Wasion Meters Group Limited

威勝儀表集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 3393)

07 *Annual Report*

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Choi Wai Lung Edward FCCA, FHKSA

AUTHORISED REPRESENTATIVES

Mr. Ji Wei
Mr. Choi Wai Lung Edward FCCA, FHKSA

AUDIT COMMITTEE

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

PRINCIPAL BANKERS

In Hong Kong:

Bank of Communications Hong Kong Branch
Bank of China

In the People's Republic of China (the "PRC"):

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Bank of Communications

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COMPANY WEBSITE

www.wasion.com
www.irasia.com/listco/hk/wasion/index.htm

STOCK CODE

3393

Corporate Profile

LEADING POWER MEASUREMENT AND MANAGEMENT PROVIDERS

Wasion Meters Group Limited (the “Company” or “Wasion Group”) (stock code: 3393) and its subsidiaries (collectively, the “Group”) are leading power solution providers in the PRC specialized in the provision of electronic power meters and power management systems. Its products are widely applied for the measurement and management of power generation, transmission, distribution and usage.

The “” brand is one of most renowned brands of three-phrase electronic power meters in the PRC. In addition, the Group and its products have received numerous awards, certificates and accolades for their superior quality and reputation over the years, including Logo Certificate for Products Adopting International Standards (採用國際標準產品標誌證書), Postdoctoral Research Station (博士後科研工作站) and the Certificate for High and New Technology Enterprise (高新技術企業認定證書). In September 2006, the “” brand power meters were appraised as “China’s Famous Products” by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC. In December 2007, the Group became the first company that acquired DLMS/COSEM certification in the PRC, which entitled the Group the qualification of issuing third-party testing certificate to other PRC products, which further recognised the Group’s leading position in the industry.

Chairman's Statement

To All Shareholders

On behalf of Wasion Meters Group Limited ("Wasion Group" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

In recent years, the PRC government adopted policies to further expand the scale of infrastructure construction, stimulate domestic demands and generate economic growth and put in substantial investment into the construction and modification of power grids in cities and villages. Such development presented the electronic devices and meters industry with golden opportunity. A growing trend in the market demand of electronic devices and meters products has been witnessed and the Group, riding the wave of growing demand, has scored encouraging results in both domestic and global market. For the year ended 31 December 2007, the Group's turnover amounted to RMB808.51 million, representing an increase of 35% as compared to 2006. The profit attributable to equity shareholders of the Company increased by 40% to RMB212.90 million. The board of directors proposed a final dividend of HK$0.090 (equivalent to RMB0.084) per share for the year ended 31 December 2007.

Wasion Group aims at achieving rapid growth and establishing the corporate profile as a market leader in the meter industry with state-of-the art technology and global exposure with its trailblazing technology and disciplined development. In expanding market, the Group adopts the strategy of manifesting the edge of both domestic and international technologies and expands the markets at a synchronized pace. The Group has distinguished itself as the provider for the quality product with its highly accurate and multi-functional three-phase electronic power

Chairman's Statement

meters. The data collection terminal has maintained its leading position in the course of development over the past few years. In addition, the Group has also attained a high speed of development with respect to its single-phase electronic power meters. The quality and technology of the Group have been leveled at international standards, as evidenced by the fact that the Group advocated and acquired the ISO9001 Quality Management System Certification, ISO10012 Survey Management System Certification, ISO14000(14001) Environmental Management System Certification, DLMS and the CQC Mark Certification by the China Quality Certification Centre, and also obtained the KEMA Certificate. The certification of CMM certificate, indicating the ability of software development, has been conducted.

The Group successfully acquired Hunan Weike Power Meter Co., Ltd. (湖南威科電力儀表有限公司) in May 2007 and integrated the single-phase meters business into the listed company. Such integration not only enhanced the Group's profitability and the room for development, but also realized the Group's development strategy of realizing the goal for becoming the market leader through taking the lead in technology and quality and expanding its scale of operation. The Group was successfully listed in the Main Board of the Stock Exchange in 2005 and has funded the construction of Wasion Science and Technology Park (威勝科技園) in Lugu National Science and Technology Development Zone since 2006. All these laid a solid foundation for the Group's further development with its providing a brand new platform.

Saving energy and reducing emission have become a major concern in economic development. The traditional growth supported by high consumption, pollution and emission has lost its impetus. The impact of saving energy and reducing emission in all aspects of economy in the entire country has become overwhelming. The more encouraging development is the convergence of city group of Changsha-Zhuzhou-Xiangtan in Hunan Province (湖南省長株潭城市群一體化) was approved as the "Trial area for the reform of the country, integrative facilities" (全國綜合配套改革試驗區) and was recognized as a society which advocates environmental protection and energy saving. Wasion Group is a typical enterprise that advocates the two ideologies in the Trial area for the reform in Changsha-Zhuzhou-Xiangtan (長株潭改革實驗區). The Group, being one of the largest research, development and manufacturing base for energy measurement products as well as a leading provider for energy measurement equipment, system and service in the PRC, should contribute to the society and fully realize its value. The Group embarked on research and development projects led by Post Doctorals and experienced experts with respect to the comprehensive solution for management for consumption reduction and energy conservation under target research and development. Such solution would help the end users in the industrial and commercial sectors to achieve the goal of saving energy and reduce emission effectively.

On behalf of the Board, I would like to express my heartfelt gratitude to all shareholders and our staff. Looking forward to the coming year, the Group will reward our shareholders for their support with out outstanding results, under the concerted effort of our staff.

Ji Wei
Chairman

Hong Kong, 7 April 2008

Management Discussion and Analysis

FINANCIAL REVIEW

Financial Highlights

	2007	2006
	RMB'000	RMB'000
Turnover	**808,510**	600,429
Gross profit	**383,366**	277,278
Profit for the year	**212,896**	151,736
Total assets	**1,924,994**	929,613
Shareholders' equity	**1,223,278**	585,876
Basic earnings per share (RMB)	**0.29**	0.22
Diluted earnings per share (RMB)	**0.28**	0.21

Key Financial Figures

	2007	2006
Gross profit margin	**47%**	46%
Operating profit margin	**31%**	28%
Net profit margin	**26%**	25%
Return on equity	**17%**	26%
Current ratio	**2.24**	2.13
Quick ratio	**2.00**	1.82
Inventory turnover period (Days)	**129**	120
Trade receivable turnover period (Days)	**246**	180
Trade payable turnover period (Days)	**189**	142
Gearing ratio	**13%**	18%
Interest coverage (Profit from operations divided by finance costs)	**14.58**	17.68

Despite keen market competition, the Group achieved remarkable results in 2007. During the year, the Group recorded satisfactory growth in turnover and profit. Turnover amounted to approximately RMB808.51 million (2006: RMB600.43 million), representing an increase of 35%. Profit for the year was approximately RMB212.90 million (2006: RMB151.74 million), representing an increase of 40%.

Management Discussion and Analysis

Five Year Financial Summary

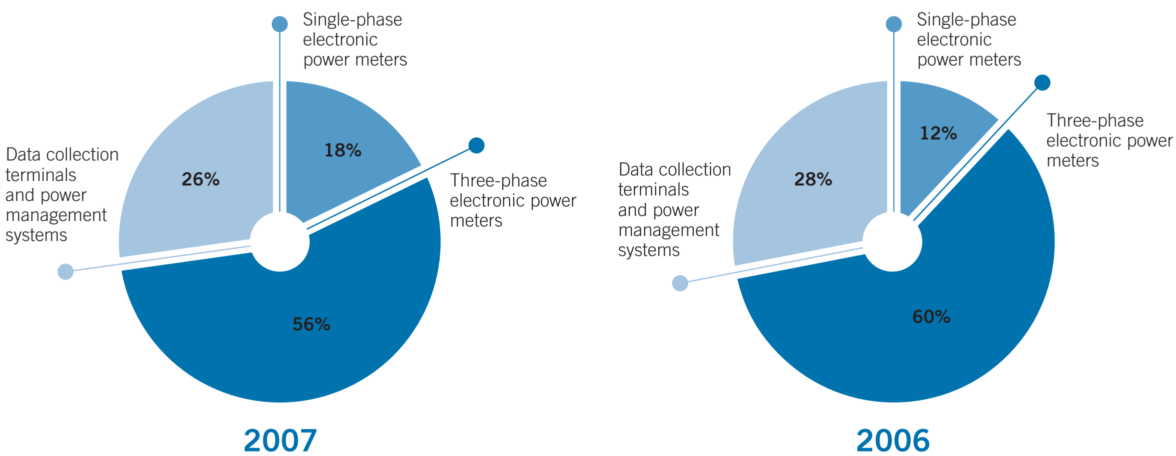
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year attributable to equity shareholders of the Company	**212,896**	151,736	115,972	82,435	63,917
Total assets	**1,924,994**	929,613	744,195	437,057	503,870
Total liabilities	**701,716**	343,737	272,609	267,944	372,449
Minority interest	**—**	—	—	—	16,990
Shareholders' equity	**1,223,278**	585,876	471,586	169,113	114,431

Turnover

By business segments

Revenue from our three-phase electronic power meters and single-phase electronic power meters business increased by 27% and 94% respectively to RMB456.19 million and RMB142.33 million respectively as compared with 2006. In addition, the turnover from data collection terminals and power management systems for 2007 has been increased by 26% to RMB209.99 million as compared with last year.

Turnover Breakdown by Business Segments



Management Discussion and Analysis

Gross Profit

The robust sales growth in 2007 drove the growth of gross profit. The Group's gross profit increased by 38% to RMB383.37 million for the year ended 31 December 2007. The overall gross profit margin increased from 46% in 2006 to 47% in 2007 which was mainly attributable to the enhancement of internal management resulted in cost reduction and increase in profit margin of single-phase electronic power meters.

Operating Expenses

In 2007, the Group's operating expenses amounted to RMB156.87 million (2006: RMB116.52 million). The increase in operating expenses was mainly due to the expansion of the Group's operation and the inclusion of equity-settled share-based payment expenses of RMB17.24 million in 2007 (2006: RMB11.73 million). Operating expenses accounted for 19% of the Group's turnover in 2007. Which is similar to that for 2006.

Operating Profit

Following the rapid growth in turnover, earnings before finance costs and tax for 2007 amounted to RMB250.58 million (2006: RMB167.94 million), representing an increase of 49% from 2006. Operating profit margin has been increased from 28% in 2006 to 31% in 2007.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2007 grew by 40% to RMB212.90 million as compared with last year which came in line with the growth of the Group's turnover.

Capital Structure

On 24 September 2007, an aggregate of 112,680,000 ordinary shares were placed by the Company to independent investors at a placing price of HK$4.56 per share. As a result, the Company's issued shares increased from 704,247,787 shares to 816,927,787 shares. The net proceeds from the placement after deducting the commission and expenses of the placement payable by the Company amounted to approximately HK$499 million will be used for acquisition of industry peers in the PRC and overseas, additional investment in the new production plant, developing overseas distribution network, investment in energy measurement and management business and general working capital purposes.

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.

Management Discussion and Analysis

As at 31 December 2007, the Group's current assets amounted to approximately RMB1,426.42 million (2006: RMB729.82 million), with cash and cash equivalents totaling approximately RMB508.74 million (2006: RMB158.18 million).

As at 31 December 2007, the Group's total bank loans amounted to approximately RMB250.79 million (2006: RMB163.70 million), of which approximately RMB208.79 million (2006: RMB163.70 million) will be due to repay within one year and the remaining approximately RMB42 million (2006: nil) will be due in the next two years. Net book value of the Group's pledged assets for the bank loans was approximately RMB138.44 million (2006: RMB123.28 million). In 2007, the interest rate for the Group's bank borrowings ranged from 5.02% to 8.96% (2006: 5.02% to 6.73%) per annum.

The gearing ratio (total borrowings divided by total assets) decreased from 18% in 2006 to 13% in 2007.

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 year did not have any adverse effect on the Group's results. During the year, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Emolument Policy And Option Schemes

As at 31 December 2007, the Group had 1,886 staff (2006: 1,294 staff). The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB74.81 million in 2007 (2006: RMB56.60 million). Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB9.06 million in 2007 (2006: RMB8.27 million).

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

The Company has established a share option scheme to recognise and acknowledge the contributions made or will be made to the Group by the eligible participants. The purpose of the scheme is to encourage the eligible participants to continue their contribution. The eligible participants include any full-time or part-time employees, executives, officers, directors (including executive, non-executive and independent non-executive directors), advisers, consultants, suppliers and agents of the Company or any of its subsidiaries or invested entities, and any person who, in the opinion of the board of directors of the Company, will contribute to the Group or have done so.

Management Discussion and Analysis

Significant Investments, Acquisitions and Disposals

On 14 May 2007, the Company has passed a resolution in an extraordinary general meeting to acquire the entire issued share capital of Sinowise Industries Limited ("Sinowise") at a total consideration of RMB210 million . The main assets of Sinowise is its equity interest in Hunan Weike Power Meter Co., Ltd. ("Hunan Weike") which is principally engaged in the production and sale of single-phase electronic power meters.

Save as disclosed above, there was no significant investment during the year under review.

Capital Commitments

As at 31 December 2007, the capital commitments authorised but not contracted for and contracted for but not provided in the financial statements by the Group amounted to RMB215.79 million (2006: RMB122.80 million) and RMB100.20 million (2006: RMB2.16 million) respectively, representing commitments for the purchase of property, plant and equipment and the construction cost of the new production plant.

Contingent Liabilities

As at 31 December 2007, the Group had no material contingent liabilities.

MARKET REVIEW

During the course of the Eleventh Five-Year Plan, the power demand of the country shall have an annual growth of 9%, while the investment in construction of power grids shall exceed RMB1,000 billion, among which 6% to 8% will be allocated to procurement of power meters and automated power measurement systems and terminals. 2007 was the year in which bustling construction activities of power grids were witnessed and in which the investment in power grids exceeded that of in power sources where an annual average growth rate of over 10% was maintained. The Group's products are the indispensable elements of power grids construction and will be benefited from the favorable development brought by power grids construction.

Under the Eleventh Five-Year Plan, the major application departments at the provincial and municipalities level have placed higher emphasis and shown more support to the meters industry and this was reflected in initiation of more projects and the speeding up of projects tenders and approval by the National Development and Reform Commission and the Ministry of Science and Technology of the PRC. Meanwhile, a number of provinces and cities also proposed to attract investment in the meters industry and the ministries of power and petrochemical have also planned to extend the investment in automatic meters and control systems. State Power Grids further its efforts in speeding up the development of upgrading the technology of power grids, which in turn drove the demand for electronic power meters, data collection terminals and power management systems.

Management Discussion and Analysis

Currently, power automation products are mainly applied in automatic meter reading, power and charges measurement and load control and the application of which will gradually be extended to the monitor of power distribution and transformation, the quality control of power and the management of comprehensive information of power consumption to satisfy new requirements for multi-functions. State Power Grids also issued the Guidance for the Acceleration of Modernized Construction with respect to Power Sales (《關於加快電力行銷現代化建設指導意見》) which required power grids at all levels to establish the power collection platform for users with high consumption for 315kVA prior to 2007, to establish power demand side management system and to establish the power collection and monitoring platform for terminal side with 50kVA or above prior to 2010. Taking into account the number users with significant consumption and the number of transformers with 50 kVA, it is expected that the market value of power management system for the next 5 years will be approximately RMB 8 billion, and the potential for development of the market remains enormous. The ten-odd production enterprises which engage in power usage automation, and the Group being one of them, are not capable of satisfying the market demand arising from the national wide application of power management system and hence the market enjoys a strong potential for development.

All the provinces and municipalities have, to a different degree, adopted the power management system but the projects of such scale have to be launched in different phases. Provinces such as Zhejiang, Guangdong and Sichuan, though already took the lead in the adoption of power management system, can only monitor the power consumption of users with higher consumption, representing a huge gap for full coverage. The investment for the demand side management of the country has just commenced and the market will maintain its growth momentum before 2010.

BUSINESS REVIEW

Electronic Power Meters

In the year under review, sales of electronic power meters remained the major source of revenue of the Group. In May 2007, the Group has successfully acquired Hunan Weike which is engaged in the production and sale of single-phase electronic power meters. This allows the Group to capture the higher profit margin associated with the single-phase electronic power meters and enlarge its turnover and profit in view of the increase in demand of single-phase electronic power meters. Turnover from sales of three-phase electronic power meters and single-phase electronic power meters for the year ended 31 December 2007 amounted to RMB456.19 million and RMB142.33 million, representing an increase of 27% and 94% respectively as compared with last year and contributed to 56% and 18% of the Group's turnover respectively (2006: 60% and 12% respectively).

Management Discussion and Analysis

Data Collection Terminals and Power Management Systems

Through the collection and analysis of usage information of distribution transformers and end users, power management system fulfilled the goals of usage monitoring, management of load, wastage analysis and the ultimate goal of automatic meter reading, electricity suspension, usage inspection, load forecast and cost saving. With the reform of the national power system and the implementation of power demand side management, there would be an imminent demand for power management of power operating companies and thus the demand for power management equipment would keep growing. In 2007, revenue from sales of data collection terminals and power management systems increased to RMB209.99 million, representing an increase of 26% as compared with last year and accounted for 26% (2006: 28%) of the Group's turnover.

Production Base

As at 31 December 2007, the Group had 764 production staff (2006: 487). The Group's production plant located at the High Technology Industrial Zone of Changsha City, Hunan Province has annual production capacity of 600,000 units of three-phase electronic power meters, 2,000,000 units of single-phase electronic power meters and 80,000 units of data collection terminals in 2007. During the year, the Group's production capacity was near saturation, especially during peak seasons. Therefore the Group will better allocate existing resources and acquire additional machinery and equipment to progressively increase the annual production capacity. Besides, the Group has purchased a piece of land in Lugu National Science and Technology Development Zone located in Changsha City, Hunan Province last year with its foundation stone laid on 27 December 2006. This land has an area of approximately 120,000 square meters on which six production lines will be built. The production capacity of three-phase electronic power meters, single-phase electronic power meters and data collection terminals will then be increased to 1,200,000 units, 4,000,000 units and 200,000 units respectively by 2009.

Branding and Marketing

After years of efforts devoted by the Group, “” has become one of the leading brands for three-phase electronic power meters in the PRC. Being able to offer sophisticated products of top quality, the Group has established long-term solid relationship with its customers. In September 2006, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China appraised “” brand power meters as “China's Famous Products” and the Group was the only high technology electronics manufacturing enterprise in Hunan Province which received this award. This honor represents the recognition of the Group's leading position in the industry.

The Group has an extensive sales network covering all the major provinces and municipalities in the PRC. In addition, it has established stable and healthy cooperative relationships with local grids and electricity suppliers. As at 31 December 2007, the Group had 300 sales and marketing staff (2006: 227) and provided real time sales and after-sales services to its customers through its sales network across the PRC.

Management Discussion and Analysis

Export Markets

The Group vigorously expanded the international market. In July 2007, the Group set up the Changsha Weisheng Import and Export Trading Company Limited which was fully responsible for the expansion, sales and service for overseas markets of the Group. Currently, the major markets are Africa and Southeast Asia and the Group has already established relatively stable sales channels in Egypt and Indonesia with a view to extending its coverage from Egypt to the whole Africa and the Middle East.

During the year, the Group also rigorously expanded the overseas market and established sales network in the U.S., Burma, Singapore and Hong Kong. In order to further relax the regulation on power industry for the total effect of open competition, Singapore Energy Marketing and Management Authority planned to introduce Electricity Vending System, a prepayment-based system, in the country's power system and change the residents' power meters into intelligent power meters in various phases throughout the country. The Group had been approved to be one the product suppliers for the trial of power meters and data collection system. The trial was conducted and the smooth operation at the site signified the fruit the Group bore in expanding new overseas market.

Raw Material Supply

Major raw materials used for the production of the Group's products are single-chip microcomputers, digital IC, resistors, capacitors, PCB, LCD display and other electronic peripheral components. The Group usually procures raw materials according to its production plan and inventory level. In general, raw materials sourced from domestic suppliers mainly include LCD display, electronic peripheral components, packing materials and metallic cases, etc., while overseas purchases mainly include capacitors and IC.

During the year, the costs of materials and components such as chip resistors, multi-layer ceramic capacitors, integrated circuits and semiconductors stabilized after a slight decline. However, components of relevant raw materials saw their prices increase against the backdrop that the cost of copper and oil remained high. The Group has set up a cost control committee to reduce material costs by enhancing internal management, centralizing tender for procurement, improving design through research and development, optimising work flow as well as boosting production capacity.

Research And Development

As at 31 December 2007, the Group had 485 staff (2006: 342) in its research and development department. In 2007, expenditure on research and development activities (including the capitalized portion) totally amounted to RMB34.54 million, which represented 4.3% (2006: 4.9%) of the Group's turnover.

The Research and Development Department of the Group is committed to the innovation of technology, enhancing the quality of the existing products and the development of new products. During the year, the Group obtained 1 patent for invention, 11 patents for utility model, 6 patents for design, and 11 patents for software copyrights. The Group was approved to establish the Enterprise Technology Centre of Hunan Province（湖南省企業技術中心）and the Technology Research Centre for Electronic Power Meters of Hunan Province（湖南省電測儀表工程技術研究中心）.

Management Discussion and Analysis

The Group had been involved in the establishment and amendment of the international, state and industry standards so as to take a lead in technology advancement, product innovation and maintain a leading position with respect to its technology in the industry. Through maintenance and establishment new product platform, the Group perfected the existing product lines while unremittingly launching new products in response to market demands:

(i) With regard to three-phase meters, MB series power meters, the mainstream products, completed its upgrading and renovation work, and were selected the sole meters in technology competition of State Grid.

(ii) The Group set up a committee for network electronic power meters, and finished the plan design, sample production as well as mass sales by integrating the technology strengths of three-phase meters and terminals within short timeframe. Network electronic power meter is a product which integrates the measurement and remote communication technology and suggests a new development trend for electronic power meters. Currently, network electronic power meters market is basically in a pilot stage and is promoted to certain targets and thus there is huge potential for development in future.

(iii) Regarding single-phase electronic power meters, the autonomous development of its CPU card meters was completed. The design of development and design platform for logic encryption prepayment meters and SOC chips was also completed. The establishment of these platforms shortened the development cycle, satisfying the demand for function in the market as well as boosting the rapid response of its product market.

(iv) Regarding terminals, low voltage centralized reading meter series(低壓集抄系列)and voltage deployment-changed terminal(配變終端)series were developed. The product series of high and low end markets were perfected as well.

(v) Autonomous development of D-STATCOM. Smooth running of the products was observed at the site and a couple of orders were obtained.

(vi) The Group developed the iNESTIMTM, Intelligent Networked Energy Solution, by its own research. The system runs through the entire process of energy audit through automatic collection of data, remote delivery, storage, advanced processing, and statistics analysis. It provided comprehensive solution for information technology system in energy audit and enabled the acquisition of energy information, preliminary energy audit, detailed energy audit and the evaluation of the modification of power saving.

(vii) Digital electricity transformation station(數位化變電站)is one of the target projects of State Grid during the Eleventh Five-Year Plan. With its of mature technology of electricity power measurement and the understanding of power system, the Group developed the complementary digital power meters(數位化電能表)for digital electricity transformation station.

Management Discussion and Analysis

While the Group was focusing on the technology innovation in research and development, it strengthened the procedural control on research and development, enhanced design evaluation and established a sound system for selecting equipment so as to boost the reliability of products. At the same time, the Group adopted a PDM system (Product Data Management System), an advanced information system for management of all information and all stages related to products. All scattered product information was gathered, coordinated and shared while all research and development procedures were significantly improved and reorganized, which led to the integration of information, enhancement of management level of the Group's research and development efficiency of product development.

PROSPECTS

With an established base in the Wasion Science and Technology Park (威勝科技園), its consolidated strengths and brand name, the Group will build up a operation platform that allows technical advancement, business development and nurture of talent to complement each other, launch new products which are developed based on its measurement, connection and system solutions, and increase its marketing efforts, becoming the leading and biggest integrated professional supplier in the PRC that is capable of providing industrial and domestic integrated energy meters, comprehensive charges calculation products, services and solutions for electricity, water, gas and heat, as well as becoming a globalized supplier of mainstream energy measurement and management products and services in the international market. The Group's future development plans include the followings:

(1) Enhance Waison Brand and Increase Market Share

The Group would capture the opportunity of continuous growth supported by the investment in modification of domestic and overseas power grids. With the innovative principle of rapid, delicate and dynamic technology and distinctive product position, it would provide completed solutions in the aspects of automation of electricity power measurement in power system, power management and the support by modernization of sales techniques to application, and complementary products series and professional technology. Its service would cover power generation, transmission, distribution and usage, completely cater to market demands and provide personal solution. Through its diversified products and software solutions, the Group promoted its marketing initiatives to draw wider customer base from different walks of lives, occupied influential and potential markets as well as maintaining its leading position as a supplier of solutions for electricity power.

(2) Expand Production Capacity

To expand production capacity, the Group will complete the construction of the Wasion Meter Science and Technology Park in the Lugu National Science and Technology Development Zone in Changsha City, Hunan Province within the year. The new production plant will commence production and become a signature project in Hunan Province that produces a comprehensive range of power measurement and management products, applies stat-of-the-art techniques and high level of automation, and maintains a pleasant working environment. Afterward, the Group's annual production capacity of three-phase electronic power meters, single-phase electronic power meters and data collection terminals will increase to 1.2 million, 4 million and 0.2 million units respectively by 2009.

(3) Regulate Group Management Model and Consolidate Resources

Based in the Wasion Science and Technology Park, the Group will consolidate resources in order to strengthen the management of production sites, increase productivity, continually enhance supply chain management, optimize and streamline techniques and processes, improve technical level, strengthen product quality supervision and management. The ultimate goal is to optimize and effectively to utilize resources, reduce costs and increase the profitability of the Group.

(4) Persist in innovation in technology and enhance the ability of research and development

The Group will meet the challenges in the market with its pioneering products and technology. While improving its existing products, the Group shall enhance its ability and standard in software development and system solution and strengthen the establishment of platform of IPD (Intensive Product Development System) method and research and development. In addition, it shall invest more resources in the research and development center, enhance cooperation with renowned higher education institutions, strengthen the building of Post Doctoral Laboratory and proactively increase exposure in technology and management experience from foreign advanced companies. These initiatives equip the Group with accumulative technology for the future development in 3 to 5 years.

(5) Expand the energy saving and pollutants discharged reduction market

The Group established the Changsha Weisheng Energy Industrial Technology Company Limited ("Weisheng Energy") in July 2007 by taking into account of the two compulsory targets as set out in the "Eleventh Five-Year Plan", namely requiring that power consumption per unit of GDP shall be reduced by 20% and the total volume of major pollutants discharged shall be cut by 10% by 2010 and satisfying the increasing demand for energy management from all levels of local governments and power consuming units. Its principal activities are providing customers with innovative energy-saving technologies and helping customers optimize energy management and increase the efficiency in energy saving. With the implementation of energy saving and pollutants discharged reduction policy highly promoted by the country, Weisheng Energy gradually promotes to the sample customers of the target areas operating in the broad high-consumption market such as steel, coal, electricity, ferrous metal, oil, chemical products, construction materials and vehicles industry through the Group's deep awareness of its customers' needs through its edges in electric power measurement, supervision and management analysis. Together with the Group's traditional advantages in the industry and in technology, Wasion Energy will put its effort in integrating the most advanced technologies and products from home and overseas and bringing power management into a brand new and more professional development.

(6) Expanding overseas market

The Group established overseas sales offices, importing new technologies, products, experiences and management concepts, as well as agency of products importation. With respect to Asian and African markets such as Egypt, Bangladesh and Indonesia, the target of the Group is to expand the Group's sales rapidly in these areas. With respect to European and American market such as France, Germany and the U.S., the target of the Group is to upgrade its production technology and promote the brand name worldwide.

(7) Utilizing the amplification impact of capital

Through numerous means of utilizing capital such as acquisition, merger, collaboration and investment of shares, the Group will rapidly extend to other energy measurement markets such as water, electricity and gas measurement products, so as to increase the variety of products and profitability of the Group.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ji Wei (吉為), aged 51, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji obtained a master degree in business administration from the University of Northern Virginia in June 2005. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies and has about 25 years of experience in management. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji is also a director of each of Hunan Willfar Information Technology Co., Ltd. (湖南威遠信息技術有限公司) ("Hunan Willfar"), Hunan Classic Investment Co., Ltd. (湖南經典投資有限公司) ("Hunan Classic"), Changsha Weihua Property Development Co., Ltd. (長沙威華置業有限公司) ("Weihua Property") and Changsha Weizhong Chemical Machinery Co., Ltd. (長沙威重化工機械有限公司) ("Weizhong Machinery") . Mr. Ji has also been the director of Treasure Wheel Development Limited and Great Gain Investment Limited since 1989 and 1991 respectively. Mr. Ji was appointed as an executive Director with effect from 20 July 2004.

Ms. Cao Zhao Hui (曹朝輝), aged 40, is an executive Director and chief executive officer of the Company. Ms. Cao graduated from Hunan Commerce College in financial accounting and obtained a degree in Economics from the Hunan Financial and Economic College. Ms. Cao was employed as the director of finance with Hunan Weisheng Electronics Co., Ltd. (湖南威勝電子有限公司) ("Hunan Weisheng") between 1998 and 2000. She joined the Group in 2000 and was the director of finance and the director of the general manager's office from 2000 to 2003. She was appointed as a director of Changsha Weisheng Electronics Co., Ltd. (長沙威勝電子有限公司) ("Changsha Weisheng") in March 2004 and as an executive Director in March 2005. Ms. Cao is also a director of each of Hunan Willfar, Weihua Property, Weizhong Machinery and Hunan Classic. Ms Cao was accredited the honor of "Woman Pioneer" and "Excellent Entrepreneur" of Changsha in 2005. Mr. Cao was appointed as the executive Director with effect from 3 March 2005.

Mr. Wang Xue Xin (王學信), aged 46, is an executive Director and the general manager of the Company. Mr. Wang obtained a master degree in automation from the Harbin Industrial University in 1987 and was certified as a senior engineer. Mr. Wang lectured at the Taiyuan Industrial University between 1987 and 1990 and was the director of the development team of Taiyuan Industrial University Technological Development Company from 1990 to 1993. Mr. Wang worked as the engineer and the deputy manager of Hunan Weisheng from 1993 to 2000. Mr. Wang joined the Group in 2000 and is responsible for carrying out the research and development functions of the Group. Mr. Wang obtained the Changsha Award for Scientific Advancement and Elite Expert of Changsha in 1998 and 2003 respectively. Mr. Wang was a director of Hunan Willfar from February 2000 to January 2005, a director of Hunan Weike Power Meters Company Limited from May 2002 to January 2005 and a director of Hunan Weiming from May 2002 to May 2004. Mr. Wang is the spouse of Ms. Zheng Xiao Ping and he was appointed as an executive Director with effect from 3 March 2005.

Biographical Details of Directors and Senior Management

Ms. Zheng Xiao Ping (鄭小平), aged 45, is an executive Director and the chief engineer. Ms. Zheng graduated from the Taiyuan Industrial College with a degree in industrial automation. She obtained a master degree in engineering from the Taiyuan Mechanical Engineering College. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the Taiyuan Industrial College. She lectured at the Taiyuan Industrial University between 1988 and 1993 and was appointed as the research director of Hunan Weisheng from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Company. Ms. Zheng was awarded the "Technical Expert with Outstanding Achievement" in 1998 and 2000 respectively by the Changsha High and New Technological Development Zone and was appointed as a member of the Changsha Political Congress in December 2002. In 2003, Ms. Zheng was awarded as an "Individual with Advanced Technology Creation in Hunan" by the Hunan Economic and Trade Committee. Ms. Zheng was appointed as a director of Changsha Weisheng in March 2004 and an executive Director in September 2005. Ms. Zheng is the spouse of Mr. Wang Xue Xin and Ms. Zheng was appointed as the executive Director with effect from 1 September 2005.

Mr. Liao Xue Dong (廖學東), aged 46, is an executive Director and chief operation officer. Mr. Liao graduated from the Central South University with a degree in mechanical equipment. Mr. Liao has worked with Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) ("Hunan International") and Hunan Weisheng prior to joining the Group in 2000. Mr. Liao is responsible for the operations of Changsha Weisheng and was appointed as an executive Director with effect from 1 September 2005.

Mr. Zeng Xin (曾辛), aged 38, is an executive Director and the General Manager. Mr. Zeng graduated from the State Security Technology University with a degree in system engineering in 1992. During 1992 to 1993, he studied in the Qinghua University for a postgraduate degree programme. In 1995, Mr. Zeng obtained a master degree in engineering from the China Academy of Space Technology (中國空間技術研究院) and participated in several research projects in the China Academy of Space Technology (中國空間技術研究院) during his studies and after graduation. Mr. Zeng worked with Hunan Weisheng as a system engineer, vice-director of research, director of research and director of system between 1995 and 1999 and as the general manager with Hunan Willfar between 1999 and July 2004, and a director from December 1999 to January 2005. Mr. Zeng joined the Group in July 2004 and was appointed as an executive Director with effect from 1 September 2005.

Biographical Details of Directors and Senior Management

Independent Non-Executive Directors

Mr. Wu Jin Ming (吳金明), aged 45, is an independent non-executive Director. Mr. Wu graduated from the Agricultural University of Hunan in 1986 with a degree in agricultural economics and undertook further studies in 1987 in economics at the Wuhan University. Mr. Wu was an assistant professor, a vice-dean and a lecturer at the faculty of economics of the Agricultural University of Hunan. He was a visiting scholar at the Shiga University of Japan. Mr. Wu has been a professor of the College of Commerce of the Central South University since 2001 and is now the instructor of doctorial students and doctors of economics. Mr. Wu was a member of the Hunan Political Congress in 2003 and was appointed as the advisory consultant as regards the decisions on substantial projects of the Hunan provincial government in June 2004. Mr. Wu was appointed as an independent non-executive Director in September 2005.

Mr. Pan Yuan (潘垣), aged 75, is an independent non-executive Director. Mr. Pan graduated from the Electricity Faculty of the Central China Industrial College (華中工學院電力系) and worked in the Second Ministry of Mechanical Industry (第二機械工業部) 401 Institute, 585 Institute and at the China Academy of Sciences and was a researcher, a teaching assistant and a director of the academic study of the Institute of Plasma Science and Technology of the China Academy of Sciences. Mr. Pan was a visiting scholar at the European United Tokamak Fusion Centre and at the Fusion Centre of the University of Texas. Mr. Pan was appointed as an academician of the China Engineering Institute (中國工程學院) in 1997. Mr. Pan is currently a professor at the Central China Technical University (華中科技大學), a mentor for doctorate students and the honourary dean of the Electricity and Electronic Engineering College and the vice-director of the academic committee of the Central China Technical University. Mr. Pan was responsible for researching on the theory and the new application on the improvement of tokamak magnetic confinement performance (改善托卡馬克等離子體磁約束性能的新理論和新途徑), a major project sponsored by the National Natural Science Fund. Mr. Pan was appointed as an independent non-executive Director in September 2005.

Mr. Hui Wing Kuen (許永權), aged 60, has extensive experience in taxation and financial management. Mr. Hui worked in the Inland Revenue Department of Hong Kong for more than 24 years and was an assistant commissioner at his retirement in 1995. Mr. Hui is a member of the Taxation Institute of Australia, the Australian Society of Certified Practising Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries. Mr. Hui was appointed as an independent non-executive Director in September 2005.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT OF THE GROUP

Mr. Li Zhengchun (李正春), aged 43, obtained a master degree in business and administration (MBA) from the Murdoch University in Australia. Between 1988 and 1994, Mr. Li was the finance director of Hunan Province International Economic Development (Group) Company (湖南國際經濟開發集團公司). Between 1994 and 1996, he was appointed as the director and administration manager of the Hunan Hong Kong Investment Company Limited in Hong Kong and he was the director and chief accountant of San Xiang Group Limited (三湘集團有限公司) in Hong Kong between 1996 and 2006. In 2006, Mr. Li joined the Group as the director of risk management and is responsible for the risk management and control of the Group.

Mr. Huang Qing (黃慶), aged 41, graduated from the Wuhan Industrial College (武漢工業學院) with a degree in computer accounting (會計電算化), Between 1988 and 1997, Mr. Huang was the finance manager of Hunan International and he was the finance manager of Hunan Weisheng between 1997 and 2000. He joined Changsha Weisheng as a sales manager in 2000 and is responsible for carrying out the sales functions of the Group. He was later responsible for the preparation and construction work for Wasion Science and Technology Park.

Mr. Feng Xijun (馮喜軍), aged 41, obtained a master degree in mechanics from the Shanxi Mining Industry College (山西礦業學院). He was an industrial safety engineer of coal mines of the Shanxi Taiyuan Xishan Mining Bureau and was the deputy director and a director of Shanxi Power Company High and New Technology Development Company Research Institute and the deputy general manager of Hunan Willfar. Mr. Feng joined the Group in 2004 and is the deputy general manager of Weisheng Information.

Mr. Liao Yizhou (廖奕洲), aged 32, graduated from the Hunan University with a degree in electronic engineering. Mr. Liao was the marketing manager of Hunan Weike between 2003 and 2004 and is currently the general manager of Hunan Weike.

Mr. Lu Hongbo (盧紅波), aged 33, obtained a master degree in business management from the East China Normal University. Mr. Lu was the engineer of Shengli Institute of Oilfield Geology (勝利油田地質院) between 1996 and 1998, and was the Executive Deputy General Manager of Xun Bo Group (訊博集團) between 1998 and 2002. He was the head of the information system center of Hunan Willfar between 2002 and 2004. Mr. Lu joined the Group in 2004 and acted as the Vice President of Weisheng Information.

Mr. Choi Wai Lung Edward (蔡偉龍), aged 39, was appointed qualified accountant and company secretary of the Company on 22 January 2007. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 17 years of experience in accounting, auditing and finance.

Report of the Directors

The Directors are pleased to present this annual report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 May 2004. Its registered office and principal place of business are at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and Room 2903, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong respectively.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements. An analysis of the Group's performance for the year by business segment is set out in note 13 to the financial statements. As the Group mainly operates in the PRC, no geographical segment information is presented.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's largest supplier, a related company mentioned in the following paragraph, and the five largest suppliers combined were 6.0% and 19.4% respectively. The Group sold less than 30% of its goods and services to its five largest customers.

As mentioned above, the Group had purchased finished goods amounting to RMB20.52 million (2006: RMB70.10 million) from and sold finished goods amounting to RMB0.09 million (2006: RMB0.21 million) to Hunan Weike Power Meters Company Limited which is beneficially owned by Mr. Liang Ke Nan who is the brother of Mr. Ji Wei.

Save as disclosed, at no time during the year have the Directors, their associates or any substantial shareholder 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.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 46 to 52. The Directors recommend the payment of a final dividend of HK$0.090 (equivalent to RMB0.084) per ordinary share in respect of the year ended 31 December 2007 to shareholders of the Company whose name appear on the Register of Member of the Company on 21 May 2008 and payable on or before 28 May 2008. The Register of Members will be closed from 15 May 2008 to 21 May 2008, both days inclusive.

Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 7 of this annual report. This summary does not form part of the audited financial statements.

TRANSFER TO RESERVES

Profits attributable to equity shareholders, before dividends, of RMB212.90 million (2006: RMB151.74 million) have been transferred to reserves. Other movements in reserves of the Company and the Group are set out in note 27 and the consolidated statement of changes in equity to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company (the “Articles”) and the laws of the Cayman Islands that oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

FIXED ASSETS

During the year, the Group had total additions to property, plant and equipment and construction in progress of approximately RMB90.34 million. Details of these acquisitions and other movements in fixed assets are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 27 to the financial statements.

During the year, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of the listed securities of the Company, except for the placing of 112,680,000 new shares to investors.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Ji Wei, Chairman
Cao Zhao Hui, Chief Executive Officer
Wang Xue Xin
Zheng Xiao Ping
Liao Xue Dong
Zeng Xin

Independent Non-executive Directors

Wu Jin Ming
Pang Yuan
Hui Wing Kuen

In accordance with article 87 of the Articles, one third of the Directors, shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election provided that every Director shall be subject to retirement at least once every three years. The biographical details of the Directors and senior management are set out on pages 18 to 21 of this annual report.

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

The Directors and the chief executives who held office at 31 December 2007 had the following interests in the shares, underlying shares and debentures of the Company, any of its holding companies, subsidiaries and other associate corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Interests in issued shares of the Company

Name of director	Capacity	Number of ordinary shares held	% of total issued ordinary shares
Ji Wei	Beneficial interest in the Company through his interest in Star Treasure Investments Holdings Limited ("Star Treasure")	459,088,000	56.20

Note: Star Treasure is a company wholly owned by Mr. Ji Wei.

Interests in underlying shares of the Company attached to the share options granted by the Company

Name of director	Number of options to subscribe for shares	Capacity held	Number of underlying ordinary shares	% of total issued ordinary shares
Wang Xue Xin	3,000,000	Beneficial owner	3,000,000	0.37
Cao Zhao Hui	2,000,000	Beneficial owner	2,000,000	0.24
Zeng Xin	2,000,000	Beneficial owner	2,000,000	0.24
Zheng Xiao Ping	2,000,000	Beneficial owner	2,000,000	0.24
Liao Xue Dong	1,600,000	Beneficial owner	1,600,000	0.20
Hui Wing Kuen	600,000	Beneficial owner	600,000	0.07
Pan Yuan	200,000	Beneficial owner	200,000	0.02
Wu Jin Ming	200,000	Beneficial owner	200,000	0.02

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding companies, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as the Directors or the chief executives of the Company are aware of, as at 31 December 2007, the shareholders, other than the Directors or the chief executives of the Company, who had an interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Substantial shareholders	Number of ordinary shares held	% of total issued ordinary shares
Star Treasure	459,088,000	56.20
Temasek Holdings (Private) Limited	42,256,000	5.17

Save as disclosed above and so far as the Directors and the chief executives of the Company are aware of, as at 31 December 2007, no other party (other than the Directors or the chief executives of the Company) had an interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

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

(a) The purpose of the Scheme

The purpose of the Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Group.

(b) Eligible participants

The Board may at its discretion grant options to any full-time or part-time employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any member of the Group or any entity in which any member of the Group holds any equity interest and any suppliers, customers, consultants, agents, advisers and such other persons who contribute to the development and performance of the Group.

(c) Maximum number of shares available for issue under the Scheme

The maximum number of the Company's shares ("Shares") in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the issued share capital of the Company on the date of listing. The limit may be increased from time to time to 10% of the issued share capital of the Company as at the date of the shareholders' approval of the refreshed limit 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 schemes must not be in aggregate exceed 30% of the issued share capital of the Company from time to time.

As at 31 December 2007, the maximum number of Shares available for issue is 70,424,778, representing 8.62% of the issued share capital of the Company.

(d) Maximum entitlement of each participant under the Scheme

The maximum number of Shares in respect of which options may be granted to any eligible participant in any 12-month period shall not exceed 1% of Shares in issue on the date of offer of grant of the options unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. Options granted to substantial shareholders or independent non-executive Directors representing in aggregate over 0.1% of Shares in issue on the date of offer of grant of the options, and in excess of HK$5 million must be approved in advance by the shareholders of the Company in general meeting.

(e) Time for exercise of options

The share options are exercisable for a period to be notified by the Board to each grantee which shall not exceed a period of ten years from the date of offer of grant of an option. Unless otherwise determined by the Board and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Scheme which an option must be held before it can be exercised.

(f) Payment for acceptance of option

An option may be accepted by a grantee within 30 days from the date of receiving the offer of the options. The amount payable on acceptance of the offer for the grant of an option is HK$1.00.

(g) Basis of determining the exercise price

The exercise price of an option is determined by the Board and shall not be less than the highest of (i) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer of grant of the options; (ii) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five consecutive trading days immediately preceding the date of offer of grant of the options; and (iii) the nominal value of a Share.

(h) Period of the Scheme

Subject to earlier termination by resolution of the Company in general meetings or by the Board, the Scheme shall be valid and effective for a period of ten years from 26 November 2005.

The following share options were outstanding under the Scheme during the year:

Name and category of participants	Number of share options: As at 1 January 2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2007	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options* HK$	Share price of the Company as at the date of the grant of share options** HK$
Directors										
Wang Xue Xin	3,000,000	—	—	—	3,000,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Cao Zhao Hui	2,000,000	—	—	—	2,000,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Zeng Xin	2,000,000	—	—	—	2,000,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Zheng Xiao Ping	2,000,000	—	—	—	2,000,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Liao Xue Dong	1,600,000	—	—	—	1,600,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Hui Wing Kuen	600,000	—	—	—	600,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Pan Yuan	200,000	—	—	—	200,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Wu Jin Ming	200,000	—	—	—	200,000	23 February 2006	23 February 2006 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Sub-total	11,600,000	—	—	—	11,600,000					
Other employees	25,200,000	—	—	—	25,200,000	23 February 2006	23 February 2006 to 22 February 2008	23 February 2008 to 22 February 2016	2.225	2.225
Other employees	—	7,000,000	—	—	7,000,000	7 February 2007	7 February 2007 to 6 February 2009	7 February 2009 to 6 February 2017	3.200	3.200
Other employees	—	7,000,000	—	—	7,000,000	7 February 2007	7 February 2007 to 6 February 2010	7 February 2010 to 6 February 2017	3.200	3.200
Total	36,800,000	14,000,000	—	—	50,800,000					

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

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

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

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

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

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES IN THE COMPANY

Details of share options granted to or exercised by the Directors or chief executive of the Company during the year and their outstanding balances as of 31 December 2006 are set out in "Share Option Scheme" on pages 26 to 29 of this annual report and note 25 to the financial statements.

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.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract 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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the section "Connected Transactions" below, no contracts of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company, except for the placing of 112,680,000 new shares to investors.

CONNECTED TRANSACTIONS

The following are the continuing connected transactions of the Group in 2007:

1. Exempt Continuing Connected Transactions - Office Leasing Agreement

The Group has entered into a lease agreement with Mr. Liang Ke Nan ("Mr. Liang"), a brother of Mr. Ji Wei ("Mr. Ji"), director of the Company, under which the Group was granted the right to use an office premises for a term of one year.

The Group has also entered a lease agreement with Weihua Property under which the Group was granted the right to use the plant for a term of one year. Mr. Ji has a controlling interest in Weihua Property.

For the year ended 31 December 2007, the Group paid a total rental of RMB0.29 million (2006: RMB0.26 million) and RMB0.50 million (2006: nil) to Mr. Liang and Weihua Property respectively.

2. Non-exempt Continuing Connected Transactions - Sales and Purchases Agreement

(a) The Group has entered into a master agreement and a supplementary agreement with Hunan Weike Power Meters Company Limited ("Hunan Weike"), which is beneficially owned by Mr. Liang and Mr. Pai Tie Xi, brother-in-law of Mr. Ji Wei, on 5 December 2005 (the "Master Agreement") and 29 September 2006 (the "Supplementary Agreement") respectively, pursuant to which the Group (1) sells three-phase electronic power meters to Hunan Weike for distribution (the "Sales"); and (2) purchases single-phase electronic power meters from Hunan Weike on OEM basis (the "Purchases"). The single-phase electronic power meters will be manufactured in accordance with the Group specifications and requirements under the brand name "".

The Master Agreement and the Supplementary Agreement will expire on 31 December 2007. The continuing connected transactions are conducted in accordance with the following principles:

i in respect of the Sales, at the Group's usual selling price of the three-phase electronic power meters and in any event, the terms of the Sales will be in terms comparable with sales to independent customers; and

ii in respect of the Purchases, at 95% of the selling price of the single-phase electronic power meters of the Group, subject to final acceptance of the order by Hunan Weike.

The Master Agreement and the Supplementary Agreement may be terminated by the parties in the following circumstances: (i) by written agreement; (ii) by either party giving the other three months' written notice in advance; (iii) if one party ceases business; (iv) if one party has committed a material breach of PRC laws and regulations and its operations have been suspended, closed by the court or relevant governmental authorities; (v) if one party has been declared bankrupt; or (vi) an event of force majeure has caused one party to lose its ability to operate.

The Stock Exchange has granted a waiver to the Company in relation to non-exempt continuing connected transactions from strict compliance with the announcement and/or independent shareholders' approval requirements of the Listing Rules in respect of the Master Agreement for the three financial years ending 31 December 2007. Pursuant to an announcement and the circular of the Company dated 29 September 2006 and 24 October 2006, respectively, the Company sought to increase the annual caps in respect of the transactions under the Master Agreement. The independent shareholders approved the revisions to the annual caps under the Master Agreement in an extraordinary general meeting held on 9 November 2006.

For the year ended 31 December 2007, the purchases from and the sales to Hunan Weike by the Group were RMB20.52 million (2006: RMB70.10 million) and RMB0.09 million (2006: RMB0.21 million) respectively before the acquisition of Hunan Weike by the Group on 14 May 2007.

(b) The Group has entered a master agreement with Hunan Weiming Technology Co. Ltd. ("Hunan Weiming"), which is beneficially owned by Mr. Ji, on 21 November 2007 (the "Agreement"), pursuant to which the Group will supply electronic power meters to Hunan Weiming and provide processing services to Hunan Weiming for the production of its products.

The Agreement has a fixed term of three financial years ending 31 December 2009. The basis of determining the prices of the continuing connected transactions will be in accordance with: (1) a comparable market price; or (2) by agreement between the parties based on prices that the Group supplied its electronic power meters or provisions of processing services to independent third parties.

For the year ended 31 December 2007, the sales and processing services provided to Hunan Weiming by the Group amounted RMB2.98 million and RMB0.02 million respectively.

(c) The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions are entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(d) The auditors of the Company have reviewed the continuing connected transactions for the year ended 31 December 2007 and confirmed in a letter to the Board (a copy of which has been provided to the Stock Exchange) confirming that the continuing connected transactions:

(i) have received the approval of the Board;

(ii) have been entered into in accordance with the relevant agreement governing the continuing connected transactions; and

(iii) have not exceeded the relevant annual cap.

Report of the Directors

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken in normal courses of business by the Group are set out in note 31 to the financial statements. Those related party transactions which constituted connected transactions under Chapter 14A of the Listing Rules have complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2007 are set out in note 23 to the financial statements.

RETIREMENT SCHEMES

The Group participates in two defined contribution retirement benefit schemes which cover 97% of the Group's employees. Particulars of these retirement benefit schemes are set out in note 24 to the financial statements.

CONFIRMATION OF INDEPENDENCE

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

AUDITORS

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

By order of the Board

Ji Wei
Chairman

Hong Kong, 7 April 2008

Corporate Governance Report

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules. The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all of the Code Provisions. The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that board procedures and all applicable rules and regulations are followed.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

Corporate Governance Report

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer of the Company (the "Chief Executive Officer") and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises nine members, consisting of six executive Directors and three independent non-executive Directors. Their biographical details are set out on pages 18 to 21 of this annual report.

The Board of the Company comprises the following Directors:

Executive Directors:

Ji Wei, chairman of the Board (the "Chairman") and nomination committee of the Company (the "Nomination Committee"), and member of remuneration committee of the Company (the "Remuneration Committee")

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

Independent Non-executive Directors:

Hui Wing Kuen, chairman of audit committee of the Company (the "Audit Committee") and Remuneration Committee, and member of Nomination Committee

Wu Jin Ming, member of Audit Committee, Remuneration Committee and Nomination Committee

Pan Yuan, member of Audit Committee

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Corporate Governance Report

During the year under review, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Each of the executive Directors is engaged in a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice. All the independent non-executive Directors are appointed for a specific term. The terms of their appointments are as follows:–

Hui Wing Kuen	:	up to the 2008 annual general meeting
Wu Jin Ming	:	up to the 2008 annual general meeting
Pan Yuan	:	up to the 2008 annual general meeting

Pursuant to the Articles, all Directors are subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting and the next following annual general meeting respectively.

Training for Directors

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

Corporate Governance Report

Board Meetings

Number of Meetings and Directors' Attendance

In 2007, the Company has held nine board meetings. The Company will endeavour to hold at least four regular board meetings a year.

The attendance of the Directors at board meetings held during the year is set out below:

Directors	**Attendance/ Number of Meetings**
Executive Directors:	
Ji Wei *(Chairman)*	9/9
Cao Zhao Hui	9/9
Wang Xue Xin	9/9
Zheng Xiao Ping	9/9
Liao Xue Dong	9/9
Zeng Xin	9/9
Independent Non-Executive Directors:	
Hui Wing Kuen	7/9
Wu Jin Ming	6/9
Pan Yuan	6/9

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

Corporate Governance Report

The Chief Executive Officer, chief financial officer and company secretary of the Company attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the company secretary of the Company. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. Ms. Cao Zhao Hui ("Ms. Cao") was appointed as the Chief Executive Officer of the Company with effect from 1 January 2007 in replacement of Mr. Yin Hui Min. The biographical details of Ms. Cao are set out on page 18 of this annual report.

So, the posts of the Chairman and Chief Executive Officer are held separately by Mr. Ji Wei and Ms. Cao respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. With support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

COMMITTEES

The Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Committees of the Company are established with defined written terms of reference. The terms of reference of the Committees will be posted on the Company's website and are available upon request.

Corporate Governance Report

The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under "Composition" of this report on page 39.

The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

NOMINATION COMMITTEE

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessment of the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Three Nomination Committee meetings have been held during the year to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The attendance of individual members at Nomination Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Ji Wei *(Chairman)*	3/3
Hui Wing Kuen	3/3
Wu Jin Ming	3/3

In accordance with the Articles, Ms. Cao Zhao Hui, Mr. Zeng Xin and Mr. Wu Jin Ming shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for developing policies for the remuneration of the executive Directors and for fixing the remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for ensuring the remuneration packages which are sufficient to attract and retain the Directors for running the Company successfully; to avoid over-paying and to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management and other related matters. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman about these recommendations on remuneration policy and structure and remuneration packages.

Three Remuneration Committee meetings have been held during the year to review the remuneration policy and structure of the Company and remuneration packages of the executive Directors and the senior management.

The attendance of individual members at Remuneration Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Hui Wing Kuen *(Chairman)*	3/3
Ji Wei	3/3
Wu Jin Ming	3/3

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held four meetings during the year to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Hui Wing Kuen *(Chairman)*	4/4
Wu Jin Ming	4/4
Pan Yuan	3/4

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2007 have been reviewed by the Audit Committee.

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 of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2007.

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

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on pages 44 to 45 of this annual report.

The Company's external auditors are KPMG. Total auditors' remuneration paid and payable by the Group for the year ended 31 December 2007 amounted to RMB2.29 million, which comprises RMB1.59 million for the audit of the Company's financial statements for the year ended 31 December 2007, RMB0.26 million for the audit of the financial statements of subsidiaries of the Group and RMB0.44 million for the review of the Company's interim report for six months ended 30 June 2007.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Company's assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The management of the Company is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The management also conducts periodic reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

During the year, the Board, through the Audit Committee, has reviewed and was satisfied with the effectiveness of the internal control system of the Company and its subsidiaries, which has covered major and material controls in areas of financial, operations, compliance and risk management functions.

SHAREHOLDERS RIGHTS AND INVESTOR RELATIONS

The rights of the Company's shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars despatched to the shareholders of the Company and will be explained during the proceedings of meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are to be proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.wasion.com and ww.irasia.com/listco/hk/wasion/index.htm where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

Auditor's Report

Independent auditor's report to the shareholders of Wasion Meters Group Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wasion Meters Group Limited (the "Company") set out on pages 46 to 124, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, 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 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.

Auditor's Report

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 31 December 2007 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
7 April 2008

Consolidated Income Statement

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	4	**808,510**	600,429
Cost of sales		**(425,144)**	(323,151)
Gross profit		**383,366**	277,278
Other revenue	5	**9,018**	5,115
Other net income	5	**15,072**	2,063
Selling expenses		**(68,516)**	(50,595)
Research and development costs		**(17,827)**	(12,123)
Administrative expenses		**(70,531)**	(53,801)
Profit from operations		**250,582**	167,937
Finance costs	6(a)	**(17,186)**	(9,500)
Profit before taxation	6	**233,396**	158,437
Income tax	7(a)	**(20,500)**	(6,701)
Profit for the year attributable to equity shareholders of the Company	10	**212,896**	151,736
Dividends payable to equity shareholders of the Company attributable to the year:	11		
Final dividend proposed after the balance sheet date		**68,847**	49,297
Earnings per share	12		
Basic (RMB)		**0.29**	0.22
Diluted (RMB)		**0.28**	0.21

The notes on pages 53 to 124 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14(a)	**185,446**	101,460
Interests in leasehold land held for own use under operating leases	15	**100,243**	38,290
Intangible assets	16	**156,054**	60,040
Goodwill	17	**56,831**	—
		498,574	199,790
Current assets			
Inventories	19	**149,906**	106,594
Trade and other receivables	20	**686,386**	393,558
Pledged deposits	22, 23	**81,385**	71,489
Cash and cash equivalents	21	**508,743**	158,182
		1,426,420	729,823
Current liabilities			
Trade and other payables	22	**416,269**	174,601
Bank loans	23	**208,790**	163,700
Current taxation	26(a)	**12,761**	4,765
		637,820	343,066
Net current assets		**788,600**	386,757
Total assets less current liabilities		**1,287,174**	586,547

Consolidated Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Bank loans	23	**42,000**	—
Deferred tax liabilities	26(b)	**21,896**	671
		63,896	671
NET ASSETS		**1,223,278**	585,876
CAPITAL AND RESERVES	27		
Share capital		**8,422**	7,331
Reserves		**1,214,856**	578,545
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**1,223,278**	585,876

Approved and authorised for issue by the board of directors on 7 April 2008.

Ji Wei
Director

Cao Zhao Hui
Director

The notes on pages 53 to 124 form part of these financial statements.

Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14(b)	**1,228**	1,495
Investments in subsidiaries	18	**211,601**	203,168
		212,829	204,663
Current assets			
Trade and other receivables	20	**344,406**	174,220
Cash and cash equivalents	21	**316,040**	29,311
		660,446	203,531
Current liabilities			
Trade and other payables	22	**5,487**	1,783
Net current assets		**654,959**	201,748
NET ASSETS		**867,788**	406,411
CAPITAL AND RESERVES	27		
Share capital		**8,422**	7,331
Reserves		**859,366**	399,080
TOTAL EQUITY		**867,788**	406,411

Approved and authorised for issue by the board of directors on 7 April 2008

Ji Wei
Director

Cao Zhao Hui
Director

The notes on pages 53 to 124 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Total equity at 1 January attributable to equity shareholders of the Company		**585,876**	471,586
Net income recognised directly in equity:			
Exchange differences on translation of financial statements of companies with functional currency other than presentation currency		**(26,448)**	(10,359)
Net profit for the year		**212,896**	151,736
Total recognised income and expense for the year attributable to equity shareholders of the Company		**186,448**	141,377
Dividends declared or approved during the year	11	**(49,297)**	(38,818)
Movements in equity arising from capital transactions:			
Shares issued	27(c)	**1,091**	—
Net share premium received	27(c)	**481,920**	—
Equity-settled share-based transactions		**17,240**	11,731
		500,251	11,731
Total equity at 31 December attributable to equity shareholders of the Company		**1,223,278**	585,876

The notes on pages 53 to 124 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		**233,396**	158,437
Adjustments for:			
— Depreciation		**13,200**	10,124
— Amortisation of leasehold land held for own use		**1,616**	250
— Amortisation of intangible assets		**22,109**	10,550
— Write down of inventories		**1,027**	—
— Impairment losses for bad and doubtful debts		**1,223**	1,629
— Finance costs		**17,186**	9,500
— Interest income		**(9,018)**	(4,878)
— Unrealised exchange gain		**(4,247)**	—
— Gain on disposal of property, plant and equipment		**—**	(1)
— Equity-settled share-based payment expenses		**17,240**	11,731
Operating profit before changes in working capital		**293,732**	197,342
Increase in inventories		**(12,871)**	(21,119)
Increase in trade and other receivables		**(156,502)**	(148,137)
(Decrease)/increase in trade and other payables		**(29,758)**	22,032
Cash generated from operations		**94,601**	50,118
Income tax paid		**(6,893)**	(6,707)
Net cash generated from operating activities		**87,708**	43,411
Investing activities			
Payment for acquisition of subsidiary, net of cash acquired	31(a)(vii)	**(74,419)**	—
Payment for purchase of property, plant and equipment and construction in progress		**(88,967)**	(22,842)
Payment for acquisition of interests in leasehold land held for own use under operating leases		**—**	(27,973)
Proceeds from disposal of property, plant and equipment		**70**	149
Expenditure on development projects		**(16,712)**	(17,524)
Payments to related parties		**—**	(2,838)
Interest received		**7,439**	4,878
Net cash used in investing activities		**(172,589)**	(66,150)

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Financing activities			
Net proceeds from shares issued		**483,011**	—
Proceeds from new bank loans		**321,165**	192,300
Repayment of bank loans		**(278,945)**	(143,340)
Dividends paid to equity shareholders of the Company		**(49,297)**	(38,818)
Interest paid		**(17,535)**	(9,167)
Other borrowing costs paid		**(1,019)**	(333)
Increase in pledged deposits		**(6,481)**	(19,346)
Net cash received from/(used in) financing activities		**450,899**	(18,704)
Net increase/(decrease) in cash and cash equivalents		**366,018**	(41,443)
Cash and cash equivalents at 1 January		**158,182**	206,434
Effect of foreign exchange rate changes		**(15,457)**	(6,809)
Cash and cash equivalents at 31 December	21	**508,743**	158,182

The notes on pages 53 to 124 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 REPORTING ENTITY

The Company was incorporated in the Cayman Islands on 20 May 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the development, manufacture and sale of electronic power meters and data collection terminals and the provision of software development services.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

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 the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(c) Functional and presentation currency

The Company has its functional currency in Hong Kong dollars and the main operating subsidiaries established in the People's Republic of China (the "PRC") and Macau have their functional currencies in Renminbi ("RMB") and United States Dollar ("USD"), respectively. As the Group mainly operates in the PRC, Renminbi is used as the presentation currency of the Group. All financial information presented in Renminbi has been rounded in the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated 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, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(i)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

(f) Property, plant and equipment

(i) Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(t)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

(ii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated income statement as an expense as incurred.

(iii) 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:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 5 years from the date of completion, and the unexpired terms of the leases.

—	Plant and machinery	5 to 10 years
—	Furniture, fixtures and office equipment	5 years
—	Motor vehicles	10 years

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iv) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Capitalised development costs	Not more than 5 years
—	Acquired patents, copyrights and trademarks	3 to 10 years
—	Acquired technology	5 years
—	Customer relationship and contracts	5 years

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

Where the Group has the use of assets under operating leases, payments made under the leases are charged to consolidated income statement in equal instalments over the accounting periods covered by the lease term, 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.

The cost of land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at 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 of delinquency in interest of 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

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

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

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated income statement. 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.

(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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— interests in leasehold land held for own use under operating leases;

— intangible assets;

— investments in subsidiaries; and

— goodwill.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 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 whenever 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 any goodwill allocated to the cash-generating unit (or group of units) and then, 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 cost to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss 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 the consolidated income statement in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill, are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) 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.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts (see note 2(i)), except where the receivables are interest-free advances 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(i)).

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Bank loans

Bank loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank loans are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in consolidated income statement over the period of the borrowings, together with any interest and fees payable using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for the financial guarantee liabilities measured in accordance with note 2(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) 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.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Share based payments

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated income statement 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 date, 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 retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

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 consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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 years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (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)

(p) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Company or 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 Company or 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.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. In the case of the guarantee issued by the Company in respect of a loan to its wholly owned subsidiary, the asset identified is a form of capital contribution and subject to the accounting policy applied to investments in subsidiaries (see note 2(d)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(q)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(q)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(q)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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)

(r) Revenue recognition

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 the consolidated income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the significant risks and rewards of ownership have been transferred. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of software development services

Revenue is recognised when services are rendered. Revenue excludes value added tax and is after deduction of any trade discounts.

(iii) Interest income

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

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(s) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies (continued)

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred except to the extent that they are capitalised as being 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.

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

(u) Related parties

For the purposes of these 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;

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties (continued)

(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.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

As a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 28.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's objectives, policies and processes for managing capital. These new disclosures are set out in note 27(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35) except for HKAS 23 (revised), *Borrowing Costs*.

In prior years, borrowing costs were expensed in the consolidated income statement in the period in which they were incurred.

With effect from 1 January 2007, the Group has early adopted HKAS 23 (revised) and has changed its accounting policy relating to borrowing costs. Under the new policy, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Further details of the new policy are set out in note 2(t). The new policy has been applied prospectively. The change had an effect of decreasing interest expense and increasing income tax by approximately RMB1,368,000 and RMB137,000, respectively for the year ended 31 December 2007.

(Expressed in Renminbi unless otherwise indicated)

4 TURNOVER

Turnover represents the sales value of goods supplied to customers and income arising from provision of software development services, excludes value added tax and is after the deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2007 **RMB'000**	2006 RMB'000
Sales of three-phase electronic power meters	**456,190**	360,488
Sales of single-phase electronic power meters	**142,327**	73,537
Sales of data collection terminals	**198,880**	155,030
Revenue from provision of software development services	**11,113**	11,374
	808,510	600,429

Pursuant to the relevant approval document issued by the authorities in the PRC, a subsidiary of the Group operated in the PRC is entitled to a refund of value added tax ("VAT") on the sales of self-developed software. Included in the revenue from provision of software development services is an amount of RMB4,480,000 (2006:RMB3,519,000) which represents the refund of VAT paid or payable in excess of 3% of income generated from the sales of self-developed software and is recognised as revenue when the refund is approved by the relevant authorities.

5 OTHER REVENUE AND NET INCOME

	2007 **RMB'000**	2006 RMB'000
Other revenue		
Interest income	**7,439**	4,878
Others	**1,579**	237
	9,018	5,115
Other net income		
Net exchange gain	**14,950**	908
Others	**122**	1,155
	15,072	2,063

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION

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

	2007 RMB'000	2006 RMB'000
(a) Finance costs		
Interest on bank advances wholly repayable within five years	**17,535**	9,167
Other borrowing costs	**1,019**	333
	18,554	9,500
Less: interest expense capitalised into construction in progress *	**(1,368)**	—
	17,186	9,500

* Borrowing costs have been capitalised at a rate of 6.23% per annum.

	2007 RMB'000	2006 RMB'000
(b) Staff costs		
Salaries, wages and other benefits	**53,748**	42,708
Contributions to defined contribution retirement plans (note 24)	**3,824**	2,163
Equity-settled share-based payment expenses	**17,240**	11,731
	74,812	56,602
(c) Other items		
Amortisation of leasehold land	**1,616**	250
Amortisation of intangible assets	**22,109**	10,550
Depreciation	**13,200**	10,124
Impairment losses for trade and other receivables	**1,223**	1,629
Auditors' remuneration (audit services)	**1,850**	1,445
Operating lease charges in respect of properties	**4,098**	3,847

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax — Provision for PRC income tax		
Provision for the year	**15,248**	5,995
Over-provision in prior years	**(359)**	(462)
	14,889	5,533
Deferred tax		
Origination and reversal of temporary differences (note 26(b))	**5,611**	1,168
	20,500	6,701

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the year (2006: Nil).

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 the year (2006: Nil).

As a Macau offshore company established under the Macau Offshore law, the subsidiary in Macau was exempted from Macau income tax during the years ended 31 December 2006 and 2007.

Pursuant to the income tax rules and regulations of the PRC, a subsidiary in the PRC is subject to PRC income tax at 10% from 1 January 2005 onwards, which is the tax rate applicable to certain selected high technology enterprises in Changsha, the PRC.

Pursuant to the income tax rules and regulations of the PRC, another two subsidiaries in the PRC were granted five-year tax holiday, under which they are exempted from PRC income tax for the first two profit making years and entitled to a 50% income tax reduction for the next three years. Therefore, the subsidiaries are exempted from PRC income tax for the two years starting from 1 January 2005 and 1 January 2006 respectively and will be subject to PRC income tax at 7.5% for the subsequent three years.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: (continued)

Pursuant to the income tax rules and regulations of the PRC, a subsidiary in the PRC is liable to PRC income tax at a rate of 33%. The subsidiary was not subject to PRC income tax during the years ended 31 December 2007 and 2006 as it has sustained tax losses since its establishment.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. Tax rate unified at 25%. A subsidiary in the PRC has been granted the status of a high-tech enterprise by the state tax authorities in Changsha in 2005. Currently, the applicable income tax rate of the subsidiary is 10%, a preferential tax rate granted to high-tech enterprises for a period of three years immediately after the five-year tax holiday. Another subsidiary in the PRC has also been granted the status of a high-tech enterprise by the state tax authorities in Changsha in 2006. The subsidiary was granted tax holiday under which it is exempted from PRC enterprise income tax from 1 January 2006 to 31 December 2007, being the first two profit making years, and entitled to a 50% income tax reduction until 31 December 2010, of which the subsidiaries is subject to 7.5% tax rate from 1 January 2008 to 31 December 2010. According to the new tax law, certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can qualify as a high-tech enterprise under the new tax law) have yet to be made public. Consequently, the Group is not able to assess whether the subsidiaries will qualify as high-tech enterprises under the new tax law and therefore is not able to make an estimate of the expected financial effect of the new tax law on the Group's deferred tax assets and liabilities.

As a result of the new tax law, it is expected that a subsidiary in the PRC will be allowed to continue to receive the benefits of the five-year tax holiday during the five-year grandfathering period until 31 December 2010.

Pursuant to the new PRC tax law and its implementation rules, dividends payable to foreign investors are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to the grandfathering arrangements, dividends receivable by the Group from subsidiaries established in the PRC in respect of their undistributed profits prior to 31 December 2007 are exempted from the withholding tax.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 RMB'000	2006 RMB'000
Profit before taxation	**233,396**	158,437
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**63,078**	40,881
Tax effect of non-deductible expenses	**3,844**	5,844
Tax effect of non-taxable income	**(6,007)**	(2,288)
Over-provision in prior years	**(359)**	(462)
Unused tax losses not recognised	**236**	706
Tax credit for purchases of domestically produced machinery and research and development activities	**(812)**	(1,003)
Effect of tax concessions	**(44,854)**	(36,977)
Effect of change in tax rates	**5,374**	—
Actual tax expense	**20,500**	6,701

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION

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

	2007						
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Share-based payments** (Note)	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Ji Wei	—	1,165	—	12	1,177	—	1,177
Cao Zhao Hui	—	446	51	15	512	810	1,322
Wang Xue Xin	—	596	209	15	820	1,215	2,035
Zheng Xiao Ping	—	386	30	15	431	810	1,241
Liao Xue Dong	—	366	30	15	411	648	1,059
Zeng Xin	—	416	35	15	466	810	1,276
Independent non-executive directors							
Wu Jin Ming	112	—	—	—	112	81	193
Pang Yuan	112	—	—	—	112	81	193
Hui Wing Kuen	320	—	—	—	320	243	563
	544	3,375	355	87	4,361	4,698	9,059

	2006						
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Ji Wei	—	1,207	—	12	1,219	—	1,219
Cao Zhao Hui	—	306	59	15	380	727	1,107
Wang Xue Xin	—	657	208	17	882	1,090	1,972
Zheng Xiao Ping	—	281	50	15	346	727	1,073
Liao Xue Dong	—	266	46	15	327	581	908
Zeng Xin	—	325	80	15	420	727	1,147
Independent non-executive directors							
Wu Jin Ming	100	—	—	—	100	73	173
Pang Yuan	100	—	—	—	100	73	173
Hui Wing Kuen	281	—	—	—	281	218	499
	481	3,042	443	89	4,055	4,216	8,271

8 DIRECTORS' REMUNERATION (continued)

Note: Share-based payments represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(o)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 25.

There were no amounts paid during the year (2006: Nil) to the directors in connection with the compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2006: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individual in 2006 are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	—	980
Discretionary bonuses	—	—
Share-based payments	—	727
Retirement scheme contributions	—	12
	—	1,719

Emoluments of the remaining individual with the highest emoluments in 2006 are within the band of HK$1,500,001 to HK$2,000,000.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB11,578,000 (2006: loss of RMB12,115,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the company's profit for the year:

	2007 RMB'000	2006 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	**(11,578)**	(12,115)
Dividend from subsidiaries approved and paid during the year	**61,143**	—
Other revenue recognised in respect of financial guarantee provided by the Company to its subsidiary	**3,768**	195
Company's profit/(loss) for the year (Note 27(b))	**53,333**	(11,920)

11 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007	2006
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of HK$0.090 (equivalent to RMB0.084) (2006: HK$0.070 (equivalent to RMB0.070)) per ordinary share	**68,847**	49,297

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

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007	2006
	RMB'000	RMB'000
Final dividend declared by the Company in respect of previous financial year, approved and paid during the year	**49,297**	38,818

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12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of RMB212,896,000 (2006: RMB151,736,000) and the weighted average of 734,810,308 ordinary shares (2006: 704,247,787 ordinary shares) in issue during the year.

Weighted average number of ordinary shares

	2007 No. of shares	2006 No. of shares
Ordinary shares issued at 1 January (note 27(c))	**704,247,787**	704,247,787
Effect of new shares issued (note 27(c))	**30,562,521**	—
Weighted average number of shares	**734,810,308**	704,247,787

(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 RMB212,896,000 (2006: RMB151,736,000) and the weighted average of 752,116,177 ordinary shares (2006: 708,471,606 ordinary shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007 No. of shares	2006 No. of shares
Weighted average number of ordinary shares	**734,810,308**	704,247,787
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**17,305,869**	4,223,819
Weighted average number of ordinary shares (diluted)	**752,116,177**	708,471,606

13 SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segment. Business segment information is chosen as the primary reporting format based on the Group's internal financial reporting.

Business segment

The Group comprises the following business segments:

Electronic power meters	:	the development, manufacture and sale of single-phase and three-phase electronic power meters.
Data collection terminals and related services	:	the development, manufacture and sale of data collection terminals and provision of software development services.

Geographical segment

As the Group mainly operates in the PRC, no geographical segment information is presented.

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(Expressed in Renminbi unless otherwise indicated)

13 SEGMENTAL REPORTING (continued)

Business segment

	2007			
	Electronic power meters RMB'000	**Data collection terminals and related services** RMB'000	**Inter-segment elimination** RMB'000	**Consolidated** RMB'000
Revenue from external customers	598,517	209,993	—	808,510
Inter-segment revenue	4,177	15,145	(19,322)	—
Total revenue	602,694	225,138	(19,322)	808,510
Segment result	185,218	73,001		258,219
Unallocated operating income and expenses				(7,637)
Profit from operations				250,582
Finance costs				(17,186)
Income tax expense				(20,500)
Profit for the year				212,896
Depreciation and amortisation	27,661	9,092		36,753
Unallocated depreciation				172
Total depreciation and amortisation				36,925
Significant non-cash items (other than depreciation and amortisation)	15,154	3,526		18,680
Unallocated expenses				810
				19,490

13 SEGMENTAL REPORTING (continued)

Business segment (continued)

	2007			
	Electronic power meters	**Data collection terminals and related services**	**Inter-segment elimination**	**Consolidated**
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,061,223	238,259	(24,761)	1,274,721
Unallocated assets				650,273
Total assets				1,924,994
Segment liabilities	(253,399)	(56,345)	24,761	(284,983)
Unallocated liabilities				(416,733)
Total liabilities				(701,716)
Capital expenditure incurred	171,130	8,968		180,098

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

13 SEGMENTAL REPORTING (continued)

Business segment (continued)

	2006			
	Electronic power meters RMB'000	Data collection terminals and related services RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Revenue from external customers	434,025	166,404	—	600,429
Inter-segment revenue	1,522	4,286	(5,808)	—
Total revenue	435,547	170,690	(5,808)	600,429
Segment result	127,085	50,153		177,238
Unallocated operating income and expenses				(9,301)
Profit from operations				167,937
Finance costs				(9,500)
Income tax expense				(6,701)
Profit for the year				151,736
Depreciation and amortisation	11,808	9,005		20,813
Unallocated depreciation				111
Total depreciation and amortisation				20,924
Significant non-cash items (other than depreciation and amortisation)	10,265	2,553		12,818
Unallocated expenses				542
				13,360

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(Expressed in Renminbi unless otherwise indicated)

13 SEGMENTAL REPORTING (continued)

Business segment (continued)

	2006			
	Electronic power meters RMB'000	Data collection terminals and related services RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Segment assets	537,487	181,945	(23,164)	696,268
Unallocated assets				233,345
Total assets				929,613
Segment liabilities	(122,803)	(73,657)	23,164	(173,296)
Unallocated liabilities				(170,441)
Total liabilities				(343,737)
Capital expenditure incurred	56,327	10,939		67,266
Unallocated capital expenditure				1,073
Total capital expenditure				68,339

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2006	58,913	4,740	29,636	4,197	6,051	1,093	104,630
Additions	147	170	9,143	2,255	6,855	4,272	22,842
Transfer	—	—	712	—	—	(712)	—
Disposals	—	—	(196)	—	—	—	(196)
Exchange adjustments	—	(24)	—	(13)	(18)	—	(55)
At 31 December 2006	59,060	4,886	39,295	6,439	12,888	4,653	127,221
At 1 January 2007	59,060	4,886	39,295	6,439	12,888	4,653	127,221
Additions through business combinations (note 31(a)(vii))	—	—	2,791	1,024	299	2,920	7,034
Additions	—	—	11,121	989	561	77,664	90,335
Transfer	—	—	710	—	—	(710)	—
Disposals	—	—	(1,183)	(844)	—	—	(2,027)
Exchange adjustments	—	(52)	—	(25)	(76)	—	(153)
At 31 December 2007	59,060	4,834	52,734	7,583	13,672	84,527	222,410

14 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The Group (continued)

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:							
At 1 January 2006	2,133	1,072	9,359	1,772	1,355	—	15,691
Charge for the year	1,783	822	5,579	1,029	911	—	10,124
Written back on disposal	—	—	(48)	—	—	—	(48)
Exchange adjustments	—	(5)	—	—	(1)	—	(6)
At 31 December 2006	3,916	1,889	14,890	2,801	2,265	—	25,761
At 1 January 2007	3,916	1,889	14,890	2,801	2,265	—	25,761
Charge for the year	1,481	1,091	7,821	1,467	1,340	—	13,200
Written back on disposal	—	(20)	(1,138)	(799)	—	—	(1,957)
Exchange adjustments	—	(30)	—	(5)	(5)	—	(40)
At 31 December 2007	5,397	2,930	21,573	3,464	3,600	—	36,964
Net book value:							
At 31 December 2007	53,663	1,904	31,161	4,119	10,072	84,527	185,446
At 31 December 2006	55,144	2,997	24,405	3,638	10,623	4,653	101,460

All the Group's buildings are located in the PRC.

At 31 December 2007, properties with a carrying amount of RMB46,989,000 (2006: RMB50,490,000) were pledged to a bank for certain bank loans granted to the Group as disclosed in note 23.

Pursuant to the agreements entered into with the local government authorities date 20 May 2006, certain property, plant and equipment with an aggregate net book value of RMB84,527,000 (2006: RMB4,653,000) at 31 December 2007 are restricted from disposal unless the consideration of the related land use rights have been fully paid.

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14 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
At 1 January 2006	226	344	—	570
Additions	21	40	1,012	1,073
Exchange adjustment	(8)	(13)	(18)	(39)
At 31 December 2006	239	371	994	1,604
At 1 January 2007	239	371	994	1,604
Exchange adjustment	(18)	(25)	(66)	(109)
At 31 December 2007	221	346	928	1,495
Accumulated depreciation:				
At 1 January 2006	—	1	—	1
Charge for the year	24	53	34	111
Exchange adjustment	—	(2)	(1)	(3)
At 31 December 2006	24	52	33	109
At 1 January 2007	24	52	33	109
Charge for the year	23	53	96	172
Exchange adjustment	(4)	(5)	(5)	(14)
At 31 December 2007	43	100	124	267
Net book value:				
At 31 December 2007	178	246	804	1,228
At 31 December 2006	215	319	961	1,495

(Expressed in Renminbi unless otherwise indicated)

15 INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

Interests in leasehold land held for own use under operating leases represent payments for land use rights on land situated in the PRC. The leases run for an initial period of 46 to 50 years and expire through 2056.

Certain interests in leasehold land held for own use under operating leases with a carrying value of RMB10,068,000 at 31 December 2007 (2006: RMB10,317,000) are pledged to a bank for a bank loan granted to the Group as disclosed in note 23.

Pursuant to the agreement entered into with the local government authorities as disclosed in note 14(a), certain interests in leasehold land held for own use under operating leases with a carrying value of RMB92,307,000 as at 31 December 2007 (2006: RMB27,973,000) are restricted from disposal unless the consideration of the related land use rights have been fully paid.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

16 INTANGIBLE ASSETS

The Group

	Capitalised development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Acquired technology RMB'000	Customer relationship and contracts RMB'000	Total RMB'000
Cost:					
At 1 January 2006	21,614	50,700	—	—	72,314
Additions through internal development	17,524	—	—	—	17,524
At 31 December 2006	39,138	50,700	—	—	89,838
At 1 January 2007	39,138	50,700	—	—	89,838
Additions through internal development	16,712	—	—	—	16,712
Additions through business combination (note 31(a)(vii))	8,340	5,121	50,730	37,220	101,411
At 31 December 2007	64,190	55,821	50,730	37,220	207,961
Accumulated amortisation:					
At 1 January 2006	8,476	10,772	—	—	19,248
Charge for the year	3,655	6,895	—	—	10,550
At 31 December 2006	12,131	17,667	—	—	29,798
At 1 January 2007	12,131	17,667	—	—	29,798
Charge for the year	3,886	7,229	6,341	4,653	22,109
At 31 December 2007	16,017	24,896	6,341	4,653	51,907
Net book value:					
At 31 December 2007	48,173	30,925	44,389	32,567	156,054
At 31 December 2006	27,007	33,033	—	—	60,040

The amortisation charge for the year is included in "cost of sales" and "selling expenses" in the consolidated income statement.

17 GOODWILL

	The Group
	RMB'000
Additions and carrying amount:	
At 31 December 2007	56,831

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the electronic power meters segment.

The recoverable amount of the cash generating unit (CGU) is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2007
	%
Gross margin	**31.76**
Growth rate	**22.04**
Discount rate	**13.65**

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segment.

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**211,601**	203,168

Details of the principal subsidiaries at 31 December 2007 are as follows. The class of shares held is ordinary.

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued/ paid-up capital	Group's effective interest Direct	Group's effective interest Indirect	Principal activities
Changsha Weisheng Electronics Company Limited ("Changsha Weisheng") (note (i))	The PRC	The PRC	Paid-up capital of RMB100,000,000	—	100%	Development, manufacture and sale of power meters
Changsha Weisheng Energy Industrial Technology Company Limited ("Weisheng Energy") (note (i))	The PRC	The PRC	Paid-up capital of HK$50,000,000	—	100%	Development, manufacture and sale of energy saving products
Changsha Weisheng Enterprise Management Company Limited ("Weisheng Enterprise") (note (iii))	The PRC	The PRC	Paid-up capital of RMB3,000,000	—	100%	Provision of enterprise management consultancy
Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (note (iii))	The PRC	The PRC	Paid-up capital of RMB2,000,000	—	100%	Trading of power meters
Changsha Weisheng Information Technology Company Limited ("Weisheng Information") (note (ii))	The PRC	The PRC	Paid-up capital of RMB60,000,000	—	100%	Development, manufacture and sale of power meters, data collection terminals and related services

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued/ paid-up capital	Group's effective interest Direct	Indirect	Principal activities
Gam Sheng Macao Commercial Offshore Limited ("Gam Sheng")	Macau	Macau	Paid-up capital of MOP1,000,000	—	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited ("Hunan Weike") (note (i))	The PRC	The PRC	Paid-up capital of HK$50,000,000	—	100%	Development, manufacture and sale of power meters
Wayne Management Limited ("Wayne")	BVI	BVI	Paid-up capital of US$1	—	100%	Provision of consultancy services
Changsha Wasion Industrial Investment Company Limited ("Wasion Industrial") (note (iii))	The PRC	The PRC	Paid-up capital of RMB60,000,000	—	100%	Investment holding
Oceanbase Group Limited ("Oceanbase")	British Virgin Islands ("BVI")	Hong Kong	1,000,000 share of US$1 each	100%	—	Investment holding
Sinowise Industries Limited ("SIL")	BVI	Hong Kong	Paid-up capital of US$1	—	100%	Investment holding

Notes:

(i) Changsha Weisheng, Hunan Weike and Weisheng Energy are wholly foreign owned enterprises established in the PRC.

(ii) Weisheng Information was a sino-foreign equity joint venture established in the PRC with 75% and 25% of equity interest held by Changsha Weisheng and Oceanbase respectively. On 16 March 2006, Oceanbase acquired the 75% equity interest from Changsha Weisheng. Weisheng Information became a wholly foreign owned enterprise since then.

(iii) Wasion Industrial, Weisheng Import and Export and Weisheng Enterprise are limited liability companies established in the PRC.

19 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**81,020**	54,217
Work in progress	**28,440**	28,987
Finished goods	**40,446**	23,390
	149,906	106,594

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Carrying amount of inventories sold	**400,336**	302,156
Write down of inventories	**1,027**	—
	401,363	302,156

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivable	**543,881**	295,362	**—**	—
Deposits, prepayments and other receivables	**142,505**	98,196	**823**	743
Amounts due from subsidiaries	**—**	—	**343,583**	173,477
	686,386	393,558	**344,406**	174,220

(Expressed in Renminbi unless otherwise indicated)

20 TRADE AND OTHER RECEIVABLES (continued)

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

Except for retention receivables from customers totalling RMB66,122,000 (2006: RMB46,463,000), all of the trade and other receivables (including amounts due from subsidiaries), net of impairment losses for bad and doubtful debts, are expected to be recovered within one year.

Included in trade and other receivables are amounts due from related parties totalling RMB80,214,000 as at 31 December 2007 (2006: RMB57,485,000), of which a balance of RMB79,000,000 was acquired through the acquisition of Hunan Weike and will be offset against the consideration payable to the vendor (note 31(a)(vii)).

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 3 months	**341,806**	234,253
Between 4 to 6 months	**67,467**	24,100
Between 7 to 12 months	**73,174**	15,063
Between 1 to 2 years	**61,434**	21,469
Over 2 years	**—**	477
	543,881	295,362

The Group's credit policy is set out in note 28(a).

20 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable 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 debtors and bills receivable directly (see note 2(i)).

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

	The Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**14,728**	13,099
Impairment loss recognised	**1,223**	1,629
At 31 December	**15,951**	14,728

Receivables that were past due but not impaired relate to a number of independent 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 in respect of these receivables.

At 31 December 2007, the Group's trade debtors and bills receivable of RMB24,556,000 (2006: RMB14,728,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in unexpected difficult economic situations. The management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB15,951,000 (2006: RMB14,728,000) were recognised. The Group does not hold any collateral over these balances.

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**508,743**	158,182	**316,040**	29,311

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills payable	**95,597**	46,902	**—**	—
Trade creditors	**125,017**	79,002	**—**	—
Receipts in advance	**21,325**	24,397	**—**	—
Accrued charges and other payables	**44,706**	24,300	**2,287**	1,306
Financial guarantee issued	**—**	—	**3,200**	477
Amounts due to related parties (note 31(a)(vii))	**129,624**	—	**—**	—
	416,269	174,601	**5,487**	1,783

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

At 31 December 2006 and 2007, all bills payable were secured by the Group's pledged deposits.

Included in trade and other payables are amounts due to Mr. Liang Ka Nan ("Mr. Liang"), brother of Mr. Ji Wei, who is a director and shareholder of the company, totalling RMB129,624,000 as at 31 December 2007 (2006: Nil).

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date.

	The Group	
	2007	2006
	RMB'000	RMB'000
Due within 3 months or on demand	**120,418**	77,399
Due after 3 months but within 6 months	**89,343**	48,505
Due after 6 months but within 1 year	**10,853**	—
	220,614	125,904

(Expressed in Renminbi unless otherwise indicated)

23 BANK LOANS

The terms of bank loans are as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 1 year or on demand		
Denominated in RMB with fixed interest rate at 5.81% to 7.29% (2006: 5.02% to 6.73%)	**155,500**	163,700
Denominated in USD with fixed interest rate at 6.68% to 6.72%	**53,290**	—
	208,790	163,700
After 1 year but within 2 years		
Denominated in RMB with variable interest rate at prevailing market rate	**42,000**	—
	250,790	163,700

At 31 December 2007, the bank loans were secured as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Interests in leasehold land held for own use under operating leases and buildings (notes 14 and 15)	**34,000**	45,000
Pledged deposits	**17,500**	43,700
Property, plant and equipment of certain related parties (note 31(a) (viii))	**20,000**	—
Secured	**71,500**	88,700
Unsecured	**179,290**	75,000
	250,790	163,700

24 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant rules and regulations in the PRC, the Group participates in a defined contribution retirement benefit scheme (the "scheme") organised by the Changsha municipal government for its eligible employees whereby the Group is required to make contributions to the scheme at 20% (2006: 20%) of the deemed salary rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

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

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

The exercise price of options granted, as specified in the rules governing the Share Option Scheme, is to be not less than the highest of the official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of the options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options and the nominal value of an ordinary share of the Company.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Exercise price	Vesting conditions	Contractual life of options
Options granted to directors of the Company:				
On 23 February 2006	11,600,000	HK$2.225	Two years from the date of grants	10 years from the date of grant
Options granted to employees of the Group:				
On 23 February 2006	25,200,000	HK$2.225	Two years from the date of grants	10 years from the date of grant
On 7 February 2007	7,000,000	HK$3.200	Two years from the date of grants	10 years from the date of grant
On 7 February 2007	7,000,000	HK$3.200	Three years from the date of grants	10 years from the date of grant
Total share options	50,800,000			

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(Expressed in Renminbi unless otherwise indicated)

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**2.225**	**36,800**	—	—
Granted during the year	**3.200**	**14,000**	2.225	36,800
Outstanding at the end of the year	**2.494**	**50,800**	2.225	36,800
Exercisable at the end of the year	**—**	**—**	—	—

(Expressed in Renminbi unless otherwise indicated)

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

Fair value of share options and assumptions

	Share options granted on 23 February 2006		Share options granted on 7 February 2007			
	Directors, senior management staff	Other management staff	Senior management staff		Other management staff	
Grantees			Tranche 1	Tranche 2	Tranche 3	Tranche 4
Fair value per share option at measurement date	HK$0.835	HK$0.697	HK$1.255	HK$1.301	HK$1.001	HK$1.104
Share price	HK$2.225	HK$2.225	HK$3.200	HK$3.200	HK$3.200	HK$3.200
Exercise price	HK$2.225	HK$2.225	HK$3.200	HK$3.200	HK$3.200	HK$3.200
Expected volatility (expressed as weighted average volatility used in the modelling under binomial model)	45% per annum	45% per annum	40% per annum	40% per annum	40% per annum	40% per annum
Option life (expressed as weighted average life used in the modelling under binomial model)	7.74 years	5.80 years	7.24 years	7.69 years	5.04 years	5.93 years
Expected dividends	4.5% per annum	4.5% per annum	2.0% per annum	2.0% per annum	2.0% per annum	2.0% per annum
Risk-free interest rate (based on Exchange Fund Notes)	4.2% per annum	4.1% per annum	4.2% per annum	4.2% per annum	4.2% per annum	4.2% per annum
Rate of leaving service	Nil	5% per annum	Nil	Nil	8% per annum	8% per annum

The expected volatility is based on the historic volatility of the Company with reference to the historic volatility of certain comparators (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Provision for PRC income tax	**12,761**	4,765

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and movements during the year are as follows:

Deferred tax arising from:	**Property, plant and equipment and leasehold land**	**Intangible assets**	**Trade and other receivables**	**Inventories**	**Unutilised tax losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	43	(1,208)	1,442	22	198	497
Credited/(charged) to profit or loss (note 7(a))	102	(1,200)	128	—	(198)	(1,168)
At 31 December 2006	145	(2,408)	1,570	22	—	(671)
At 1 January 2007	145	(2,408)	1,570	22	—	(671)
Acquired through acquisition (note 31(a)(vii))	(6,718)	(8,926)	30	—	—	(15,614)
Credited/(charged) to profit or loss (note 7(a))	22	(6,021)	(690)	1,078	—	(5,611)
At 31 December 2007	(6,551)	(17,355)	910	1,100	—	(21,896)

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

	2007 RMB'000	2006 RMB'000
Net deferred tax asset recognised on the balance sheet	—	—
Net deferred tax liability recognised on the balance sheet	(21,896)	(671)
	(21,896)	(671)

(c) Deferred tax not recognised:

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB2,860,000 (2006: RMB2,144,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant jurisdiction and entity. Under the relevant PRC tax rules and regulations, the tax losses expire between 2009 and 2012.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES

(a) The Group

	Note	Share capital RMB'000 (note 27(c))	Share premium RMB'000 (note 27(d)(i))	Merger reserve RMB'000 (note 27(d)(ii))	PRC statutory reserves RMB'000 (note 27(d)(iii))	Capital reserve RMB'000 (note 27(d)(iv))	Exchange reserve RMB'000 (note 27(d)(v))	Retained profits RMB'000	Total RMB'000
At 1 January 2006		7,331	214,557	49,990	47,477	—	(380)	152,611	471,586
Dividends approved in respect of the previous year	11	—	—	—	—	—	—	(38,818)	(38,818)
Profit for the year		—	—	—	—	—	—	151,736	151,736
Equity-settled share-based transactions		—	—	—	—	11,731	—	—	11,731
Exchange differences on translation of financial statements of companies outside the PRC		—	—	—	—	—	(10,359)	—	(10,359)
At 31 December 2006		7,331	214,557	49,990	47,477	11,731	(10,739)	265,529	585,876
At 1 January 2007		7,331	214,557	49,990	47,477	11,731	(10,739)	265,529	585,876
Dividends approved in respect of the previous year	11	—	—	—	—	—	—	(49,297)	(49,297)
Profit for the year		—	—	—	—	—	—	212,896	212,896
Transfer to statutory reserves		—	—	—	20,823	—	—	(20,823)	—
Issue of new shares	27(c)	1,091	496,461	—	—	—	—	—	497,552
Share issue expenses		—	(14,541)	—	—	—	—	—	(14,541)
Equity-settled share-based transactions		—	—	—	—	17,240	—	—	17,240
Exchange differences on translation of financial statements of companies outside the PRC		—	—	—	—	—	(26,448)	—	(26,448)
At 31 December 2007		8,422	696,477	49,990	68,300	28,971	(37,187)	408,305	1,223,278

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES (continued)

(b) The Company

	Note	Share capital RMB'000 (note 27(c))	Share premium RMB'000 (note 27(d)(i))	Contributed surplus RMB'000 (note 27(d)(ii))	Capital reserve RMB'000 (note 27(d)(iv))	Exchange reserve RMB'000 (note 27(d)(v))	Retained profits/ (loss) RMB'000	Total RMB'000
At 1 January 2006		7,331	214,557	198,399	—	—	39,820	460,107
Dividends approved in respect of the previous year	11	—	—	—	—	—	(38,818)	(38,818)
Loss for the year		—	—	—	—	—	(11,920)	(11,920)
Equity-settled share-based transactions		—	—	—	11,731	—	—	11,731
Exchange differences on translation of financial statements of the Company		—	—	—	—	(14,689)	—	(14,689)
At 31 December 2006		7,331	214,557	198,399	11,731	(14,689)	(10,918)	406,411
At 1 January 2007		7,331	214,557	198,399	11,731	(14,689)	(10,918)	406,411
Dividends approved in respect of the previous year	11	—	—	—	—	—	(49,297)	(49,297)
Profit for the year		—	—	—	—	—	53,333	53,333
Issue of new shares	27(c)	1,091	496,461	—	—	—	—	497,552
Share issue expenses		—	(14,541)	—	—	—	—	(14,541)
Equity-settled share-based transactions		—	—	—	17,240	—	—	17,240
Exchange differences on translation of financial statements of the Company		—	—	—	—	(42,910)	—	(42,910)
At 31 December 2007		8,422	696,477	198,399	28,971	(57,599)	(6,882)	867,788

27 CAPITAL AND RESERVES (continued)

(c) Share capital

Authorised, issued and fully paid:

	2007		2006	
	No. of shares	**Amount HK$'000**	No. of shares	Amount HK$'000
Ordinary shares of HK$0.01 each	**100,000,000,000**	**1,000,000**	100,000,000,000	1,000,000

Ordinary shares, issued and fully paid:

	No. of shares	**Amount RMB'000**	No. of shares	Amount RMB'000
At 1 January	**704,247,787**	**7,331**	704,247,787	7,331
Issuance of new shares	**112,680,000**	**1,091**	—	—
At 31 December	**816,927,787**	**8,422**	704,247,787	7,331

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.

On 24 September 2007, 112,680,000 new ordinary shares of the Company at a par value of HK$0.01 were issued at a price of HK$4.56 per share.

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company 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 and they fall due in the ordinary course of business.

27 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves (continued)

(ii) Merger reserve

The merger reserve represents the difference between the nominal value of shares of the subsidiary acquired over the normal value of the shares used by the Company in exchange thereafter. This reserve is distributable.

(iii) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

— General reserve fund

General reserve fund can be used to make good previous year's losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of their registered capital.

Certain subsidiaries in the PRC are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to equity holders.

— Enterprise expansion fund

Enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the relevant subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the equity holders.

One of the subsidiaries in the PRC is required to transfer a certain percentage of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. The percentage of appropriation is decided by the directors of the subsidiaries.

27 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves (continued)

(iv) Capital reserve

Capital reserve represents the fair value of the unexercised share options granted to the eligible participants in accordance with the accounting policy set out in note 2(o)(ii).

(v) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,146,556,000 (2006: RMB531,068,000).

(f) 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, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as the Group's total bank borrowings over the Group's total assets. It is the Group's strategy to keep the gearing ratio in the range of 10% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends payable to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

27 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

The gearing ratios as at 31 December 2007 and 2006 are as follows:

	2007 RMB'000	2006 RMB'000
Short-term bank loans	**208,790**	163,700
Long-term bank loans	**42,000**	—
Total bank borrowings	**250,790**	163,700
Total assets	**1,924,994**	929,613
Gearing ratio	**13%**	18%

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

28 FINANCIAL INSTRUMENTS

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (continued)

(a) Credit risk

(i) Trade and other receivables

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

In respect of trade and other receivables, credit evaluations are performed on all customers. The credit evaluations are reperformed periodically for the existing customers. Customers are normally granted credit terms of 3 months to 6 months depending on the Group's assessment of the credit worthiness of individual customers. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records. The Group chases customers to settle outstanding balances and monitors the settlement progress on an ongoing basis. Normally, the Group does not obtain collateral from customers. The impairment losses on bad and doubtful accounts are within management's expectation.

At the balance sheet date, the Group has a concentration of credit risk as 83% (2006: 94%) of the total trade and other receivables were due from the customers who are engaged in the power industry in the PRC.

The maximum exposure to credit risk is represented by the carrying amount of trade and other receivables in the balance sheet.

(ii) Deposit with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its 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.

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the serving of operation, financial and capital obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

	2007				2006			
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	**416,269**	**416,269**	**416,269**	**—**	174,601	174,601	174,601	—
Bank loans	**250,790**	**257,641**	**214,786**	**42,855**	163,700	168,026	168,026	—
	667,059	**673,910**	**631,055**	**42,855**	338,301	342,627	342,627	—

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from bank loans and cash at bank. An 83% (2006: 100%) of the bank loans of the Group were fixed rate instruments and were insensitive to any change in market interest rates. The Group did not use derivative financial instruments to hedge its debt obligations. The following table details the interest rate profile of the Group's interest bearing financial liabilities at the balance sheet date:

	The Group			
	2007		2006	
	Effective interest rates %	**Amount RMB'000**	Effective interest rates %	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**6.09**	**208,790**	5.96	163,700
Variable rate borrowings:				
Bank loans	**7.23**	**42,000**	—	—
Total borrowings		**250,790**		163,700
Fixed rate borrowings as a percentage of total borrowings		**83.3%**		100.0%

28 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB1,057,000 (2006: RMB693,000) as a result of increase/decrease in interest expenses. Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

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 bank loan in existence at that date. The 100 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Foreign currency risk

(i) Forecast transactions

The Group is exposed to foreign currency risk primarily through deposits and withdrawals of fixed deposits, sales and purchases 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 and Hong Kong dollars.

(ii) Recognised assets and liabilities

In respect of trade and other 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.

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk (continued)

(iii) Exposure to currency risk

The following table details the Group's major exposure at the balance sheet date to currency risk arising from recognised assets and liabilities denominated in a currency other than Renminbi.

	2007		2006	
	US$'000	**HK$'000**	US$'000	HK$'000
Trade and other receivables	**5,442**	**—**	2,741	—
Cash and cash equivalents	**627**	**2,686**	456	372
Trade and other payables	**—**	**(5,314)**	(239)	(6,323)
Bank loans	**(7,300)**	**—**	—	—
Overall net exposure	**(1,231)**	**(2,628)**	2,958	(5,951)

(iv) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currencies.

28 FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk (continued)

(iv) *Sensitivity analysis* (continued)

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	**7%**	**(172)**	3%	(179)
	(7%)	**172**	(3%)	179
United States dollars	**6%**	**(540)**	3%	693
	(6%)	**540**	(3%)	(693)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(e) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 due to the nature and terms of maturity of these instruments.

28 FINANCIAL INSTRUMENTS (continued)

(f) Estimation of fair value

A number of Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Interests in leasehold land and property, plant and equipment

The fair value of interests in leasehold land recognised as a result of a business combination is based on market value.

Due to the specialised nature of items of property, plant and equipment acquired through business combinations, the fair value of property, plant and equipment recognised as a result of business combinations is determined using a depreciated replacement cost approach.

(ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Bank loans

The fair value of bank loans, which is determined for disclosure purpose, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iv) Share-based payment transactions

The fair value of employee stock options is measured using the binomial lattice model. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on historical volatility and expected growth), weighted average expected life of the instruments (based on general option holder behaviour), expected dividends, and the risk-free interest rate (based on the Exchange Fund Notes). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (continued)

(f) Estimation of fair value (continued)

(v) Interest rates used for determining fair value

Interest rates used for determining fair value are as follows:

	2007	2006
Bank loans	**6.09%-7.23%**	5.96%

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Contracted for	**100,195**	2,160	**—**	—
Authorised but not contracted for	**215,785**	122,802	**—**	—
	315,980	124,962	**—**	—

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties were payable as follows:

	The Group		**The Company**	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Within 1 year	**2,226**	1,888	**1,320**	1,276
After 1 year but within 5 years	**192**	—	**—**	—
	2,418	1,888	**1,320**	1,276

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew the leases when all terms renegotiated. None of the leases includes contingent rentals.

(Expressed in Renminbi unless otherwise indicated)

30 CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2007, the Company issued guarantees to banks in respect of banking facilities granted to certain wholly owned subsidiaries. The directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company as at 31 December 2007 under the guarantee amounted to RMB241,000,000 (2006: RMB25,000,000).

31 RELATED PARTY TRANSACTIONS

In addition to transactions and balances disclosed elsewhere in these financial statements, the Group entered the following material related party transactions.

(a) Significant related party transactions

	Note	**2007** **RMB'000**	2006 RMB'000
Recurring transactions			
Purchases	(i)	**20,515**	70,103
Sales			
— to Hunan Weike	(ii)	**88**	211
— to Hunan Weiming Technology Co., Ltd. ("Hunan Weiming")	(iii)	**2,981**	—
Provision of processing services	(iv)	**20**	—
Rental of properties			
— from Mr Liang	(v)	**287**	256
— from Changsha Weihua Property Development Ltd ("Weihua Property")	(vi)	**499**	—
Non-recurring transactions			
Acquisition of a subsidiary	(vii)	**210,000**	—
Bank loan secured by Changsha Weihua	(viii)	**20,000**	—
Bank facilities secured by Hunan Classic Investment Co., Ltd ("Hunan Classic")	(ix)	**40,000**	—

31 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

Notes:

(i) The Group made purchases from Hunan Weike. Hunan Weike was beneficially owned by Mr Liang, brother of Mr Ji, who is a director and shareholder of the Company, before the acquisition of the Group on 14 May 2007.

Pursuant to the relevant purchase agreements between the Group and Hunan Weike, the purchase prices were determined based on 95% (2006: 95%) of the selling price of the respective purchases of the Group.

(ii) The Group sold finished goods to Hunan Weike. The selling prices were determined based on the average selling price of such goods charged by the Group to independent customers.

(iii) The Group sold finished goods to Hunan Weiming. The selling prices were determined based on the average selling price of such goods charged by the Group to independent customers. Hunan Weiming is beneficially owned by Mr Ji.

(iv) The Group provided processing services for the products of Hunan Weiming.

(v) The Group entered into a lease agreement with Mr Liang under which the Group was granted the right to use an office premises and a staff quarters for a term of one year. The rentals were determined by negotiation between the Group and the landlord based on the then prevailing market rate.

(vi) The Group entered a lease agreement with Weihua Property under which the Group was granted the right to use the plant for a term of one year. The rentals were determined by negotiation between the Group and the landlord based on the then prevailing market rate. Mr Ji has a controlling interest in Weihua Property.

The directors of the Company are of the opinion that the above related party transactions were entered into:

— in the ordinary and usual course of its business;

— on normal commercial terms;

— on terms that are fair and reasonable so far as the shareholders are concerned and in the interest of the Group as a whole; and

— in accordance with terms of the agreement governing each of such transactions.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

(vii) On 14 May 2007, the Group acquired a 100% equity interest of SIL and its subsidiary, Hunan Weike, from Mr Liang at a consideration of RMB210,000,000. The consideration is to be satisfied by the Group in the following manner:

(1) a first payment of RMB81,000,000 (the "First Payment") has been paid in cash; and

(2) the remaining balance of the consideration (the "Second Payment"), which was determined based on the net profit after tax of Hunan Weike, determined under PRC accounting rules and regulations, for the year ended 31 December 2007 multiplied by a price-earnings ratio of 7 times and deducting the First Payment but in any event shall not be more than RMB129,000,000, will be payable in cash within 30 days from the day on which the audited accounts of Hunan Weike for the year ended 31 December 2007 have been issued by the auditors appointed by the Group. Pursuant to a memorandum between Mr Liang, Hunan Weike and the Group, the Second Payment should initially offset against the receivables due from related parties by Hunan Weike amounted to RMB79,000,000 acquired by the Group through the acquisition (note 20).

Details of SIL and Hunan Weike at 31 December 2007 are as follows:

Name of company	**Place of incorporation**	**Particulars of issued/ registered capital**	**Principal activities**	**Results contributed by the company from the date of acquisition to 31 December 2007** RMB'000
SIL	BVI	1 share of US$1 each	Investment holding	—
Hunan Weike	PRC	HK$ 50,000,000	Development, manufacture and sale of electronic power meters	4,581

If the acquisition had occurred on 1 January 2007, management estimates the consolidated revenue would have been RMB818,040,000 and consolidated profit for the year would have been RMB208,723,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2007.

(Expressed in Renminbi unless otherwise indicated)

31 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

(vii) (continued)

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition RMB'000	Fair value adjustment RMB'000	Pre-acquisition carrying amounts RMB'000
Property, plant and equipment and construction in progress (note 14)	7,034	185	6,849
Lease prepayments	65,700	46,713	18,987
Intangible assets (note 16)	101,411	101,411	—
Trade and other receivables	133,685	—	133,685
Inventories	31,467	938	30,529
Cash and cash equivalents	6,581	—	6,581
Trade and other payables	(132,225)	—	(132,225)
Bank loans	(44,870)	—	(44,870)
Deferred tax liabilities	(15,614)	(15,474)	(140)
Net identifiable assets and liabilities	153,169	133,773	19,396
Goodwill arising on consolidation	56,831		
Consideration payable	(129,000)		
Cash acquired	(6,581)		
Net cash outflow	74,419		

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' work force, and the synergies expected to be achieved from integrating Hunan Weike into the Group's existing power meter business.

31 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

(viii) As at 31 December 2007, a bank loan of RMB20,000,000 was secured by the pledge of property, plant and equipment of Changsha Weihua.

(ix) As at 31 December 2007, a banking facility of RMB40,000,000 was secured by the pledge of leasehold land held by Hunan Classic. The banking facility was unutilised as at 31 December 2007. Certain directors of the Company are directors of Hunan Classic.

(b) Key management personnel remuneration

Remuneration for key management personnel, 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:

	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	**6,233**	5,475
Post employment benefits	**147**	112
Equity compensation benefits	**6,639**	5,080
	13,019	10,667

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

32 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

33 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2007, the directors consider the parent and ultimate controlling party of the Group to be Star Treasure Investments Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

34 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment loss for trade and other receivables

As explained in note 2(i)(i), the Group makes impairment loss for trade and other receivables based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customers, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(ii) Impairment loss for intangible assets

As explained in note 2(i)(ii), impairment loss for intangible assets is determined based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual products, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(iii) Provision for inventories

As explained in notes 2(j), the Group's inventories are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs of completion in case for work in progress, and the costs to be incurred in selling the inventories. Uncertainty exists in these estimations.

(iv) Warranty provisions

The Group may incur warranty costs during the ordinary course of its business. After taking into account the Group's claim experience in the past few years and the unique nature of its products, the directors of the Company are of the opinion that no provision for the warranties is required at the balance sheet date and warranty costs are expensed in profit or loss in the period in which they are incurred. As the Group is continually upgrading its product designs and launching new models, it is possible that the past claim experience may not be indicative of future claims that it will receive in respect of past sales. Any increase in warranty costs would affect profit or loss in future years.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007

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 accounting period ended 31 December 2007 and which have not been adopted in these financial statements. Of which, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (revised)	Presentation of financial statements	1 January 2009
HKFRS 8	Operating segments	1 January 2009

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 these standards is unlikely to have a significant impact on the Group's results of operations and financial position.