

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Financial Highlights

	2006 RMB'000	2005 RMB'000
Turnover	596,910	445,648
Gross profit	284,309	235,163
Profit for the year	151,736	115,972
Total assets	929,613	744,195
Shareholders' equity	585,876	471,586
Basic earnings per share (RMB)	0.22	0.24
Diluted earnings per share (RMB)	0.21	0.24

### Key Financial Figures

	2006	2005
Gross profit margin	48%	53%
Operating profit margin	28%	31%
Net profit margin	25%	26%
Return on equity	26%	25%
Current ratio	2.13	2.99
Inventory turnover period (Days)	124	148
Trade receivable turnover period (Days)	181	172
Trade payable turnover period (Days)	147	133
Gearing ratio	18%	15%
Interest coverage (Profit from operations divided by finance costs)	17.68	11.18

Despite keen market competition, the Group achieved remarkable results in 2006. During the year, the Group recorded satisfactory growth in turnover and profit. Turnover amounted to approximately RMB596.91 million (2005: RMB445.65 million), representing an increase of 34%. Profit for the year was approximately RMB151.74 million (2005: RMB115.97 million), representing an increase of 31%.

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## Five Year Financial Summary

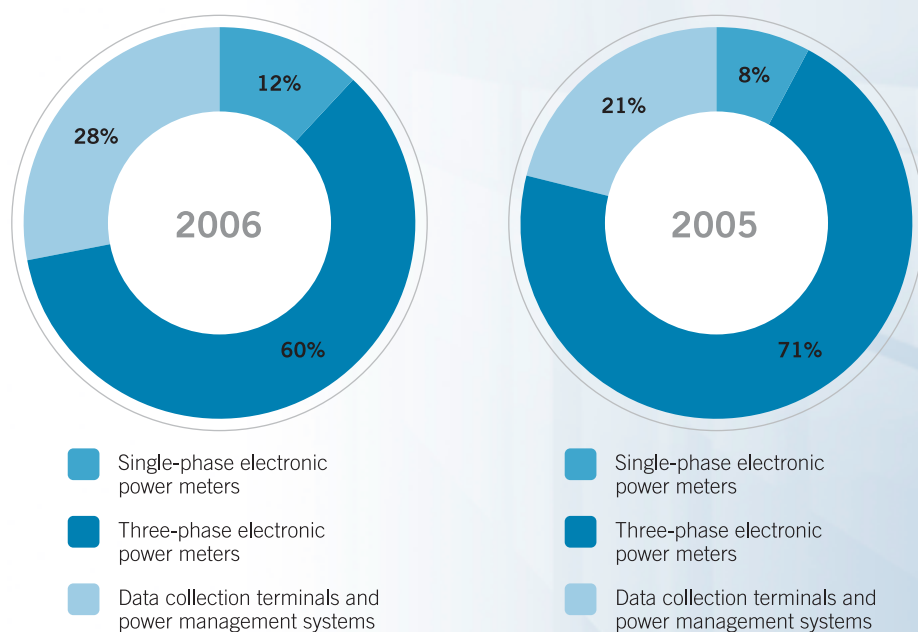
	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Profit for the year attributable to equity shareholders of the Company	151,736	115,972	82,435	63,917	29,578
Total assets	929,613	744,195	437,057	503,870	251,317
Total liabilities	343,737	272,609	267,944	372,449	141,750
Minority interest	—	—	—	16,990	18,118
Shareholders' equity	585,876	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 14% and 107% respectively to RMB360.49 million and RMB73.54 million respectively as compared with 2005. In addition, the turnover from data collection terminals and power management systems for 2006 has been increased by 71% to RMB162.89 million as compared with last year.

### Turnover Breakdown by Business Segments

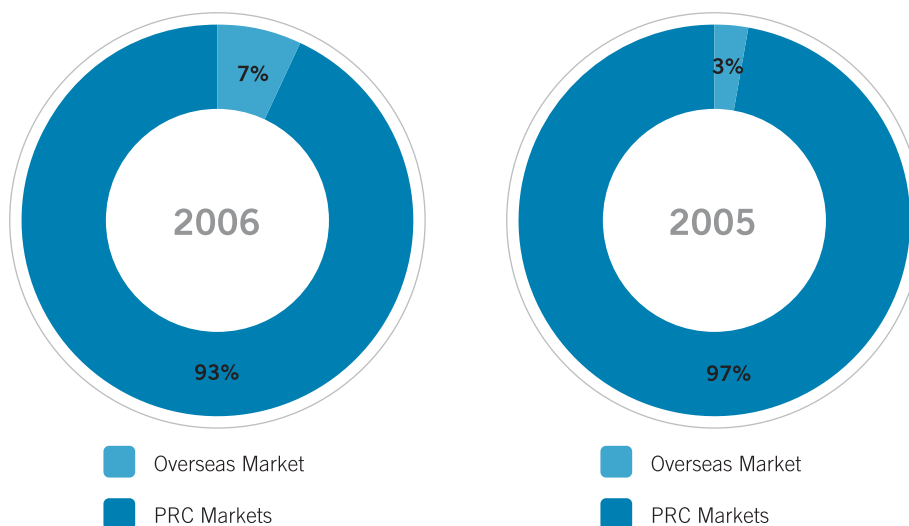


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## By geographical areas

In 2006, the Group further enhanced its sales efforts and made notable progress in expanding overseas markets, including Africa and Southeast Asia.

### Turnover Breakdown by Geographical Areas



## Gross Profit

The robust sales growth in 2006 drove the growth of gross profit. The Group's gross profit increased by 21% to RMB284.31 million for the year ended 31 December 2006 as compared with last year. The overall gross profit margin dropped from 53% in 2005 to 48% in 2006 which was mainly attributable to the increase of sales of data collection terminals and power management systems and single-phase electronic power meters which have comparatively lower gross profit margin than that of three-phase electronic power meters.

## Operating Expenses

In 2006, the Group's operating expenses amounted to RMB127.07 million (2005: RMB101.34 million). The increase in operating expenses was mainly due to the expansion of the Group's operation and the inclusion of equity-settled share-based payment expenses of RMB11.73 million in 2006 (2005: Nil). Operating expenses accounted for 21% of the Group's turnover in 2006. The decrease, as compared with 23% in 2005, was resulted from the stringent control of operating expenses during the year.

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## Operating Profit

Following the rapid growth in turnover, earnings before finance costs and tax for 2006 amounted to RMB167.94 million (2005: RMB136.55 million), representing an increase of 23% from 2005. Operating profit margin has been decreased from 31% in 2005 to 28% in 2006.

## Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2006 grew by 31% to RMB151.74 million as compared with last year which came in line with the growth of the Group's turnover.

## Capital Structure, Liquidity and Financial Resources

As at 31 December 2006, the Group's current assets amounted to approximately RMB729.82 million (2005: RMB591.13 million), with cash and cash equivalents totaling approximately RMB158.18 million (2005: RMB206.43 million).

As at 31 December 2006, the Group's total bank loans amounted to approximately RMB163.70 million (2005: RMB114.74 million). Net book value of the Group's pledged assets for the bank loans was approximately RMB123.28 million (2005: RMB82.35 million). In 2006, the interest rate for the Group's bank borrowings ranged from 5.02% to 6.73% per annum (2005: 5.02% to 6.34% per annum).

The gearing ratio (total borrowings divided by total assets) increased from 15% as at 31 December 2005 to 18% as at 31 December 2006. The change was due to the increase in bank borrowings as compared with that in 2005.

## Exchange Rate Risk

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

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## Emolument Policy And Option Schemes

As at 31 December 2006, the Group had 1,294 staff (2005: 1,072 staff). The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB56.60 million in 2006 (2005: RMB37.58 million). Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB8.27 million in 2006 (2005: RMB2.28 million).

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

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

## Significant Investments, Acquisitions And Disposals

During the year under review, the Group purchased RMB8.59 million of equipment for the expansion of the production capacity of three-phase electronic power meters to 450,000 units per year. On 28 December 2006, the Group acquired a piece of land amounted to RMB27.97 million for the construction of the new production plant. Apart from these transactions, the Group did not make any other significant investments, acquisitions and disposals during the year.

## Capital Commitments

As at 31 December 2006, the capital commitments authorised but not contracted for and contracted for but not provided in the financial statements by the Group amounted to RMB122.80 million (2005: RMB20.00 million) and RMB 2.16 million (2005: Nil) respectively, representing commitments for the purchase of property, plant and equipment and the construction cost of the new production plant.

## Contingent Liabilities

As at 31 December 2006, the Company issued a guarantee to a bank in respect of banking facilities granted to a wholly owned subsidiary which expires on 29 September 2007. The Directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee amounted to RMB25,000,000 (2005: Nil). Apart from this, the Group had no material contingent liabilities.

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## MARKET REVIEW

### The PRC

The Chinese government has given directives for the country's power grid construction under the "Eleventh Five-Year Plan", 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. The renovation of power grids will focus on power transmission tariffs, which aims to reduce the energy consumption per unit GDP by approximately 20% and implement measures to raise the tariffs. In addition, coal-link tariff adjustments have resulted in an increase of coal as well as tariff. The additional tariff income will be used for investment in construction of power grids. Both demand and supply sides committed to exercise stringent control over power consumption and tariff. All these measures 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.

Following the completion of large-scale renovation of power grids in urban and rural areas in the PRC, the demand for power measurement equipment has slowed down and become stable. Nonetheless, the supply of technologically-advanced power meters still falls short of the country's demand. The PRC will facilitate the urbanization of rural areas and residential construction of urban areas. The new commodity housing and coverage of power grids increase the demand for power meters. Following the implementation of "one household one meter" project, the number of power meters in use surged. The replacement of power meters installed in the early stage of the power grid renovation with a shift from mechanical power meters to the more technologically-advanced electronic models indicated the tremendous market potential of electronic power meters.

In accordance with the plans of the State Power Grid and Southern Power Grid, the total investment in the construction of power grids in the PRC during the "Eleventh Five Year Plan" will be over RMB1 trillion. In line with the increase in the investment of power grids, the funds to be applied for upgrading and renovating measurement equipment will also increase. It is expected that about 6% to 8% of the grid investment budget will be allocated to power meters and automated power measurement systems and terminals. The move will benefit companies capable of offering total power measurement solutions. This implies that there will be a huge potential domestic demand for the Group's products. .

### Export Markets

The power meter manufacturers will place more emphasis on the development of international market. As a result, in 2007, the power meter manufacturers will focus on sales, services and maintenance of products in the overseas market, instead of only exporting power meters together with construction projects in the past. Meanwhile,

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the power meter manufacturers will devote more resources in the research of application technologies, In particular, they will emphasis on how to provide total solution for the customers and bring direct economic benefits for the customers, so as to get in line with the international market.

## BUSINESS REVIEW

### Products

The major products of the Group are electronic power meters, data collection terminals and power management systems under the brandnames of “W” and “W.L.FAR”. During the year, the Group has actively launched various new high technology products, including two MB series power meters and power meters with long-distance meter reading function, which are well received by the customers.

#### *Electronic Power Meters*

During the year, sales of electronic power meters remained the major source of revenue of the Group. Turnover from sales of three-phase electronic power meters and single-phase electronic power meters for the year ended 31 December 2006 amounted to RMB360.49 million and RMB73.54 million respectively, representing an increase of 14% and 107% respectively as compared with last year and contributed to approximately 60% and 12% of the Group's turnover respectively (2005: 71% and 8% respectively).

#### *Data Collection Terminals and Power Management Systems*

Data collection terminals and power management systems allow power companies to record and evaluate subscribers' usage pattern 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 the strong demand for these products. The Group is one of the few companies that can provide a complete power measurement solution in the PRC. In 2006, revenue from sales of data collection terminals and power management systems increased to RMB162.89 million, representing an increase of 71% as compared with last year and accounted for 28% (2005: 21%) of the Group's turnover.



### Production Base

As at 31 December 2006, the Group had 487 production staff (2005: 382). The Group's production plant located at the High Technology Industrial Zone of Changsha City, Hunan Province has annual production capacity of 450,000 units of three-phase electronic power meters and 60,000 units of data collection terminals in 2006. During the year, the Group has manufactured and sold approximately 326,000 units of three-phase electronic power meters and 44,000 units of data collection terminals and the production capacity was near saturation, especially during peak seasons. Therefore the Group will better allocate existing resources and acquire additional machinery and equipment to progressively increase the annual production capacity to 600,000 units of three-

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phase electronic power meters and 80,000 units of data collection terminals. Besides, the Group has purchased a piece of land in the Science and Technology Park located in Changsha City, Hunan Province last year with its foundation stone laid on 27 December 2006. This land has an area of approximately 120,000 square meters on which six production lines will be built. Production is planned to be commenced in the first half of 2008 and the production capacity of three-phase electronic power meters and data collection terminals will then be increased to 900,000 units and 100,000 units respectively.

## Branding and Marketing

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

The Group has an extensive sales network covering all the major provinces and municipalities in the PRC. In addition, it has established stable and healthy cooperative relationships with local grids and electricity suppliers. As at 31 December 2006, the Group had 227 sales and marketing staff (2005: 203) and provided real time sales and after-sales services to its customers through its sales network across the PRC.

## Export Markets

In 2006, the Group strengthened the overseas sales. For the year ended 31 December 2006, the export sales of the Group reached RMB44.74 million, representing an increase of 200% over last year and contributing to 7% (2005: 3%) of the Group’s turnover. The major markets are Africa and Southeast Asia and the Group has already established relatively stable sales channels in Egypt and Indonesia with a view to extending its coverage from Egypt to the whole Africa and the Middle East.

## Raw Material Supply

Major raw 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 2006, around 61% (2005: 62%) of the total purchases of raw materials were sourced from the PRC, while the remaining 39% (2005: 38%) were from overseas.



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During the year, the costs of materials and components such as chip resistors, multi-layer ceramic capacitors, integrated circuits and semiconductors stabilized after a slight decline. However, components such as terminal blocks, transformers and transducer, etc., that have high copper content saw their prices increase because of the 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 research and development department of the Group strove to improve the quality of its existing products and also to develop new products. During the year, the Group has launched two models of the MB series power meters which replaced the conventional multi-function meters with the modular meters of the MB series. The Group also actively promoted the new multi-function three-phase power meters with long-distance meter reading function (GPRS/CDMA). These products were put on trial use in various provinces and cities in the PRC and performed well.

As at 31 December 2006, the Group had 342 staff (2005: 251) in its research and development department. In 2006, expenditure on research and development activities (including the capitalized portion) totally amounted to RMB33.30 million, which represented 6% (2005: 5%) of the Group's turnover.

Presently, research and development projects being carried out by the Group include the research and development of new models of power meters, serialization and improvement of existing products, the on-going co-operation with the Qinghua University in the development of the three-phase active power filter, 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.

## PROSPECTS

Benefited from the power policies of the country and the uniqueness of the power market, the Group enjoys brilliant future. The Group's of the view that the policies, plan and reformation undertaken by the country will have a positive impact to the industry and provide enormous opportunities for the manufacturers of power measurement products and power management systems.

The country pays particular attention to the tariff determination policies with an aim to ensuring the continual, stable, healthy and rapid development of power grid companies on the basis of gradual shift to market orientation. During the period of the "Eleventh Five-Year Plan", the development of the industry was benefited from a series of policies, including coal-link tariff adjustments.

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On the other hand, the government also placed strong emphasis on energy and energy efficiency management. During the period of the “Eleventh Five-Year Plan”, the government has formulated a strategic target of reducing energy consumption per unit GDP by 20%, which this would promote the application and development of a series of new products, including advanced power measurement meters, power consumption management terminals and systems.

During the period of the Eleventh Five-Year Plan, the annual investment in power grids amounted to approximately RMB200 billion, among which 6% to 8% will be allocated to procurement of power meters and automated power measurement systems and terminals. In line with the increase in the investment of power grids, the funds to be applied for upgrading and renovating measurement equipment will also increase. Meanwhile, the state power grid companies have commenced the key investment and renovation of power grid projects in 31 major cities. The state power grid companies have also further its investment in the construction of power grids in rural areas to realize the socialist construction in rural areas and to ensure “power supply in every family”. This implies that there will be a huge domestic demand for power meters and related systems products.

At the end of 2006, the PRC has issued the revised JJG 307-2006 “Electromechanical alternating-current power meter” (《機電式交流電能表》) standard, replacing the relevant standard as promulgated in 1988, which further confirmed, in terms of technical standard, that electronic power meter will be the future development for power meter. At the same time, through continual expansion of the applications of three-phase multi-function power meter in the power system, the PRC introduced more effective and flexible electricity price policies and improved the services provided for industrial and commercial users and its management. It is expected that the number of users will increase from the current 600,000 to 4 million. This will further sustain the steady growth of the medium to high-end multi-function three-phase power meter business for which our Group is taking the lead.

Under the modernization of sales and marketing introduced by the Eleventh Five-Year Plan, power management systems and terminals construction is the main focus of state power grid companies. In 2006, half of the provinces in the PRC have started such renovation. In the future, the demand for power management systems and terminals will spread over every province, which will support the continual rapid development of the power management systems and terminals business of the Group.

The future plans of the Group are formulated as below:

## Continuous development of new products

For the domestic market, the Group will continuously and timely launch more technologically advanced and higher-margin products and actively develop new key markets and strive to expand market share in these new key markets. At the same time, the Group will also broaden its range of products and increase its market shares through acquisitions and co-operations.

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## Expansion of production capacity

In respect of the expansion of production capacity, the Group will better allocate existing resources and acquire additional machinery and equipment to increase the production capacity of three-phase electronic power meters and data collection terminals and power management systems in order to satisfy the domestic and overseas market demand. Besides, the Group will also closely monitor the progress of construction of the new production plant located in the Science and Technology Park in Changsha City, Hunan Province to ensure no delay on the commencement of production.

## Expansion of product range and improvement of profitability through mergers and acquisitions

The Group intends to utilize the international capital market to raise fund to expand its product range and market share, in both the domestic and overseas markets, and improve profitability through strategic acquisition of quality power meter manufacturers in the PRC or overseas.

## Exploit overseas markets

The Group will continue to expand its overseas markets actively and aim to develop its export business to a larger scale. Following the success of development of markets in Africa and South East Asia, South American and European markets will be the Group's next target overseas markets for development. It is expected that the contribution to the Group's turnover from export business in the coming future will gradually increase.

## Enhance sales and optimize allocation of resources

The Group will carry out rational integration on the existing marketing team to reform it into a stronger one. Furthermore, the Group will also continue to control costs by consolidating the resources of subsidiaries and unearthing synergies and complementary competitive advantages among subsidiaries to improve marginal profitability.

## Strengthen research and development capability

The strong research and development capability is one of the keys of success of the Group. The Group will increase the budget on research and development expenditure and employ more research and development professionals. The Group will also continue the development of new models of power meters aiming at heavy users and the research of certain critical communication technology, upgrade the technological level of the data collection and power management software systems and pursue serialization of power consumption quality monitoring devices. Besides, the Group also continues to collaborate with the Qinghua University in the development of the three-phase active power filter.