological force.
- (2) For the Group itself, it will focus on the improvement of production efficiency, the reduction of product costs and the control of product quality. With the efforts on the innovation of product technology, the improvement of production technique, the quality assurance and control and the optimization of processes, the Group aims to improve the overall operating capacity and the efficiency of the Group for ensuring its compliance with the requirements of the State Grid on the intensive delivery schedule in the second half of the year. At the same time, the Group will actively promote the cooperation with other entities in the spirit of complementing each other's strengths and achieving mutual success. It will also speed up the large-scale development and the development in new business fields of the Group to capture the valued market opportunities.

We will spare no effort to complete such tasks in the second half of the year and overcome any difficulties that may occur with the strongest capacity and knowledge, steady faith, scientific attitude, and powerful and effective solutions. We will also try the best to accomplish the operating objectives of the Group for the second half of the year with a high degree of responsibility and crisis awareness and the determination and courage to make the impossible possible.

Looking into the future, we are facing huge business opportunities provided by the initiatives on global energy saving and emissions reduction. With the huge domestic and international demand and opportunities, the Group will adhere to the operating theory of “Perfect work with Passion, and Success achieved with Integrity” and the corporate mission of becoming an “Energy Metering and Energy Saving Expert” and leverage on our most sophisticated research and development and production base of energy metering products, Wasion Science and Technology Park, and innovative technology and management, to continuously provide the markets and the customers with high quality products and services with a view to realizing the strategic objective of focusing on three markets, namely the domestic power industry market, the domestic non-power industry market and the international market in the coming three to five years, to progress towards the goal of “Continual Innovation Contributing to Wasion’s Centennial History”.

OTHER INFORMATION

Employees and Remuneration Policies

As at 30 June 2010, the Group had 2,790 (31 December 2009: 2,991) staff. Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The Company has also adopted a share option scheme to recognize and acknowledge the contributions made or will be made to the Group by the eligible participants.

Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2010, the Company has repurchased its listed shares on the Stock Exchange and the details are as below:

Month of repurchase	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Total Consideration Paid <i>HK\$</i>
January 2010	1,500,000	5.30	5.08	7,820,280
June 2010	1,288,000	4.65	4.45	5,845,300
	<u>2,788,000</u>			<u>13,665,580</u>

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the six months ended 30 June 2010.

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

In the opinion of the Board, the Company has been in compliance throughout the six months ended 30 June 2010 with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Board acknowledges its responsibility for the Group’s systems of internal controls and has assumed this responsibility through formalizing the Group’s financial and legal procedures.

Model Code for Securities Transactions

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

Specific enquiry has been made with all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2010.

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

AUDIT COMMITTEE

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

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

The interim results of the Group for the six months ended 30 June 2010 have been reviewed by the auditors of the Company, Deloitte Touche Tohmatsu, and the Audit Committee.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

The electronic version of this announcement will be published on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.wasion.com. An interim report for the six months ended 30 June 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange and the Company in due course.

As at the date of this announcement, the directors are:

Executive Directors

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

Independent non-executive Directors

Wu Jin Ming
Pan Yuan
Hui Wing Kuen

By order of the Board
Wasion Group Holdings Limited
Ji Wei
Chairman

Hong Kong, 24 August 2010