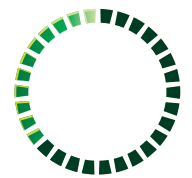


# Management Discussion and Analysis



## FINANCIAL REVIEW

### Financial Highlights

	2008 RMB'000	2007 RMB'000
Turnover	<b>1,059,390</b>	804,030
Gross profit	<b>497,617</b>	378,886
Profit for the year	<b>261,530</b>	212,896
Total assets	<b>2,543,842</b>	1,915,555
Shareholders' equity	<b>1,385,103</b>	1,223,278
Basic earnings per share (RMB)	<b>0.32</b>	0.29
Diluted earnings per share (RMB)	<b>0.31</b>	0.28

### Key Financial Figures

	2008	2007
Gross profit margin	<b>47%</b>	47%
Operating profit margin	<b>29%</b>	31%
Net profit margin	<b>25%</b>	26%
Return on equity	<b>19%</b>	17%
Current ratio	<b>1.82</b>	2.27
Quick ratio	<b>1.53</b>	2.03
Inventory turnover period (Days)	<b>166</b>	129
Trade receivable turnover period (Days)	<b>228</b>	246
Trade payable turnover period (Days)	<b>262</b>	189
Gearing ratio	<b>18%</b>	13%
Interest coverage (Profit from operations divided by finance costs)	<b>15.42</b>	14.58

Despite keen market competition, the Group achieved remarkable results in 2008. During the year, the Group recorded satisfactory growth in turnover and profit. Turnover amounted to approximately RMB1,059.39 million (2007: RMB804.03 million), representing an increase of 32%. Profit for the year was approximately RMB261.53 million (2007: RMB212.90 million), representing an increase of 23%.

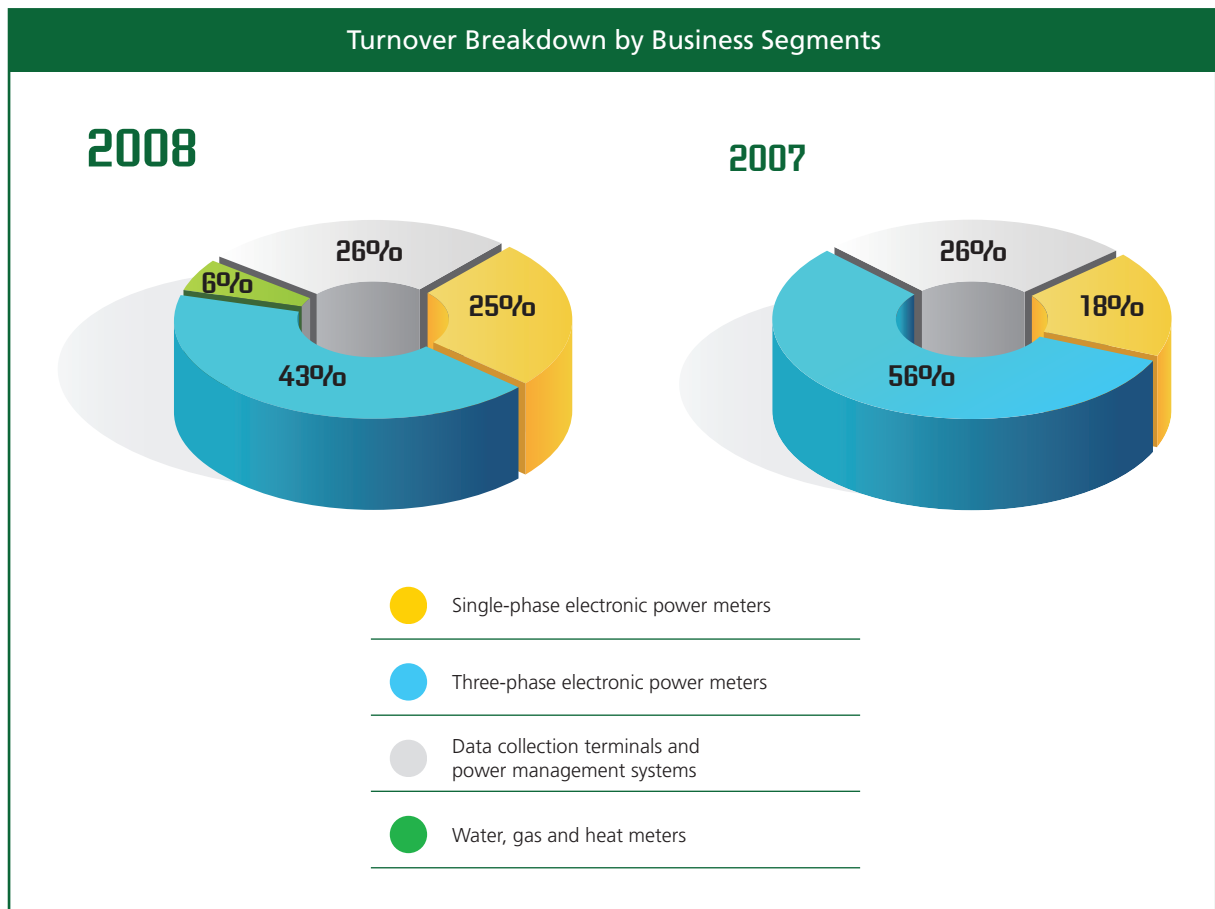
Five Year Financial Summary

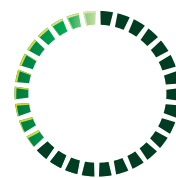
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Profit for the year attributable to equity shareholders of the Company	<b>261,530</b>	212,896	151,736	115,972	82,435
Total assets	<b>2,543,842</b>	1,915,555	929,613	744,195	437,057
Total liabilities	<b>1,158,739</b>	692,277	343,737	272,609	267,944
Shareholders' equity	<b>1,385,103</b>	1,223,278	585,876	471,586	169,113

Turnover

By business segments

Revenue from three-phase electronic power meters and single-phase electronic power meters business for 2008 increased by 1% and 86% respectively to RMB460.65 million and RMB265.39 million respectively as compared with 2007. The turnover from data collection terminals and power management systems for 2008 has been increased by 34% to RMB275.05 million as compared with last year. Revenue from water, gas and heat meters amounted to RMB58.30 million in 2008.





## Management Discussion and Analysis (Continued)

### Gross Profit

The sales growth in 2008 drove the growth of gross profit. The Group's gross profit increased by 31% to RMB497.62 million for the year ended 31 December 2008. The overall gross profit margin is 47% which is similar to that of last year.

### Other revenue

The other revenue of the Group in 2008 amounted to RMB23.10 million (2007: RMB28.57 million) which was mainly comprised of net exchange gain, refund of value-added tax and bank interest income.

### Operating Expenses

In 2008, the Group's operating expenses amounted to RMB215.17 million (2007: RMB156.87 million). The increase in operating expenses was mainly due to the expansion of the Group's operation and the inclusion of amortization of intangible assets of RMB52.68 million (2007: RMB22.70 million). Operating expenses accounted for 20% of the Group's turnover in 2008, which is the same as that of 2007.

### Finance Costs

For the year ended 31 December 2008, the Group's finance costs amounted to RMB19.61 million (2007: RMB17.19 million). The increase was attributable to the increase of bank borrowings during the year.

### Operating Profit

Earnings before finance costs and tax for the year ended 31 December 2008 amounted to RMB302.47 million (2007: RMB250.58 million), representing an increase of 21% as compared with 2007 and was in line with the growth of the Group's turnover and net profit.

### Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2008 grew by 23% to RMB261.53 million as compared with the last year.

### Capital Structure

For the year ended 31 December 2008, certain employee have exercised 1,780,000 share options at an exercise price of HK\$2.225 under which the issued and fully paid up share capital of the Company has been increased by HK\$17,800. Moreover, the Company has also repurchased 5,828,000 shares on the open market during the period in which the repurchased shares have been cancelled and the par value of these shares have been deducted from the issued share capital of the Company.

### Liquidity and Financial Resources

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

As at 31 December 2008, the Group's current assets amounted to approximately RMB1,647.72 million (2007: RMB1,425.26 million), with cash and cash equivalents totaling approximately RMB439.16 million (2007: RMB508.74 million).

## Management Discussion and Analysis (Continued)

As at 31 December 2008, the Group's total bank loans amounted to approximately RMB454.14 million (2007: RMB250.79 million), of which RMB234.14 million (2007: RMB208.79 million) will be due to repay within one year and the remaining RMB220 million (2007: RMB42 million) will be due after one year. Net book value of the Group's pledged assets for the bank loans was approximately RMB323.97 million (2007: RMB128.37 million). In 2008, the interest rate for the Group's bank borrowings ranged from 4.86% to 9.53% (2007: 5.67% to 7.74%) per annum.

The gearing ratio (total borrowings divided by total assets) increased from 13% in 2007 to 18% in 2008 as a result of the increase in the Group's bank borrowings.

### 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 period 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 currency fluctuations.

### Emolument Policy

As at 31 December 2008, the Group had 2,452 staff (2007: 1,886 staff). The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB85.43 million in 2008 (2007: RMB74.81 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 RMB5.29 million in 2008 (2007: RMB9.06 million).

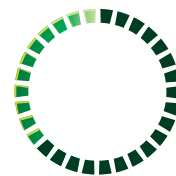
The Group's employees in the PRC have enrolled in the mandatory central pension scheme operated by the State. The Group also provides housing allowances and benefits for medicine, employment injury and retirement for its staff in the PRC in accordance with the relevant PRC rules and regulations. The 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.

### Share Option Scheme

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.

### Share Award Plan

The Company has adopted a share award plan on 10 October 2008 in which the eligible employees will be entitled to participate. The purpose of the share award plan is to recognize and reward the contribution of certain employees to the growth and development of the Group through an award of shares of the Company.



## Management Discussion and Analysis (Continued)

### Significant Investments, Acquisitions and Disposals

On 21 May 2008, the Company has passed an ordinary resolution in an extraordinary general meeting whereby a wholly-owned subsidiary of the Company acquired the entire issued share capital of Newest Luck Investments Limited (“Newest Luck”) at a total consideration which in any event will not exceed RMB150,000,000. The sole asset of Newest Luck is its 100% equity interest in Hunan Weiming Technology Co., Ltd. (“Hunan Weiming”) which is principally engaged in the production and sale of electronic water meters and gas meters.

Save as disclosed above, there was no significant investment during the year under review.

### Charge on Assets

As at 31 December 2008, the pledge deposits are denominated in Renminbi and Hong Kong dollars and are pledged to banks as security for certain loans and bills facilities granted to the Group. In addition, part of land and buildings of the Group are pledged to banks as security for bank loans to the Group.

### Capital Commitments

As at 31 December 2008, the capital commitments authorized but not contracted for and contracted for but not provided in the financial statements by the Group amounted to nil (2007: RMB215.78 million) and RMB7.64 million (2007: RMB100.20 million) respectively, representing commitments for the acquisition of property, plant and equipment and the construction of the new production plant.

### Contingent Liabilities

As at 31 December 2008, the Group had no material contingent liabilities.

## MARKET REVIEW

In view of the prevailing environment for resources, the PRC government will definitely take steps to enhance people’s awareness on environmental protection by prioritizing policies on energy saving and reduction in pollutants discharged as well as accelerating the build up of an energy saving and environmental friendly society with its focus on energy saving. With the implementation of the revised Energy Conservation Law, the PRC government has imposed stringent requirements on, and exerted stronger control over energy saving and pollutants discharge. This increased the demand for power companies to better manage energy saving and reduction of power line loss, which in turn drove the demand for the Group’s electronic power meters and power management systems. This subsequently contributed to the steady growth of the Group’s business and further enhanced the Group’s net profit.

Automatic power consumption management system can collect information on consumption of electricity by end users on real time basis and capture the working status of measurement equipment. This will achieve orderly consumption of electricity, automatic meter reading and consumption monitoring. The system can also provide useful technical support to the customers of power grid for line loss management, consumption analysis, loading forecast, electricity rate assessment and decisions in sales and marketing. Since the beginning of 2005, the power bureau in every province began implementing power consumption management system in phases. By the end of 2008, power corporations in every province had started to purchase power consumption management terminals. This led to huge demand for data collection terminals and power management systems.

## Management Discussion and Analysis (Continued)

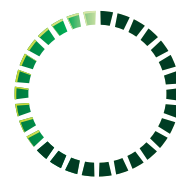
As the PRC government continues to implement a number of projects to improve the power allocation network of the country through the introduction of policies such as the “New Rural Socialism”, “One Household One Meter” and “Energy Saving”, the electronic power meter market in the PRC is expected to continue to grow for the coming five years. There will also be new demand for electronic power meters with the establishment of new residential districts in the urban area.

At the beginning of the year, southern China suffered from extreme weather conditions of low temperatures as well as rain, snow and ice storms, which inflicted substantial damage to power and transportation facilities. As the ice and snow storms became more serious, the delivery of goods by the Group was affected to a certain extent. For example, goods could not be delivered on time to certain regions. However, as the obstruction in transportation caused by the ice and snow storms were regarded as a force majeure event, customers understood the situation and resulting effects. Moreover, the period of interruption was only very short and it did not cause any substantial effect to the production operation of the Group. In addition, in order to enhance the disaster-resistant ability of power systems, the power grid companies subsequently invested a lot of resources after the disaster to strengthen the construction of power grids. The reconstruction and upgrade of power grids will create a lot of demand for the electric measurement and power management products of the Group, and will be beneficial to the growth in the businesses of the Group.

Through implementation of a strategy that provides for a comprehensive coverage of products and market in the PRC, the Group is the industry leader in the PRC in terms of sales amount. Of which its three-phase electronic power meters and data collection terminals continued to rank at a leading position in the industry. Other than Guangdong Province and Hunan Province, Shandong Province became the third province in the Group that recorded a sales amount of over RMB100 million for three consecutive years. At the same time, the Group also successfully completed the objectives for marketing activities in the first phase of the AMR project of the State Grid, and was awarded the bid by China Electric Power Research Institute (“CEPRI”) for its joint development project in electronic power meters. Moreover the Group participated in the standards establishment of the Low Voltage Collective Meter Reading project in key testing provinces including Hunan, Heilongjiang and Jilin and became one of the major suppliers of the project, and also completed the electric energy information collection system projects at provincial level in Shanxi, Gansu and Tibet, which paved a good foundation for the Group to work in the AMR project of the State Grid.

## BUSINESS REVIEW





## Management Discussion and Analysis (Continued)

### Electronic Power Meters

In the year under review, 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 in 2008 amounted to RMB460.65 million and RMB265.39 million, representing an increase of 1% and 86% respectively as compared with last year and contributed 43% and 25% of the Group's turnover respectively (2007: 56% and 18% respectively).

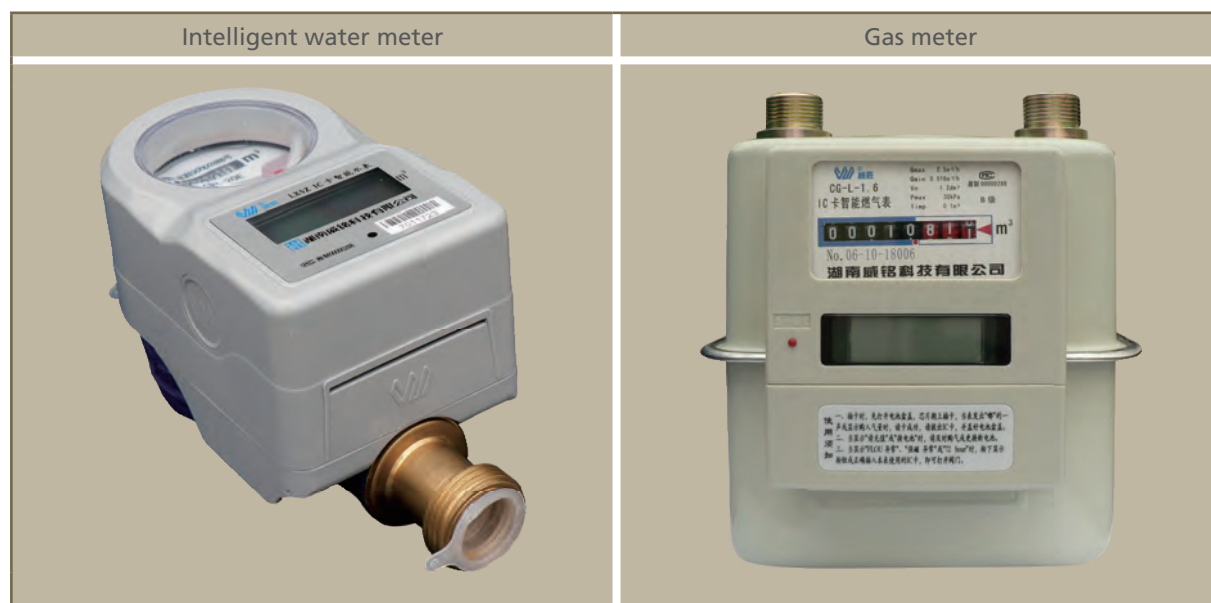
### Data Collection Terminals and Power Management Systems

In 2008, revenue from sales of data collection terminals and power management systems increased to RMB275.05 million, representing an increase of 34% as compared with last year and accounted for 26% (2007: 26%) of the Group's turnover.

### Successful Acquisition of Hunan Weiming

To achieve further development of Wasion Group in the scope of energy measurement and management, the Group successfully acquired Hunan Weiming, a company which focuses on development and sales of intellectual water meters and gas meters, in May 2008. This signified that Wasion Group is well-equipped with respect to energy measurement and business management for water, electricity, gas and heat. This further enhanced the Group's capability in providing energy measurement and integrated management solutions for customers while perfecting and expanding the Group's production chain and helped the Group to lay a solid foundation for Wasion Group's further development in the public power business.

The revenue from the sales of water, gas and heat meters consolidated into the Group's turnover for 2008 after the completion of the acquisition amounted to RMB58.30 million and accounted for 6% (2007: nil) of the Group's turnover.



### Commencement of Operation of Wasion Science and Technology Park

To satisfy strong market demand, the Group has proactively expanded its production capacity, enhanced its production scale and fully upgraded its production technology. The construction of the Group's Wasion Science and Technology Park, which is located at Lugu Hi Tech Industrial Development Zone, a State-grade industrial development zone at Changsa, Hunan, commenced on 1 August 2007. After a year of intensive construction work, the first SMT production line of Wasion Science and Technology Park commenced production on 8 August 2008, which marked the initial completion of the Group's modernized energy measurement and management production base. With the relocation of production lines that began at the end of 2008 completed in phases, Wasion Science and Technology Park became as a modernized energy measurement and management products production and research and development base that has advanced management, state-of-the-art equipment, and beautiful environment. This paved the way for the Group's future development in terms of powerful hardware support. The annual output from the Phase 1 of Wasion Science and Technology Park upon its commencement of production amounted to RMB three billion, which comprised of production capacities in three-phase electronic power meters of two million units, multi-function household single-phase electronic power meters of five million units and data collection terminals and power management systems of 500,000 units and intellectual water, gas and heat meters of 600,000 units.

### Energy Saving and Pollutants Discharged Reduction Service

To fulfill the social responsibilities and corporate mission of energy saving and pollutants discharge reduction, the Group established Changsha Weisheng Energy Industrial Technology Company Limited ("Weisheng Energy"), which is positioned to provide integrated energy saving and pollutants discharged reduction solutions and development of new energy saving products for its customers. Weisheng Energy proposed an innovative service model known as "Energy Saving 120" Wasion Service Centre with various provincial and municipal governments, so as to assist them in the promotion, publicity and technical support of energy saving for governments of different levels. Meanwhile, the Group has also undertaken research and development of the integrated solutions for management of consumption reduction and energy conservation with a view to helping the industrial and commercial sectors to achieve the goal of saving energy and reducing emission effectively. The details of which include the construction of energy saving solutions, mechanical systems energy saving solutions and energy saving consultation and intermediary services. This has not only promoted the sales of the Group's existing products, but also helped the Group to earn recognition in the new area of business. The Group also established a new segment for development while enlarging the Group's basis of non-power grids customers.

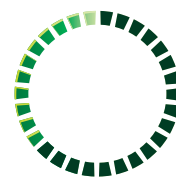
### Export Markets

Wasion Group continued to explore the international market. The Group's energy measurement and management skills meet international advanced standards and are serving customers all over the world. The Group has developed cooperative relationships with more than ten countries and regions in Southeast Asia, Middle and Northern Asia, South America and North Africa.

There was relatively great progress achieved in international sales during the year of 2008. Export amount for the year reached RMB115 million, representing 11% (2007: 5%) of the total turnover of the Group, of which there was a breakthrough achieved in the cooperation with customers in Egypt.

The Group achieved phrasal progress for its first international AMR/AMI projects. The Electricity Vending System (EVS) project jointly developed in Singapore was preliminarily inspected and accepted by the government. In addition, the Group also newly developed a series of ANSI products and keypad products with internationally unique attributes, which further strengthened the categories of products and capabilities of the Group's export business.





## Management Discussion and Analysis (Continued)

### Research And Development

As at 31 December 2008, the Group had 537 staff (2007: 485) in its research and development department. In 2008, expenditure on research and development activities (including the capitalized portion) totally amounted to RMB57.27 million, which represented 5.4% (2007: 4.3%) of the Group's total turnover.

The Research and Development Department of the Group is committed to the innovation of technology, enhancing the quality of the existing products and the development of new products. In 2008, as a result of the bulk consumption in high-end digital three-phase multi-functional electronic power meters upon the digitalization of switch stations, the Group had achieved 80% market share for the first batch of pilot project in China. The terminal products first completed the segmentation of modules for its core hardware electric circuits. The results were widely applied in different series of products such as the modules for key clients' terminals, allocation switch terminals and network meter modules. Purchasing cost and management costs were reduced, and production efficiency was enhanced. The single-phase electronic power meter products also passed 11 patent applications and certifications with respect to appearance and electric circuits. The number of applications for invention patent increased from one in 2007 to six in 2008. They were evidences to the technological competencies of the Group, which also bore great significance to the image of the Group and the protection of the Group's intellectual property rights. In addition, the Group also participated in the work of China as one of the teams in the formulation of two international standards. This marked the abilities of Wasion Group to enter the international market in terms of technologies and standards.

### PROSPECT

In this globalization era, people must join their efforts to face the stringent and long-term challenges with respect to global warming, shortage of energy and water resources.

With the initiation by IBM Corporation in 2006 to introduce systematically solutions of intellectual power grid, many countries like United States and China placed emphasis and recognition on the introduction of intellectual power grid as shortly as within two to three years. Increasingly more governments and power corporations recognize the intellectual power grid as one of the important and effective solutions to realize energy saving and pollutants discharged reduction as well as enhancement in the efficiency in energy utilization.

Intellectual measurement is an important component to the infrastructure of intellectual power grid, which includes intellectual measurement meters, local data collection hub and communication networks, enterprise data centers and measurement meters data management systems. These products are the core businesses of the Group, for which we have leading technologies and comparative advantages.

Currently, intellectual measurement is the dominant trend in OECD countries and regions. The intellectual measurement solutions in the European Union and North America are progressing from the pilot run stage to broad scale application. China has also officially begun to initiate research and intends to implement the intellectual power grid in different phases. This will bring enormous opportunities to the future development of the Group.

The State Grid has decided to invest nearly RMB70 billion to implement the construction of power consumption information collection system at a large scale in the coming three to five years. Recently, the State Grid further intends to upgrade this project to include the construction of intellectual power grid. As such, the standard of the project will become higher, of larger scale and will be implemented systematically. According to the forecast, 90% of the investment in this project will be related to the purchase of the three-phase and single-phase electronic power meters and terminal products which the Group produces.

## Management Discussion and Analysis (Continued)

CEPRI is a first grade unit directly under the State Grid. It is responsible for formulating the technology standards as well as the inspection and testing of the product with the grids in the project. In the meantime, CEPRI also decides to participate in the construction of such project jointly with those enterprises with the most outstanding research, development and production technologies for energy measurement products in the PRC, with an aim of achieving over 30% of market share. Between the end of 2008 and February 2009, CEPRI conducted site visits and commenced an open bidding process. Among 24 outstanding suppliers, Wasion Group was finally selected as its first cooperation partner for the electronic power meter joint development project. With Wasion Group being successfully awarded with the bid of electronic power meter joint development project with CEPRI, the excellent brand, strong research and development as well as integrated capabilities of the Group was adequately realized, in particular with its leading position in advanced measurement and management aspect. Through the cooperation in this project, Wasion Group will further develop a closer relationship with CEPRI and the State Grid. This will allow Wasion Group to capture the direction of future technologies and market development more timely and accurately, and further participate in the formulation of technology standards. The Group will be able to research and develop products that have potential demand in the market more quickly, and enjoys a priority in participating in the downstream market and production cooperation of CEPRI. This in turn will offer early entry advantage to the Group in the market competition in future.

In 2009, the State Grid and the Southern Grid intend to increase their investments and speed up the construction of power grids. This is in line with the policies deployed by the Central Government to expand the construction of infrastructure facilities and the stimulus of domestic demand. Of which the upgrade of power grid in the urban area will be accelerated and the power grid in the rural area will be improved. These policies will drive demand in the Group's multi-functional electronic power meters and consumption management terminals, so as to sustain continuous growth.

Nowadays, energy which relates closely to the livelihood in China, such as electricity, water and gas, will enter into an era of modernized sales and energy saving. The demand for energy saving for public utilities is imminent. Numerous large-scale corporations and medium-sized enterprises have initiated upgrade projects on water, electricity and gas meters. This has brought a wider market to Wasion Group which has research and development capabilities in water, power and gas meters and also possesses extensive experience in intellectual metering solutions and project management. The Group will not only be a quality supplier of energy measurement and management products, but will also be a provider of energy management services.

The Group is facing a market where industrial transformation is witnessed with market consolidation and products upgrade. The Group is gradually expanding its scope of operation towards energy measurement and management on the basis of stable development of its core business in electric power measurement.

Looking ahead, the Group will set the Wasion Science and Technology Park as its base. Through effective integration of business process and resources, and by relying on advanced information technology system tools, the Group will increase its production and operation capabilities, reduce overall costs and continue to maintain the Group's comparative advantages in research and development, market and quality, so as to produce innovative products and expand its markets on an ongoing basis. By leveraging on the unprecedented opportunities arising in the market within and outside China, the Group will achieve sustainable and rapid growth, which will continuously enhance the profitability of the Group.

The Group will strive to become the major supplier in the arena of global energy measurement and management. Through its leading technologies and products, the Group will support the modernization of energy measurement and management, promote the use of energy in a highly efficient manner, build an energy saving and environmental friendly society and provide substantial return to its shareholders at large.