

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

| | For the year ended 31 December | |
|--------------------------------|-----------------------------------|-------------------|
| | 2005 (RMB'000) | 2004 (RMB'000) |
| Turnover | 445,648 | 321,104 |
| Gross profit | 235,163 | 158,496 |
| Profit for the year | 115,972 | 82,418 |
| Total assets | 744,195 | 437,057 |
| Shareholders' funds | 471,586 | 169,113 |
| Basic earnings per share (RMB) | 0.24 | 0.17 |

KEY FINANCIAL FIGURES

| | For the year ended 31 December | |
|---|-----------------------------------|------|
| | 2005 | 2004 |
| Gross profit margin | 53% | 49% |
| Operating profit margin | 31% | 30% |
| Net profit margin | 26% | 26% |
| Return on equity | 25% | 49% |
| Current ratio | 2.99 | 1.09 |
| Inventory turnover period (Days) | 148 | 180 |
| Trade receivable turnover period (Days) | 172 | 117 |
| Trade payable turnover period (Days) | 133 | 121 |
| Gearing ratio | 15% | 31% |
| Interest coverage | 11.18 | 9.93 |

Despite keen market competition, the Group achieved remarkable results in 2005. During the year, the Group recorded satisfactory growth in turnover and profit. Turnover amounted to approximately RMB 445.65 million (2004: RMB 321.10 million), representing an increase of 39%. Profit for the year was approximately RMB 115.97 million (2004: RMB 82.42 million), meeting the profit forecast as stated in the Company's Listing prospectus dated 6 December 2005.

Our satisfactory financial results in 2005 were mainly attributable to our persistent strong sales growth and our ability to maintain overall profit margin. In addition, the operation of Changsha Weisheng Information Technology Limited ("Weisheng Information") became full-fledged and registered a nine-fold growth in sales in 2005, when compared with 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FOUR YEAR FINANCIAL SUMMARY

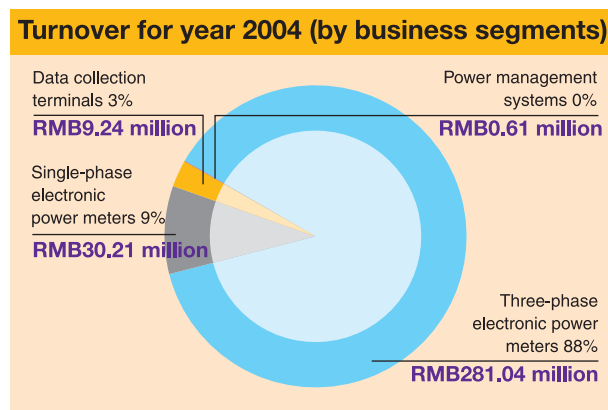
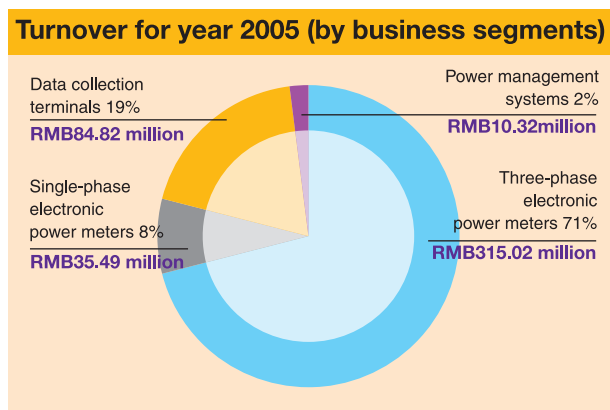
| | 2005 RMB'000 | 2004 RMB'000 | 2003 RMB'000 | 2002 RMB'000 |
|--|-----------------|-----------------|-----------------|-----------------|
| Profit attributable to shareholders of the Company | 115,972 | 82,435 | 63,917 | 29,578 |
| Total assets | 744,195 | 437,057 | 503,870 | 251,317 |
| Total liabilities | 272,609 | 267,944 | 372,449 | 141,750 |
| Minority interest | — | — | 16,990 | 18,118 |
| Shareholders' funds | 471,586 | 169,113 | 114,431 | 91,449 |

TURNOVER

By business segments

Revenue from our three-phase electronic power meters and single-phase electronic power meters business increased by 13% to RMB 350.51 million as compared with 2004. In addition, the turnover from data collection terminals and power management systems for this year surged substantially. Thus, the sales of electronic power meters as a percentage of total sales decreased by 18 percentage points to 79% in 2005 from 97% in 2004.

Since mid-2004, Wasion Meters started to provide power management systems and data collection terminals to customers through Weisheng Information. In 2005, these segments were able to make the first full year contributions to the Group's turnover. Since the base for 2004 was smaller, these segments' percentage contribution to total revenue in 2005 significantly increased to 21%.



MANAGEMENT DISCUSSION AND ANALYSIS



By geographical areas

In 2005, the Group further enhanced its sales efforts and made notable progress in expanding domestic markets, including Beijing, Shandong and Sichuan.

GROSS PROFIT

In this financial year, robust sales growth brought about 48% increase in gross profit to RMB 235.16 million. In 2004, the Group launched its data collection terminals and power management systems with higher gross profit margins. These new businesses have been growing since then and changed the Group's gross profit spread in 2005. During the year, the gross profit of three-

phase electronic power meters, data collection terminals, power management systems and single-phase electronic power meters, accounted for 79%, 19%, 1% and 1% (2004: 97%, 2%, nil and 1%) of total gross profits respectively. As data collection terminals and power management systems are advanced technology products and their prices are higher, they post higher gross profit margins. Looking forward, the Group will strive to develop these products and expects them to become a major growth factor.

OPERATING EXPENSES

In 2005, our total operating expenses amounted to approximately RMB 101.34 million (2004:RMB 61.21 million). The increase was because of the fact that more was spent to support Weisheng Information in achieving remarkable turnover in the year. The Group will strive to control its operating expenses by consolidating the resources of its subsidiaries and through realizing the complementary strengths of the different business segments. Our operating expenses as a percentage of total sales increased from 19% in 2004 to 23% in 2005.

OPERATING PROFIT

Following the rapid growth in turnover, earnings before finance costs and tax for 2005 was RMB 136.55 million, representing an increase of 39% from 2004. Operating profit margin grew to 31% in 2005 from 30% in 2004.

NET PROFIT

In spite of the intense competition, the Group managed to achieve satisfactory growth in net profit, which increased by 41% to RMB 115.97 million when compared with 2004. It meets the profit forecast of not less than HK\$ 110.00 million (equivalent to RMB114.40 million) as stated in the Company's Listing prospectus dated 6 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Company's current assets amounted to approximately RMB 591.13 million, with cash and cash equivalents totaling approximately RMB 206.43 million.

As at 31 December 2005, our total bank loans amounted to approximately RMB 114.74 million. Net book value of our pledged assets for those bank loans was approximately RMB 82.35 million. In 2005, the interest rate for the Company's bank borrowings ranged from 5.02% to 6.34% per annum (2004: 4.17% to 6.04% per annum).

The gearing ratio (total borrowings divided by total assets) decreased from 31% as at 31 December 2004 to 15% as at 31 December 2005. The change was due to the decrease in borrowings when compared with that in 2004, and the significant increase in total assets (which is due to the increase in equity as a result of the Company's Listing in Hong Kong).

EXCHANGE RATE RISK

Most of our businesses are settled in Renminbi, which is not freely convertible into foreign currencies. The amounts of foreign currency the Group used to purchase raw materials exceeded the amount of foreign currency it earned from exports. Since Renminbi appreciated, there was no negative effect on the Group. The Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

ADMINISTRATIVE EXPENSES

Administrative expenses principally include salary and staff costs of administrative function, traveling expenses, depreciation of office equipments, insurance expenses and other general expenses.

In 2005, administrative expenses remained stable, accounting for approximately 7% of the Group's turnover (2004: 6%). As listed companies in Hong Kong need to pay addition legal, accounting and other compliance expenses, the Board expects the administrative expenses for 2006 to increase accordingly. However, benefiting from our increasing turnover, the Board believes the expenses as a percentage of turnover will not increase substantially.

EMOLUMENT POLICY AND OPTION SCHEMES

As at the 31 December 2005, the Group had 1,072 staff (2004: 802 staff). The remuneration and related cost (including other benefits and contributions to defined contribution plan) totaled RMB 37.58 million in 2005 (2004: RMB 19.03 million). The aggregate amount of the emoluments of the Group's directors was RMB 2.28 million in 2005.





MANAGEMENT DISCUSSION AND ANALYSIS

The Group's employees in the People's Republic of China (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 recognize 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 non-executive directors 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, will contribute to the Group or have done so.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSAL OF ASSETS

In 2005, the Group did not make any significant investments, acquisitions or disposals of its subsidiaries or affiliated companies.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2005, the capital commitments authorized but not contracted for by the Group amounted to approximately RMB 20.00 million representing the purchase of property, plant and equipment. Apart from this, the Group had no material contingent liabilities.

MARKET REVIEW

THE PRC

Power meters are used in the power industry to measure the electric power at different stages – generation, transmission, distribution and usage. According to the China Instrument Manufacturer's Association, there were approximately 600 power meter manufacturers in the PRC in 2005. Most of these manufacturers produce low-end single-phase power meters with low profit margins, and only a few are capable of manufacturing and distributing high technology three-phase electronic power meters.

In the past few years, bolstered by the thriving PRC property market and the "One Household One Meter" project, market demand for power meters surged. Being regulated products in the PRC, power meters have fixed life spans and three-phase electronic power meters are to be replaced every three to six years. This means that over 1 million three-phase power meters in use have to be replaced each year. In addition to the rising basic and replacement demands, the overall demand for power meters has been rising at the prompt of the PRC government's aggressive financial policies that braced the country's average GDP growth at 9.5% in recent years. For instance, in 2004, the country's GDP was RMB 13,650 billion, around 8% of which or RMB 1,080 billion was electricity tariffs. As such an enormous amount is involved, a minute deviation in calculation will cause a tremendous financial loss. This explains the rising demand for accurate electronic power meters.



MANAGEMENT DISCUSSION AND ANALYSIS


In 2005, the Chinese government and its various departments launched their “Eleventh Five-year Plan” which took effect in 2006. Under the plan, the State Grid Corporation of China budgeted RMB 1,200 billion for investment, or on average RMB 200 billion to RMB 300 billion each year. The key emphasis of the new management of the State Grid Corporation of China is the modernization of power grid, and a sales and marketing department was set up in April 2005. In the upcoming five-year plan, power measurement and sales automation will be the key investment focus of the corporation and about 6% to 8% of the grid investment budget will be allocated to automation of power measurement systems, terminals and power meters. The move will benefit companies capable of offering complete power measurement solutions. Looking forward, we believe that, as an integral part of the power industry, power measurement products will attract the attention of many other industries, and thus have huge business potential. Sales of power measurement products are expected to grow at the average rate of 15% in the next five years, and that of three-phase electronic power meters will grow even more rapidly with a brilliant future.

IMPORT AND EXPORT MARKETS

In respect of import and export, customs statistics showed that apparatus and meters products imported between January and November 2005 were valued at approximately USD12.57 billion, representing an increase of 14.2% as compared with the same period last year. Nevertheless, the import of electronic measurement apparatus of the sort in which China has the comparative advantage had negative growth. In 2005, around 8 million power meters were exported, most of which were mechanical meters and their components and simpler electronic power meters, to over 20 countries including India, Italy, Pakistan, the Philippines, Malaysia and Vietnam. As the demand for replacement of power meters in developed countries and demand for power meters in developing countries continue to rise, the market for China’s power meter exports will continue to thrive.

BUSINESS REVIEW

PRODUCTS

The Group is principally engaged in the development, manufacture and sale of electronic power meters and data collection terminals and the power management systems under the “” and “W.LFAR” brandnames. The Group is also one of the few companies to develop 0.2S and 0.5S three-phase electronic power meters that meet the most stringent industry standard to date.

Development, manufacture and sale of electronic power meters

In 2005, the Group possessed permits to manufacture 16 types of three-phase electronic power meters and 3 types of single-phase electronic power meters, all of different specifications.

Because of the application of leading technology, reliable quality and reasonable prices, our three-phase electronic power meters continued to be our principal source of revenue, accounting for 71% of our total turnover (2004: 88%). Our income from sales of three-phase electronic power meters increased by 12% to RMB 315.02 million as compared with 2004.

Currently, the Group sells several models of single-phase electronic power meters, which are mainly used by households. These single-phase electronic power meters are suitable for multi-rate measurement of energy, and for use with remote meter-reading systems. In 2005, the income from sales of single-phase electronic power meters increased by 17% to RMB 35.49 million, accounting for 8% of the Group’s total turnover (2004: 9%).



MANAGEMENT DISCUSSION AND ANALYSIS

Provision of data collection terminals and power management systems

In mid-2004, the Group expanded its business to provide customers with power management systems and data collection terminals. Following the introduction of these products, the Group has become one of the few companies that can provide a complete power measurement solution in China, boasting the capability to offer one-stop service encompassing power measurement, tariff calculation and power management.


These power management systems and data collection terminals allow power companies to record and evaluate subscribers' usage patterns and power quality characteristics, reduce current loss, discover power pilferage and implement modern power management. With these strengths, power companies will be able to improve their profit margins and internal efficiency, and that explains why these products are so well received by our customers.

During the year, software development services relating to power management solution and automated power measurement systems started to make whole-year revenue contribution. Since this segment's revenue base was small in 2004, this segment's revenue as a percentage of Group's total revenue in 2005 increased significantly. The Directors believe these products will become a vital driving force as the pace of the China power industry reform continues to pick up.

PRODUCTION BASE

As at 31 December 2005, the Group had 382 staff in the production division. Our production plant with a gross floor area of approximately 19,850 sq.m. is located at the High Technology Industrial Zone of Changsha City, Hunan Province. It houses an SMT workshop, an insertion and soldering workshop, an assembly workshop, a calibration inspection workshop, an after processes workshop, two research and development centers, warehouses and offices. Taking into account the new SMT production line purchased in 2004, the Group's aggregate annual three-phase electronic power meters production capacity has been expanded to around 300,000 units. During the year, the Group's output was near saturation – around 210,000 units of three-phase electronic power meters, and around 20,000 units of data collection terminal products. In that light, the Group will use part of the proceeds from the Listing to progressively increase production capacity to 600,000 units of three-phase electronic power meters.

BRANDING AND MARKETING

After years of hardwork, “” brand 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.

During the year, the Group had 203 sales and marketing staff. They were responsible for providing sales and after-sale services for our customers from our 25 offices across China. Furthermore, they also help the Group to collect the latest market information and gain more thorough understanding of the market. In addition, the Group operates a 24-hour customer service hotline and email inquiry services for free to provide timely answers to customers' technical inquiries.

To enhance the Group's corporate image and promote its products and services, the sales and marketing team participates in various trade fairs from time to time and also organizes site visits to the Group's production facility for potential customers. The Group also strives to enhance its branding and establish authority in technology through advertising its products in power industry magazines, publishing various dissertations and sponsoring technical seminars and trade fairs.



MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL SUPPLY

Major materials used for the production of the Group's products are single-chip microcomputers (CPU/MCU), analogs, 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. In 2005, around 69% of the total purchases were sourced from the PRC, and the remaining 31% were from overseas.

In 2005, the prices of our major raw materials began to drop. To ensure it can obtain quality materials at competitive prices, the Group has not entered into any long-term agreement for supply of materials. In general, the Group will take into account attributes including product quality, price and delivery time in selecting suppliers. As for major materials, our policy is to retain at least two suppliers for each type of material to ensure their stable supply. To further reduce production costs, the Group will source major materials through public tenders.

RESEARCH AND DEVELOPMENT

The Group places considerable emphasis on research and development to help it improve the quality and effectiveness of its existing products and also to develop new products. The Group's research and development division is responsible for the design, research, development, testing and completion of each research and development project. The division is also responsible for setting the manufacturing standard of the Group's products. Currently, the Group has one of the strongest power measurement technology and products development teams, with 251 staff in total.

In 2005, the Group's expenditures on research and development (including the capitalised portion) amounted to approximately RMB 22.53 million, accounting for approximately 5% of the Group's total turnover (2004: 4%).

Apart from relying on our own research and development team, the Group has also worked closely with well-known universities in the PRC to develop new technologies. The research projects undertaken in 2005 included the research and development of the three-phase power source wave-filtering device with Qinghua University. So far, these projects have made satisfactory progress with products planned for launch in 2006.



MANAGEMENT DISCUSSION AND ANALYSIS

QUALITY CONTROL

Our products are widely used by different grades of power generators and grid companies, and end-users in the power industry, so small deviation in measurement could cause serious financial losses to them. The Group thus places strong emphasis on improving product and service quality, and strives to provide accurate, efficient and quality power measurement products to users.

The quality assurance division of the Group's production department conducts routine tests, full tests and sampling tests in every stage of product development and the production processes. As for product design and manufacturing, the Group complies strictly with different international standards, including ISO9001, IEC60687:1992 and IEC61036:2000. After years of hard work, the Group has also been accredited with 產品質量免檢證書 (Certificate for Product Exemption from Quality Surveillance Inspection) by the 國家質量監督檢驗檢疫總局 (State General Administration for Quality Supervision and Inspection and Quarantine). The Group's power meters are exempted from sampling inspections by the State General Administration for Quality Supervision and Inspection and Quarantine between September 2004 and September 2007.

PROSPECTS

Looking ahead, the Group will adhere to its principle of growing its business in scale and strength with leading technology. The Group will actively seek to seize all arising business opportunities in China and will focus its efforts on developing the following areas:

CONTINUE PRODUCT DEVELOPMENT, EXPAND PRODUCTION CAPACITY AND DEVELOP MULTI-FUNCTION METERS

The Group will continue to actively develop and upgrade its products, perfect its product portfolio and enhance the functions and quality of products to fulfill market demands. The Group plans to construct an additional production line in the first half of 2006 to cope with the anticipated surge in market demands in the second half of 2006. Its annual production capacity for three-phase electronic power meters is expected to increase from currently 300,000 units to 450,000 units by the end of 2006.

EXPAND PRODUCT RANGE AND IMPROVE PROFITABILITY THROUGH ACQUISITIONS AND INVESTMENTS

The Group intends to expand its product range and market share in China through strategic acquisition of manufacturers of quality power meters in the country. The Group will identify key domestic manufacturers of quality power meters or those holding unique technologies for acquisition. The Group will not rule out the possibility of collaboration with overseas power meters manufacturers in the future.



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ENHANCE SALES AND MARKETING ACTIVITIES

Seeing the substantial economic growth prospects in China, the Group intends to step up sales and marketing in the country through recruiting additional sales and marketing staff. It will also establish four additional offices in Shenzhen, Tianjin, Shanxi and Inner Mongolia to strengthen its distribution network in China.

The Group also intends to expand its overseas market by establishing overseas sales offices. Expanding the scale of sales and marketing endeavors overseas will help to pave the way for the Group to become an international company.

ENHANCE SERVICES TO CUSTOMERS

Being able to provide better services to customers is critical in ensuring the Group's competitiveness. Thus, the Group intends to deploy a CRM system in 2006 that will allow it to better manage sales administration and customer relationships.

To further enhance its services to customers in China, the Group intends to equip its offices with testing and maintenance equipment for rendering prompt services to customers.

EXPAND RESEARCH AND DEVELOPMENT CAPABILITY

The success of the Group, to a significant extent, hinges on its strong research and development capability. The capability enables the Group to develop high-end and technologically advanced products that boast high competitiveness in the market. The Group intends to continue its focus on research and development with the aim of sharpening its research and development capability to match leading international standards within five years.

To enhance its research and development capability, the Group plans to establish a post-doctorate candidate fund in 2006 to enable post-doctorate research personnel to continue their research and development work.