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)

2006 **Interim Report**

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Ji Wei (Chairman)
Mr. Wang Xue Xin
Ms. Cao Zhao Hui
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

COMPANY SECRETARY

Mr. Chow Sheung Wa

AUTHORISED REPRESENTATIVES

Mr. Ji Wei
Mr. Chow Sheung Wa

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'):
China Constuction Bank
Bank of Communications

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O.Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

Room 2903, Far East Finance Centre
16 Harcourt Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O.Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

COMPANY WEBSITE

www. wasion. com

STOCK CODE

3393

Wasion Meters Group Limited (the “Company” or “Wasion Meters”) (stock code:3393) and its subsidiaries (collectively, the “Group”) develop, manufacture and sell electronic power meters and data collection terminals and provide power management systems under the brands “ ” and “WI.LFAR”.

The Group is also one of the few companies to first develop 0.2S and 0.5S three-phase electronic power meters which meet the most stringent industry standard to date.

The Group’s power management systems software and power data collection terminals can help power companies record and evaluate the pattern and characteristics of power consumption of end-users and are useful tools in helping power companies to modernise power management, reduce loss and theft of electricity, raising operational efficiency and profit margins.

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2006 (RMB'000)	2005 (RMB'000)
Turnover	**203,680**	153,010
Gross profit	**96,426**	73,824
Profit from operations	**46,153**	32,181
Profit attributable to equity shareholders of the Company	**41,047**	25,216
Basic earnings per share (RMB)	**0.06**	0.05

KEY FINANCIAL FIGURES

	Six months ended 30 June 2006	2005
Gross profit margin (%)	**47**	48
Operating profit margin (%)	**23**	21
Net profit margin (%)	**20**	16
Interest coverage (in times)	**9.28**	5.83

TURNOVER

The Group posted considerable growth in turnover and net profit in the first half of 2006. The growth was mainly attributable to the advanced technology, reliability and reasonable prices of the Group's products, and most of all, innovation. Turnover rose by 33% to RMB203.68 million in the period under review as compared to the same period last year ("period 2005").

GROSS PROFIT

In the first half of 2006, the fast-growing sales drove the growth of gross profit. Gross profit increased from RMB73.82 million for the same period last year to RMB96.43 million, representing an increase of 31%. The overall gross profit margin is 47%, which is similar to the 48% gross profit margin for the first half of 2005.

OPERATING EXPENSES

In the first half of 2006, the Group's operating expenses amounted to RMB53.63million (period 2005: RMB42.01 million). The increase in operating expenses was mainly due to the expansion of the Group's operation. Operating expenses accounted for 26% of turnover which slightly decreased as compared with the 27% for period 2005. The Group will continue to control costs by consolidating its subsidiaries' resources and making the subsidiaries complement each other with their respective competitive advantages.

PROFIT FROM OPERATIONS

Profit from operations rose by 43% to RMB46.15 million in the first half of 2006 as compared to the same period last year.

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

The profit attributable to the shareholders of the Company for the first half of 2006 grew by 63% to RMB41.05 million as compared to the same period last year.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2006, the Group's current assets amounted to approximately RMB646.37 million, with cash and cash equivalents totaling approximately RMB131.60 million. The cash and cash equivalents mainly denominated in Renminbi and Hong Kong dollars.

As at 30 June 2006, the Group's bank loans are all denominated in Renminbi and amounted to approximately RMB178.64 million. Net book value of the Group's total assets pledged for the bank loans was approximately RMB138.32 million as at 30 June 2006. During the period under review, the Group's bank borrowings bore fixed interest rates.

The gearing ratio (total borrowings divided by total assets) increased from 15% as at 31 December 2005 to 22% as at 30 June 2006. The increase was due to the increase in bank borrowings.

EXCHANGE RATE RISK

We conducted most of our business in Renminbi which is not freely convertible into foreign currency. Since the amounts of foreign currency of the Group used to purchase raw materials exceeded the amount of foreign currency it earned from exports, the appreciation of the Renminbi this year did not have any adverse effect on the Group's result. During the first half of 2006, the Group did not enter into any foreign exchange forward contracts nor did it buy other hedging instruments to hedge against fluctuations.

EMOLUMENT POLICY

As at 30 June 2006, the Group had 1,192 employees (As at 31 December 2005: 1,072). The staff costs (including other benefits and contributions to defined contribution plan) totalled RMB24.13 million in the first half of 2006 (period 2005: RMB14.00 million). The staff costs of the Group for the period under review included the fair value of share options granted to employees of the Group amounting to RMB4.90 million. The aggregate amount of the emoluments of the Company's directors was RMB1.92 million for the six months ended 30 June 2006.

The Group's employees in the People's Republic of China ("PRC") were enrolled in the mandatory central pension scheme operated by the State. The Group also provides housing allowances and benefits for healthcare, 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 has also set up a mandatory provident fund scheme for its employees in Hong Kong.

SHARE OPTION SCHEME

The Company has established a share option scheme to recognize and acknowledge the contributions made or will be made to the Company by the eligible participants. The purpose of the scheme is to encourage the eligible participants to continue their contribution to the development of the Group. The eligible participants include 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 of Directors (the "Board"), will contribute to the Group or have done so.

The details of the scheme options are as follows:

Name and category of participants	Number of share options: As at 1 January 2006	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 30 June 2006	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 to 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					
Total	—	36,800,000	—	—	36,800,000					

* 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:

Grantees	Directors, senior management staff	Other management staff
Fair value per share option	HK$0.835	HK$0.697
Grant date	23 February 2006	23 February 2006
Share price at the grant date	HK$2.225	HK$2.225
Exercise price	HK$2.225	HK$2.225
Expected volatility	45% per annum	45% per annum
Expected life	7.74 years	5.80 years
Expected dividend	4.5% per annum	4.5% per annum
Risk-free rate of interest	4.15% per annum	4.12% per annum
Rate of leaving service	Nil	5% 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.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSAL

In the period under review, the Group purchased equipment of RMB2.22 million to expand the capacity of its three-phase electronic power meter production, which reached 360,000 units per year at 30 June 2006. On 20 May 2006, the Group signed a land transfer agreement to buy a plot of land at a discounted land premium of RMB32.00 million for future expansion of production plant. As at 30 June 2006, the Group already paid RMB3.20 million as a down payment. Apart from these transactions, the Group did not make any other significant investments, acquisitions or disposal.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2006, the Group's capital commitments totalled approximately RMB49.61 million, which included the purchase of equipment and a plot of land to expand the Group's production capacity and research and development activities, and the acquisition of transport vehicles to expand and improve the sales and marketing network.

As at 30 June 2006, the Group did not have significant contingent liabilities.

MARKET REVIEW

The Chinese government has given directives for the country's power grid construction under the "Eleventh Five Year Plan", which spans from 2006 to 2010, aiming to solve the power shortage problem induced by the country's rapid economic development. The directives require expansion of the scale of the country's West-to-East power transmission, and the unification of the power grids nationwide. They also call for the construction of regional and provincial power grids, the construction and renovation of power grids in both the urban and rural areas, and simultaneous development of networks for power transmission and distribution. All these measures are aimed at ensuring the sufficient and stable supply of power, and have generated a huge potential market for power measurement equipment and power management systems.

The rapid growth in demand for power measurement equipment has slowed down due to completion of the renovation of urban and rural power grids. Nonetheless, the supply of technologically-advanced power meters still falls short of the country's demand. The on-going replacement of the power meters with new-generation products also indicated a shift from mechanical power meters to the more technologically-advanced electronic models.

BUSINESS REVIEW

ELECTRONIC POWER METERS

In the period under review, sales of electronic power meters remained the major source of income for the Group. Revenue from sales of three-phase electronic power meters and single-phase electronic power meters contributed to 61% and 13% of the Group's turnover respectively (period 2005: 63% and 9% respectively). Revenue from sales of three-phase electronic power meters and single-phase electronic power meters amounted to RMB123.81 million and RMB27.17 million, representing increases of 28% and 104% respectively over the same period last year.

DATA COLLECTION TERMINALS AND POWER MANAGEMENT SYSTEMS

In the first half of 2006, revenue from sales of data collection terminal and development of power management systems increased to RMB52.70 million, representing an increase of 22% over the same period last year. The revenue from this business segment accounted for 26% of the Group's turnover (period 2005: 28%).

EXPORT MARKETS

In the first half of 2006, the Group stepped up its efforts in sales, and made considerable progress in both the domestic and foreign markets. Domestic sales amounted to RMB192.06 million, accounting for 94% of the Group's turnover. Exports reached RMB11.62 million, contributing to 6% of the Group's turnover. In the PRC , the Group was already providing sales services to most parts of the country. In overseas markets, the Group sold its products mainly to Africa and Southeast Asia. The Group has already established sales channels in Egypt and Indonesia. In particular, the sales channel in Egypt served as the Group's springboard to the regions of Africa and the Middle East. The Group's combined exports to Africa and Southeast Asia accounted for more than 95% of its export value. The Group has ventured into the South American market since 2005. It began to develop the European market in 2006, and expects progress there in 2007.

BRANDING AND MARKETING

The Group has spent much efforts over a number of years to build up "" as a famous brand name in the PRC's market for three-phase electronic power meters. The Group has established mutual trust and long-term relations with its customers on the back of the high quality of its products.

SUPPLY OF MATERIALS

In the period under review, the costs of materials and components such as chip resistors (貼片電阻), multi-layer ceramic capacitors (貼片電容), integrated circuits, and semiconductors stabilized after a slight decline. However, components such as terminal blocks (端子排), transformers and transducer (互感器) etc., that have high copper content saw their prices increase because of the high cost of copper remained high. The Group has set up a cost control committee with clearly defined appraisal system on cost-saving management. Meanwhile, the research and development department has also worked to reduce material costs by improving designs.

RESEARCH AND DEVELOPMENT

The Group has been striving to raise the quality and efficiency of its existing products and to develop new products. In the period under review, the Group has launched a number of new products to the market including two models of the MB series power meters. The Group also replaced the conventional multi-function meters with the modular meters of the MB series. It also actively promoted the new three-phase multi-function products that enable remote control and operations. These products were put on trial use in a number of provinces and cities in the PRC and performed well.

As at 30 June 2006, the Group had 301 staff in its research and development department. In the first half of 2006, expenditure on research and development activities (including the capitalized portion) totalled RMB10.58 million, or 5% of the Group's turnover (period 2005: 5%).

Presently, research and development projects being carried out by the Group are: research and development of new models of power meters, serialization and improvement of existing products, the on-going cooperation with the Qinghua University in the development of three-phase active power filter (三相有源電力濾波器裝置), technological upgrade of data collection terminals and power management systems, research and development in custom-made products and development of power management systems for power transformer stations based on an open platform.

PROSPECT AND PLAN

IMPACT OF STATE POLICIES ON THE INDUSTRY'S FUTURE DEVELOPMENT

According to a report on the website of the China Industrial News Information Centre (中國產業經濟信息網), during the period of the "Eleventh Five Year Plan", China will invest more than RMB1 trillion in its power grids. It is expected that there will be a corresponding increase in investment to upgrade power measurement equipment. According to the report of the China Industrial News Information Centre it is estimated that about 6% to 8% of the annual investment in power grids will go to power meters, automated power measurement systems and related terminals. Companies which are able to supply total solutions for power measurement will stand to benefit from this development and there exists the possibility of huge domestic demand for the Group's products.

According to the statistics of the State Power Grid Company, about 1,900 local power plants, which are connected to the power grid system and have installed capacity of more than 6,000 megawatt each, will have their power data collection systems automated by the end of 2006. Such power plants include those owned as power reserves by enterprises. The Chinese government has also set the target that, in 2006, the provincial power grid companies will have to collect and monitor real-time data of the power consumption of about 50% of its customers, who consumed power of or more than 315 kVA each. The target for 2007 is that the power data of all customers whose power consumption reaches or exceeds 315 kVA each will have to be collected through an automated system. Provincial power grid companies which have the resources will include in the scheme their power users whose consumption is 100kVA or more. By 2010, the scheme will apply to all customers whose power consumption reaches or exceeds 50kVA. This development generates a good opportunity for the sales of the Group's data collection terminals.

Meanwhile, the on-going macroeconomic control measures are not merely limited to reining in the pace and scale of the economic development, but also requires power consumption to be reduced by 20% per unit of gross domestic product. In addition, the government's recent measures to allow power tariffs to rise could lead to the demand for more accurate measurement and more effective monitoring of power consumption on both the supply and demand sides. This may help stimulate demand for the Group's products such as high-accuracy power meters, data collection terminals and power management systems.

TRENDS OF THE PRODUCT DEVELOPMENT

In the next couple of years, the market will witness the transformation of power meters. The major trends can best be summarized as: 1) electronic power meters will gradually become the mainstream products; 2) high-accuracy power meters are undergoing rapid development; and 3) the power meter industry will strive to develop advanced models of automated testing systems and management systems for users with large power consumption.

THE GROUP'S DEVELOPMENT PLAN

The Group will continue to strive to build “” into a brand name for power meters in the international markets. In the PRC, the Group's application to the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) for having its brand recognized as “PRC's famous Brand” (“中國名牌”) was approved by the authorities at the end of August. The recognition will help boost the Group's reputation in the market.

The Group is actively expanding its overseas markets and aims to develop its export business into a larger operation. In the period under review, the Group began to actively develop the markets in South America and Europe.

The Group will use the proceeds from its listing to raise its annual three-phase electronic power meter production capacity to 450,000 units by the end of this year, and to 600,000 units in the future.

The Group will maintain the high growth momentum of its terminal business, broaden its range of products and increase its market shares through timely launch of new products, acquisitions and cooperation.

AUDIT COMMITTEE

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

All the members of our Audit Committee are independent non-executive directors as listed in page 2.

The interim results of the Group for the six months ended 30 June 2006 have been reviewed by the auditors of the Company, KPMG, and the Audit Committee.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

In the opinion of the Directors, the Group has been in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules since the listing of the Company's shares on the Stock Exchange on 19 December 2005. The Board acknowledges its responsibility for the Group's systems of internal controls and has assumed this responsibility through formalizing the Group's financial and legal procedures.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made with all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the first six months ended 30 June 2006.

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.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder 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 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 independent 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.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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.

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*, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

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

The Directors and the chief executives who held office at 30 June 2006 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")	480,000,000	68.16

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	0.43
Cao Zhao Hui	2,000,000	Beneficial owner	2,000,000	0.28
Zeng Xin	2,000,000	Beneficial owner	2,000,000	0.28
Zheng Xiao Ping	2,000,000	Beneficial owner	2,000,000	0.28
Liao Xue Dong	1,600,000	Beneficial owner	1,600,000	0.23
Hui Wing Kuen	600,000	Beneficial owner	600,000	0.09
Pan Yuan	200,000	Beneficial owner	200,000	0.03
Wu Jin Ming	200,000	Beneficial owner	200,000	0.03

Save as disclosed above, as at 30 June 2006, 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 chief executives of the Company are aware of, as at 30 June 2006, the shareholders, other than the Directors or chief executives of the Company, who have interests or short positions in the shares, the 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	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, as at 30 June 2006, 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 the 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES IN THE COMPANY

Apart from the foregoing, at no time during the period 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company have any interest in any business which may compete with the business of the Group during the six months ended 30 June 2006.

DIRECTORS' INTERESTS IN CONTRACTS

Other than those disclosed under "Material Related Party Transactions" on page 32, 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 period or at any time during the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2006, neither the Company nor any of the companies comprising the Group had purchased, sold or redeemed any of the Company's shares.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders, customers, banks, professional parties and employees for their continuous patronage and support.

By order of the Board

Ji Wei
Chairman
Hong Kong, 11 September 2006

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2006 RMB'000	2005 RMB'000
Turnover	3	**203,680**	153,010
Cost of sales		**(107,254)**	(79,186)
Gross profit		**96,426**	73,824
Other revenue		**3,293**	358
Other net income		**68**	4
Research and development costs		**(6,118)**	(7,618)
Distribution costs		**(19,494)**	(18,982)
Administrative expenses		**(23,794)**	(11,390)
Other operating expenses		**(4,228)**	(4,015)
Profit from operations		**46,153**	32,181
Finance costs		**(4,976)**	(5,520)
Profit before taxation	4	**41,177**	26,661
Income tax	6	**(130)**	(1,445)
Profit attributable to equity shareholders of the Company		**41,047**	25,216
Earnings per share (RMB)			
Basic	8	**0.06**	0.05
Diluted	8	**—**	0.05

The notes on pages 23 to 33 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Non-current assets			
Property, plant and equipment		89,411	87,846
Construction in progress		3,213	1,093
Lease prepayments		10,442	10,567
Intangible assets		52,561	53,066
Deferred tax assets		497	497
		156,124	153,069
Current assets			
Inventories		118,534	85,436
Trade and other receivables	9	330,039	247,113
Pledged deposits		66,193	52,143
Cash and cash equivalents		131,601	206,434
		646,367	591,126
Current liabilities			
Trade and other payables	10	147,014	151,930
Bank loans		178,640	39,740
Current taxation		1,465	5,939
		327,119	197,609
Net current assets		319,248	393,517
Total assets less current liabilities		475,372	546,586
Non-current liabilities			
Bank loans		—	75,000
NET ASSETS		475,372	471,586
CAPITAL AND RESERVES			
Share capital		7,331	7,331
Reserves		468,041	464,255
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		475,372	471,586

Approved and authorised for issue by the board of directors on 11 September 2006.

Ji Wei)
) Directors
Cao Zhao Hui)

The notes on pages 23 to 33 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	PRC statutory reserves RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Convertible bonds reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005		50,000	—	—	37,123	—	(3)	—	81,993	169,113
Dividends approved in respect of the previous year	7	—	—	—	—	—	—	—	(35,000)	(35,000)
Arising from the Reorganisation		(50,000)	—	50,000	—	—	—	—	—	—
Issuance of shares		8,268	—	(8,268)	—	—	—	—	—	—
Profit for the period		—	—	—	—	—	—	—	25,216	25,216
Issuance of convertible bonds		—	—	—	—	—	—	3,164	—	3,164
Exchange differences on translation of financial statements of foreign subsidiaries		—	—	—	—	—	(978)	—	—	(978)
At 30 June 2005		8,268	—	41,732	37,123	—	(981)	3,164	72,209	161,515
At 1 July 2005		8,268	—	41,732	37,123	—	(981)	3,164	72,209	161,515
Arising from the Reorganisation		(8,258)	—	8,258	—	—	—	—	—	—
Issuance of shares for placing and public offer		1,874	209,845	—	—	—	—	—	—	211,719
Share issuing costs		—	(32,924)	—	—	—	—	—	—	(32,924)
Conversion of convertible bonds		461	42,622	—	—	—	—	(3,164)	—	39,919
Capitalisation issue		4,986	(4,986)	—	—	—	—	—	—	—
Profit for the period		—	—	—	—	—	—	—	90,756	90,756
Transfer to reserve		—	—	—	10,354	—	—	—	(10,354)	—
Exchange differences on translation of financial statements of foreign subsidiaries		—	—	—	—	—	601	—	—	601
At 31 December 2005		7,331	214,557	49,990	47,477	—	(380)	—	152,611	471,586
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	7	—	—	—	—	—	—	—	(38,818)	(38,818)
Profit for the period		—	—	—	—	—	—	—	41,047	41,047
Equity settled share-based transactions		—	—	—	—	4,896	—	—	—	4,896
Exchange differences on translation of financial statements of foreign subsidiaries		—	—	—	—	—	(3,339)	—	—	(3,339)
At 30 June 2006		7,331	214,557	49,990	47,477	4,896	(3,719)	—	154,840	475,372

Note: On 23 February 2006, 36,800,000 shares options were granted for nominal consideration to directors and employees of the Group pursuant to the Company's share option scheme. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company. These share options will be vested on 23 February 2008, and then be exercisable until 22 February 2016. The exercise price is HK$2.225.

The notes on pages 23 to 33 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Cash used in operations	**(57,234)**	(56,016)
Tax paid	**(4,604)**	(2,555)
Net cash used in operating activities	**(61,838)**	(58,571)
Net cash (used in)/generated from investing activities	**(15,722)**	27,244
Net cash generated from financing activities	**6,057**	44,208
Net (decrease)/increase in cash and cash equivalents	**(71,503)**	12,881
Cash and cash equivalents at 1 January	**206,434**	25,984
Effect of foreign exchange rates changes	**(3,330)**	(976)
Cash and cash equivalents at 30 June	**131,601**	37,889

The notes on pages 23 to 33 form part of this interim financial report.

1 THE COMPANY AND THE REORGANISATION

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.

Pursuant to a reorganisation ("the Reorganisation") of the Company and its subsidiaries (the "Group") which was completed on 26 November 2005 to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Stock Exchange on 19 December 2005.

Details of the Reorganisation are set out in the prospectus dated 6 December 2005 issued by the Company (the "Prospectus").

The Group is regarded as a continuing entity resulting from the Reorganisation since all of the entities which took part in the Reorganisation were owned by the same sole ultimate shareholder, Mr. Ji Wei, before and immediately after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the ultimate shareholders that existed prior to the Reorganisation. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") under which the Company was the holding company of the Group for both periods presented, rather than from 26 November 2005. The results of the Group for the six months ended 30 June 2005 include results of the Company and its subsidiaries with effect from and since their respective dates of incorporation, whichever is a shorter period. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and state of affairs of the Group as a whole.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the HKICPA. It was authorised for issuance on 11 September 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 34.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 April 2006.

3 SEGMENT REPORTING

The entity's primary format for reporting segment information is business segments. Revenue from external customers represents the sales value of goods supplied to customers and income arising from provision of software development services.

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

	Six months ended 30 June 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	150,984	52,696	—	203,680
Inter-segment revenue	1,446	3,021	(4,467)	—
Total	152,430	55,717	(4,467)	203,680
Segment result	44,655	11,523		56,178
Unallocated operating income and expenses				(10,025)
Profit from operations				46,153

3 SEGMENT REPORTING (Continued)

	Six months ended 30 June 2005			
	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	109,937	43,073	—	153,010
Inter-segment revenue	200	232	(432)	—
Total	110,137	43,305	(432)	153,010
Segment result	22,619	10,824		33,443
Unallocated operating income and expenses				(1,262)
Profit from operations				32,181

4 SEASONALITY OF OPERATIONS

The Group's operations are subject to seasonal fluctuations. Demand for its products in general increases during the second half of each year and decreases thereafter.

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Interest on borrowings	4,717	4,451
Discount on the convertible bonds amortised before conversion	—	832
Other borrowing costs	259	237
Finance costs	4,976	5,520
Amortisation of lease prepayments	125	125
Amortisation of intangible assets	5,017	6,975
Depreciation	4,238	3,145
Interest income	(2,674)	(312)

6 INCOME TAX

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Current tax – PRC		
– Tax for the period	592	1,445
– Over provision in respect of prior years	(462)	—
	130	1,445

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 six months ended 30 June 2005 and 2006.

The PRC income tax has been calculated at the prevailing income tax rates under the relevant PRC income tax rules and regulations applicable to the subsidiaries. Certain subsidiaries were granted exemptions and relief from the PRC income tax by the relevant local tax bureau.

6 INCOME TAX (Continued)

As a Macau offshore company established under the Macau Offshore law, the subsidiary in Macau was exempted from Macau income tax during the six months ended 30 June 2005 and 2006.

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 six months ended 2005 and 2006.

A subsidiary in the PRC was granted with tax credits totalling RMB1,003,000 for the purchase of domestically produced plant and machinery and the research and development activities during the six months ended 30 June 2006.

7 DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Final dividend proposed by a subsidiary to the then equity shareholders in respect of previous financial year, approved and paid during the previous interim period	**—**	35,000
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the interim period, of HK$0.053 (equivalent to RMB0.05512) per ordinary share	**38,818**	—
	38,818	35,000

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity shareholders of the Company of RMB41,047,000 and the weighted average of 704,247,787 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the profit attributable to equity shareholders of the Company of RMB25,216,000 and the 1,000,000 ordinary shares in issue as at the date of the Prospectus, and 479,000,000 ordinary shares to be issued pursuant to a capitalisation issue, as if the ordinary shares were outstanding throughout the six months ended 30 June 2005.

(b) Diluted earnings per share

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2006.

The diluted earnings per share for the six months ended 30 June 2005 is calculated as follows:

Profit attributable to equity shareholders of the Company (diluted)

	Six months ended 30 June 2005 RMB'000
Profit attributable to equity shareholders of the Company	25,216
After-tax effect of discount on the convertible bonds	832
Profit attributable to equity shareholders of the Company (diluted)	26,048

Weighted average number of shares (diluted)

	Six months ended 30 June 2005
Weighted average number of shares	480,000,000
Effect of conversion of the convertible bonds	17,398,935
Weighted average number of shares (diluted)	497,398,935

The number of ordinary shares to be issued pursuant to the exercise of the conversion rights attaching to the convertible bonds in full is 44,247,787 ordinary shares.

9 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are debtors and bills receivable (net of impairment losses) with the following ageing analysis:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Within 3 months	**148,566**	129,854
Between 3 to 6 months	**43,643**	48,244
Between 6 to 12 months	**70,569**	26,200
Between 1 to 2 years	**5,799**	5,260
Trade debtors and bills receivable, net of impairment loss	**268,577**	209,558
Deposits, prepayments and other receivables	**61,462**	37,555
	330,039	247,113

Included in trade and other receivables are amounts due from a related party totalling RMB22,904,000 as at 30 June 2006 (31 December 2005: RMB8,641,000).

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.

10 TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors and bills payables with the following ageing analysis:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Due within 3 months or on demand	78,684	59,859
Due after 3 months but within 6 months	12,283	16,777
Trade creditors and bills payable	90,967	76,636
Other payables	19,607	43,162
Receipts in advance	36,368	29,294
Amounts due to related parties	72	2,838
	147,014	151,930

11 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Contracted for	28,800	—
Authorised but not contracted for	20,805	20,000
	49,605	20,000

As at 30 June 2006, the Group committed to acquire a piece of land at a discounted land premium of RMB32,000,000 from the relevant government authorities. Subject to the fulfilment of certain investment covenants on or before 31 December 2008, the Group may be required to additionally pay the discount on land premium. An initial deposit of RMB3,200,000 was paid pursuant to the land transfer agreement, which was included in other receivables as at 30 June 2006.

12 MATERIAL RELATED PARTY TRANSACTIONS

Recurring transactions

	Note	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000
Purchases	(i)	**25,822**	12,599
Sales	(ii)	**24**	73
Rental of office properties	(iii)	**114**	83

Notes:

(i) The Group made purchases from Hunan Weike Power Meters Company Limited（湖南威科電力儀錶有限公司）("HWPMCL"). Certain directors of the Company are also directors of HWPMCL. Pursuant to the relevant purchase agreements between the Group and HWPMCL, the purchase prices were determined based on 95% (2005: 95%) of the selling price of the respective purchases of the Group.

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

(iii) The Group entered into a lease agreement with a close relative of a director of the Company under which the Group was granted the right to use an office premises and a staff quarters. The rentals were determined by negotiation between the Group and the landlord based on the then prevailing market rate.

The directors of the Company are of the opinion that the above related party transactions were conducted in the ordinary course of business.

(Expressed in Renminbi)

13 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDING 31 DECEMBER 2006

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 December 2006.

		Effective for accounting periods beginning on or after
HK(IFRIC)7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9	Reassessment of embedded derivatives	1 June 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Revised guidance on implementing HKFRS 4	Insurance contracts	1 January 2007

The above amendments, new standards and interpretations were not applied in this interim financial report because the directors of the Company expect that the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2006.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

KPMG

Independent review report to the board of directors of
Wasion Meters Group Limited

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 19 to 33.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG
Certified Public Accountants

Hong Kong, 11 September 2006