The Directors are pleased to present this annual report together with the audited financial statements for the year ended 31 December 2006.

### PRINCIPAL PLACE OF BUSINESS

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

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 17 to the financial statements. An analysis of the Group's performance for the year by business segment is set out in note 12 to the financial statements. As the Group mainly operates in the PRC, no geographical segment information is presented.

#### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's largest supplier, a related company mentioned in the following paragraph, and the five largest suppliers combined were 23% and 38% 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 RMB70.10 million (2005: RMB33.70 million) from and sold finished goods amounting to RMB0.21 million (2005: RMB0.44 million) to Hunan Weike Power Meters Company Limited which is beneficially owned by Mr. Liang Ke Nan who is the brother of Mr. Ji Wei.

Save as disclosed, at no time during the year have the Directors, their associates or any substantial shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### **RESULTS AND DIVIDENDS**

The profit of the Group for the year ended 31 December 2006 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 41 to 47. The Directors recommend the payment of a final dividend of HK\$0.070 (equivalent to RMB0.070) per ordinary share in respect of the year ended 31 December 2006 to shareholders of the Company whose name appear on the Register of Member of the Company on 14 May 2007 and payable on or before 31 May 2007. The Register of Members will be closed from 8 May 2007 to 14 May 2007, both days inclusive.

## **FIVE YEAR FINANCIAL SUMMARY**

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

#### TRANSFER TO RESERVES

Profits attributable to equity shareholders, before dividends, of RMB151.74 million (2005: RMB115.97 million) have been transferred to reserves. Other movements in reserves of the Company and the Group are set out in note 27 and the consolidated statement of changes in equity to the financial statements.

#### **PRE-EMPTIVE RIGHTS**

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

#### **FIXED ASSETS**

During the year, the Group had total additions to property, plant and equipment and construction in progress of approximately RMB22.84 million and acquired an interest in leasehold land of approximately RMB27.97 million. Details of these acquisitions and other movements in fixed assets are set out in notes 13, 14 and 15 to the financial statements.

#### **SHARE CAPITAL**

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

During the year, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of the listed securities of the Company.

### **DIRECTORS**

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

#### **Executive Directors**

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

### **Independent Non-executive Directors**

Wu Jin Ming Pang Yuan Hui Wing Kuen

In accordance with article 87 of the Articles, one third of the Directors, shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election provided that every Director shall be subject to retirement at least once every three years. The biographical details of the Directors and senior management are set out on pages 17 to 20 of this annual report.

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

The Directors and the chief executives who held office at 31 December 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		Number of	% of total issued
director	Capacity	ordinary shares held	ordinary shares
Ji Wei	Beneficial interest in the Company through his interest in Star Treasure Investments	480,000,000	68.16
	Holdings Limited ("Star Treasure")		

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

	Number of		Number of	
Name of	options to subscribe	Capacity	underlying	% of total issued
director	for shares	held	ordinary shares	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 31 December 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 the chief executives of the Company are aware of, as at 31 December 2006, the shareholders, other than the Directors or the chief executives of the Company, who had an interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, were as follows:

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

Save as disclosed above and so far as the Directors and the chief executives of the Company are aware of, as at 31 December 2006, no other party (other than the Directors or the chief executives of the Company) had an

interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

### **SHARE OPTION SCHEME**

Particulars of the Company's share option scheme and details of the options are set out in note 25 to the financial statements.

#### DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES IN THE COMPANY

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.

### 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 purchase, sale or redemption 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 2006:

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

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

For the year ended 31 December 2006, the Group paid a total rental of RMB0.26 million (2005: RMB0.16 million) to Mr. Liang.

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

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

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

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

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

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 for the year ended 31 December 2006 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 2006, the purchases from and the sales to Hunan Weike by the Group were RMB70.10 million (2005: RMB33.70 million) and RMB0.21 million (2005: RMB0.44 million) respectively.

#### 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 2006 are set out in note 23 to the financial statements.

## **RETIREMENT SCHEMES**

The Group participates in two defined contribution retirement benefit schemes which cover 81% of the Group's employees. Particulars of these retirement benefit schemes are set out in note 24 to the financial statements.

### **CONFIRMATION OF INDEPENDENCE**

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

### **AUDITORS**

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

By order of the Board

#### Ji Wei

Chairman

Hong Kong, 2 April 2007