

## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### BUSINESS OVERVIEW

We are a well-established manufacturer of VCBs, one kind of circuit breakers, and other components of switchgears in the PRC. Circuit breaker is one of the key components of switchgear and is an essential electrical device in protecting electrical equipment against damage caused by short circuit. Our products are components of switchgears which are used in auxiliary power systems of power plants, substations of electricity distribution networks and substations in industrial plants, commercial and residential complexes.

Our customers mainly comprise switchgear assembling factories in the PRC. For the year ended 31 December 2004, our customers were located in 29 provinces, autonomous regions and municipalities in the PRC.

Our Group is committed to deliver high quality products. We have been awarded the ISO 9001 (1994 and 2000 versions) certificates for quality control in 1999 and 2002 respectively. In addition, our products have received awards and recognition from national and provincial authorities in the PRC.

Revenue from sale of 12kV VCBs, our principal product, accounted for over 70% of our total turnover for the years ended 31 December 2002, 2003 and 2004. According to 高壓開關行業年鑒 (High Voltage Switchgear Industry Yearbooks) issued in 2002, 2003 and 2004, we were ranked third in terms of production volume of 12kV VCBs in the PRC in the 2001, 2002 and 2003. 廈門ABB開關有限公司(ABB Xiamen Switchgear Co., Ltd.) had the largest market share of approximately 7.9% in 2003. The selling price of its products is much higher than that of our products, which, the Directors believe, is mainly because of the international brand name of "ABB". 華儀電器有限公司(Huayi Electrical Apparatus Group Co., Ltd.), with a market share of approximately 6.6% in 2003, is principally engaged in the manufacture and sales of outdoor VCBs. Therefore, these two manufacturers that were ranked first and second in terms of production volume of 12kV VCBs in the PRC in 2003 are not considered as direct competitors to our Group because they target at different market segments or manufacture different types of VCBs. Our products accounted for approximately 6.3% of the 12kV VCBs produced in the PRC in 2003. The total production volume of 12kV VCBs in the PRC grew at a CAGR of 18.9% during the period from 1999 to 2003 whilst our production volume grew at a CAGR of 47.5% during the same period, which was higher than the average growth rate of the market.

Our turnover increased by approximately 35.0% and 22.6% in 2003 and 2004 respectively. Our net profit increased from approximately RMB21.1 million in 2002 to approximately RMB32.0 million in 2003 and further increased to approximately RMB42.1 million in 2004.

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We consider that our achievements are principally attributable to the strong demand for VCBs in the PRC, our well-established reputation, a recognised brand name, and our experienced management team and technical staff. In addition, our commitment to high quality product offers us significant competitive advantage. We, therefore, believe that we are in a position to further benefit from the growth of demand for VCBs in the PRC.

We expect that the demand for VCBs in the PRC will continue to grow along with the growth of electricity demand. We also expect that the urbanisation in regions which enjoy fast economic growth and the emergence of metropolises will lead to less space for building substations. This in turn will stimulate the demand for compact, safe and reliable circuit breakers for retrofit and new construction projects. In order to cope with the increasing demand for our products, we relocated our office and factory to a larger site which occupies an area of approximately 65,100 square metres in Changzhou, Jiangsu Province, the PRC in October 2004.

### OUR PRINCIPAL STRENGTHS

We believe that our Group's principal strengths are as follows:

- Well-positioned to capitalise on the growing demand for VCBs in the PRC;
- A well-established reputation and a recognised brand name;
- Strategic alliance with the Siemens Group, a reputable international manufacturer;
- A broad customer base;
- Strong research and development capabilities;
- Stringent quality control standards;
- Equipped with advanced production facilities; and
- Experienced management and technical staff.

### FUTURE PLANS

Our goal is to capture the continuing growth of the industry of switchgears and consequently components of switchgears, in particular circuit breakers, in the PRC, so as to maximise the return on the Shareholders' investment. Our Group has identified the following key strategies to achieve the goal:

- Continue our committed efforts in developing new products and improving existing products;
- Leverage on the relationship with reputable manufacturers in the industry;

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- Increase the brand awareness of our products through various marketing promotions;
- Strengthen the relationships with our existing customers and continue to explore opportunities for sales growth;
- Minimise the production costs;
- Enhance our research and development capability;
- Continue to attract and retain experienced and dedicated management team and engineers in the industry; and
- Grow strategically through acquisitions or formation of joint ventures.

### USE OF PROCEEDS

We estimate the net proceeds of the Share Offer, after deducting related expenses payable by us, will be approximately HK\$75.1 million. We plan to use our net proceeds from the Share Offer as follows:

- approximately HK\$51.9 million in aggregate will be used to perform research and development of the following new products and provide funding for expenditures relating to acquisition of production machinery and testing equipment:
  - approximately HK\$27.8 million will be used in developing the following products:
    - (a) Components of C-GIS such as 12kV VCBs (used in a SF<sub>6</sub> insulating medium), gas vessels and switchgear cubicles;
    - (b) 12kV embedded pole VCBs;
    - (c) Epoxy resin insulators, which are components of 12kV VCBs and switchgears;
    - (d) 40.5kV assembled switchgears components including 40.5kV VCBs and cubicles; and
    - (e) Cable plugs;
  - approximately HK\$24.1 million will be used in purchasing production machinery and testing equipment for new products;
- approximately HK\$3.3 million will be used to finance the final stage of the construction works of our new production complex in Changzhou, Jiangsu Province, the PRC;

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- approximately HK\$12.0 million will be used to repay existing bank loans;
- approximately HK\$3.6 million will be used to finance a testing laboratory; and
- the balance of the net proceeds will be used as working capital for our Group and any strategic movements, acquisitions, or investments that our Company may decide to pursue.

Pending the use of the net proceeds for the purposes described above, we intend to place such net proceeds as short-term deposits with licensed banks and/or financial institutions in Hong Kong or to use the same as general working capital.

Details on our Group's future plans and use of proceeds are set out in the section headed "Future plans and use of proceeds" in this prospectus.

### **DIVIDEND POLICY**

The declaration of dividends is subject to recommendation of the Board at its discretion to the Shareholders for approval. The Board may declare interim dividends as appear to the Board to be justified by the profits of our Group. The amounts of dividends will be subject to the discretion of the Board and will depend upon a number of factors, including our Group's earnings, investment requirements, working capital requirement, availability of distributable reserves for the dividend payout, applicable laws, general financial conditions and any factors considered relevant by the Board.

Subject to the availability of our Company's cash and distributable reserves, our Group's investment requirements, and our Group's cash flow and working capital requirement, it is our Company's current intention to recommend annually a distribution to the Shareholders of about 30% of our Group's annual distributable profits as dividends in the foreseeable future. No dividend in respect of the year ended 31 December 2004 will be declared after the listing of the Shares on the Stock Exchange.

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### TRADING RECORD

The table below sets out a summary of the combined results of our Group for the three years ended 31 December 2004 on the assumption that the current structure of our Group had been in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
<b>Turnover</b>	180,696	243,944	298,971
Cost of sales	<u>(137,617)</u>	<u>(178,288)</u>	<u>(222,949)</u>
<b>Gross profit</b>	43,079	65,656	76,022
Other revenue	50	265	1,112
Selling and distribution costs	(8,184)	(11,655)	(11,037)
Administrative expenses	(8,412)	(14,571)	(15,270)
Other operating expenses	<u>(112)</u>	<u>(128)</u>	<u>(353)</u>
<b>Profit from operating activities</b>	26,421	39,567	50,474
Finance costs	(1,939)	(2,951)	(3,496)
Share of profits of an associate	57	236	509
Amortisation of goodwill on acquisition of an associate	<u>(11)</u>	<u>(27)</u>	<u>(20)</u>
<b>Profit before income tax and minority interests</b>	24,528	36,825	47,467
Income tax	<u>(3,319)</u>	<u>(4,668)</u>	<u>(5,163)</u>
<b>Net profit before minority interests</b>	21,209	32,157	42,304
<b>Minority interests</b>	<u>(106)</u>	<u>(161)</u>	<u>(170)</u>
<b>Net profit from ordinary activities attributable to the Shareholders</b>	<u>21,103</u>	<u>31,996</u>	<u>42,134</u>
Proposed final dividends	<u>–</u>	<u>45,000</u>	<u>–</u>
Earnings per Share – Basic ( <i>Note</i> )			
– RMB (cents)	<u>9.2</u>	<u>14.0</u>	<u>18.4</u>

*Note:* The calculation of earnings per Share is based on the net profit from ordinary activities attributable to the Shareholders of each period presented on the assumption that 228,750,000 Shares (comprising 1,000 Shares outstanding as at the date of this prospectus and 228,749,000 Shares to be issued pursuant to the Capitalisation Issue) had been in issue throughout the three years ended 31 December 2004.

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## SHARE OFFER STATISTICS

**Based on the  
Offer Price of  
HK\$1.18 per Share**

Market capitalisation ( <i>Note 1</i> ) .....	HK\$359.9 million
Price/earnings multiple ( <i>Note 2</i> ) .....	9.1 times
Unaudited pro forma adjusted net tangible assets per Share ( <i>Note 3</i> ) .....	HK\$0.48 (RMB0.51)

### Notes:

1. The calculation of market capitalisation is based on 305,000,000 Shares expected to be in issue immediately following completion of the Share Offer and the Capitalisation Issue, taking no account of Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates granted to the Directors.
2. The price/earnings multiple on a pro forma basis is based on the unaudited pro forma earnings per Share of RMB0.14 (HK\$0.13) for the year ended 31 December 2004.

The calculation of the unaudited pro forma earnings per Share is based on the audited combined profit after income tax and minority interests before extraordinary items for the year ended 31 December 2004 assuming that we had been listed since 1 January 2004 and a total of 305,000,000 Shares were issued and outstanding during the entire year.

3. The adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed "Unaudited pro forma financial information – Unaudited pro forma adjusted net tangible assets" in appendix II to this prospectus and on the basis of a total of 305,000,000 Shares expected to be in issue immediately following completion of the Share Offer and the Capitalisation Issue, taking no account of Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates granted to the Directors.

## RISK FACTORS

The Directors consider that the operation of our Group's businesses is subject to a number of risk factors which are summarised as follows:

### Risks relating to our business

- Reliance on the success of our key product
- Sustainability of growth in turnover and profit
- Gross profit margin of our products may not maintain or increase
- Reliance on key management and experienced technical staff
- We could become involved in intellectual property disputes
- Product liability exposure
- Specific credit terms
- Awaiting building ownership certificate(s) in connection with certain buildings erected on our production site excluding factory blocks

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- Part of the net proceeds from the Share Offer will be applied towards the repayment of some of our existing bank loans
- We had net current liabilities as at 30 April 2005

### **Risks relating to our industry**

- Demand for circuit breakers may decrease
- Technological development in our industry may affect our performance
- Prices of raw materials or components may substantially increase
- Our results could be harmed if we violate any environmental regulations

### **Risks relating to the PRC**

- Changes in political and economic policies in the PRC may affect our businesses
- Changes in the PRC legislation or the interpretation thereof may affect our businesses
- Our tax benefits in the PRC may not continue in the future
- Future movements in exchange rates may adversely affect our financial condition and results of operation
- Currency conversion may limit our ability to remit dividends

### **Risks relating to the Shares**

- No prior public market for the Shares
- Market price of the Shares may be volatile
- No assurance on the future dividends

### **Other risk**

- Forward-looking statements contained in this prospectus may not materialise