

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 2005.

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, PO Box 2681 GT, George Town, Grand Cayman, British West Indies and Room 2903, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong respectively.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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.

CORPORATE REORGANISATION

Pursuant to a reorganisation of the Group (the "Reorganisation") completed on 26 November 2005 to rationalise the structure of the Group for the preparation of the Listing, the Company became the holding company of the subsidiaries.

The shares of the Company were listed on the main board of the Stock Exchange on 19 December 2005.

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 18% and 32% 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 RMB33.70 million (2004: RMB24.94 million) from and sold finished goods amounting to RMB0.44 million (2004: RMB0.13 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.



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RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2005 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 37 to 40. The Directors recommend the payment of a final dividend of HK\$0.053 (equivalent to RMB0.05512) per ordinary share in respect of the year to shareholders whose name appear on the Register of Member of the Company on 22 May 2006 and payable on or around 8 June 2006. The Register of Members will be closed from 16 May 2006 to 22 May 2006, both days inclusive.

FOUR YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last four financial years is set out on pages 8 of this annual report. This summary does not form part of the audited financial statements.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB 115.97 million (2004: RMB 82.44 million) have been transferred to reserves. Other movements in reserves of the Company and the Group are set out in note 28 and the consolidated statement of changes in equity to the financial statements respectively.

The Directors recommend the payment of a final dividend of HK\$0.053 (equivalent to RMB 0.05512) per ordinary share (2004: Nil) to be paid to shareholders of the Company for the year ended 31 December 2005.

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.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB1.04 million (2004: RMB Nil).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately RMB22.49 million. Details of these acquisitions and other movements in property, plant and equipment 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 28 to the financial statements. Shares were issued during the year pursuant to the Reorganisation and the Listing.

During the year, there were no purchases, sales or redemptions of the Company's shares by the Company or any of its subsidiaries.



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DIRECTORS

The Directors during the period from 20 May 2004 (the date of incorporation of the Company) up to the date of this report were:

Executive Directors

Ji Wei, Chairman	(appointed on 20 July 2004)
Wang Xue Xin	(appointed on 3 March 2005)
Cao Zhao Hui	(appointed on 3 March 2005)
Zheng Xiao Ping	(appointed on 1 September 2005)
Liao Xue Dong	(appointed on 1 September 2005)
Zeng Xin	(appointed on 1 September 2005)

Independent non-executive Directors

Wu Jin Ming	(appointed on 1 September 2005)
Pang Yuan	(appointed on 1 September 2005)
Hui Wing Kuen	(appointed on 1 September 2005)

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 17 to 19 of this annual report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Directors who held office at 31 December 2005 had the following interests in the shares 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

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")	480,000,000	68.16

Save as disclosed above, as at 31 December 2005, 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.

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SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 26 November 2005 (the "Share Option Scheme") whereby the Directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up option to subscribe for shares of the Company. The purpose of the scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The share option shall be valid and effective for a period of 10 years from the date of grant.



As at 31 December 2005, no option was granted under the Share Option Scheme.

Apart from the foregoing, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

So far as the Directors or the chief executives of the Company are aware of, as at 31 December 2005, the shareholders, other than the Directors or the chief executives of the Company, who had an interest or short positions in the shares or the underlying shares 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:

	Number of ordinary shares held	% of total issued ordinary shares
Substantial shareholders		
Star Treasure	480,000,000	68.16
Asset Managers (China) Fund Co., Ltd.	44,247,787	6.28

Save as disclosed above and so far as the Directors and the chief executives of the Company are aware of, as at 31 December 2005, no other party (other than the Directors or the chief executives of the Company) had an interest or short positions in the shares or the underlying shares 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.



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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.

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 were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the listed securities of the Company.

CONNECTED TRANSACTIONS

The following are the continuing connected transactions of the Group in 2005:

1. *Exempt Continuing Connected Transactions - Office Leasing Agreement*

The Group has entered into a lease agreement with Mr. Liang Ke Nan, brother of Mr. Ji Wei, director of the Company, under which the Group was granted the right to use an office premises and a staff quarters for a term of one year and 6 months respectively.

For the year ended 31 December 2005, the Group paid a total rental of RMB0.16 million to Mr. Liang Ke Nan.

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

The Group has entered into a master agreement with Hunan Weike Power Meters Company Limited ("Hunan Weike"), which is beneficially owned by Mr. Liang Ke Nan and Mr. Pai Tie Xi, brother-in-law of Mr. Ji Wei, on 5 December 2005 (the "Master Agreement"), 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 "V//".



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The Master Agreement will expire on 31 December 2007. The Continuing Connected Transactions will be conducted in accordance with the following principles:

- (a) 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
- (b) 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 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.

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.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "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.

For the year ended 31 December 2005, the purchases from and the sales to Hunan Weike by the Group were RMB33.70 million and RMB0.44 million respectively.



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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 2005 are set out in notes 25 and 24 to the financial statements respectively.

RETIREMENT SCHEMES

The Group participates in two defined contribution retirement benefit schemes which cover 74% of the Group's employees. Particulars of these retirement benefit schemes are set out in note 26 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 were first appointed as the auditors of the Company in 2005.

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

By order of the Board

Ji Wei
Chairman

Hong Kong, 13 April 2006