OVERVIEW

We are a well-established manufacturer of VCBs and other components of switchgears in the PRC.

Revenue from sale of 12kV VCBs, our principal product, accounted for approximately 74.2%, 72.3% and 73.3% of our total turnover for each of the three years ended 31 December 2004 respectively. 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 the PRC in terms of production volume of 12kV VCBs in 2001, 2002 and 2003.

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.

We consider that our achievements are principally attributable to the strong demand for VCBs in the PRC, our well-established reputation and a recognised brand name, and also our experienced management and technical staff. In addition, our commitment to high quality products offers us a 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.

OUR PRINCIPAL STRENGTHS

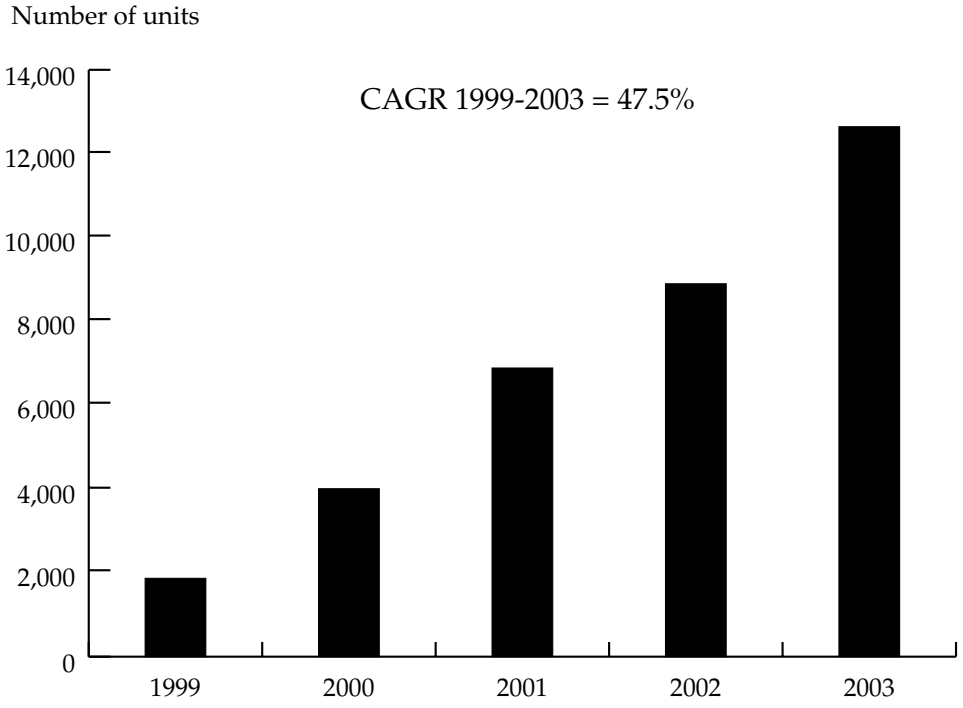
We believe that our Group's principal strengths are as follows:

- **We are well-positioned to capitalise on the growing demand for VCBs in the PRC**

  The demand for our principal product, 12kV VCB, has been growing rapidly in the past five years in the PRC and is believed to grow even faster in the future due to (i) country-wide power shortage; (ii) urbanisation of fast growing regions (for example, the Pearl River Delta and Yangtze River Delta) and emergence of metropolises (for example, Shanghai, Beijing, Shenzhen and Guangzhou); and (iii) growing industrial investments by domestic and foreign venture capitals.

  With our marketing expertise and experience, efficient production methods and our brand image for high quality products, we believe that we will be able to capture the fast growing demand for VCBs. Our marketing expertise lies with our in-depth market knowledge of both the PRC electricity supply and electrical equipment manufacturing industries. Our marketing experience is built on our broad geographical coverage of the market and the ability to identify suitable customers nation-wide. While the total production volume of 12kV VCBs in the PRC was growing at a CAGR of 18.9% between 1999 and 2003, our production volume was growing at a CAGR of 47.5% during the same period, which was higher than the market growth. The following chart sets out our production volume of 12kV VCBs from 1999 to 2003.

12kV VCB Production Volume of our Group



Source: *高壓開關行業年鑒 (High Voltage Switchgear Industry Yearbooks) issued from 2000 to 2004*

Save for certain minor processing procedures which are outsourced to third parties, all of our products are manufactured by our production facilities.

In order to cope with the increasing demand for our products, we relocated to a larger site in Changzhou, Jiangsu Province in October 2004. The Directors believe that the new production site, which is much larger than the space of our previous production site, will help to enhance our production efficiency and production capacity. Furthermore, the new site will also allow us to expand our production lines in future when necessary. This will enable us to capture the growing market demand which in turn will result in higher sales revenue. Also, with our established sales network and marketing expertise, the Directors believe that the expansion to the production of other related switchgear components would be an additional source of income for our Group.

- **We have a well-established reputation and a recognised brand name**

Since Changzhou Senyuan's establishment in 1997, we have focused on developing VCBs and have built up the technical knowhow of producing high quality VCBs. We have adopted stringent quality assurance systems to ensure product quality and made continuous efforts in pursuit of high quality products. In addition, our brand "常森" (Chang Sen) is well recognised by our customers. We believe that our established reputation and brand name give us competitive advantages to strengthen our market position and to increase our market share.

- **We have strategic alliance with the Siemens Group, a reputable international manufacturer**

In September 2003, we entered into a framework sales agreement with Siemens Vacuum Interrupters (Wuxi) Limited to develop two types of embedded pole. An embedded pole is an assembly which consists of a vacuum interrupter, primary conductive parts and linkages embedded in epoxy resin by means of a special casting technique. The embedded pole VCB is technologically more advanced than our existing products and therefore it is expected to command a higher profit margin. VCBs incorporating the first type of embedded pole is expected to be launched in the second half of 2005. In addition, we are negotiating with Siemens Aktiengesellschaft, the holding company of the Siemens Group, regarding the production and sales of embedded pole VCBs. For details of our cooperation with the Siemens Group, please refer to the section headed "Business – Research and development – Future plans" in this prospectus.

We believe that our Group will benefit from the on-going relationship with the Siemens Group since our Group can leverage on its industry expertise in developing our businesses.

- **We have a broad customer base**

Our businesses are not dependent on any single customer. For the year ended 31 December 2004, our five largest customers and our single largest customer accounted for approximately 19.5% and 7.7% of our turnover respectively. Most of our products are supplied to switchgear assembling factories. For the year ended 31 December 2004, we had over 500 customers which are located in 29 provinces, autonomous regions and municipalities in the PRC. We have established long-term relationship with our customers. We will continue to focus on maintaining long-term relationships with existing customers and identifying and developing business with new customers.

- **We have strong research and development capabilities**

We have a strong focus on research and development with a view to improving our existing products, developing new products and achieving higher cost efficiency. Our technical department is staffed by a team of dedicated engineers and equipped with modern equipment and technology. Our products have received awards and recognitions from national and provincial authorities in the PRC.

- **We have stringent quality control standards**

We adhere to stringent quality control standards and have been awarded the ISO 9001 (1994 and 2000 versions) certificates in respect of our quality management system. We impose stringent inspection and testing procedures on raw materials and components. We also continuously monitor quality control measures taken by our parts suppliers. Rejected materials, components or parts are returned to their respective suppliers. Every stage of our production process is strictly managed and

closely monitored so as to ensure that proper production methods and tools are used. Rejected parts are not allowed to be forwarded to the next stage of production process. By using advanced testing equipment, our finished products are tested by effective methods through several testing cycles. The results of each cycle are reviewed before the products are forwarded to the next testing cycle. This is to ensure that all rejected products are identified and contained. We believe that our Group has followed stringent quality control procedures.

- **We have advanced production facilities**

Modern production technologies are adopted in our production facilities in order to fulfil the production requirements of our products and to enhance our production efficiency. Our major production equipment, including laser cutting machine, turret punch press machine, press brake electronic hydraulic press machine, and robotic welding system, are precise and sophisticated. A majority of them were manufactured in foreign countries, namely Germany, the United States and the Netherlands. Since they are computerised and numerically controlled, our products can attain high mechanical precision. Continuous efforts have been made to ensure that the computerised and numerically controlled machinery will perform with high efficiency through the design of optimal production routing and production process workflow, improvement on mechanical precision and shortening of production cycle.

- **We have experienced management and technical staff**

We have management and technical staff who have extensive experience in marketing and operations in the circuit breaker industry. We believe that the expertise of our management team and technical staff will ensure the effective formulation and implementation of business strategies amid competitive operating environment. We are supported by high-quality and dedicated individuals. For details of experience of our management, please refer to the section headed "Directors, senior management and staff" in this prospectus.

HISTORY AND DEVELOPMENT

Corporate

The origin of our Group dated back to early 1997 when Changzhou Senyuan, the only operating subsidiary of our Company, was established as a sino-foreign joint venture enterprise in Changzhou, the PRC on 21 January 1997 with an initial registered capital of US$140,000. The establishment of Changzhou Senyuan was approved by 常州市天寧區對外經濟貿易委員會(Foreign Economic Trade Committee of Tianning District of Changzhou) on 15 January 1997. At that time, Changzhou Senyuan was owned as to 47.5%, 47.5% and 5.0% by Changzhou Lanling Factory, Tai Ah HK and 常州市大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) respectively. Changzhou Lanling Factory was a collectively owned enterprise set up by 常州市天寧區蘭陵街道辦事處 (Changzhou Tianning Lanling Street Office) using, with their consent, the funds originally to be distributed to the local residents for their welfare.

常州市天寧區蘭陵街道辦事處 (Changzhou Tianning Lanling Street Office) was a governmental delegation office (派出機構) which on the one hand discharged the government managerial function and on the other hand represented the local residents to make investments and set up street factories (街道工廠). Changzhou Lanling Factory was formerly set up as a street factory. 常州市天寧區蘭陵街道辦事處 (Changzhou Tianning Lanling Street Office) was the sole registered and beneficial owner of Changzhou Lanling Factory. As the investment in Changzhou Lanling Factory was from the funds initially to be distributed to the local residents for their welfare and not from the financial allocation of the State (國家財政撥款), Changzhou Lanling Factory was classified as a collectively owned enterprise in accordance with the then prevailing laws and policy of the PRC. As the sole legal and beneficial owner of Changzhou Lanling Factory, 常州市天寧區蘭陵街道辦事處 (Changzhou Tianning Lanling Street Office) had all the rights and obligations of a shareholder. After receiving any profit distribution from Changzhou Lanling Factory and taking into account investment profits/losses from other street factories, 常州市天寧區蘭陵街道辦事處 (Changzhou Tianning Lanling Street Office) may make distribution to the local residents based on their living conditions and family income. Although the investment in Changzhou Lanling Factory originated from the local residents, they were neither the registered or beneficial owners of Changzhou Lanling Factory, nor did they have the right to make any decision on the management and operations of Changzhou Lanling Factory.

Tai Ah HK was then owned as to 43% by Mr. Tsang. 常州市大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) was owned as to 99.6% by Mr. Zhou.

In February 2000, Changzhou Lanling Factory commenced its reform of enterprise ownership and structure (企業改制) in accordance with the then applicable 常州市小型工業企業實行「先出售後改制」的試行意見(Opinion on Trial Implementation of "Sale then Reform" by Small Industrial Enterprises in Changzhou). On 14 May 2000, 常州市天寧區國有（集體）資產管理局 (State Owned (Collective) Asset Administration Bureau of Tianning District of Changzhou) approved the sale of all of the interests of 常州市天寧區蘭陵街道辦事處 (Changzhou Tianning Lanling Street Office) in Changzhou Lanling Factory to Mr. Zhou, Mr. Luo Guohua and Mr. Yang Jian for RMB3,253,300. Mr. Luo Guohua and Mr. Yang Jian are independent of and not connected with our Company and our connected persons. The consideration was determined by the parties with reference to the valuation made by 常州華瑞會計師事務所 (Changzhou Huarui Accounting Firm). On 12 July 2000, 常州市天寧區企業產權制度改革領導小組辦公室 (Leading Team Office of Enterprise Assets and Rights System Reform of Tianning District of Changzhou) approved the reform of enterprise ownership and structure (企業改制) of Changzhou Lanling Factory at the actual consideration of RMB3,253,300. Upon completion of the reform of enterprise ownership and structure (企業改制) on 1 August 2000, the registered capital of Changzhou Lanling Factory was RMB500,000 which was owned as to 99%, 0.5% and 0.5% by Mr. Zhou, Mr. Luo Guohua and Mr. Yang Jian respectively.

On 15 September 2000, as a part of the enterprise ownership and structure reform (企業改制) of Changzhou Lanling Factory, 常州市大亞電器有限公司(Changzhou Tai Ah Electrical Co., Ltd.) transferred its 5% interest in Changzhou Senyuan to Changzhou Tianning Trading at a consideration of US$7,000 based on the original investment cost. Changzhou Tianning Trading was also a collectively owned enterprise set up by 常州市天寧區蘭陵街道辦事處(Changzhou Tianning Lanling Street Office). The transfer was approved

by 常州市天寧區對外經濟貿易局 (Foreign Economic Trade Bureau of Tianning District of Changzhou) on 20 September 2000. Changzhou Tianning Trading and its beneficial owners were independent of and not connected with our Company or our connected persons. Immediately after the transfer, Changzhou Senyuan was owned as to 47.5%, 47.5% and 5% by Changzhou Lanling Factory, Tai Ah HK and Changzhou Tianning Trading respectively.

On 18 April 2001, Changzhou Senyuan increased its registered capital from US$140,000 to US$1,500,000 by way of capitalisation of its accumulated undistributed profits for the year ended 31 December 2000. The entitlement of Changzhou Tianning Trading to the undistributed profits was RMB564,400. On 20 April 2001, Changzhou Tianning Trading decided to give Changzhou Lanling Factory and Tai Ah HK, by way of gift, part of its entitlement to the undistributed profits of RMB560,250 for their contribution to the capitalisation. The remaining part of its entitlement of RMB4,150 was used for its own contribution to the capitalisation. On 25 April 2001, 常州市天寧區對外經濟貿易局 (Foreign Economic Trade Bureau of Tianning District of Changzhou) approved the change of interest in the registered capital and the increase of registered capital. As a result, Changzhou Senyuan's registered capital was increased to US$1,500,000 which was owned as to 49.75%, 49.75% and 0.5% by Changzhou Lanling Factory, Tai Ah HK and Changzhou Tianning Trading respectively.

On 25 August 2004, Changzhou Tianning Trading sold its 0.5% interest in the registered capital of Changzhou Senyuan to Changzhou Lanling Factory for a consideration of RMB610,800. Since Changzhou Tianning Trading is a collectively owned enterprise, its 0.5% interest in Changzhou Senyuan is collectively owned asset and was valued by an approved valuation organisation. The consideration of RMB610,800 was based on the valuation made by 常州中南會計師事務所 (Changzhou Zhongnan Accounting Firm), an approved valuation organisation. The transfer of 0.5% interest from Changzhou Tianning Trading to Changzhou Lanling Factory was conducted through 常州產權交易所 (Changzhou Assets and Rights Exchange). 常州市天寧區財政局 (Finance Bureau of Changzhou) and 常州市對外貿易經濟合作局 (Foreign Trade and Economic Cooperation Bureau of Changzhou) approved the transfer on 26 August 2004 and 9 September 2004 respectively. As a result, Changzhou Lanling Factory and Tai Ah HK had 50.25% and 49.75% interest in the registered capital of Changzhou Senyuan respectively.

On 9 September 2004, 常州市對外貿易經濟合作局 (Foreign Trade and Economic Cooperation Bureau of Changzhou) granted approval for the conversion of Changzhou Senyuan into a sino-foreign co-operative joint venture enterprise to facilitate its subsequent conversion into a wholly foreign owned enterprise as part of the Reorganisation described below. Apart from the profit distribution arrangement and increase in its registered capital mentioned below, there have been no changes in the fundamentals of Changzhou Senyuan including business nature, applicable taxation, underlying assets and liabilities as a result of such conversion.

Article 53 of the then articles of association of Changzhou Senyuan as a sino-foreign co-operative joint venture provided that the foreign joint venture partner was entitled to all profit distribution in 2004 and 2005; while the Chinese joint venture partner was entitled to all profit distribution in 2006 and 2007 in respect of undistributed profits prior to 2004. The joint venture partners were entitled to profit distribution pro rata to their equity

interest thereafter. On 16 September 2004, Changzhou Senyuan declared a dividend of RMB45 million to the foreign joint venture partner, Tai Ah HK. Apart from the difference in profit distribution, there were no difference in the rights and obligations of the joint venture partners under the then articles of association of Changzhou Senyuan or the then joint venture agreement.

The profit distribution arrangement and conversion of Changzhou Senyuan into a sino-foreign co-operative joint venture was adopted partly as a tax saving arrangement for Changzhou Lanling Factory (a company owned as to 90% by Mr. Zhou and 10% by Ms. Wu Tong, the spouse of Mr. Zhou), the Chinese joint venture partner, and partly as a transitional arrangement to facilitate the financing arrangements for its shareholders related to the subsequent conversion of Changzhou Senyuan into a wholly foreign owned enterprise as part of the Reorganisation. Should dividend be declared to Changzhou Lanling Factory, it would have to incur substantial tax in the PRC. Moreover, the aforementioned arrangement and conversion would facilitate Mr. Zhou, the controlling owner of Changzhou Lanling Factory, to acquire an indirect interest in Changzhou Senyuan through Mr. Zhou's overseas investment holding company as described below, without going through cumbersome and lengthy approval procedures in the PRC. As part of the arrangement, Tai Ah HK, the foreign joint venture partner, after receiving and remitting the dividend out of China, which was exempted from tax payment (according to Article 19 of 中華人民共和國外商投資企業和外國企業所得税法 (The Income Tax Regulations for the Foreign-Invested Enterprises and Foreign Enterprises in the PRC)), advanced an unsecured loan to Lanling Electrical, a company wholly owned by Mr. Zhou, to finance its acquisition of 50% equity interest in Senyuan Investments. As mentioned below, Senyuan Investments then used the funding for its acquisition of Changzhou Lanling Factory's 50.25% interest in Changzhou Senyuan.

Given the tax saving considerations and the expedition of the Reorganisation, both Changzhou Lanling Factory and Tai Ah HK agreed to the conversion and the profit distribution arrangement mentioned above.

The profit distribution arrangement complies with the requirements of 中華人民共和國中外合作企業法 (The Regulations of Sino-Foreign Co-Operative Joint Venture in the PRC) and its 實施細則 (Practice Notes), 中華人民共和國外商投資企業和外國企業所得税法 (The Income Tax Regulations for the Foreign-Invested Enterprises and Foreign Enterprises in the PRC) and its 實施細則 (Practice Notes) and other relevant tax laws and regulations. In addition, the conversion of Changzhou Senyuan into a sino-foreign co-operative joint venture enterprise has been approved by 常州市對外貿易經濟合作局 (Foreign Trade and Economic Cooperation Bureau of Changzhou) and will not be subject to any legal impediments. The profit distribution arrangement has not been rescinded or invalidated by the relevant tax authorities. Moreover, there is no possibility that such arrangement will be rescinded or invalidated by the relevant tax authorities in the future.

On 17 September 2004, 常州市對外貿易經濟合作局 (Foreign Trade and Economic Cooperation Bureau of Changzhou) approved the increase of registered capital of Changzhou Senyuan from US$1,500,000 to US$2,400,000 by way of capitalisation of accumulated undistributed profits.

As part of the Reorganisation, both Changzhou Lanling Factory and Tai Ah HK transferred their interests in the registered capital of Changzhou Senyuan to Senyuan Investments pursuant to agreements dated 18 October 2004. On 29 October 2004, 常州市對外貿易經濟合作局 (Foreign Trade and Economic Cooperation Bureau of Changzhou) approved the transfer and the conversion of Changzhou Senyuan into a wholly foreign owned enterprise.

Upon completion of conversion into a wholly foreign owned enterprise, Changzhou Senyuan's registered capital remains US$2,400,000 and its business scope remains as manufacture of VCBs and switchgear components and sale of self-manufactured products. According to the enterprise legal person business licence issued on 10 November 2004, its term of operations is 12 years from 21 January 1997 to 20 January 2009 which would be renewable upon application.

As advised by our PRC legal advisers, all necessary administrative and legal procedures in relation to the increases in registered capital, changes in shareholding structure and legal status of Changzhou Senyuan aforesaid have been complied with and such increases and changes are legal and valid. The Reorganisation procedures completed in the PRC were in compliance with the relevant PRC laws and regulations. The respective authority approving the increase in registered capital, changes in shareholding structure and legal status of Changzhou Senyuan as aforesaid is the proper and competent authority for granting such approvals. Moreover, our PRC legal advisers are of the opinion that 關於完善外資併購外滙管理有關問題的通知 (Circular on Certain Issues of Improving Administration of Foreign Exchange in connection with Mergers and Acquisitions by Foreign Investors) and 關於境內居民個人境外投資登記及外資併購外滙登記有關問題的通知 (Circular on Registration of Overseas Investment by Domestic Resident Individual and Foreign Exchange Registration Related Mergers and Acquisitions by Foreign Investors) issued by the State Administration of Foreign Exchange of the PRC on 24 January 2005 and 8 April 2005 respectively have no impact on Changzhou Senyuan.

Other Investments

Beijing Jing Senyuan, a long term investment of our Group, was incorporated in the PRC on 30 December 2001 with a registered capital of RMB3 million. Its principal activities are the manufacture and sale of vacuum interrupters. Changzhou Senyuan is one of the founding investors of Beijing Jing Senyuan. The capital contributed by Changzhou Senyuan was RMB600,000, representing a 20% interest in Beijing Jing Senyuan. The other investors of Beijing Jing Senyuan are 信息產業部電子第12研究所(The 12th Electronic Research Institute of the Ministry of Information Industry), 西安森源開關技術研究所(Xian Senyuan Switch Technology Research Institute), 北京華東森源電氣有限公司(Beijing Huadong Senyuan Electrical Co., Ltd.), and Mr. Wu Wei Zhong, which are independent of and not connected with our Company or our connected persons, and their equity interests in Beijing Jing Senyuan are 50%, 5%, 20% and 5% respectively. The board of directors of Beijing Jing Senyuan comprises of six directors. Mr. Shu Yi Jin, the executive Director, is the only director of Beijing Jing Senyuan representing Changzhou Senyuan.

On 9 August 2002, Changzhou Senyuan acquired a 50% equity interest in Changzhou Guodian from 常州蘭陵電器有限公司 (Changzhou Lanling Electrical Co., Ltd.) at its original investment cost of RMB250,000. The remaining 50% equity interest in Changzhou Guodian is owned by SY Tai Ah, a connected person of our Company. The net assets of Changzhou Guodian as at the date of acquisition amounted to RMB228,000. With a view to rationalising our Group structure, on 8 October 2004, Changzhou Senyuan disposed of its entire 50% interest in Changzhou Guodian to Lanling, a connected person of our Company, at a consideration of RMB916,552.83, which was equivalent to Changzhou Senyuan's attributable interest in the then net asset value in Changzhou Guodian. Changzhou Guodian was principally engaged in the manufacture and sale of insulating parts.

Business

In the late 1980s, VCB, a component of switchgear, was used to be mounted on the switchgear rigidly. This kind of fixed-mounting VCB caused long outage time for

maintenance work as lengthy procedures were required to replace the malfunctioned VCB with an effective one. Starting from the early 1990s, leading international manufacturers such as ABB initiated a new trend of producing VCBs in the form of withdrawable types. Mr. Zhou, one of our founders and an executive Director, who had extensive experience in the circuit breaker and switchgear industry, anticipated that with this technological advancement, there would be a high growth potential in the domestic market for the withdrawable type of VCBs. Therefore, he, together with Mr. Tsang who had over 10 years of sales and marketing experience in the PRC, established Changzhou Senyuan and employed suitable technical experts to develop the then new withdrawable type of VCBs in early 1997.

Our founders and the management and engineers of Changzhou Senyuan had leveraged on their expertise in the switchgear industry to carry out research and development of our first VCB prototype since the establishment of Changzhou Senyuan in January 1997. From January to June 1997, our activities involved mainly the purchase of necessary production equipment, hiring and deployment of personnel and product testing. During the period from July 1997 to October 1998, we first commenced the test production of VCB prototypes and later on, carried out a small scale production. During this period, we progressively improved and modified our product design and technology. Our VCB prototype was approved by both the then Ministry of Electric Power and the Ministry of Machinery of the PRC in 1997. In November 1998, we commenced mass production of our products and since then, we have continued to improve the product standards and expand our market share. From January 2001 onwards, we enjoyed a high growth in the production of 12kV VCBs and we were ranked third in the 12kV VCB industry of the PRC in terms of production volume in 2001, 2002 and 2003.

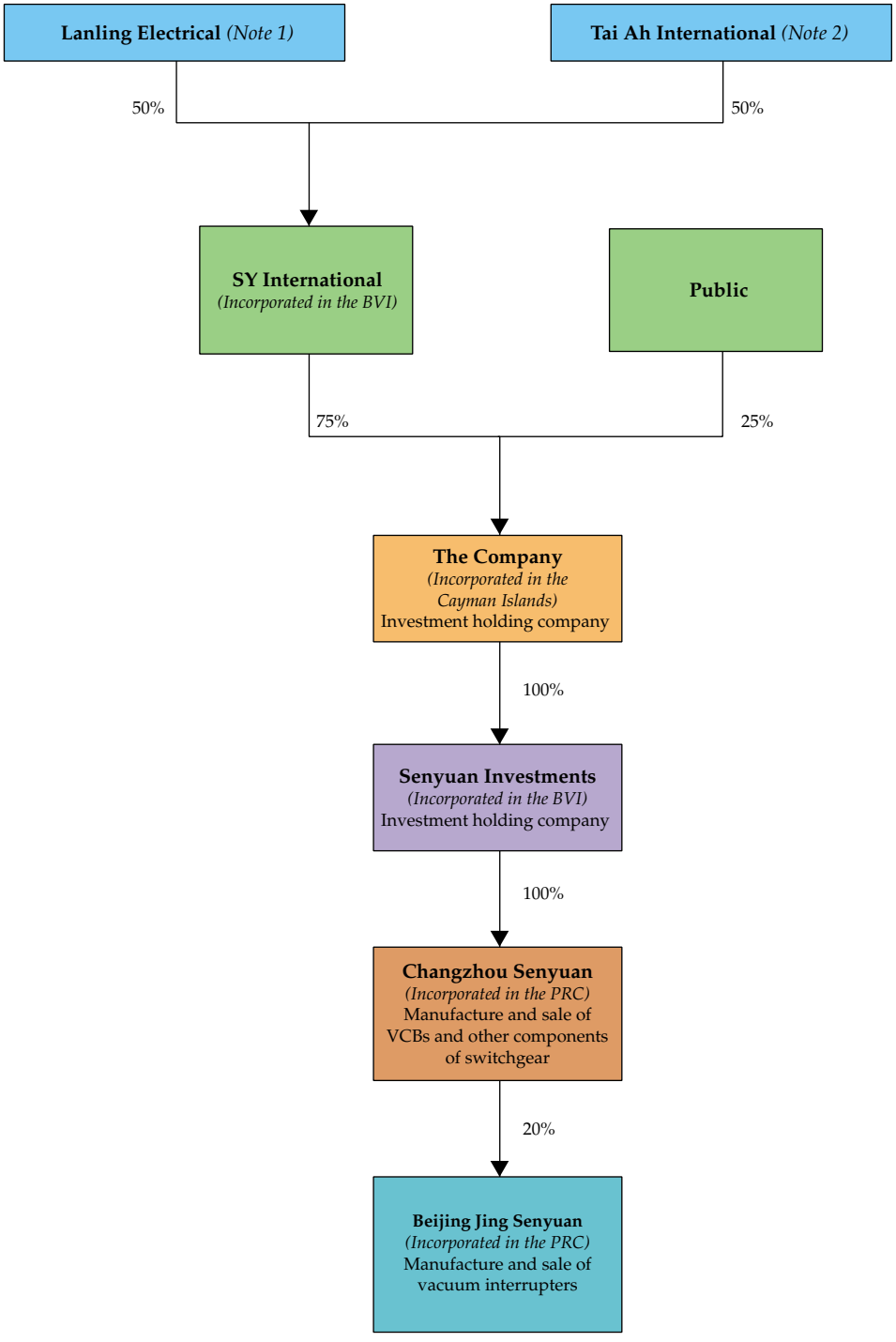
In order to expand our sources of sales revenue and take advantage of our then existing sales network, in addition to VCB, we embarked on the manufacturing of other switchgear components in the second half of 1997. We started producing metal-clad switchgear cubicles and functional units in withdrawable trucks in June and September 1997 respectively. Moreover, we commenced the production of the components of indoor, metal-enclosed ring main units including switch-fuse combination units and SF_6 load break switches in March 2002.

Since our establishment in 1997, we have always focused on the development of technologically advanced and new models of VCBs to meet the requirements and specifications of our customers. Since then, we have successfully developed more than 40 models of VCBs. The total number of staff and engineers in our technical department, production engineering department and quality assurance department had gradually increased from 10 in 1997 to 53 as at the Latest Practicable Date. Moreover, our Group is committed to deliver high quality products and we were assessed and registered as achieving the ISO 9001 (1994 and 2000 versions) standard for quality control in 1999 and 2002 respectively.

Our previous production plant at 105-2 Chang Xi Road, Changzhou, Jiangsu Province, the PRC, had a gross floor area of around 4,900 square metres. In order to cope with the increasing demand of our products, we relocated our office and production facilities to a larger site in Changzhou in October 2004. Our new production site at 1 West Hengtanghe Road, External-oriented Agricultured Development Zone, with a gross floor area of around 32,825 square meters allows us much more flexibility in designing the optimal production routing and workflow of production processes. This has enabled us to enhance our production efficiency and hence our production capacity with the existing machinery. The new plant would also allow us to expand our production lines in future if so required, and to cater for the potential growth in the demand for our products.

GROUP STRUCTURE

Immediately before the listing of the Shares on the Stock Exchange, our Group has undergone the Reorganisation pursuant to which our Company has become the holding company of our Group. The following diagram illustrates the corporate structure of our Group (together with the principal business activities and the place of incorporation of each member of our Group) immediately upon completion of the Share Offer:



Notes:

1. Lanling Electrical is a company incorporated in the BVI with limited liability on 21 September 2004 and is wholly owned by Mr. Zhou.

2. Tai Ah International is a company incorporated in the BVI with limited liability on 16 September 2004 and is beneficially owned as to 75%, 20%, 2.5% and 2.5% by Mr. Tsang, Mr. Tsang Shui Woon (a brother of Mr. Tsang), Mr. Lou Chong Wei and Mr. Tang Yan Kit respectively.

PRODUCTS

We are principally engaged in the manufacture of various types of VCBs, which are the key component of switchgear, an electricity distribution equipment used in power systems. In addition, we also manufacture metal-clad switchgear cubicles and other switchgear components such as switch-fuse combination units, load break switches and functional units in withdrawable trucks.

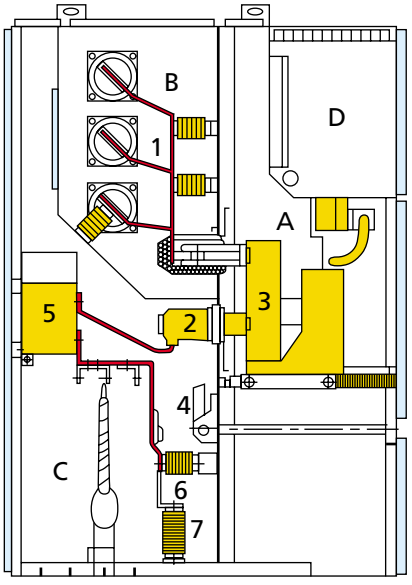
Our Group is targeted at producing key components for switchgears which are used in auxiliary power systems of power plants, substations in electricity distribution network and substations in industrial plants, commercial and residential complexes. A power system consists of a number of switchgears (some of which carry circuit breakers) which are connected with generators, power transformers and other equipment. By operating the switchgears in the system, electricity can be delivered in specific loads.

A switchgear comprises many and varied components housed in a cubicle. The figure below shows a group of switchgears connected together in a row. Each of these switchgears has different configurations, depending on the specific functions it serves. Switchgears of different functions are produced by assembling different types of primary and secondary components inside the metal-clad switchgear cubicles. The components in the cubicles can be classified as primary and secondary components. Primary components are the key functional devices which include circuit breakers, conductive parts, insulators, current and voltage transformers. Secondary components are those for auxiliary and control functions such as indicators, alarm/signaling devices, communicators and protection devices.

Each switchgear cubicle contains different primary components, for example, VCB and a functional unit in withdrawable truck for specific purposes. A typical switchgear cubicle with a VCB as its key component is shown below:

VCB is the main primary component in a switchgear. Other primary components used in a switchgear include withdrawable units, such as potential transformer truck, current transformer truck, surge arrestor truck and metering truck. Further details of the other switchgear components are set out in the section headed "Business – Products – Other components of switchgear".

The diagram below sets out the cross-section of a typical switchgear with a circuit breaker as the key component.



Key:

A. Circuit breaker compartment
B. Busbar compartment
C. Cable compartment
D. Instrument compartment
1. Busbar
2. Fixed contact spout
3. Circuit breaker
4. Earthing switch
5. Current transformer
6. Capacitive voltage divider
7. Surge arrester

Due to the continuous economic growth in the PRC, which has been in turn propelling urbanisation, modern cities and metropolises are being developed. These cities are characterised by high population, traffic congestion, high electric current density, high cost for land use and replacement of overhead power lines by underground cable. All of these factors have changed the requirements of power distribution equipment, especially for those used in secondary distribution, for example from outdoor to indoor, from bulky to compact and from local operation to system control operation. Meanwhile, our product design has already adapted to these changes and our products have incorporated features such as long life, robust and compact design, minimal maintenance, operational safety and interface connection with system control.

VCB

Currently, our principal product is 12kV VCB which has rated current ranging from 630A to 4,000A. We have manufactured more than 40 models of VCBs with different specifications. Up to the Latest Practicable Date, more than 35,000 VCBs manufactured by us had been delivered to our customers in the PRC. Examples of the VCBs manufactured by us are shown below:

The function of a circuit breaker is similar to a fuse used in a household power box. It interrupts electric current flowing in a faulty electric circuit so as to protect the equipment connected in the electric circuit from damage. However, a fuse does not have an operating mechanism to close and open an electric circuit and has to be used in combination with other switching devices. While a fuse needs to be replaced after it is blown, a circuit breaker can be reset after it has tripped. After repairing the faulty conditions, normal current can be resumed by closing the circuit breaker.

VCB is a type of circuit breaker that utilises vacuum to extinguish arcing when the circuit breaker is opened and to act as a dielectric to insulate the contacts after the arc is interrupted. A typical VCB normally has a rated normal current of 1,250A and a rated short-circuit current of 31.5kA. Its electrical life under rated normal current and rated short-circuit current is approximately 20,000 times and 50 times of operation respectively.

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 the PRC in terms of production volume of 12kV VCBs in 2001, 2002 and 2003. Our products accounted for approximately 6.3% of the 12kV VCBs produced in the PRC in 2003.

Revenue from the sale of VCBs accounted for approximately 74.2%, 72.3% and 73.3% of our total turnover for each of the three years ended 31 December 2004 respectively.

Other Components of Switchgear

We are also engaged in the manufacture and sale of other primary components of switchgear. They include:

- Metal-clad switchgear cubicle

  A cubicle or emptied enclosure for the compilation and installation of functional units and secondary components of a switchgear.

- Components of a ring main unit

  Ring main unit is a type of switchgear mainly used in a secondary power distribution system. The unit usually consists of an incomer connecting to a primary power distribution substation, a few number of load feeders and an outgoing feeder either connect to the incomer of another ring main unit or return to the same primary power distribution substation.

- Load break switch

  A switching device capable of making, carrying and breaking normal current in an electric circuit.

- Potential transformer truck

  A withdrawable unit in a switchgear equipped with a potential transformer and a number of fuses connected to protect the potential transformer. Its main function is to transform high potential voltage signals to lower potential voltage signals so that the variations of high potential voltage can be reflected by isolated low potential signals. These low potential signals are processed by measuring and protection equipment.

- Current transformer truck

  A withdrawable unit in a switchgear equipped with a current transformer. Its main function is to transform high potential, large current signals to low potential, small current signals so that the variation of high potential current can be reflected by isolating low potential current signals. These signals are processed by measuring and protection equipment.

- Surge arrester truck

  A withdrawable unit in a switchgear equipped with surge arresters which is a kind of over-voltage protective device, protecting insulation of electrical equipment from damages caused by lightning over-voltages and switching over-voltages.

- Metering truck

  A withdrawable unit in a switchgear equipped with a potential transformer, fuses connected to protect the potential transformer, and a current transformer. Its main function is to measure energy consumption by means of tapping voltage and current signals.

Revenue from the sale of switchgear components other than VCBs accounted for approximately 25.8%, 27.7% and 26.7% of our total turnover for each of the three years ended 31 December 2004 respectively. All of the switchgear components are sold to switchgear assembling factories for installation to produce switchgears with different key functional units in complete sets.

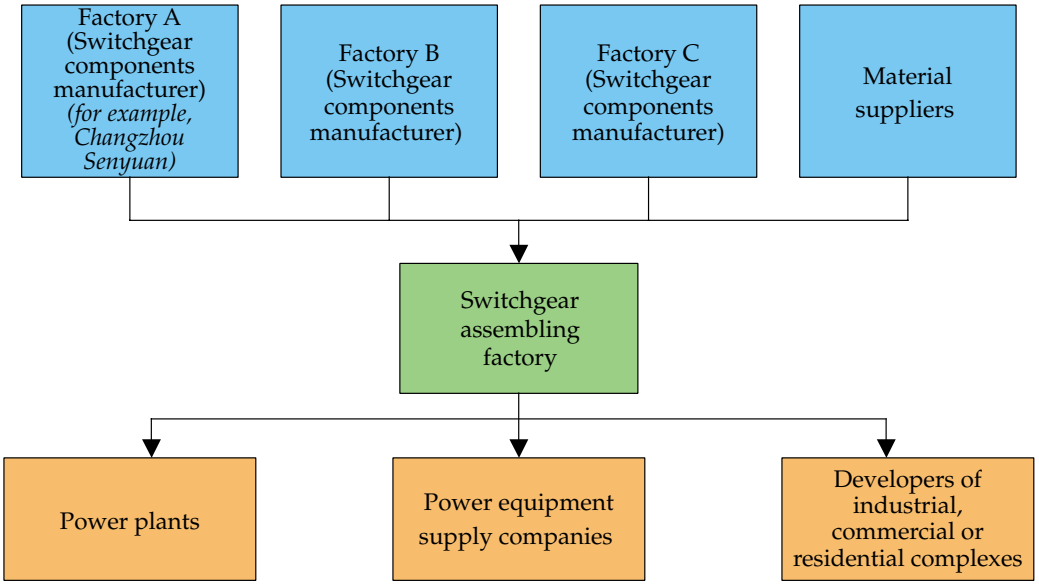
SALES AND MARKETING

Customers

Our customers mainly comprise switchgear assembling factories. We also sell our products through distributors pursuant to written contracts entered into between our Group and the distributors. The major terms of the contracts relate to the period of validity of the distributorship and the sales discounts offered by our Group. Our sales to distributors accounted for approximately 3.7%, 4.1% and 5.6% of our total turnover for each of the three years ended 31 December 2004 respectively. For the year ended 31 December 2004, we had over 500 customers who are located in 29 provinces, autonomous regions and municipalities in the PRC.

VCB is the key primary component in a switchgear and it cannot be used alone. Therefore, the VCB market is closely related with the switchgear market. With our in-depth market expertise and high production capacity, we have competitive edges over other manufacturers in producing key primary components like metal-clad switchgear cubicles and VCBs. Our customers are mainly switchgear assembling factories which usually have domestic switchgear sales network, including power supply companies. We supply them with individual components and also provide free-of-charge technical assistance for their further assembling applications and type testing in testing authorities. By adopting such strategy, these assembling factories can retrench the expenditures on machinery and technology investments and subsequently, invest more on sales and marketing. Meanwhile, we can foster their technological and market development and in return, benefit from their increase in market share and/or sales volume in their respective regional markets.

Set out below is a chart illustrating briefly a typical supply chain involving a switchgear assembling factory in the PRC:



Switchgear assembling factories produce switchgears in complete sets. They source various primary and secondary components, and in some cases including metal-clad switchgear cubicles, from various switchgear components manufacturers which specialise in different categories, for example, the production of VCBs, potential transformers, protection and control devices, surge arrestors and metal works. The assembled switchgears are then sold to end users such as power plants, power equipment supply companies and developers of industrial, commercial or residential complexes. As indicated in the above chart, Changzhou Senyuan would be classified as a switchgear components manufacturer.

The following chart illustrates a turnover analysis by province, autonomous region and municipality for each of the three years ended 31 December 2004:

Percentages of our Group's total turnover by province, autonomous region and municipality

Province, autonomous region and municipality	Year ended 31 December 2002	2003	2004
Jiangsu	17.7%	25.6%	25.9%
Shanghai	9.5%	9.1%	16.3%
Fujian	9.3%	9.1%	10.1%
Guangdong	15.0%	10.6%	9.0%
Zhejiang	6.4%	6.7%	7.8%
Liaoning	8.9%	6.2%	5.5%
Shandong	5.2%	5.2%	5.1%
Beijing	7.9%	4.2%	3.2%
Others *(Note)*	20.1%	23.3%	17.1%
Total	100.0%	100.0%	100.0%

Note: Other provinces, autonomous regions and municipalities in which the respective turnover was less than 5% of the total turnover of our Group for each of the three years ended 31 December 2004, include Guangxi, Yunnan, Guizhou, Hainan, Sichuan, Chongqing, Anhui, Hubei, Hunan, Jiangxi, Shanxi, Shaanxi, Menggu, Jilin, Heilongjiang, Tianjin, Henan, Hebei, Xinjiang, Ningxia and Gansu.

Our five largest customers, in aggregate, accounted for approximately 18.9%, 12.2% and 19.5% of the turnover of our Group for each of the three years ended 31 December 2004 respectively. Our single largest customer accounted for approximately 5.1%, 3.0% and 7.7% of our turnover for the same periods respectively.

Save as disclosed below, none of the Directors, their associates or so far as the Directors are aware, any Shareholder and their associates (which to the best knowledge of the Directors owns more than 5% of issued share capital of our Company immediately following completion of the Share Offer) has any interest in any of our five largest customers for each of the three years ended 31 December 2004:

– Lanling, a connected person of our Company, was one of our five largest customers for the three years ended 31 December 2004 which accounted for approximately 2.9%, 2.6% and 5.1% of our respective total turnover. Lanling is principally engaged in the assembly of switchgears. Details of our relationship and transactions with Lanling are set out in the section headed "Business – Connected transactions" in this prospectus.

– 上海南華蘭陵電氣有限公司 (Shanghai Nanhua Lanling Electrical Co., Ltd.) was one of our five largest customers for the year ended 31 December 2003 and our largest customer for the year ended 31 December 2004. It was not one of our five largest customers for the year ended 31 December 2002. The sales to 上海南華蘭陵電氣有限公司 (Shanghai Nanhua Lanling Electrical Co., Ltd.) accounted for approximately 0.3%, 2.3% and 7.7% of our total turnover for each of the three years ended 31 December 2004 respectively.

  上海南華蘭陵電氣有限公司 (Shanghai Nanhua Lanling Electrical Co., Ltd.) is owned as to 25% by Tai Ah HK and 75% by six parties that are independent of and not connected with our Company or our connected persons. The board of directors of 上海南華蘭陵電氣有限公司(Shanghai Nanhua Lanling Electrical Co., Ltd.) consists of eight directors. Mr. Zhou is the only director representing Tai Ah HK. Accordingly, 上海南華蘭陵電氣有限公司(Shanghai Nanhua Lanling Electrical Co., Ltd.) is not a connected person of our Company. 上海南華蘭陵電氣有限公司 (Shanghai Nanhua Lanling Electrical Co., Ltd.) is principally engaged in assembly of switchgears. We sold VCBs and other switchgear components to 上海南華蘭陵電氣有限公司(Shanghai Nanhua Lanling Electrical Co., Ltd.) during the aforementioned periods.

– SY Tai Ah, a connected person of our Company, was one of our five largest customers for the years ended 31 December 2002 and 2003. It was not one of our five largest customers for the year ended 31 December 2004. The sales to SY Tai Ah accounted for approximately 3.9%, 2.1% and 0.9% of our total turnover for each of the three years ended 31 December 2004 respectively. SY Tai Ah is principally engaged in the manufacture of metal parts. Details of our relationship and transactions with SY Tai Ah are set out in the section headed "Business – Connected transactions" in this prospectus.

Sales and Marketing

To keep abreast of the fast changing needs of clients and market demand, our sales team pays regular visits to our customers. We maintain long-term relationships with our customers.

Apart from the strategy of maintaining long-term relationships with existing customers, we also strive to identify and develop business with new and potential customers. New customers are identified through our marketing efforts and distributors. As part of our product promotion and marketing programme, we participate in various electricity equipment exhibitions, such as Chinese Export Commodities Fair (中國出口商品交易會, or generally known as 廣交會) and 北京國際電力電工高低壓電器展覽會 (Beijing International Electric Power and Industry High and Low Voltage Electrical Apparatus Exhibition). In addition, we advertise in technology-related magazines and organise technical seminars for various design institutes and electricity companies to demonstrate the comparative advantages of our products, so as to increase the brand awareness of our products among potential customers.

In addition to the above marketing and promotion efforts, we also actively participate in activities hosted by the electricity supply industry. For example, in November 2004, our VCBs were chosen by the competition committee as the official equipment for a national competition, known as 全國電力行業繼電保護工、變電檢修工技能競賽 (Substation and Relay Protection Maintenance Skills Competition for the Chinese National Electricity Industry), jointly hosted by 中國電力企業聯合會 (China Electricity Enterprises Association), 勞動和社會保障部－中國就業培訓技術指導中心 (Ministry of Labour and Social Security – China Career Training and Technical Advisory Centre) and 中國能源化學工會全國委員會 (National Committee of China Energy and Chemical Industries Labour Union). It was the first time in 20 years for the industry to organise such nationwide competition for the maintenance of 12kV substation equipment. The Directors believe that our participation in such activities and competitions in the electricity industry will help enhance the public profile and awareness of our products.

Pricing

We normally take the following factors into our consideration for the pricing of our products: (i) cost of our products; (ii) the quantity ordered by the relevant customers; and (iii) price of similar types of products in the market.

Payment Terms

All of our sales are denominated in Renminbi. Settlements from our customers are usually by cheque or telegraphic transfer.

For non-regular and new customers, we require cash payment upon delivery of our products.

We may grant a credit term to a customer that meets the following criteria: (i) at least two years' business relationship with us; (ii) an average annual sales of not less than RMB0.5 million in the last two years; and (iii) an increasing trend in terms of the amount of sales. Prior to February 2005, we relied on different authorities for approval of different credit limits of sales. All significant sales with credit limit were required to be recommended by the sales manager to the general manager for approval. In February 2005, we implemented more stringent procedures for credit management. Credit accounts application must be submitted by our sales staff by completing a credit risk assessment form which contains certain information including corporate, finance and trading record. The form is assessed by the sales manager of Changzhou Senyuan who makes recommendation of credit terms for the general manager's approval. For any revisions to credit terms including credit limit and credit period, trading records and repayment history of the customer are reassessed. We offer three types of credit terms to our customers, details of which are set out below.

For the majority of our customers, the contractual credit term generally ranges from 30 days to 90 days. In practice, we allow a customer to settle the outstanding balance in full upon delivery of our products under its next purchase order. This payment arrangement

is known as 滾動付款 (rolling payment). We offer such payment terms to some of our customers so as to be in line with the industry practice in the PRC. It should be noted that the arrangement of 滾動付款 (rolling payment) may be offered to a customer who has three years of trading records with an average annual purchase of not less than RMB1 million from us together with a good repayment history. The payment arrangement represented approximately 65.8%, 69.0% and 71.0% of our total sales for each of the three years ended 31 December 2004 respectively.

We offer a pre-agreed credit limit to a limited number of major customers. For a major customer which has a very active trading record in the last three years with an average annual purchases of not less than RMB4 million from us together with an excellent repayment history, we may offer it a pre-agreed credit limit, which could be up to approximately RMB4 million, depending on the usual sizes of its purchase orders. So long as the amount of the accumulated purchases falls within such credit limit, no payment is due. However, the customer is required to settle the amount exceeding such limit within the stipulated credit period. Pursuant to the sales contract, we can adjust the credit term and/or credit limit granted to the customer unilaterally at any time. We offer such credit terms to a few major customers so as to be in line with the industry practice in the PRC. The arrangement represented approximately 5.0%, 2.3% and 1.0% of our total sales for each of the three years ended 31 December 2004 respectively. It should be noted that the pre-agreed credit limit is also granted to us contractually by some of our major suppliers. We would require the customers to settle the outstanding balance in full if our relationships were to be terminated. The respective credit limit for such customers are subject to periodical review.

For other customers, we normally require a deposit ranging from 10% to 30% of the contract value from our customers in advance. Upon delivery of our products, they will pay to us a second installment. The amount of which is determined based on credit assessment of the respective customers. The balance will be payable within 30 days to 90 days thereafter. These proportionate payments represented approximately 29.2%, 28.7% and 28.0% of our total sales for each of the three years ended 31 December 2004 respectively.

We closely monitor our outstanding trade receivables. Trade receivables that are overdue by more than 45 days beyond the credit period are classified as overdue debts. Sales staff will report the overdue debts to the sales manager and the finance department, the management will decide on the appropriate actions to be pursued by our Group.

Under 滾動付款 (rolling payment) arrangement, if a customer does not place a second order within a period of approximately three months, it is bound to settle the outstanding balance pursuant to the credit term stipulated under the sales contract.

In the event that the aggregate sales amount to a customer is less than the pre-agreed credit limit for approximately three months, our sales staff will follow up the situation. We may, if necessary, adjust the credit term and/or credit limit granted to the customer unilaterally pursuant to the sales contract.

For each of the three years ended 31 December 2004, the debtors' turnover days of our Group were 88 days, 88 days and 91 days respectively. For reference purpose, the modified debtors' turnover days which took into consideration of sales to related companies (as defined in the accountants' report) were approximately 99 days, 105 days and 98 days for each of the three years ended 31 December 2004 respectively. For each of the three years ended 31 December 2004, provision for doubtful debts (an item in the combined balance sheets set out in the accountants' report) representing approximately 2.5%, 2.9% and 2.3% of our turnover respectively.

As at 31 December 2004, trade receivables of approximately RMB33.7 million aged over 90 days, which exceed the general contractual credit terms of 30 days to 90 days granted to our customers. Trade receivables aged over 90 days accounted for approximately 39.6% of our total trade receivables as at 31 December 2004, which was lower than that of 48.4% as at 31 December 2003. In comparison with general contractual credit terms, long outstanding trade receivables as at 31 December 2004 were mainly stemmed from the industry practice in the PRC and, in particular, the arrangement of 滾動付款 (rolling payment). Under the arrangement of 滾動付款 (rolling payment), we allow a customer to settle the outstanding balance of trade receivables in full upon delivery of our products under its next purchase order. Nevertheless, the contractual credit terms granted to this class of customers generally range from 30 days to 90 days in order to reserve our right to take legal actions in debt recovery. This payment arrangement accounted for approximately 71.0% of our total sales for the year ended 31 December 2004. The Directors believe that some of our long-term customers are accustomed to settling trade receivables slowly. Our Group does not take aggressive actions in collecting overdue balances from such customers, so as to maintain good client relationship. Based on the aforesaid, we consider long outstanding trade receivables as at 31 December 2004 were normal in the ordinary and usual course of our business. As a result, we would continue to trade with customers with long outstanding trade receivables. In order to tighten our credit control, 滾動付款 (rolling payment) will be granted to new customers on the basis that they will be subject to credit periods and credit limits. For the existing customers that are offered 滾動付款 (rolling payment), we will gradually implement credit periods and credit limits upon reviewing their credit ratings. Based on our review of payment arrangement, repayment history, settlements subsequent to 31 December 2004 and our management's knowledge of the financial position of the respective customers with long outstanding debts, the Directors do not foresee any unrecoverable debts except for certain long outstanding trade receivable balances of approximately RMB6.8 million in aggregate as at 31 December 2004. We have made full provision of doubtful debts for these trade receivables.

Our general contractual term regarding the standard for inspection and acceptance of goods by our customers is with reference to the national technical standard for circuit breakers in the PRC. In such case, return of goods is not allowed except for non-compliance with the standard. Any goods returned to us has to be approved by the general manager or deputy general manager of Changzhou Senyuan. We did not receive any returned goods for the three years ended 31 December 2004.

PURCHASES

Purchases

The principal components we purchase are vacuum interrupters, one of the components of VCB, manufactured in the PRC. Vacuum interrupters accounted for approximately 30.9%, 26.2% and 25.0% of our total purchases for each of the three years ended 31 December 2004 respectively. The fluctuation of the aforesaid ratios was primarily attributable to the fluctuation of purchases of steel plates. This can be illustrated by the fact that vacuum interrupters accounted for approximately 31.9%, 31.1% and 31.8% of our total purchases excluding purchases of steel plates for each of the three years ended 31 December 2004 respectively.

The main raw materials of our products are steel plates which are sourced from domestic suppliers. Steel plates accounted for approximately 3.0%, 15.7% and 21.2% of our total purchases for each of the three years ended 31 December 2004 respectively. The principal reason for the rise in the purchases of steel plates for the year ended 31 December 2004 was that we increased the production of parts of switchgear cubicles on our own and reduced the procurement of these parts.

For our domestic purchases in the PRC, we are normally granted a pre-agreed credit limit by some of our local suppliers, which could be up to around RMB3 million, depending on the usual sizes of our purchase orders. So long as the amount of the accumulated purchases falls within such credit limit, no payment is due. However, we are bound to settle the amount of any purchases exceeding such credit limit upon their delivery. If we terminate the relationships with these suppliers, we would have to settle the outstanding balances in full. A few of our major suppliers allow us to settle the outstanding balance by 滾動付款 (rolling payment) within a stipulated credit period pursuant to sales contracts. 滾動付款 (rolling payment) means that the settlement of the outstanding balance in full to a supplier is extended to receipt of its products under our next purchase order. For other local suppliers, we are normally granted a credit period for our payments ranging from 30 days to 90 days. Settlements to our local suppliers are usually by cheques or telegraphic transfers. All our overseas procurements are made by letters of credit with a credit term of 90 days. For the year ended 31 December 2004, around 99% of our purchases were denominated in Renminbi.

During the three years ended 31 December 2004, our Group did not experience any disruptions in our operations due to the shortage of raw materials or components.

Our inventories comprise raw materials and component parts purchased by our Group, work in progress and finished goods. Raw materials and component parts mainly include vacuum interrupters, cold-rolled steel plates and parts and accessories, which are durable items.

Suppliers

For each of the three years ended 31 December 2004, our purchases from the five largest suppliers of our Group accounted for approximately 46.2%, 41.0% and 31.6% of our total purchases respectively. During the same periods, our largest supplier accounted for approximately 19.1%, 11.8% and 9.5% of our total purchases respectively.

Among our five largest suppliers for each of the three years ended 31 December 2004, the following are connected persons of our Company:

– SY Tai Ah, which sells metal parts to our Group, was our largest supplier for the year ended 31 December 2002 and one of our five largest suppliers for the year ended 31 December 2003. SY Tai Ah was not one of our five largest suppliers for the year ended 31 December 2004. SY Tai Ah accounted for approximately 19.1%, 8.8% and 1.7% of our total purchases for each of the three years ended 31 December 2004 respectively.

– Lanling, which sells steel plates to our Group, was one of our five largest suppliers for the year ended 31 December 2004. Lanling was not one of our five largest suppliers for each of the two years ended 31 December 2003. Lanling accounted for approximately 0.1%, 0.7% and 4.2% of our total purchases for each of the three years ended 31 December 2004 respectively.

Details of our relationship and transactions with SY Tai Ah and Lanling are set out in the section headed "Business – Connected transactions" in this prospectus.

Save as disclosed above, none of the Directors, their associates or so far as the Directors are aware, any Shareholder (which to the best knowledge of the Directors owns more than 5% of issued share capital of our Company immediately following completion of the Share Offer) has any interest in any of our five largest suppliers for each of the three years ended 31 December 2004.

PRODUCTION

Production Complex

From January 1997 to October 2004, Changzhou Senyuan leased a production plant, located at No.105-2 Changxi Road, Tianling District, Changzhou, Jiangsu Province, the PRC. The building, which comprised a production workshop and an office, with a gross floor area of approximately 4,900 square meters was leased to Changzhou Senyuan from 常州中興旅遊用品有限公司(Changzhou Zhong Xing Travel Accessories Co., Ltd.), a party independent of and not connected with our Company or our connected persons. The term of the lease covered the period from 1 January 1999 to 31 December 2006 at an annual rent of approximately RMB0.7 million, RMB0.8 million and RMB0.9 million for 1999 to 2001, 2002 to 2004 and 2005 to 2006 respectively. In 2003, Changzhou Senyuan had a dispute with the landlord in relation to whether the tax payment of the rental value should be

borne by the landlord or Changzhou Senyuan. The dispute was settled by a resolution rendered by the court in April 2004 pursuant to which, the landlord was liable to pay the tax on the rental value and it eventually paid such tax. In addition, the lease agreement was terminated by mutual agreement on 31 August 2004 and a compensation of RMB350,000 was paid by Changzhou Senyuan to the landlord. This compensation was recognised as other operating expenses in our profit and loss account. In addition, Changzhou Senyuan was required to remove its production equipment and other possession on or before 31 December 2004. Changzhou Senyuan eventually relocated its production facilities to its existing site in October 2004.

From January 2002 to December 2002, Changzhou Senyuan also leased a portion of a production plant of approximately 486 square metres at No. 84 Xi Tao Jia Village, Changxi Road, Changzhou, Jiangsu Province from Changzhou Lanling Factory, a connected person of our Company, at a consideration of approximately RMB294,000 per annum. Due to lack of production space, we leased the place temporarily for the production of load break switch, which was launched in 2002. After the re-arrangement of the layout of machinery, the production of load break switches has been carried out in our own production complex from 2003 onwards.

The aggregate rental payments for the buildings for each of the three years ended 31 December 2004 were approximately RMB1.1 million, RMB0.8 million and RMB 0.7 million respectively.

In order to cope with the increasing demand for our products, we relocated our production complex to the existing site at 1 West Hengtanghe Road, External-oriented Agricultural Development Zone, Changzhou, Jiangsu Province, the PRC in October 2004. The operations carried out at the old facilities were terminated step-by-step in a well-organised manner during the PRC national holiday which commenced on 1 October 2004 and ended on 10 October 2004. Our production capacity and production volume of the old facilities had not been affected during the period of preparation for the relocation. This can be demonstrated by the fact that additional outputs from the machinery were stocked before the relocation took place. The preparation works were mostly related to cleaning, ensuring proper power and auxiliary supplies (such as water, compressed air and gases), transferring the production auxiliary equipment (such as tools, fixtures and jigs) and raw materials to the new factory. As the entire relocation took place during the PRC national holiday in which our production normally came to a halt, the installation procedures and trial run operations of the machinery were conducted immediately after the transfer of the machinery from the old factory to the new factory blocks. The trial run operations of our production machinery lasted for two hours on average. As the trial run operations were completed in such short period after installation, the relocation of the new production complex had not caused any material interruption to our Group's operations and production. This can be demonstrated by the fact that there has been no material difference between the respective monthly VCB production volume in October 2003 and 2004.

Our new production complex occupies an area of approximately 65,100 square metres. The production complex consists of two factory blocks comprising eight production workshops, an office building, an auxiliary plant, a canteen, a boiler room and a power

room with a gross floor area of approximately 32,825 square meters. We have been granted land use rights from the PRC government for a term up to 26 June 2053 for the production site.

The construction of our new production complex in Changzhou, the PRC commenced in the second half of 2003. All of the eight production workshops were completed in November 2004 with the rest of the construction project expected to be completed in September 2005. The workshops in the new production complex include a metal sheet workshop, machining workshop, switchgear cubicle assembly workshop, circuit breaker assembly workshop, ring main unit and load break switch workshop, cable accessories workshop, insulator workshop and functional unit truck assembly workshop. We currently have six VCB assembly lines and all of them are designated in the circuit breaker assembly workshop.

As at the Latest Practicable Date, the outstanding construction work involved the interior renovation of the office building and installation of lighting system in the complex. The building ownership certificate in respect of the two factory blocks has been obtained by our Group. As advised by our PRC legal advisers, there will be no legal impediment to obtaining building ownership certificate(s) for other buildings in the production complex. The revalued amount of our production site was RMB75 million as at 30 April 2005, particulars of which are set out in appendix III to this prospectus.

Total capital expenditures in respect of our new production complex are estimated to be approximately RMB65 million. As at 31 December 2004, we had incurred RMB54.3 million in this regard which was mainly financed by bank loans.

Production Equipment

Most of our major production equipment, such as laser cutting machine, CNC punch press machine, CNC press brake machine and welding robots, are precise, highly sophisticated, computerised and numerically controlled machinery. A majority of them were manufactured in foreign countries, namely Germany, the United States and the Netherlands.

We purchased certain production machinery from related companies amounting to approximately RMB0.5 million and RMB13.5 million for the years ended 31 December 2003 and 2004 respectively, details of which are set out in the section headed "Business – Related party transactions" in this prospectus.

For each of the three years ended 31 December 2004, there were no disruption of our business operations as a result of a lack of production equipment.

Production Capacity

The table below shows the annual designed production capacity of VCBs, number of assembly lines and average capacity utilisation rate for the production of VCBs for each of the two years ended 31 December 2003, prior to and after the relocation of the production facilities, which took place in early October 2004, and from 1 January 2005 to the Latest Practicable Date.

	Year ended 31 December		From 1 January 2004 to the date of relocation in October 2004	From the date of relocation to 31 December 2004	From 1 January 2005 to the Latest Practicable Date
	2002	2003			
Annual designed production capacity of VCBs	8,000	15,000	15,000	25,000	25,000
Number of VCB assembly lines	3	4	4	6	6
Average capacity utilisation rate	110%	84%	106%	52%	54%

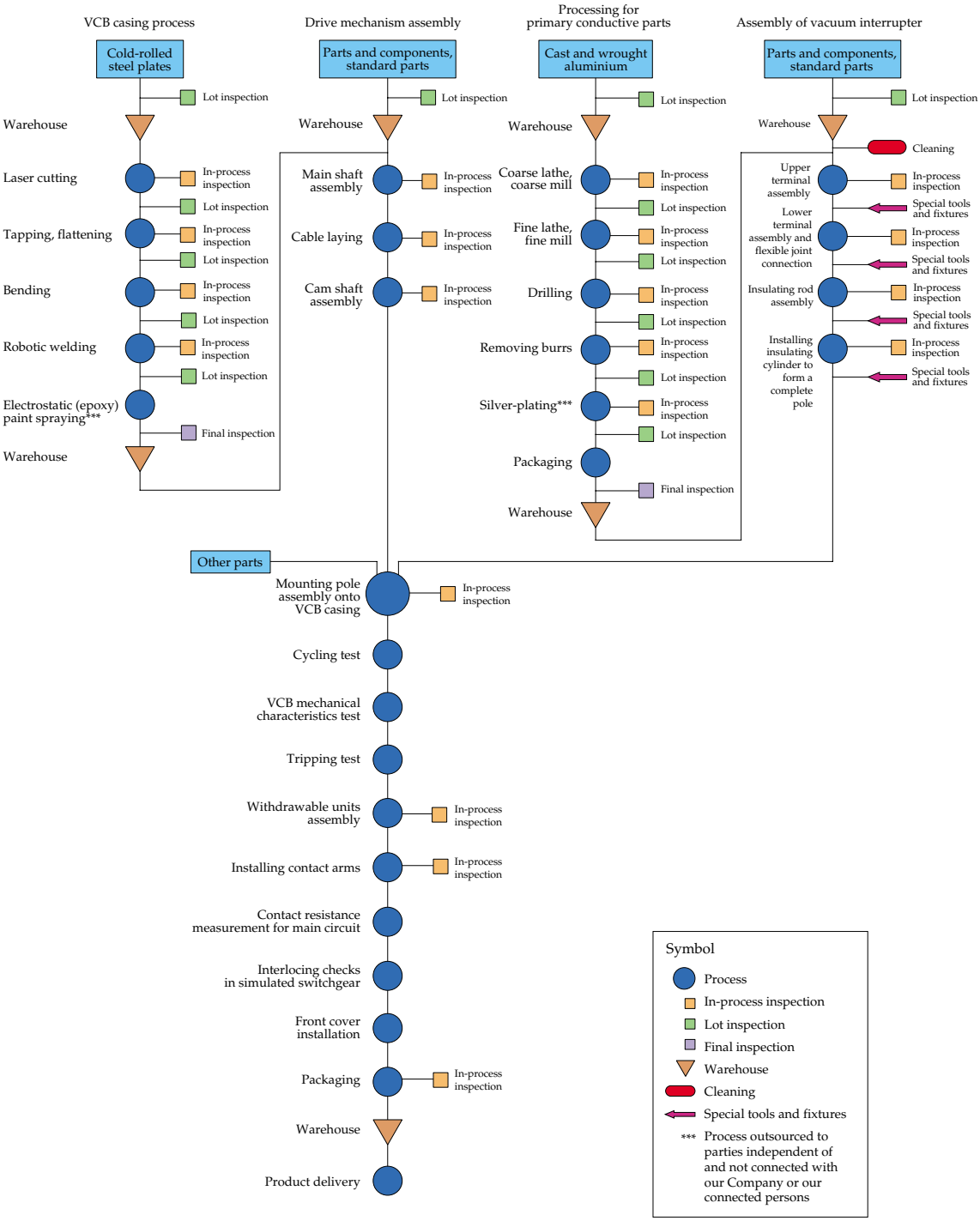
The capacity utilisation rate represents the ratio of the actual production volume to the designed production capacity during a particular period of time. Factors affecting the capacity utilisation rate include the overall conditions of the industry, purchase orders from customers, effective production rate and operational disruptions. The designed production capacity is derived from certain criteria selected by us, such as the designated production time per year, number of shifts assigned to the workers, number of workers assigned to each VCB assembly line and the status of production technology. Our designated production time per year is approximately 246 days, which is our estimated production time in a year when operations are not interrupted due to equipment maintenance or other operational disruptions. Our designed production capacity continues to improve with technological advancement of our VCB assembly lines, while our actual production volume is determined by our output and the effective production rate. In addition, there may be overtime work on producing the products and extra employment of temporary workers from time to time depending on the amount of purchase orders received in the period. Due to the above factors, the actual production volume may be higher than the designed production capacity. As a result, our capacity utilisation rate may be higher than 100%.

After the relocation to the new production complex, the number of our VCB assembly lines has been increased from four to six. In addition, the increase in the total floor area of the production workshops allowed us to substantially improve our production efficiency by having the optimal production routing and workflow of production process to ensure a smooth flow of materials and to streamline our production cycles. As a result, our production capacity of VCBs has increased from 15,000 units per annum to 25,000 units per annum. We believe that the expanded production capacity will enable us to capture the growing market demand.

For the three years ended 31 December 2004, our Group did not experience any disruptions of our manufacturing operations due to the constraints that may impose by our production capacity.

Production Process

The production process usually takes approximately two weeks from the planning stage to the delivery of products to our customers. The following is a flow chart of the production process of VCBs:



Our manufacturing process mainly consists of the following five major stages:

1. VCB casing process which involves the production techniques such as laser cutting, tapping, flattening, bending, robotic welding and electrostatic (epoxy) paint spraying with cold-rolled steel plates as the raw material.

2. Assembly of VCB drive mechanism which involves cable laying, assembly of main shafts and cam shafts.

3. Processing primary conductive parts which involves production techniques such as coarse and fine lathe and milling, drilling, removal of burrs and silver plating with cast and wrought aluminium as the principal material.

4. Assembly of vacuum interrupter which involves upper and lower terminal assembly, flexible joint connection, insulating rod assembly and installation of insulating cylinder to form a complete pole.

5. Overall installation and testing process which involves assembly of complete poles onto the VCB casing, cycling test, VCB mechanical characteristics test, tripping test, installation of contact arms, assembly of withdrawable units, main circuit contact resistance measurement, interlocking checks in simulated switchgear and front cover installation.

Given the sophisticated and high precision requirements of our products, our production processes are principally performed by CNC machines. These machines are operated by built-in computer software and workers are only required to input parameters according to each product specification. Processes such as laser cutting, turret punch pressing, welding, milling and wire cutting are automatically performed by the CNC machines with high degree of precision.

As the specifications of our products are of high precision, we apply stringent quality control policies in every production process, as referred to under the section headed "Business – Quality control". Lot inspection, in-process inspection and final inspection are implemented in various production processes according to the nature and importance of the individual process and processed item. Substandard processed items, assemblies or products are rejected and isolated from the warehouse and production material flow.

The following illustrates the various principal processes in the five stages of the production process of VCBs and the application of the relevant equipment and machinery.

CNC laser cutting

In order to attain the highest product quality and production efficiency, a CNC laser cutting machine is used to produce the casing of VCB which is made of 4 mm cold-rolled steel. Moreover, the machine is highly versatile and adaptable and able to fulfill the different dimension requirements of a large variety of our products.

CNC turret punch press

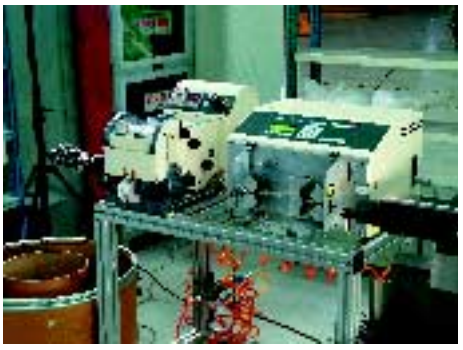
A CNC turret punch press machine is used to produce the withdrawable assembly and side covers of VCBs which are made of 2-3 mm cold-rolled steel. Furthermore, it is also suitable for manufacturing switchgear cubicles.

Robotic welding operation

The VCB casing is the reference frame for assembling all components of a VCB drive mechanism. The accuracy of welding the casing has direct impact on many technical parameters of VCBs. In order to achieve such high accuracy, a robotic welding system is used together with other clamping tools of various specifications.

CNC machining centre

The primary conductive parts of a VCB are of high-precision. Any minor error in dimension or positioning can drastically affect the performance of VCBs. Therefore, CNC lathe and milling machines are used to produce these parts.



Secondary wire cutting and connecting

Control wiring links all secondary components so as to perform control and interlocking functions. In order to assure high quality, an automatic wire preparation machine (with cable number marking function) is used.

Assembly of vacuum interrupters

Vacuum interrupters are core parts of VCBs and specialised training is required for workers in this assembly line. These interrupters are assembled with primary conductive parts and insulating rods by using special tools and fixtures.

Cycling test for VCBs

The performance of a VCB exhibits a typical "bathtub" curve which is characterised by higher failure rates at both the beginning and near the end of its life cycle and lower failure rates during the normal life period. In order to eliminate initial failure, all VCBs are required to be burnt-in for 500 mechanical operations (note: the total life endurance of a VCB is approximately 20,000 mechanical operations) before it is released for actual operation. This is to ensure that all VCBs are in normal life period, stable quality and ready-to-use when they are delivered to our customers.

Mechanical characteristics test for VCBs

The mechanical characteristics of a VCB are important measures of its quality. An expert testing system is used to measure these characteristics for each VCB and a test result including the characteristic curve is supplied to our customers in order to demonstrate that the VCB has achieved all technical requirements.

Save for certain minor processing procedures such as silver-painting, paint spraying and linkages which are outsourced to parties independent of and not connected with our Company or our connected persons, all of our products are manufactured by our production facilities. Processing fees were approximately RMB5.9 million, RMB12.7 million and RMB11.0 million for the three years ended 31 December 2004 respectively. The amount of processing fees were based on arm's length negotiations during the periods.

The production processes which we outsourced are mainly low technology machining and/or metal-sheet fabrication. The quality significance of these outsourced production processes is moderate. In order to lessen the dependency on one factory, we have at least two approved manufacturers for each outsourced process.

RESEARCH AND DEVELOPMENT

Staff

Our research and development division of the technical department is responsible for developing new products and also upgrading and modifying existing products to meet the changes in market demand. As at the Latest Practicable Date, we had 28 engineers who involved in the research and development of our products. Moreover, there were altogether 25 staff in the product design division of the technical department, production engineering department and quality assurance department. The respective department head reports to our chief engineer, Mr. Zhang Jian.

The table below sets out the number of staff who were involved in the technical, production engineering and quality assurance departments, the academic qualification analysis and the average years of experience of the staff in the research and development division as at 31 December 2002, 2003 and 2004 and the Latest Practicable Date:

	As at 31 December			As at the Latest Practicable Date
	2002	2003	2004	
Number of staff under the technical, production engineering and quality assurance departments	30	40	49	53
Number of staff in the research and development division (a division of the technical department)	20	25	25	28
Academic qualification of research and development staff *Note*	45%	52%	52%	53%
Average years of experience of research and development staff	3.5	4	4.5	5

Note: Percentage of research and development staff graduated from universities.

Products Development

For the year ended 31 December 2002, we standardised the design of withdrawable trucks and introduced a robotic welding system in our production line, which in turn increased the accuracy of metal processing and enhanced product quality. In addition, we improved the wiring technique in the production of VCBs which enhanced the product performance. Furthermore, a new model of a compact VCB was successfully developed and this extended our product range. All of these improvements have increased our production efficiency, lowered the production cost and enhanced our Group's competitiveness.

For the year ended 31 December 2003, we successfully developed the circuit breaker panel for ring main units, longitudinal VCB for circuit breaker panel and heavy duty VCBs. We improved the product performance and production technology of SF_6 load break switches and ring main units. The sizes of the withdrawable trucks were reduced and the method of cubicle assembly was refined so as to increase the production efficiency and lower the production cost.

For the year ended 31 December 2004, we finished the design of embedded pole VCBs.

Research and development expenditures amounted to approximately RMB10.3 million, RMB12.3 million and RMB12.8 million for each of the three years ended 31 December 2004 respectively. The breakdowns of research and development expenditures are set out in the section headed "Financial information – Critical accounting policies – Research and development expenditures" in this prospectus.

Future Plans

The future trend for VCBs is to develop models which are smaller in size, longer life and require minimal maintenance. Embedded pole VCB is designed to fulfil these requirements. Each embedded pole VCB has three embedded poles mounted onto a drive mechanism casing. Embedded pole is an assembly consists of a vacuum interrupter, primary conductive parts and linkages, embedded in epoxy resin by means of a special casting technique. In comparison with the conventional vacuum interrupter assembly, the embedded pole provides stronger electrical insulation and protection against external influence and mechanical strength to support the pole itself. Completed with a long life-expectancy drive mechanism, embedded pole VCB is believed to be highly value-added and hence we would be able to achieve a higher profit margin from it than that from the conventional VCB.

In September 2003, Changzhou Senyuan entered into an agreement with Siemens Vacuum Interrupters (Wuxi) Limited under which Changzhou Senyuan is to pay for the costs of product design and development of two types of embedded poles at an aggregate amount of RMB4 million, which amount was fully paid by Changzhou Senyuan, and in return, Siemens Vacuum Interrupters (Wuxi) Limited agreed to supply us the developed products for a period of three years from the confirmation date. This date refers to the

time that the national testing institute orally confirms that the product passes the type test conducted by the institute. According to the latest progress, it is anticipated that the confirmation date will fall in the second half of 2005. The intellectual property rights of the product vest in Siemens Vacuum Interrupters (Wuxi) Limited. This arrangement is a common practice in the industry and is legal and valid under the relevant PRC rules and regulations.

Siemens Vacuum Interrupters (Wuxi) Limited is committed to sell embedded poles to Changzhou Senyuan at prices lower than those which would otherwise be available to other customers. In addition, the Directors believe that the development of embedded poles by Siemens Vacuum Interrupters (Wuxi) Limited is beneficial for the growth of our business. Our VCB production with the application of the newly developed embedded poles will enable us to enhance our market share for VCBs as we are able to leverage on the Siemens Group's predominant brand name and advanced technologies.

Changzhou Senyuan is committed to purchase a minimum quantity of 10,000 units of embedded poles from Siemens Vacuum Interrupters (Wuxi) Limited for a period of 14 months from the confirmation date. The selling price of these embedded poles were solely determined by Siemens Vacuum Interrupters (Wuxi) Limited. If the minimum purchase commitment was evenly distributed over two years and the commitment commenced in 2004, the annual purchase commitment would represent not more than 8.1% of our total purchases in 2004. If the purchase from Changzhou Senyuan fails to reach the minimum quantity of embedded poles, without prejudice to other remedies available to Siemens Vacuum Interrupters (Wuxi) Limited, it shall purchase the conventional bare ceramic tubes, which are also components of VCBs. The Directors consider that Changzhou Senyuan is required to purchase the conventional bare ceramic tubes in the amount of the remaining committed quantity from Siemens Vacuum Interrupters (Wuxi) Limited in such circumstances. Pursuant to the agreement, both parties may sell embedded poles to any third parties. Changzhou Senyuan intends to trade such products.

The expenditures incurred by Changzhou Senyuan under this arrangement pursuant to the aforementioned agreement are accounted for as long term prepayments. Long term prepayments will be reduced by amounts which equal to the cost savings of Changzhou Senyuan for goods purchased from Siemens Vacuum Interrupters (Wuxi) Limited, with purchase costs of the products increase by an equal amount. The cost savings equal to the product of (i) market price of the products offered to other parties by Siemens Vacuum Interrupters (Wuxi) Limited minus the purchase price of the products actually paid by Changzhou Senyuan and (ii) number of units purchased by Changzhou Senyuan. As at 31 December 2004, we had fully paid the costs of product design and development of embedded poles of RMB4 million to Siemens Vacuum Interrupters (Wuxi) Limited. Amortisation charges for the long term prepayments were approximately RMB0.2 million for the year ended 31 December 2004 as we commenced to purchase embedded poles in 2004 for the trial production of embedded pole VCBs. Hence, the carrying value of long term prepayments was approximately RMB3.8 million as at 31 December 2004. Our costs saving from the purchase of embedded poles from Siemens Vacuum Interrupters (Wuxi) Limited depends on our purchase volume and is not limited by our payment of RMB4 million.

The development programme for the first type of embedded pole has already been completed in June 2004 and the purchase of this product by Changzhou Senyuan from Siemens Vacuum Interrupters (Wuxi) Limited commenced in September 2004 for the trial production of embedded pole VCBs. The VCB incorporating the first type of embedded pole is expected to be launched in 2005. The programme for the development of the second type of embedded pole is currently under progress and is expected to be completed in 2005. These two types of embedded pole can be distinguished in the sense that the rated current of the first type of embedded pole is 1,600A whilst the rated current of the second type of embedded pole is 2,500A. The embedded poles are stand-alone products and ready for sale to other VCB manufacturers for their further assembling. To the best knowledge of the Directors, Siemens Vacuum Interrupters (Wuxi) Limited is a manufacturing joint venture formed by Siemens Aktiengesellschaft, the shares of which are listed on several stock exchanges, and a Chinese partner.

In addition, we are negotiating with Siemens Aktiengesellschaft, the holding company of the Siemens Group, regarding the production and sales of embedded pole VCBs, which is expected to be launched in the second half of 2005. These products are stand-alone products targeting at high-end customers. Our partnership with the Siemens Group will enable us to have the opportunity to enter the prestige market segment which is currently occupied by sino-foreign joint ventures or licensed manufacturers of international renowned enterprises.

In order to keep abreast of the latest technologies and market trend for compact switchgear system with higher level of safety and reliability, we are currently engaged in the product development of the core components of C-GIS. We are targeting to produce core components assembled and mounted onto a switchgear cubicle, which enable our customers to continue the production flow of secondary components assembly and wiring. The primary conductive parts of C-GIS are accommodated in a sealed metal enclosure filled with pressurised gases such as SF_6. The advantage of this product is that it is not affected by the external environment, thus providing high reliability and maintenance free characteristics. Moreover, this product has the advantage of occupying less space when compared to other types of switchgears. For example, the 12kV C-GIS would only occupy around 50% of the space as compared to air-insulated switchgears. Cable plugs are used as auxiliary products in C-GIS and they are sold to switchgear assembling factories for supplying completed switchgears to power companies on a project basis.

QUALITY CONTROL

We aim to pursue the finest quality of products that would fully satisfy our customers' needs. In order to ensure the quality of our products and increase the production volume, our Group has adopted strict quality assurance systems.

Since Changzhou Senyuan began operations in 1997, we have developed a series of quality control measures based on the internationally-recognised standard ISO 9000 quality management system. In 1999, Changzhou Senyuan was accredited with the ISO 9001 (1994 version) certificate. Since then, we have continuously been improving our quality control measures. In 2003, we obtained the ISO 9001 (2000 version) certificate. The accreditation attests that a high standard of quality control is maintained throughout our production

process, from the product design, procurement of raw materials and components, manufacturing of products to testing of finished products and after-sales service. In addition, we were accredited with the Certificate for Measurement Assurance by 江蘇省質量技術監督局 (Jiangsu Quality and Technical Supervision Bureau) in March 2003.

Our Group's quality control measures include the following:

- **Product design**

When our technology department designs and develops new product prototype, it must comply with our quality standards. The relevant quality requirements are required to be clearly stated in all diagrams and documents, so that other departments will be able to comply with all the requirements throughout the production process.

- **Procurement of raw materials and components**

Our purchasing division will conduct a detailed market research to select appropriate suppliers based on the specifications provided by the technology department. In order to ensure that raw materials and components meet our production requirements, samples of the raw materials must pass stringent tests conducted by our quality control department before delivering to us. If our Group lacks of the relevant testing equipment, we will request the relevant suppliers to provide us with testing reports of the material and our technical staff will attend the testings organised by the suppliers.

- **Manufacturing of products**

In every stage of the production process, stringent tests are conducted by our relevant quality control unit on the products based on the quality standards prescribed in the diagrams or documents prepared by the technology department. Only the parts which have passed all necessary tests are allowed to proceed to the next stage of the production process. In addition, the progress of each stage of production is monitored under strict control to ensure that the finished products can be delivered to our customers according to production schedules agreed with them.

- **Tests for finished products**

We have 28 technicians who are responsible for conducting tests on the finished products including the mechanical characteristics, correctness of functions and component connections. Finished products must satisfy all quality standards prescribed by the technology department and must obtain a certificate of approval issued by the quality control department before being delivered to customers. This will ensure that the finished products meet all relevant quality standards.

The testing procedures of our VCBs including contacting travel measurement, contact stroke measurement, mechanical characteristic test, measurement of the resistance of main circuit, verification of major dimensions, interlock check for racking

mechanism, wiring check for secondary circuits, functional test for mechanical operation, power frequency voltage test and visual inspection.

- **After-sales service**

Our VCBs and other auxiliary products are manufactured in accordance with strict standards. All of them satisfy with the national and circuit breaker industry standards. We use our best endeavours to provide assistance to our customers within 24 hours upon receiving any queries regarding our products.

After-sales service in respect of installation and testing service in Shanghai, the PRC have been outsourced to an independent third party not connected with our Company. The charges for such services amounted to approximately RMB2.2 million, RMB2.6 million and RMB1.6 million for each of the three years ended 31 December 2004 respectively. The relevant service contract was terminated in June 2004. We provide such after-sales service by ourselves thereafter.

On 17 September 2004, 淄博天通電器有限公司 (Zibo Tian Tong Electrical Company Limited) brought a claim against Changzhou Senyuan for damages of RMB590,000 resulting from defective products together with the incidental litigation costs. Save as disclosed above, we did not experience any other product recalls, reworks or repairs resulted from product quality problems for the three years ended 31 December 2004.

AWARDS

Products

We are committed to improving the design and quality of our products in order to meet the market demand and customer preferences and to increase brand awareness of our products. Our products have received numerous awards from national and provincial authorities in the PRC. The following table sets out the major awards/recognitions for VCBs received by us since our establishment in 1997:

Awards/recognitions received	**Issuing institutions**	**Year**
國家級新產品證書 (National level new product certificate)	國家經濟貿易委員會 (State Economic & Trade Committee of the PRC)	1998
「九五」國家科技成果重點推廣計劃指南項目（五） (Item five of the national Science and Technology new product launch program of the Ninth Five-Year Plan)	國家科技部 (Ministry of Science and Technology)	1998

Awards/recognitions received	Issuing institutions	Year
第一批及第三批全國城鄉電網建設與改造所需主要設備產品及生產企業推薦目錄 (The recommended lists of suppliers and products in the first and third batches of the national urban and rural electricity power network construction and restructuring)	國家經濟貿易委員會 (State Economic & Trade Committee of the PRC)	1998 and 2000
高新技術產品認定證書 (Advanced and New Technological Products Certificates)	江蘇省科學技術委員會 (Science & Technology Committee of Jiangsu Province)	1999, 2000 and 2002
江蘇省2000年火炬項目計劃項目 (Jiangsu Province Torch Light Program 2000)	江蘇省科學技術委員會 (Science & Technology Committee of Jiangsu Province)	2000
江蘇省優秀新產品金牛獎 (Jiangsu Province Excellent New Product Award)	江蘇省經濟貿易委員會 (Economic and Trade Committee of Jiangsu Province)	2001
2002年國家級火炬計劃項目 (2002 National Torch Light Program)	國家科技部 (Ministry of Science and Technology)	2002

Corporate

The table below sets out are the major corporate awards/recognitions received by us since our establishment in 1997:

Awards/recognitions received	Issuing organisations	Year
高新技術企業認定證書 (Advanced and new Technology Enterprise Attestation Certificate)	江蘇省科學技術委員會 (Science & Technology Committee of Jiangsu Province)	1999 and 2002

Awards/recognitions received	Issuing organisations	Year
外商投資先進技術企業確認證書 (Advanced Technology Enterprise with Foreign Investment Attestation Certificate)	江蘇省對外經濟貿易合作廳 The Foreign Trade and Economic Cooperation Department of Jiangsu Province	2002
技術密集形知識密集型企業認定證書 (Technology-intensive and Intellectual-intensive Enterprise Attestation Certificate)	江蘇省科學技術廳 Science & Technology Committee of Jiangsu Province	2003

COMPETITION

Competition in the 12 kV circuit breaker industry is characterised by the domination of a few large scale manufacturers. According to 高壓開關行業年鑒 2004 (High Voltage Switchgear Industry Yearbook 2004), there were only three manufacturers with production volume exceeding 10,000 units of VCBs in 2003 with advanced technological know-how competing on product quality and brand recognisation with the rest of the market highly fragmentated by a large number of small scale manufacturers mainly competing on selling price. Further description of different types of VCB manufacturers are set out in the section headed "Industry overview – Circuit breaker industry in the PRC – 12kV VCB industry in the PRC".

According to 高壓開關行業年鑒 2004 (High Voltage Switchgear Industry Yearbook 2004), for the year 2003, the production volume of the top ten manufacturers accounted for approximately 40.1% of the 12kV VCBs produced in the PRC. 廈門ABB開關有限公司 (ABB Xiamen Switchgear Co., Ltd.) had the largest market share of approximately 7.9%. The selling price of its products is at a much higher level compared to our products, which is mainly because of the international brand name of "ABB". We do not consider that we are in direct competition with 廈門ABB開關有限公司 (ABB Xiamen Switchgear Co., Ltd.) due to the different target market segments. 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 and hence it is not considered by the Directors to be a direct competitor of our Group.

According to 高壓開關行業年鑒 2004 (High Voltage Switchgear Industry Yearbook 2004), Changzhou Senyuan was ranked third in terms of market share in 2003 with our products accounted for approximately 6.3% of the 12kV VCBs produced in the PRC. Major competition to our Group comes from the large number of local VCB manufacturers with annual production volume of less than 6,000 units in 2003 and comparatively lower technological know-how.

We believe that our products have competitive edge in quality over our domestic competitors. This can be reflected by the fact that the "常森" (Chang Sen) brand name is well-recognised in the industry and that our products have been able to command a price premium compared with our domestic competitors.

Due to intense competition in the PRC market, the general selling prices of VCBs decreased in 2003. The general selling price of VCBs stabilised in 2004. In order to maintain our competitiveness in the VCB industry, we have focused our product research and development efforts on more compact VCBs with higher level of reliability and safety standard, and we partnered with a renowned international switchgear component manufacturer to produce technologically more advanced VCBs which would enable us to command a higher price premium than our local competitors in order to maintain our profitability.

We strive to manufacture products efficiently and with high precision. Therefore we invest in state-of-the-art and sophisticated processing equipment. This enhances our competitive advantages over other domestic manufacturers which are unable to maintain a high product quality together with low production cost.

INTELLECTUAL PROPERTY RIGHTS

We seek to protect our intellectual property rights by relying on laws and regulations such as Patent Law and Trademark Law of the PRC and confidentiality contracts with our employees, customers and other relevant parties. As at the Latest Practicable Date, we had registered eight patents with the State Intellectual Property Office of the PRC. We have registered our trademark of "  " in the PRC. We have applied for registration of our trademark of "senyuan" in the PRC and Hong Kong. In addition, we have registered domain names "www.czsykg.com" and "www.czsykg.com.cn". For more details, please refer to the section headed "Intellectual property rights" in appendix V to this prospectus. Our Group did not make any claims against other parties for infringement of intellectual property rights and there were no infringement claims against our Group in each of the three years ended 31 December 2004.

BUSINESS LICENCES, PERMITS AND CERTIFICATES

The business licence of Changzhou Senyuan, the only operating subsidiary of our Company, stated that its business scope includes the manufacture of VCBs and other switchgear components and sale of self-manufactured products. We are not required to obtain other licence, permit, approval or certificate in order to undertake our business.

INSURANCE

We maintain insurance policies in respect of our plant and machinery with an insured amount which normally covers the replacement cost for the plant and machinery concerned. Therefore the Directors consider that insurance coverage for our plant and machinery is adequate.

The Directors have confirmed that save as disclosed in this prospectus, there has not been any interruption in the business of our Group which may have or have had a material adverse effect on the financial position of our Group in the twelve months proceeding the date of this prospectus.

As product liability insurance and third party liability insurance are generally not required under the PRC laws and regulations, our Group has not maintained any product liability insurance. Save as disclosed in the section headed "Business – Quality control" above, the Directors confirmed that our Group had not experienced any other liability claims caused by the defects of our products. The Directors believe that quality control is the crux to ensure product safety. A full description on our Group's quality control is set out in the section headed "Business - Quality control".

ENVIRONMENTAL PROTECTION

All of our production activities are in full compliance with the relevant environmental laws and regulations in the PRC including 中華人民共和國環境保護法(Environmental Protection Law of the PRC), 江蘇省環境保護條例(Jiangsu Province Regulations on Environmental Protection), 常州市排放污染物申報登記管理辦法(Changzhou Municipal Administrative Measures on the Procedures of Pollutant Discharge Reporting and Registration) and 常州市實施排污許可證制度管理辦法(Changzhou Municipal Administrative Measures on Implementing Sewage Discharge Licenses). Our Group have complied with all relevant environmental laws and regulations in the PRC and we have not been subject to any claims or actions against us in this respect since the establishment of Changzhou Senyuan.

Under the prevailing laws and regulations in the PRC, any enterprise that discharges pollutants is required to obtain approval from relevant environmental protection authorities. For the approval to be granted, the enterprise must have proper pollutant discharge and treatment arrangements in place and have taken necessary pollution control measures to the satisfaction of the authority. In addition, the enterprise is required to pay fees for the discharge of such pollutants. Our Group places great emphasis on environmental protection issues and we have obtained 排污申報登記註冊證 (Pollutant Discharge Reporting and Registration License) and 污染物排放許可證(Sewage Discharge Approval) for our manufacturing operations.

LEGAL PROCEEDINGS AND OTHERS

We had not been involved in any litigation, claim, administrative action or arbitration, which had a material adverse effect on our operations or financial condition for each of the three years ended 31 December 2004. Our Group is currently involved in the following litigation with a customer:

On 26 August 2004, Changzhou Senyuan took a legal action against 淄博天通電器有限公司 (Zibo Tian Tong Electrical Company Limited) claiming for a repayment of trade receivable of RMB509,600 and overdue interests of RMB36,309. On 7 December 2004, 常州市天寧區人民法院 (the People's Court of Changzhou Tianning District) delivered a judgement which ordered 淄博天通電器有限公司 (Zibo Tian Tong Electrical Company Limited) to repay the aforementioned amount to Changzhou Senyuan and to bear the litigation costs of RMB17,703. 淄博天通電器有限公司 (Zibo Tian Tong Electrical Company Limited) subsequently made an appeal against the judgement but had not paid the related

litigation costs. As a result, the court adjudicated that no appeal had been made and that the previous court judgement came into force.

On the other hand, 淄博天通電器有限公司 (Zibo Tian Tong Electrical Company Limited) brought a claim against Changzhou Senyuan on 17 September 2004 for damages of RMB590,000 resulting from defective products together with the incidental litigation costs. The first hearing of the claim was held on 31 December 2004. The case is still in progress and has not yet concluded.

As the amount in disputes is not significant, our PRC legal advisers consider that the above litigation will not cause any material effect or other practical impediment to our normal operation.

We did not suffer any serious breakdown, failure or substandard performance of production equipment, construction delays, difficulties in ramping up production at our new production complex or upgrading or expanding existing facilities, labour disturbance, natural disasters, environmental hazard and industrial accidents for the three years ended 31 December 2004.

RELATIONSHIP WITH MR. ZHOU AND MR. TSANG

Immediately following completion of the Share Offer, SY International will be interested in 75% of the enlarged issued share capital of our Company. SY International is owned as to 50% by Lanling Electrical which is wholly owned by Mr. Zhou and 50% by Tai Ah International in which Mr. Tsang and his brother together hold 95% interests.

Lanling, a company controlled by Mr. Zhou and Mr. Tsang, is engaged in the assembling of switchgears. Our Group does not produce any fully assembled switchgear but only VCBs and other switchgear components. Our products such as VCBs, switchgear cubicles and other components of switchgears are sold to more than 200 switchgear assembling factories in the PRC, including Lanling, for further assembling. Our customers including Lanling will then sell completed sets of switchgear to end-users such as power supply companies, developers of industrial, commercial or residential complexes. The technology and technical know-how required for the production of our products are very different from those of the switchgear assembling factories. Furthermore, our customers base is different from that of Lanling. As such, there is no competition between our Group and Lanling.

Some of the related companies (including Lanling), which are either controlled by or under the significant influence of Mr. Zhou and Mr. Tsang, are engaged in switchgear related businesses. Due to the difference in principal activities, operations and customer base between the respective related companies and our Group, the Joint Sponsors concur with the view of the Directors that the related companies are not engaged in any business which competes, or is likely to compete, either directly or indirectly, with our Group's business.

In the past 20 years, Mr. Zhou and Mr. Tsang have jointly established and actively managed a number of companies including Changzhou Senyuan. For companies managed by them, their main responsibilities include the formulation of business development plan

and strategic planning. They have also invested in a number of companies in which they are usually run by their own general managers, with the relevant qualifications, and who are capable of operating without over-reliance on active involvement by Mr. Zhou and Mr. Tsang. Based on the aforesaid, the Joint Sponsors are of the view that Mr. Zhou and Mr. Tsang would be able to allocate sufficient time and energy to manage our Group's business and discharge their duties as Directors.

The Directors believe that we are capable of carrying our business independently of Mr. Zhou and Mr. Tsang (including their respective associates) after listing of the Shares on the Stock Exchange after taking into account the following principal factors:

(a) Independence of our Board

Mr. Zhou and Mr. Tsang are the shareholders and directors of a number of companies with which our Company is expected to carry out ongoing transactions in the usual and ordinary course of our business. However, our Board comprises seven members. Besides Mr. Zhou and Mr. Tsang, there are two other executive Directors and three independent non-executive Directors. As such, our Board will be able to operate independently and in the interest of the Shareholders as a general body.

(b) Independence of senior management

None of the senior management of Changzhou Senyuan, our operating subsidiary, holds any position in the companies outside our Group controlled by either Mr. Zhou and/or Mr. Tsang or has connections with either Mr. Zhou or Mr. Tsang. As such, our senior management can operate independently and in particular they can freely access to suppliers and customers at their own discretion.

(c) Continuing connected transactions

Our Group will continue to have ongoing connected transactions with companies controlled by either Mr. Zhou and/or Mr. Tsang after listing of the Shares on the Stock Exchange, details of which are set out in the section headed "Business – Connected transactions – Continuing connected transactions". The continuing connection transactions are governed by agreements entered into on an arm's length basis and the terms and conditions of such agreements are fair and reasonable to our Company. Furthermore, our Group does not rely materially on any of these companies as suppliers of materials and components as there are readily available alternative suppliers in the market or for sales of our products as we have a very diversified and well-balanced customer base.

RELATED PARTY TRANSACTIONS

Our Group entered into the following transactions with related parties, which are/were also connected persons of our Company, except 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.), being only a connected person of our Company, for each of the three years ended 31 December 2004. Related companies of our Group are the companies either controlled by or under the significant influence of Mr. Zhou and/or Mr. Tsang as

defined in the accountants' report in appendix I to this prospectus. Save as disclosed in this prospectus, each of Mr. Zhou and Mr. Tsang confirmed that he was not interested in any switchgears-related businesses (either through direct or indirect equity interests, or directorships).

		Year ended 31 December		
	*Reference section**	**2002** *RMB'000*	**2003** *RMB'000*	**2004** *RMB'000*
Continuing transactions				
Sales of goods to (Note a)				
– Lanling	*A(2)*	5,193	6,296	17,948
Purchases of raw materials from (Note b)				
– Changzhou Huadong	*A(1)(a)*	1,843	2,852	3,017
– SY Tai Ah	*A(1)(b)*	24,089	13,133	3,715
		25,932	15,985	6,732
Discontinued/discontinuing transactions				
Sales of goods to (Note a)				
– SY Tai Ah	*B(d)*	7,052	5,098	2,627
– 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	*B(g)*	1	648	1,446
– 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) *(Note c)*	*B(p)*	943	1,412	1,744
		7,996	7,158	5,817
Purchases of raw materials from (Note b)				
– Lanling	*B(a)*	77	1,065	9,456
– 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.) *(Note d)*		13	228	423
– Changzhou Guodian	*B(j)*	632	3,466	6,731
– 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	*B(h)*	1,232	–	2,313
– 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) *(Note e)*		15	–	–
		1,969	4,759	18,923

* *The numbering refer to the section headed "Business – Connected Transactions" below.*

	Reference section*	Year ended 31 December 2002 RMB'000	2003 RMB'000	2004 RMB'000
Purchases of property, plant and equipment from				
– Tai Ah (China) Co., Ltd.	*B(l)*	–	346	–
– 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	*B(i)*	–	104	–
– 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.) *(Note d)*		–	–	1,711
– Changzhou Guodian	*B(k)*	–	–	1,332
– SY Tai Ah	*B(e)*	–	–	6,678
– Lanling	*B(b)*	–	–	3,821
		–	450	13,542
Operating lease rentals paid in respect of buildings				
– Changzhou Lanling Factory	*B(n)*	294	–	–
Payments of services made to				
– 常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.)	*B(o)*	124	159	245
Interests paid to				
– Tai Ah (China) Co., Ltd.	*B(m)*	217	–	–
Bank borrowings guaranteed by				
– Lanling	*C(a)*	–	10,000	44,380
– SY Tai Ah	*C(b)*	–	–	28,000
		–	10,000	72,380
Guarantee on bank borrowings granted to (Note f)				
– Lanling	*B(c)*	–	29,656	47,464
Guarantees on issuance of bank drafts granted to (Note f)				
– Lanling	*B(c)*	–	2,168	27,648
– SY Tai Ah	*B(f)*	–	–	700
		–	2,168	28,348

* *The numbering refer to the section headed "Business – Connected Transactions" below.*

Changzhou Senyuan acquired a 50% interest in Changzhou Guodian from a related company in August 2002 and it subsequently disposed of such interest to Lanling in October 2004. Further details are set out in the section headed "Business – History and development – Other investments".

The Joint Sponsors concur with the Directors' view that except for guarantees provided by/to related companies free of charge, the above transactions have been entered into in the ordinary and usual course of business of our Group and on normal commercial terms. As at the Latest Practicable Date, corporate guarantees provided to related companies had been released. Corporate guarantees provided by related companies will be released on or before the Listing Date.

There have been various related party transactions for each of the three years ended 31 December 2004. With a view to rationalising and streamlining the organisational structure and operations of our Group, transactions with related companies have been/will be discontinued save for certain continuing connected transactions disclosed in the section headed "Business – Connected transaction – Continuing connected transactions" below. The Directors are of the view that the cessation of the related party transactions will not have any material adverse impact on our Group.

Notes:

a. Sales of goods to related parties (as defined in the accountants' report) and 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.), a connected person of our Company, for each of the three years ended 31 December 2004 represented approximately 7.3%, 5.5% and 7.9% of the respective total sales for each of the three years ended 31 December 2004. These related parties are/were also connected persons of our Company.

b. Purchases of goods from related parties (as defined in the accountants' report) for each of the three years ended 31 December 2004 represented approximately 22.1%, 13.9% and 11.5% of the respective total purchases for each of the three years ended 31 December 2004. These related parties are/were also connected persons of our Company.

c. 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) is not classified as a related party of our Group under the Hong Kong Accounting Standard. Nevertheless, it is a connected person of our Company pursuant to the Listing Rules. For details, please refer to the section headed "Business – Connected transactions – Discontinued connected transactions' in this prospectus. The inclusion of the sales of goods to 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) in the above related party transactions table is for illustration purpose only.

d. 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.) ("Changzhou S&I") was owned as to 40% and 60% by Lanling and Switchgear and Instrumentation (International) Limited, a party independent of and not connected with our Company or our connected persons, respectively. On 2 December 2003, Lanling sold its 40% interest in Changzhou S&I to Switchgear and Instrumentation (International) Limited. Hence, Changzhou S&I is no longer a connected person of our Company. Prior to the disposal, Changzhou S&I was principally engaged in assembly of switchgears.

   Our Group entered into the following transactions with Changzhou S&I for each of the three years ended 31 December 2004:

   – *Purchases of metal parts from Changzhou S&I*
     Changzhou Senyuan purchased metal parts, one of the raw materials used in our production, from Changzhou S&I amounting to approximately RMB13,000, RMB228,000 and RMB423,000 for each of the three years ended 31 December 2004 respectively.

     We purchased metal parts from Changzhou S&I since it was able to supply high quality metal parts within short notice and at reasonable prices. Due to the aforesaid, we continued to purchase metal parts from Changzhou S&I in 2004 despite Changzhou S&I has became an independent third party since December 2003.

– *Purchases of production machinery from Changzhou S&I*
Changzhou Senyuan purchased production machinery from Changzhou S&I amounting to approximately RMB1.7 million based on its net book value for the year ended 31 December 2004. The production machinery is used for the production of switchgear cubicles. Changzhou S&I has used such machinery for its production of low-voltage switchgears.

As we increased our production volume, it was necessary for us to acquire production machinery to sustain the increasing volume. We purchased the machinery from Changzhou S&I because the consideration was based only on the net book value and without any profit margin. The consideration was determined based on arm's length negotiation as Changzhou S&I was a company independent of and not connected with our Company or our connected persons at the time of acquisition of the machinery. The consideration was settled by cheque.

e. 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) was owned as to 99.6% by Mr. Zhou and 0.4% by 陳佰偉(Chen Bai Wei). 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) has been wound up. It was then principally engaged in the trading of metal parts and circuit breakers.

Our Group purchased metal parts, for manufacturing switchgear cubicles, from 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) amounting to approximately RMB15,000 for the year ended 31 December 2002. During the normal course of its trading business, 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) had established business relationship with many manufacturers of metal parts. Therefore, 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.) could provide us an additional source of procurement of metal parts.

f. The particulars of guarantees granted by us for the benefit of related companies for the year ended 31 December 2004 is set out below:

	RMB'000
Guarantees as at 31 December 2003	31,824
Guarantees granted for the year ended 31 December 2004	
– Guarantees on bank borrowings granted to Lanling	47,464
– Guarantees on issuance of bank drafts granted to Lanling and SY Tai Ah	28,348
Guarantees released for the year ended 31 December 2004	(75,373)
Guarantees as at 31 December 2004	32,263

Advances Lent to Related Companies

Being private companies with common controlling shareholders and as part of the treasury management arrangements, Changzhou Senyuan provided non-trade cash advances to related companies for the three years ended 31 December 2004. Advances lent to related companies by Changzhou Senyuan were interest free and repayable on demand. As advised by our PRC legal adviser, the financing activities carried out by Changzhou Senyuan exceeded its business scope and these activities did not comply with 中華人民共和國貸款通則 (The General Rule of Loan of the People's Republic of China). Hence, the advances lent to related companies were legally invalid. As such, had any disputes arisen between the lender and the borrower, the court would have demanded the borrower to return the original capital to the lender (in this case, Changzhou Senyuan) and interests received by the lender would have been forfeited. Changzhou Senyuan has not received any interest income from related companies. As at 31 December 2004, related companies had fully repaid advances to Changzhou Senyuan and there had been no disputes among them. Save for the fact that interest income received from financing activities is not protected under the relevant law, the financing activities of Changzhou Senyuan will not have any material adverse impact on our operations and assets condition, and will not cause any other legal obligations.

Due From/To Related Companies

Had any interest been charged on the outstanding balances due from related companies, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.04% per annum during the periods, our Group would have received interest income of approximately RMB1,745,000, RMB2,067,000 and RMB1,451,000 for each of the three years ended 31 December 2004 respectively. The breakdown of balances due from related companies for the three years ended 31 December 2004 is set out in note 25 of the accountants' report in appendix I to this prospectus. As at 31 December 2004, non-trade balances due from a related company were approximately RMB3.8 million.

Had any interest been charged on the outstanding balances due to related companies, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.04% per annum during the periods, our Group would have paid interest expenses of approximately RMB547,000, RMB327,000 and RMB177,000 for each of the three years ended 31 December 2004 respectively. The breakdown of balances due to related companies for the three years ended 31 December 2004 is set out in note 29 of the accountants' report in appendix I to this prospectus. As at 31 December 2004, non-trade balances due to related companies were approximately RMB4.8 million.

Based on the aforementioned, had any interest been charged on balances due from/to related companies, our Group would have received a net interest income of approximately RMB1,198,000, RMB1,740,000 and RMB1,274,000 for each of the three years ended 31 December 2004 respectively.

All non-trade balances with related companies will be fully settled before the listing of the Shares on the Stock Exchange.

CONNECTED TRANSACTIONS

A. Continuing connected transactions

Lanling is owned as to 48.845% by Changzhou Lanling Factory which is in turn owned as to 90% by Mr. Zhou and 10% by Ms. Wu Tong, the spouse of Mr. Zhou, as to 48.845% by Tai Ah HK in which Mr. Tsang and his brother together hold 61% interests and as to 2.31% by Changzhou Tianning Trading, respectively. Each of Mr. Zhou and Mr. Tsang is an executive Director and hence a connected person of our Company. Lanling or any of the subsidiaries of Lanling (including Changzhou Huadong and SY Tai Ah) is an associate of connected persons of our Company for the purpose of the Listing Rules. In addition, Mr. Zhou is a director of Lanling.

Changzhou Senyuan, a wholly owned subsidiary of our Company, entered into the following transactions with Lanling or its subsidiaries (including Changzhou Huadong and SY Tai Ah) which will continue in the future and constitute continuing connected transactions of our Company under the Listing Rules following the listing of the Shares on the Stock Exchange (the "Continuing Connected Transactions").

The Directors (including the independent non-executive Directors) are of the view that the maximum aggregate annual value in respect of each of the Continuing Connected Transactions for each of the three years ending 31 December 2007 are fair and reasonable. In addition, the Directors (including the independent non-executive Directors) consider that each of the Continuing Connected Transactions was and will be entered into (i) in the ordinary and usual course of our business and (ii) on normal commercial terms that are fair and reasonable and in the interests of the Shareholders as a whole.

1. Continuing connected transactions exempt from the independent shareholders' approval requirements

(a) Purchases of wooden packaging materials from Changzhou Huadong

Changzhou Huadong is owned as to 62.5% by Lanling, 37.12% by Mr. Zhou, 0.19% by Mr. Yang Jian, a person independent of and not connected with our Company or our connected persons, and 0.19% by Mr. Luo Guohua, a former director of Changzhou Senyuan who resigned on 28 October 2004. Mr. Zhou is a director of Changzhou Huadong. Changzhou Huadong is principally engaged in the provision of packaging materials and packaging service in the PRC.

Changzhou Senyuan and Changzhou Huadong, a non-wholly owned subsidiary of Lanling, entered into a master purchase agreement (the "Huadong Agreement") dated 18 March 2005 for a term commencing on the Listing Date and ending 31 December 2007.

Pursuant to the Huadong Agreement, Changzhou Senyuan may from time to time purchase wooden packaging materials for packing our finished goods from Changzhou Huadong at a price no less favourable than that available from parties independent of and not connected with our Company or our connected persons. In addition, other terms such as delivery term and settlement method are no less favourable than those available from the aforementioned parties.

Due to the peculiar structure and physical characteristics of individual parts of our products, custom-made packaging materials are required. Unsuitable packaging materials or methods might cause damage to our products during delivery. We purchase packaging materials from Changzhou Huadong since it is experienced in providing packaging materials for components of switchgears and its packaging materials meet our requirements. Moreover, Changzhou Huadong maintains inventories of pre-fabricated packaging materials and semi-finished wooden parts to meet our demand within short notice.

For each of the three years ended 31 December 2004, the aggregate purchases from Changzhou Huadong by our Group were as follows:

	RMB'000
Year ended 31 December 2002	1,843
Year ended 31 December 2003	2,852
Year ended 31 December 2004	3,017

Based on our forecast of the expected quantity of different products to be sold, the related packaging material requirements and packaging costs, the estimated purchases from Changzhou Huadong by our Group for each of the three years ending 31 December 2007 will amount to approximately RMB5.4 million, RMB6.0 million and RMB6.3 million respectively. The forecast of higher purchases from Changzhou Huadong compared with the historical figures is mainly due to the expected increases in quantity of our products to be sold.

(b) Purchases of metal parts from SY Tai Ah

Changzhou Senyuan and SY Tai Ah, a non-wholly owned subsidiary of Lanling, entered into a master purchase agreement (the "Tai Ah Agreement") dated 18 March 2005 for a term commencing on the Listing Date and ending 31 December 2007.

Pursuant to the Tai Ah Agreement, Changzhou Senyuan may from time to time purchase metal parts, which are used in our production, from SY Tai Ah at a price no less favourable than that available from parties independent of and not connected with our Company or our connected persons. In addition, other terms such as delivery term and settlement method are no less favourable than those available from the aforementioned parties.

SY Tai Ah is principally engaged in the manufacturing of metal parts, which we purchase for use in our production of circuit breakers and switchgear cubicles.

SY Tai Ah is equipped with advanced CNC machinery for producing metal parts. In addition, it has experienced technical engineers. Hence, SY Tai Ah is able to produce metal parts of high quality that meets the industrial standard and quality requirements of our Group. Location of the supplier is another key consideration. The production facilities of SY Tai Ah are located in Changzhou, and hence the delivery cost is low. In addition, its short delivery time helps us to meet the lead time for our production which is generally one to two weeks.

For each of the three years ended 31 December 2004, the aggregate purchases by Changzhou Senyuan from SY Tai Ah were as follows:

	RMB'000
Year ended 31 December 2002	24,089
Year ended 31 December 2003	13,133
Year ended 31 December 2004	3,715

The significant decrease in purchases by Changzhou Senyuan in 2003 and 2004 compared to 2002, was mainly due to the commencement of production of certain types of metal parts by ourselves in 2003.

Based on our forecast of the expected growth rate in turnover, the related metal parts requirements and the expected unit cost of metal parts, the estimated aggregate purchases from SY Tai Ah for each of three years ending 31 December 2007 will amount to approximately RMB5.0 million, RMB6.0 million and RMB6.6 million respectively. The expected increases in purchases from SY Tai Ah compared with that in 2004 are mainly attributable to the expected increases in our sales.

(c) Applicable rules

For the transactions contemplated under the Huadong Agreement and the Tai Ah Agreement, each of the percentage ratios (other than the profits ratio) calculated by reference to Rule 14.07 of the Listing Rules, where applicable, on an annual basis, is expected to be (i) less than 2.5% or (ii) equal to or more than 2.5% but less than 25% and the annual amount payable by our Group is less than HK$10 million under Rule 14A.34 of the Listing Rules. Therefore, these transactions are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules but are exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Non-exempt continuing connected transaction

Sales of VCBs and other components of switchgear to Lanling

Changzhou Senyuan and Lanling entered into a master supply agreement (the "Lanling Agreement") dated 18 March 2005 for a term commencing on the Listing Date and ending 31 December 2007.

Pursuant to the Lanling Agreement, Changzhou Senyuan may from time to time sell products including VCBs and other components of switchgear to Lanling at a price no more favourable than that available to parties independent of and not connected with our Company or our connected persons. In addition, other terms such as delivery term and settlement method are no more favourable than those available to the aforementioned parties.

The principal business of Lanling is assembling switchgears in the PRC. Lanling purchases our products for use in the assembling of switchgears. Lanling purchases our products as we are a well-established manufacturer in the PRC that supplies high quality products, which meet the requirements of Lanling.

For each of the three years ended 31 December 2004, the aggregate sales to Lanling by our Group were as follows:

	RMB'000
Year ended 31 December 2002	5,193
Year ended 31 December 2003	6,296
Year ended 31 December 2004	17,948

Based on the forecasted demand orders indicated by Lanling and the estimated selling prices of our products, the estimated aggregate sales to Lanling by our Group for each of the three years ending 31 December 2007 will amount to approximately RMB30 million, RMB36 million and RMB38 million respectively. The forecast of

higher sales to Lanling compared with that in 2004 is mainly because Lanling expects to purchase more VCBs from us in order to cope with the expected increase in sales orders from its customers. In addition, Lanling begins to purchase our new product, embedded pole VCBs, this year.

Applicable rules

Based on the annual aggregate sales to Lanling by our Group, the transactions under the Lanling Agreement fall within the ambit of Rule 14A.35 of the Listing Rules. Therefore, these transactions are subject to the reporting and announcement disclosure requirements set out in Rules 14A.45 to Rule 14A.47 of the Listing Rules and also the independent shareholders' approval requirements set out in Rule 14A.48 of the Listing Rules.

3. Waiver from the Stock Exchange

Under the Listing Rules, the Continuing Connected Transactions constitute continuing connected transactions upon the listing of the Shares on the Stock Exchange. Pursuant to the Listing Rules, such transactions would normally be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 (in respect of transactions described in paragraphs 1 and 2 above) and the independent shareholders' approval requirements set out in Rule 14A.48 (in respect of transaction described in paragraph 2 above) of the Listing Rules. Given their recurring nature and that the respective agreements for each of the Continuing Connected Transactions had been entered into prior to the Listing Date, the Directors consider that strict compliance with the announcement and independent shareholders' approval requirements would be impractical and would add additional and unnecessary costs to our Company.

Accordingly, we have applied for and the Stock Exchange has indicated that it will grant a waiver from strict compliance with the relevant requirements of the Listing Rules for the Continuing Connected Transactions described above, pursuant to Rule 14A.42(3) of the Listing Rules. We are required to comply with Rule 14A.35(1), Rule 14A.35(2) and Rules 14A.36 to 14A.40 of the Listing Rules.

The Joint Sponsors are of the opinion that the maximum aggregate annual values of the Continuing Connected Transactions are fair and reasonable and the Continuing Connected Transactions are in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole.

B. Discontinued connected transactions

Set out below are our Group's transactions with connected persons of our Company for the three years ended 31 December 2004. These transactions have been discontinued.

(a) Purchases of steel plates from Lanling

We purchased steel plates, one of the raw materials used in our production, of approximately RMB77,000, RMB1.1 million and RMB9.5 million from Lanling for each of the three years ended 31 December 2004 respectively.

In the past, Lanling was responsible for the procurement of steel plates for itself and part of our Group's requirements. As such, our Group has been able to indirectly enjoy the benefits of discount related to bulk purchases due to sizes of the combined orders.

As our Group had been able to reach an understanding with the suppliers to bill us separately for the combined orders described above in the future, we have ceased purchasing any steel plates from Lanling since January 2005.

(b) Purchases of production machinery and switchgears from Lanling

We purchased certain second-hand production machinery from Lanling in October 2004. The purchase consideration of approximately RMB3.2 million was determined based on the management's assessment of the condition of production machinery, represented a discount of approximately 28.9% compared to the assessed value of approximately RMB4.5 million by an independent professional valuer in the PRC. The Directors confirmed that the purchase consideration was not less favourable than that available from parties independent of and not connected with our Company or our connected persons.

Lanling had used the machinery for cutting of steel plates. The machinery is multi-functional and programmable. To cope with our increasing production volume, we purchased the machinery for cutting of steel plates. As we had an in-depth knowledge of the operating performance, routine maintenance and overhaul of the machinery, we had a thorough understanding of its conditions and performance. Such information may not be available from independent third parties. In addition, the second-hand market for such machinery is not available in the PRC. The consideration was settled by cheque.

We also purchased brand-new switchgears of approximately RMB0.6 million from Lanling, which is principally engaged in the assembling of switchgear, for the year ended 31 December 2004. These switchgears have been installed in our new production complex for electricity distribution. The purchase consideration was on normal commercial terms and was settled by cheque.

(c) Guarantees on bank borrowings and issuance of bank drafts granted to Lanling

Our Group had previously provided corporate guarantees to Lanling in relation to its bank borrowings and issuance of bank drafts. As at 31 December 2004, the guarantees amounting to approximately RMB32.3 million.

The corporate guarantees were released by the relevant banks in June 2005.

(d) Sales of circuit breakers and other switchgear components to SY Tai Ah

We sold circuit breakers and switchgear components to SY Tai Ah amounting to approximately RMB7.1 million, RMB5.1 million and RMB2.6 million for each of the three years ended 31 December 2004 respectively. These circuit breakers and components were sold to SY Tai Ah for processing and onward sale to switchgear assembling factories. SY Tai Ah purchased our products as we are a well-established manufacturer in the PRC that supplies high quality products.

SY Tai Ah was set up in 2001 and up to June 2004, it had been principally engaged in manufacturing of metal parts and trading of switchgear components. Since then, it has ceased its trading in switchgear components. Therefore SY Tai Ah has no longer purchased any switchgear components from us.

(e) Purchases of production machinery from SY Tai Ah

We purchased certain second-hand production machinery of approximately RMB3.5 million from SY Tai Ah for the year ended 31 December 2004. The consideration was based on an independent valuation. SY Tai Ah is one of our suppliers of metal parts. SY Tai Ah had used such machinery for producing metal parts. We purchased the machinery from SY Tai Ah for producing metal parts by ourselves.

We also purchased certain brand-new production machinery of approximately RMB3.2 million at net book value from SY Tai Ah in 2004. The production machinery has not been installed and used by SY Tai Ah. The brand-new production machinery will be used for our production of cable plugs, which are components of C-GIS and a new type of products of our Group. Due to the rationalisation of activities among our Group and the related companies, the production of cable plug has become a new business plan of our Group instead of SY Tai Ah.

The Directors confirmed that the purchase consideration of the production machinery was not less favourable than that available from parties independent of and not connected with our Company or our connected persons. The consideration was settled by cheque.

(f) Guarantee on issuance of bank drafts granted to SY Tai Ah

Our Group has previously provided corporate guarantee to SY Tai Ah in relation to its issuance of bank drafts.

The corporate guarantee had been released by the relevant bank prior to 31 December 2004.

(g) Sales of circuit breakers to 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)

常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.), a trading company established in the PRC on 3 July 2001, is owned as to 90% by Mr. Zhou, a connected person of our Company, and 10% by 顧寶麟 (Gu Baolin) who is independent of and not connected with our Group and our connected persons. It is therefore an associate of a connected person of our Company. 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) is principally engaged in the trading of metal parts, electrical apparatus, mechanical machinery and textile products. Mr. Zhou is a director of 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.).

Changzhou Senyuan sold circuit breakers to 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) amounted to approximately RMB1,000, RMB0.6 million and RMB1.4 million for each of the three years ended 31 December 2004 respectively. 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) purchased our products upon receipt of orders from its customers.

As 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) is a trading company, it acts as a bridge between switchgear component manufacturers and switchgear assembling factories. Thus by simplifying the trading relationships among related parties, Changzhou Senyuan ceased to sell circuit breakers to 常州新大亞電器有限公司(Changzhou New Tai Ah Electrical Co., Ltd.) in late 2004, and has instead sold such items directly to switchgear assembling factories.

(h) Purchases of steel plates from 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)

Changzhou Senyuan purchased steel plates, one of the raw materials used in our production, from 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) amounted to approximately RMB1.2 million and RMB2.3 million for the years ended 31 December 2002 and 2004 respectively.

By consolidating the steel plate orders from the related companies, the bulk purchase can provide the related companies with stronger bargaining power and better terms and conditions.

In order to simplify relationships with related parties, our Group will purchase steel plates from third parties, which are independent of and not connected with our Company or our connected persons, after the listing of the Shares on the Stock Exchange.

(i) Purchase of a minivan from 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)

Due to the increase in demand for passenger cars, especially for group traveling, we purchased a second-hand minivan from 常州新大亞電器有限公司

(Changzhou New Tai Ah Electrical Co., Ltd.) in 2003. We had performed an in-house appraisal to assess the condition and performance of the minivan. The minivan was considered to be in good condition and comparable to a brand-new one. The minivan is used for carrying passengers.

The purchase consideration of approximately RMB104,000 was based on the net book value of the minivan. The Directors confirmed that the consideration of such minivan was not less favourable than that available from parties independent of and not connected with our Company or our connected persons. The consideration was settled by cheque.

(j) Purchases of insulating parts from Changzhou Guodian

Changzhou Guodian is owned as to 50% each by Lanling and SY Tai Ah. Changzhou Guodian is principally engaged in the manufacture and sale of insulating parts.

Our Group purchased insulating parts, one of the components of VCB, from Changzhou Guodian amounted to approximately RMB0.6 million, RMB3.5 million and RMB6.7 million for each of the three years ended 31 December 2004 respectively.

We purchased insulating parts from Changzhou Guodian as it was one of our qualified suppliers of insulating parts whose products met our stringent quality standards.

We will no longer purchase any insulating parts from Changzhou Guodian as we have purchased production machinery from Changzhou Guodian. As a result, we will be able to produce insulating parts by ourselves.

(k) Purchases of production machinery from Changzhou Guodian

We purchased certain second-hand production machinery of approximately RMB1.3 million from Changzhou Guodian for the year ended 31 December 2004. Changzhou Guodian has used such machinery for producing insulating parts, one of the components of VCB. Changzhou Guodian has been one of our suppliers of insulating parts. Due to the rationalisation of activities between our Group and Changzhou Guodian, we purchased the machinery to produce insulating parts by ourselves. Therefore, we will no longer purchase any insulating parts from Changzhou Guodian.

The purchase consideration of RMB1.3 million was determined based on the management's assessment of the condition of the machinery including the replacement costs of some of the parts. The consideration represented a discount of about 23.5% compared to the assessed value of approximately RMB1.7 million by an independent professional valuer in the PRC. The Directors confirmed that the purchase consideration of such machinery was not less favourable than that available from parties independent of and not connected with our Company or our connected persons. The consideration was settled by cheque.

(l) Purchases of testing equipment from Tai Ah (China) Co., Ltd.

Tai Ah (China) Co., Ltd. is owned as to 10% by Mr. Tsang, 80% by Mr. Tsang Shui Woon (Mr. Tsang's brother) and 10% by Broad Respect Industries Limited, a party independent of and not connected with our Company or our connected persons. Tai Ah (China) Co., Ltd. is principally engaged in the trading of machinery and mechanical engineering.

Our Group purchased brand new testing equipment for product testing and analyses from Tai Ah (China) Co., Ltd. amounted to approximately RMB346,000 for the year ended 31 December 2003. Tai Ah (China) Co., Ltd. was a sole agent of such equipment in the PRC and hence we purchased the equipment from it. The purchase consideration was determined on normal commercial terms and settled by telegraphic transfer.

(m) Interests paid to Tai Ah (China) Co., Ltd.

Changzhou Senyuan obtained a loan from Tai Ah (China) Co., Ltd. in 2001 the purpose of which was to purchase production machinery. This loan was approved by 國家外匯管理局常州市中心支局 (Changzhou Central Branch Bureau of the State Administration of Foreign Exchange) and Changzhou Senyuan had obtained the corresponding 外債登記證 (Foreign Loan Registration Certificate). This particular loan complied with 境內機構借用國際商業貸款的管理規定 (Rules Governing International Commercial Loans to Domestic Organisations) and was legally valid.

The loan was unsecured, had no fixed repayment term and bore interest at commercial rate of 6.048% per annum. Interests charged by Tai Ah (China) Co., Ltd. were approximately RMB217,000 for the year ended 31 December 2002. The loan was repaid by Changzhou Senyuan in 2002.

(n) Operating lease rentals paid to Changzhou Lanling Factory in respect of buildings

Changzhou Lanling Factory is owned as to 90% by Mr. Zhou and 10% by Ms. Wu Tong, the spouse of Mr. Zhou. Hence, Changzhou Lanling Factory is an associate of a connected person of our Company under the Listing Rules. Mr. Zhou is a director of Changzhou Lanling Factory. Changzhou Lanling Factory is an investment holding company. Prior to 1993, Changzhou Lanling Factory was principally engaged in the manufacture and sale of low-voltage switchgears.

From January 2002 to December 2002, Changzhou Senyuan leased a portion of a production plant from Changzhou Lanling Factory at a total consideration of approximately RMB294,000.

Due to the lack of space in our own production complex, we leased the place temporarily for the production of a new product, load break switch, which was launched in 2002. After the re-arrangement of the layout of machinery, the production of load break switches had been relocated and carried out in our own production complex from 2003 onwards.

(o) Payments of services made to 常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.)

常州瑞安花園大酒店有限公司(Changzhou Ruian Garden Grand Hotel Co., Ltd.) is owned as to 51% and 49% by Lanling and Tai Ah HK respectively. Mr. Zhou and Mr. Tsang are directors of 常州瑞安花園大酒店有限公司(Changzhou Ruian Garden Grand Hotel Co., Ltd.). 常州瑞安花園大酒店有限公司(Changzhou Ruian Garden Grand Hotel Co., Ltd.) has been principally engaged in hotel operations in Changzhou, Jiangsu Province, the PRC. It disposed of its entire interest in the hotel to a party independent of and not connected with our Company or our connected persons in November 2004 and has been wound up.

Our Group used restaurants, hotel rooms and hotel facilities for entertainment purposes in the ordinary course of our business. Service fees charged by the related company were based on normal commercial terms available to other hotel guests.

Payment for room, food and beverage charges by our Group to 常州瑞安花園大酒店有限公司(Changzhou Ruian Garden Grand Hotel Co., Ltd.) amounted to approximately RMB124,000, RMB159,000 and RMB245,000 for each of the three years ended 31 December 2004 respectively.

(p) Sales of VCBs and other switchgear components to常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.)

常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) is owned as to 56.83% by Mr. Zhu Wei En (Mr. Zhou's brother-in-law), 27.30% by Ms. Zhou Yun Yan (Mr. Zhou's sister) and 15.87% by 常州市宏源電器有限公司 (Changzhou Hongyuan Electrical Co., Ltd.), which is wholly owned by Mr. Zhu Wei En and Ms. Zhou Yun Yan. As Mr. Zhou is a connected person of the Company and 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) is wholly owned by Mr. Zhou's sister and brother-in-law, 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) is an associate of a connected person of our Company for the purpose of the Listing Rules.

常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) is principally engaged in the manufacture and sale of high and low voltage switchgears, plastic mould and production and processing of telecommunication equipment in the PRC. We sold VCBs and other switchgear components to 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) amounting to approximately RMB0.94 million, RMB1.4 million and RMB1.7 million for each of the three years ended 31 December 2004 respectively. 常州市蘭翔電器有限公司 (Changzhou Lanxiang

Electrical Co., Ltd.) purchased our VCBs and switchgear components for the assembling of switchgears. 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) purchased our products as we are a well-established manufacturer in the PRC that supply high quality products. The connected transactions have been entered into in the ordinary and usual course of business of our Group and on normal commercial terms that were fair and reasonable.

We will no longer sell any VCBs and other switchgear components to 常州市蘭翔電器有限公司 (Changzhou Lanxiang Electrical Co., Ltd.) in order to simplify relationships with connected persons after the listing of the Shares on the Stock Exchange.

C. Connected transactions to be discontinued on or before listing of the Shares on the Stock Exchange

Set out below are our Group's transactions with connected persons as at 31 December 2004, which will be discontinued on or before listing of the Shares on the Stock Exchange:

(a) Bank borrowings guaranteed by Lanling

Bank loans of our Group amounting to RMB44.4 million as at 31 December 2004 were guaranteed by Lanling. The bank requested Changzhou Senyuan, being a private company, to obtain guarantees from other companies as one of the conditions of granting such bank loans. Lanling did not receive any benefits from Changzhou Senyuan in this regard.

We intend to repay the bank loans on or before listing of the Shares on the Stock Exchange. Therefore the aforesaid guarantees provided by Lanling are expected to be released.

The repayment of bank loans will be financed by a loan from another bank that does not require corporate guarantee from any of the related companies of our Group. The relevant bank has given its consent, in principle, that a bank loan will be granted on or before listing of the Shares on the Stock Exchange.

(b) Bank borrowings guaranteed by SY Tai Ah

Bank loans of our Group amounting to RMB28 million as at 31 December 2004 were guaranteed by SY Tai Ah. The bank requested Changzhou Senyuan, being a private company, to obtain guarantees from other companies as one of the conditions of granting such bank loans. SY Tai Ah did not receive any benefits from Changzhou Senyuan in this regard.

The relevant bank has given its consent, in principle, that the aforesaid corporate guarantees will be released on or before listing of the Shares on the Stock Exchange and, as appropriate, will be replaced by corporate guarantees provided by our Company.