Investors should read the following discussion and analysis in conjunction with the combined financial information of our Group for the three years ended 31 December 2004, which is set forth in the accountants' report included as appendix I to this prospectus. Except for the accountants' report, the remainder of our Group's financial information presented in this section has been extracted or derived from the unaudited management accounts or other records of our Group. Investors should read the whole of the accountants' report and not rely merely on the information contained in this section.

For the purposes of the following discussion, unless the context requires otherwise, references to "Fiscal Year 2002", "Fiscal Year 2003" and "Fiscal Year 2004" are to the financial year ended 31 December of the relevant year.

FINANCIAL PRESENTATION

For purposes of the financial information included in the accountants' report, the combined income statements, combined cash flow statements, combined statements of movements in equity and the combined balance sheets of the companies now comprising our Group have been prepared as if the group structure had been in existence throughout the three years ended 31 December 2004, or from the respective dates of establishment/ incorporation of the companies now comprising our Group, if this is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

TRADING RECORD

The table below sets out a summary of the combined income statements of our Group in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 on the assumption that the current structure of our Group has been in existence throughout the years under review.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OUR OPERATIONS

Overview

We are principally engaged in the manufacture and sale of VCBs and other components of switchgears in the PRC. Revenue from the sale of 12kV VCBs, our principal product, accounted for approximately 74.2%, 72.3% and 73.3% of our total turnover in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively. We offer more than 40 models of VCBs with different specifications. According to 高壓開關行業年鑒 (High Voltage Switchgear Industry Yearbooks) issued in 2002, 2003 and 2004, Changzhou Senyuan, the only operating subsidiary of our Company, was ranked third in terms of production volume of 12kV VCBs in the PRC in 2001, 2002 and 2003. All our products were produced by our own production facilities in Changzhou, Jiangsu Province, the PRC.

In Fiscal Year 2004, our customers were located in 29 provinces, autonomous regions and municipalities in the PRC. They are mainly switchgear assembling factories, which usually have access to only small localised markets and are unable to invest in expensive modern computerised and numerically controlled machines. We supply them with individual components and also provide technical supports for their further assembling applications. For non-regular and new customers, we require cash payment upon delivery of our products. For the majority of 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). For a limited number of major customers, we may offer a pre-agreed credit limit, which could be up to around RMB4 million, depending on the usual sizes of their purchase orders. So long as the amount of the accumulated purchases falls within such credit limit, no payment is due. However, the customers are required to settle the amount exceeding such limit within the stipulated credit term of 90 days. We would require the customers to settle the outstanding balance in full only if our relationships were to be terminated. The respective credit limit for such customers are subject to periodic review. This arrangement applied to approximately 1.0% of our sales in Fiscal Year 2004. The arrangements of 滾動付款(rolling payment) and pre-agreed credit limit are in line with the industry practice in the PRC. For other customers, we normally require a deposit ranging from 10% to 30% of the contract value from them 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.

We currently own a 20% interest in Beijing Jing Senyuan which was accounted as a long term investment of our Group. The interest in Beijing Jing Senyuan is stated at cost less any impairment losses. As at 31 December 2004, our interest in Beijing Jing Senyuan was RMB0.6 million.

The major factors affecting our results of operations and financial condition are:

- Changes in sales volume of VCBs;

- Changes in average selling price of VCBs; and
- Changes in cost of sales.

Changes in sales volume of VCBs

Our ability to increase our sales volume of VCBs is dependent in part on the growth of the market size and in part on our ability to capture the growth in demand.

In recent years, the PRC economy has been growing at a fast rate. On the contrary, the development of the power industry was at a slower pace, which resulted in the electricity shortage in most areas in the PRC. The electricity shortage is one of the major constraints on the economic growth in the PRC and the government has been speeding up the development of the power industry. Electricity generation grew at a CAGR of 5.4% between 1995 and 2004. As a result, the market demand for electricity distribution equipment has been increasing. The increase in demand of switchgears, which are electricity distribution equipment, has in turn led to the increase in sales volume of our VCBs, one of the components of switchgear.

According to 高壓開關行業年鑒 (High Voltage Switchgear Industry Yearbook), between 1999 and 2003, the total production volume of 12kV VCBs in the PRC grew at a CAGR of 18.9%. With our marketing expertise and experience, efficient production team and the brand recognition of high quality, our Group was able to establish a proven track record in capturing the fast growing demand of VCBs. Between 1999 and 2003, our production volume grew at a CAGR of 47.5%. We have achieved a significant growth in the sales volume of our VCBs in recent years.

The sales volumes of our VCBs increased by around 49.8% in Fiscal Year 2003 compared to Fiscal Year 2002, and further increased by approximately 24.7% in Fiscal Year 2004.

The demand for 12kV VCBs has been growing rapidly in the past five years in the PRC and is believed to be growing even faster in the future due to the country-wide power shortage, urbanisation of fast growing regions, enlargement of cities which become metropolises and growing industrial investments by domestic and foreign venture capitals.

Changes in average selling price of VCBs

We price our products primarily with reference to: (i) the prices of similar products in the market; (ii) the costs of our products; and (iii) the quantity ordered by the relevant customers.

Due to intense competition in the PRC market, average selling price of our VCBs decreased by around 12.2% in Fiscal Year 2003 compared to Fiscal Year 2002. Nevertheless, the average selling price of our VCBs in Fiscal Year 2004 was only 0.7% lower than that in Fiscal Year 2003.

Changes in cost of sales

Our cost of sales consists of costs of raw materials and component parts, direct labour costs and production overhead. Costs of raw materials and component parts accounted for around 85.5%, 81.9% and 85.1% of our cost of sales in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively.

Costs of vacuum interrupters, the key components we purchased, accounted for around 30.9%, 26.2% and 25.0% of our purchases in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively. The increase in production volume of vacuum interrupters and the intense competition in the industry had resulted in a decrease in market prices of vacuum interrupters. As a result, the average cost of our VCBs decreased by about 13% in Fiscal Year 2003.

Due to the above, despite the decrease in average selling price of VCBs by around 12.2% in Fiscal Year 2003, our gross profit margin increased from around 23.8% in Fiscal Year 2002 to 26.9% in Fiscal Year 2003. The increase in gross profit margin of VCBs was mainly due to the fact that the decrease in the average cost of VCBs was larger than the decrease in the average selling price.

The main raw materials of our products are steel plates which accounted for approximately 3.0%, 15.7% and 21.2% of our total purchases in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively. The principal reason for the rise in the purchases of steel plates was that we have increased the number of parts of switchgear cubicles produced on our own while reducing the procurement of these parts. The increase in market price of cold-rolled steel since the second half of 2003 was the main reason for to the decrease in our gross profit margin to about 25.4% in Fiscal Year 2004.

Seasonality

Our Group's sales are only slightly affected by seasonality. Traditionally, compared with the rest of the year, our Group's sales volumes were lower during the period of the Chinese New Year holidays in January or February. The seasonality fluctuation has not materially affected our Group's financial results and/or working capital requirements.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are integral parts of the financial statements prepared by our management and are based upon the management's best estimations. The methods, estimates and judgments they used in applying our Group's accounting policies have a significant impact on our Group's operating results. Some of the accounting policies require the management to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies that the Directors believe are both important to the presentation of our Group's financial results and involve a need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The recorded value of property, plant and equipment is affected by a number of management estimates including estimated useful lives, residual values and impairment charges.

The management will assess the need for any impairment write-down only if there is information indicating that the carrying value of the assets or the asset grouping may not be recoverable. Such information may include a low utilisation rate or a significant under-performance relative to expectation of manufacturing facilities, significant changes or planned changes in our use of the assets, significant negative industry or economic trends. If any such indication exists, the management will exercise their judgment and estimate the recoverable amount. An impairment loss is then recorded to reduce the value of such asset to its recoverable amount. Such impairment loss is charged to the profit and loss account in the period in which it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Our Group generally maintains raw materials for one to two month's production in order to meet any unexpected increase in demand for our products. Our production process usually takes approximately two weeks from production planning to delivery of products to our customers. Due to the low lead time for delivery of our finished goods to our customers, we are able to maintain a low level of finished goods which is adequate for one or two months' sales. Inventories amounted to approximately RMB18.8 million, RMB21.6 million and RMB34.9 million as at 31 December 2002, 2003 and 2004 respectively. The inventory turnover days in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 were about 50 days, 44 days and 57 days respectively.

Raw materials of our Group mainly comprise vacuum interrupters, cold-rolled steel and parts and accessories, which are durable items. The management review an ageing analysis at balance sheet date and make provisions for obsolete and slow-moving inventory items identified, which are no longer suitable for use in production.

Our Group's productions are arranged based on orders from customers. At each balance sheet date, our management estimates the net realisable value of each item of finished goods and work in progress with reference to the respective latest invoices, contract prices or prevailing market prices. If there are indications that the carrying amount might not be recoverable, a provision is then recorded to write down the carrying value of an inventory item to its estimated net realisable value.

We make provisions on inventories based on ageing analysis of our inventories and take into account of their subsequent sales value or usage in production, which provide further information of their recoverable amounts. As at 31 December 2004, approximately 99.9% of inventories balances were aged less than six months and have been either used in production or sold subsequently. Inventories as at 31 December 2002 and 2003 have either been sold or used in production in subsequent period at recoverable amounts over their carrying amounts. Therefore, the Directors considered it is fair and reasonable that no provision was made on inventories as at 31 December 2002, 2003 and 2004. Based on the foregoing, the Directors consider the existing policy in making provision for slow moving and obsolete inventories to be appropriate.

Trade receivables

Trade receivables, which generally have contractual credit terms ranging from 30 to 90 days, are recognised and carried at original invoice amounts less provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Provision for doubtful debts

Provision for doubtful debts is provided based on assessments of the management on collectibility and recoverability of trade receivable balances at balance sheet dates. In assessing the collectibility and recoverability of trade receivable balances, the management exercise their judgments based on their knowledge of the financial position of the relevant customer, its repayment history, settlements subsequent to balance sheet date and ageing analysis. Additional provision for doubtful debts is provided for trade receivable balances which are not recoverable and such additional provision is charged to the profit and loss account of the relevant year.

The general contractual credit term for customers ranges from 30 days to 90 days. The debtors' turnover days in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 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 in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively. Our Group has not taken aggressive actions in collecting overdue balances from some of our customers, in particular state-owned enterprises which have lengthy internal approval procedures for cash payments, based on our assessment of their credit standing and so as to maintain good client relationship.

Provision for doubtful debts (an item in the combined balance sheets set out in the accountants' report) amounted to approximately RMB4.5 million, RMB7.0 million and RMB6.8 million in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively, representing approximately 2.5%, 2.9% and 2.3% of our turnover of the respective year. Based on an ageing analysis of trade receivables as at each of the year end date, the repayment history of the customers, settlements subsequent to the year end date, and the management's knowledge of the financial position of the customers, the Directors consider that no further provision is required for trade receivables as at 31 December 2002, 2003 and 2004. In particular, based on the respective settlements by the customers subsequent to 31 December 2004, the Directors do not foresee any unrecoverable debts except for certain long outstanding trade receivable balances in an aggregate amount of about RMB6.8 million, which have been fully provided for. The Directors consider that the existing provision level was adequate as at 31 December 2004. Subsequent to 31 December 2004, trade receivables of approximately RMB57.6 million have been received, accounted for approximately 67.7% of total trade receivables as at 31 December 2004.

In Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004, the actual outcome of collectibility did not have material difference with the provision made in the prior year. Based on the foregoing, the Directors consider the existing policy for making provision for doubtful debts to be appropriate.

Research and development expenditures

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Capital expenditures incurred for the purchases of equipment for research and development are accounted for as property, plant and equipment. Capital expenditures paid for costs of product design and development of the supplier in exchange for lower purchase prices than those which would otherwise be available to Changzhou Senyuan are accounted for as long term prepayments.

Our expenses of research and development mainly represented compensation of research and development personnel and other direct costs in relation to the development of new products and the modifications of the existing products. Research and development costs were charged to profit and loss account in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004.

The following table is a breakdown of research and development expenditures in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004:

		Fiscal Year		
		2002	**2003**	**2004**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of materials		5,277	7,426	3,741
Staff costs		712	1,230	1,115
Testing charges		902	1,315	1,221
Depreciation charges		1,122	1,541	1,684
Others		116	205	395
Research and development costs	*(a)*	8,129	11,717	8,156
Less: depreciation charges		(1,122)	(1,541)	(1,684)
Add: additions in long term prepayments	*(b), (c)*	–	1,200	2,800
Add: additions in property, plant and equipment for research and development	*(b)*	3,247	945	3,559
Research and development expenditures		10,254	12,321	12,831

Notes:

(a) Research and development costs were charged to the respective accounts of cost of sales.

(b) These are balance sheet items which are included in research and development expenditures for presentation purposes.

(c) Long term prepayments represented our payments of the costs of product design and development of embedded poles to Siemens Vacuum Interrupters (Wuxi) Limited. Details of the accounting treatments of long term prepayments are set out in the section below.

Long term prepayments

In September 2003, Changzhou Senyuan entered into a framework sales agreement with Siemens Vacuum Interrupters (Wuxi) Limited, a party independent of and not connected with our Company or our connected persons, pursuant to which Changzhou Senyuan provided technical information of embedded poles and paid for costs of product design and development of embedded poles. Siemens Vacuum Interrupters (Wuxi) Limited is committed in return to sell its products to Changzhou Senyuan at prices lower than those which would otherwise be available to Changzhou Senyuan. The intellectual property rights of the product vest in Siemens Vacuum Interrupters (Wuxi) Limited. This arrangement is a common practice for the industry and is legal and valid under the relevant PRC rules and regulations.

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 carrying value of long term prepayments of our Group was RMB1.2 million and RMB3.8 million as at 31 December 2003 and 31 December 2004 respectively.

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

All of our turnover in Fiscal Year 2002 and Fiscal Year 2003 and approximately 99.6% of our turnover in Fiscal Year 2004 represented proceeds from the sale of VCBs and other components of switchgears. Our turnover represents the net invoiced value or contracted value of goods sold upon dispatch of goods, after allowances for returns, trade discounts and business/sales tax where applicable.

Service income in respect of research and development services provided to customers was approximately RMB1.2 million in Fiscal Year 2004. Revenue from rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, costs incurred and estimated costs to completion can be measured reliably.

Cost of sales

Our cost of sales consists primarily of:

- costs for raw materials and component parts such as vacuum interrupters and steel plates. Raw materials and components accounted for approximately 85.5%, 81.9% and 84.8% of the cost of sales in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively;

- direct labour costs; and

- production overhead such as utility expenses, depreciation expenses and processing fees. Certain minor processing procedures such as silver-plating, paint spraying and linkages were outsourced to parties independent of and not connected with our Company or our connected persons. The processing fees were RMB5.9 million, RMB12.7 million and RMB11.0 million in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively, representing approximately 4.3%, 7.1% and 4.9% of our cost of sales for the respective periods.

Selling and distribution costs

Our selling and distribution costs mainly consist of freight charges, packaging costs and after-sales service charges in respect of installation and testing service provided by a party, which is independent of and not connected with our Company or our connected persons, in Shanghai, the PRC. The charges for outsourced after-sales service were approximately RMB2.2 million, RMB2.6 million and RMB1.6 million in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively.

Administrative expenses

Our administrative expenses mainly comprise salaries and benefits, social insurance expenses and provision for doubtful debts.

Wages and salaries

Wages and salaries are included in the respective accounts of cost of sales, selling and distribution costs and administrative expenses. The following table sets forth a breakdown of wages and salaries in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004:

	Fiscal Year		
	2002	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Wages and salaries of staff (excluding bonus)	5,782	8,909	16,896
Staff bonus	3,351	5,460	–
Directors' remuneration	315	1,075	1,231
	9,448	15,444	18,127

The increase in wages and salaries (excluding bonus) in Fiscal Year 2003 was mainly due to the increase in number of staff from 332 as at 31 December 2002 to 446 as at 31 December 2003 to cope with business expansion. Wages and salaries (excluding bonus) further increased from approximately RMB8.9 million in Fiscal Year 2003 to approximately RMB16.9 million in Fiscal Year 2004. The increase was mainly attributable to the increase in number of staff from 446 as at 31 December 2003 to 524 as at 31 December 2004 and the employment of an experienced expatriate in order to strengthen our internal control system.

Staff bonus increased from approximately RMB3.4 million in Fiscal Year 2002 to approximately RMB5.5 million in Fiscal Year 2003. Such increase was mainly attributable to good operating results attained in 2003. No staff bonus was accrued in Fiscal Year 2004 mainly because our management is evaluating other alternative compensation packages to replace the annual discretionary bonus arrangement adopted in previous years.

Finance costs

Finance costs primarily consist of interests on bank borrowings.

Income tax

As all the operations of our Group are conducted in the PRC, we are subject to the PRC taxation only.

Changzhou Senyuan, the only operating subsidiary of our Company, is located and operates in one of the coastal economic opening zones of the PRC and the applicable corporate income tax rate is 24%. According to the prevailing tax law of the PRC, Changzhou Senyuan, as a manufacturing enterprise with foreign investment, is entitled to full exemption from corporate income tax for the first and second profitable years and a 50% exemption for the succeeding three years of operation. Therefore Changzhou Senyuan enjoyed a 50% reduction of the corporate income tax in 2002 and 2003 which were the fourth and fifth years of Changzhou Senyuan's tax holiday respectively. Accordingly, the applicable corporate income tax rate for 2002 and 2003 was 12%.

Being granted as 兩個密集型企業 (double-intensity enterprise) and approved by the State Administration of Tax, Changzhou Senyuan has been entitled to an applicable tax rate of 15% since 2004. In addition, Changzhou Senyuan, being a foreign-invested advanced-technology enterprise, also enjoys the 50% reduction (with a minimum tax rate of 10%) of the national income tax for an additional period of three years after the initial five-year tax holiday as state above. Pursuant to the approval by the State Administration of Tax of Changzhou City, Jiangsu Province, Changzhou Senyuan is subject to an applicable income tax rate of 10% from 2004 to 2006.

The relevant tax authorities have agreed the tax position of Changzhou Senyuan in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004. Based on the confirmations issued by the tax authorities and to the best knowledge of the Directors, there have been no major tax disputes with the relevant authorities.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within capital and reserve in the balance sheet, until they have been approved by and declared by the Board, when they are recognised as a liability.

Fiscal Year 2004 compared to Fiscal Year 2003

Turnover

Turnover increased by approximately RMB55.1 million, or 22.6%, from approximately RMB243.9 million in Fiscal Year 2003 to approximately RMB299.0 million in Fiscal Year 2004. Such increase was primarily attributable to the increase in turnover of VCBs by approximately RMB42.1 million in Fiscal Year 2004. The growth in sales volume of VCBs was principally attributable to the increase in the market size of 12kV VCBs in the PRC.

Cost of sales

Cost of sales increased by approximately RMB44.6 million, or 25.0%, from approximately RMB178.3 million in Fiscal Year 2003 to approximately RMB222.9 million in Fiscal Year 2004. The increase was in line with the increase in our turnover.

Gross profit

As a result of the factors discussed above, gross profit increased by approximately RMB10.3 million, or 15.7%, from approximately RMB65.7 million in Fiscal Year 2003 to approximately RMB76.0 million in Fiscal Year 2004. Our gross profit margin was approximately 25.4% in Fiscal Year 2004, which was slightly lower than 26.9% in Fiscal Year 2003. Such decrease was mainly due to the increase in market price of cold-rolled steel since the second half of 2003.

Selling and distribution costs

Selling and distribution costs decreased by approximately RMB0.7 million, or 6.0%, from approximately RMB11.7 million in Fiscal Year 2003 to approximately RMB11.0 million in Fiscal Year 2004. The decrease was mainly due to the decrease in outsourced after-sales service charges by approximately RMB1.0 million and annual bonus accruals by approximately RMB0.5 million. This effect was partially offset by the increase in freight charges and packaging costs totalling approximately RMB0.8 million, as a result of the growth of turnover. The decrease in outsourced after-sales service charges was attributable to the termination of the relevant service contract in June 2004. We began providing such after-sales service by ourselves thereafter.

Administrative expenses

Administrative expenses increased by approximately RMB0.7 million, or 4.8%, from approximately RMB14.6 million in Fiscal Year 2003 to approximately RMB15.3 million in Fiscal Year 2004. This was primarily due to the combined effect of the increase in staff costs by approximately RMB1.5 million, the decrease in provision for doubtful debts by approximately RMB2.7 million and increases in other expenses. The increase in staff costs was mainly due to the employment of an experienced expatriate in order to strengthen our internal control system.

Net profit from ordinary activities attributable to the Shareholders

Net profit from ordinary activities attributable to the Shareholders increased by approximately RMB10.1 million, or 31.6%, from approximately RMB32.0 million in Fiscal Year 2003 to approximately RMB42.1 million in Fiscal Year 2004, which was primarily due to the increase in gross profit by approximately RMB10.4 million.

Fiscal Year 2003 compared to Fiscal Year 2002

Turnover

Our turnover increased by approximately RMB63.2 million, or 35.0%, from approximately RMB180.7 million in Fiscal Year 2002 to approximately RMB243.9 million in Fiscal Year 2003. The increase in turnover was due to the increase in turnover of VCBs and other components of switchgear by approximately RMB42.3 million and RMB20.9 million respectively. The growth in demand for switchgears in the PRC has driven the increase in demand for our VCBs and other components of switchgear.

The increase in turnover of VCBs was primarily due to the sales volume of our VCBs in 2003, representing an approximately 49.8% growth compared to 2002. This effect was partially offset by the decrease in the average selling price of VCBs. The average selling price of VCBs in Fiscal Year 2003 decreased by approximately 12.2% compared to Fiscal Year 2002.

Cost of sales

Cost of sales increased by approximately RMB40.7 million, or 29.6%, from approximately RMB137.6 million in Fiscal Year 2002 to approximately RMB178.3 million in Fiscal Year 2003. This was mainly due to an increase in cost of raw materials and component parts by approximately RMB28.3 million. The increase in cost of raw materials by approximately 24.1% was lower than the increase in turnover by approximately 35% compared to that of Fiscal Year 2002. This was primarily attributable to the decrease in the average cost of vacuum interrupters, the principal component purchased by our Group, by approximately 13% in Fiscal Year 2003. Cost of vacuum interrupters accounted for approximately 26.2% of our purchases in Fiscal Year 2003.

Gross profit

Gross profit increased by approximately RMB22.6 million, or 52.4%, from approximately RMB43.1 million in Fiscal Year 2002 to approximately RMB65.7 million in Fiscal Year 2003. Our gross profit margin increased from approximately 23.8% in Fiscal Year 2002 to around 26.9% in Fiscal Year 2003, representing an increment of approximately 13.0%. The increase in gross profit margin was mainly due to the fact that the decrease in the average cost of VCBs was larger than the decrease in average selling price of VCBs.

Selling and distribution costs

Our selling and distribution costs increased by approximately RMB3.5 million, or 42.7%, from approximately RMB8.2 million in Fiscal Year 2002 to approximately RMB11.7 million in Fiscal Year 2003, primarily as a result of the increase in freight charges and packaging costs by approximately RMB1.5 million and RMB1.0 million respectively. Such increases were in line with the increase in turnover in Fiscal Year 2003.

Administrative expenses

Administrative expenses increased by approximately RMB6.2 million, or 73.8%, from approximately RMB8.4 million in Fiscal Year 2002 to around RMB14.6 million in Fiscal Year 2003. The increase in administrative expenses was mainly due to the increase in staff costs by approximately RMB3.6 million and the increase in provision for doubtful debts by approximately RMB1.0 million. The increase in staff costs was primarily due to the increase in management and administrative staff headcounts from 31 as at 31 December 2002 to 41 as at 31 December 2003 and an increase in annual bonus for good operating results attained in 2003.

Finance costs

Finance costs increased by approximately RMB1.1 million, or 57.9%, from approximately RMB1.9 million in Fiscal Year 2002 to approximately RMB3.0 million in Fiscal Year 2003. The increase was principally due to the increase in interest-bearing bank and other borrowings from approximately RMB26.4 million as at 31 December 2002 to approximately RMB47.0 million as at 31 December 2003.

Net profit from ordinary activities attributable to the Shareholders

As a result of the factors discussed above, our net profit from ordinary activities attributable to the Shareholders increased by approximately 51.6% from Fiscal Year 2002 to Fiscal Year 2003, and our Group's net profit margin increased from approximately 11.7% in Fiscal Year 2002 to approximately 13.2% in Fiscal Year 2003.

INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining information contained in this indebtedness statement, our Group had total outstanding borrowings of approximately RMB84.8 million. All these borrowings were short-term bank loans repayable on or before the end of January 2006.

Security

As at 30 April 2005, our Group had aggregate bank loans of RMB84.8 million. Our Group's bank loans are secured by:

(i) land use rights of Changzhou Senyuan with a net book value of approximately RMB8.2 million as at 30 April 2005;

(ii) certain plant and machinery of Changzhou Senyuan with a net book value of approximately RMB4.9 million as at 30 April 2005;

(iii) corporate guarantees provided by related companies, SY Tai Ah and Lanling; and

(iv) personal guarantees provided by Mr. Tsang and Mr. Zhou, both are Directors.

Contingent liabilities

As at 30 April 2005, there were contingent liabilities amounting to approximately RMB19.0 million and RMB2.0 million in respect of the guarantees given to various banks for banking facilities granted to Lanling and Changzhou New District Tianru Chemical Supplies Company Limited ("Tianru"), respectively.

As at 30 April 2005, contingent liabilities amounting to approximately RMB5.2 million were incurred due to the discounting of undue note receivables.

As at 30 April 2005, there were contingent liabilities amounting to approximately RMB0.5 million in respect of the guarantees given to Lanling in connection with the issuance of letters of credit. Such guarantees were provided to Lanling by us in consideration of the guarantees given by Lanling for our banking facilities.

Tianru is a trading company which is a party independent of and not connected with our Company or our connected persons. Changzhou Senyuan had agreed to provide the guarantee to Tianru because its owner is a friend of the shareholders of Changzhou Senyuan. The guarantee would allow Tianru to obtain more bank loans to finance its working capital requirements. Our Group has not received any benefits for providing such guarantee.

As at the Latest Practicable Date, all of the above guarantees had been released.

Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, neither our Company nor any companies comprising our Group had, at the close of business on 30 April 2005, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of our Group since 30 April 2005.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We principally finance our working capital and other capital requirements from operating cash flow and short term bank loans.

The following table summarises our cash flows in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004.

		Fiscal Year	
	2002	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Net cash inflow from operating activities	19,972	3,899	67,282
Net cash outflow from investing activities	(7,856)	(11,798)	(68,661)
Net cash inflow/(outflow) from financing activities	(18,053)	20,640	1,267
Net increase/(decrease) in cash and cash equivalents	(5,937)	12,741	(112)
Cash and cash equivalents at end of year	8,869	21,610	21,498

Operating activities

Net cash inflow from our operating activities in Fiscal Year 2004 amounted to approximately RMB67.3 million, which was primarily due to the operating profit before working capital changes amounting to approximately RMB55.7 million. Net cash inflow from our operating activities in Fiscal Year 2004 amounted to approximately RMB67.3 million compared to a net cash inflow of approximately RMB3.9 million in Fiscal Year 2003. The significant increase in net cash inflow from our operating activities was primarily a result of cash inflow of approximately RMB44.1 million from the settlement of balances due from related companies in Fiscal Year 2004. The balance due from related companies decreased from approximately RMB51.1 million as at 31 December 2003 to approximately RMB7.0 million as at 31 December 2004, which was mainly due to the settlement of outstanding balances by the related companies in Fiscal Year 2004.

Net cash inflow generated from our operating activities in Fiscal Year 2003 was approximately RMB3.9 million, while our profit before income tax and minority interests for the year was approximately RMB36.8 million. The difference of approximately RMB32.9 million was mainly attributable to an increase in balances due from Lanling and other related companies by approximately RMB17.1 million and RMB3.2 million respectively, and the decrease in balance due to related companies of approximately RMB9.5 million. The increase in amount due from related companies was mainly due to the increase in trade receivables and non-trade receivables by approximately RMB10.0 million and RMB10.2 million respectively.

Our profit before income tax and minority interests and net cash inflow generated from our operating activities in Fiscal Year 2002 was approximately RMB24.5 million and RMB20.0 million respectively.

Investing activities

Net cash used in investing activities amounted to approximately RMB7.9 million, RMB11.8 million and RMB68.7 million in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively.

In each year, most of our investing activities comprised purchases of property, plant and equipment, additions to construction in progress and purchase of land use rights in respect of our production complex in the PRC.

Net cash used in investing activities in Fiscal Year 2004 was primarily to finance the construction in progress in respect of our new production complex of approximately RMB39.8 million and the purchases of property, plant and equipment of approximately RMB18.4 million.

Financing activities

Our principal source of cash provided by financing activities were borrowings from banks.

Our net cash inflow from financing activities in Fiscal Year 2004 was approximately RMB1.3 million. This was primarily attributable to payment of dividends amounting to RMB45 million that was partially offset by a net increase in bank borrowings of RMB35 million. The increase in bank borrowings was mainly used to finance the construction in progress in respect of our new production complex in Changzhou, Jiangsu Province and the purchases of property, plant and equipment totalling approximately RMB58.2 million. In addition, approximately RMB1.2 million was used in 2004 to fully repay borrowings from our employees. The rationale behind the borrowings from our employees was that we could avoid the lengthy negotiation and approval procedures with banks for obtaining unsecured borrowings. Meanwhile, our employees were receptive to the idea as they were familiar with the management, operations and financial position of Changzhou Senyuan.

Our net cash generated from financing activities in Fiscal Year 2003 was approximately RMB20.6 million, comprising principally a net increase in bank borrowings of approximately RMB23 million which was mainly used to finance the investing activities of approximately RMB11.8 million.

Net cash used in financing activities in Fiscal Year 2002 was approximately RMB18.1 million mainly representing a net increase in bank borrowings of approximately RMB5 million which was offset by dividend payment of approximately RMB20.0 million and repayment of loans borrowed from a related company of approximately RMB4.2 million.

Capital resources

Internally generated funds

Our Group generated net cash inflow from operating activities in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004. However, net cash inflow from our operating activities in Fiscal Year 2003 was significantly lower than net profit in the same year which was primarily due to the increase in net balance due from related companies. The cash flow effect of due from related companies in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 is shown in the table below.

		Fiscal Year	
	2002	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Net profit from ordinary activities attributable to the Shareholders	21,103	31,996	42,134
Net cash inflow from operating activities	19,972	3,899	67,282
(Increase)/decrease in due from related companies, net	8,232	(29,766)	43,902
Net cash inflow from operating activities before the effect of due from related companies, net	11,740	33,665	23,380

The amount due from related companies mainly comprised receivables in connection with sales to related companies and non-trade cash advances to them. The amount due to related companies mainly consisted of payables relating to our purchases from related companies. The balances due from/to related companies are unsecured, interest-free and have no fixed terms of repayment. The subsequent settlement by related companies in Fiscal Year 2004 resulted in the decrease in the balance of due from related companies by approximately RMB44.1 million from approximately RMB51.1 million as at 31 December 2003 to about RMB7.0 million as at 31 December 2004.

The following table sets out a breakdown of non-trade balances due from related companies, which is extracted from the accountants' report set out in appendix I to this prospectus.

			31 December	
		2002	**2003**	**2004**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.)	*(a)*	800	3,570	–
Changzhou Lanling Factory	*(b)*	9,031	–	–
SY Tai Ah	*(c)*	–	5,733	–
Lanling	*(d)*	11,680	22,445	–
Tai Ah HK	*(e)*	–	–	3,780
		21,511	31,748	3,780

Notes:

(a) The non-trade balances due from 常州瑞安花園大酒店有限公司 (Chengzhou Ruian Garden Grand Hotel Co., Ltd.) represented our advances made to it. 常州瑞安花園大酒店有限公司(Changzhou Ruian Garden Grand Hotel Co., Ltd.) commenced its hotel operations in 2002. The advances were used to finance its working capital during the first few years of operations. 常州瑞安花園大酒店有限公司(Changzhou Ruian Garden Grand Hotel Co., Ltd.) fully settled the balance in Fiscal Year 2004.

(b) We advanced approximately RMB9 million to Changzhou Lanling Factory in 2002. Changzhou Lanling Factory used the advance for capital injection in Lanling. Lanling fully settled the advance to us in Fiscal Year 2003.

(c) As a treasury management arrangement among private companies, SY Tai Ah used our advances of approximately RMB5.7 million for distribution to our common shareholders in 2003. The amount was fully repaid by SY Tai Ah in Fiscal Year 2004.

(d) The advances to Lanling in 2002 and 2003 were mainly for importing switches for its production. Lanling has fully repaid the advances to us.

(e) This non-trade balance was a result of an excessive payment by Senyuan Investments to Tai Ah HK in relation to the transfer of interest in Changzhou Senyuan during the Reorganisation. Tai Ah HK fully repaid this non-trade balance to us in February 2005.

The following table sets out a breakdown of non-trade balances due to related companies, which is extracted from the accountants' report set out in appendix I to this prospectus.

		31 December		
		2002	**2003**	**2004**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Tai Ah (China) Co., Ltd.	*(a)*	–	–	4
Changzhou Lauling Factory	*(b)*	–	–	3,743
Tai Ah HK	*(c)*	–	426	1,064
		–	426	4,811

Notes:

(a) The advance from Tai Ah (China) Co., Ltd. was approximately RMB4,000 as at 31 December 2004.

(b) The balance due to Changzhou Lanling Factory of approximately RMB3.7 million as at 31 December 2004 represented the consideration for Senyuan Investments on acquiring Changzhou Lanling Factory's entire interest in Changzhou Senyuan.

(c) The balance due to Tai Ah HK of approximately RMB0.4 million and RMB1.1 million as at 31 December 2003 and 2004 respectively represented tax refunds for re-investment of dividend by Tai Ah HK, a then shareholder of Changzhou Senyuan, which was received by Changzhou Senyuan on behalf of it.

The non-trade balances with related companies arose from the treasury management arrangements among them, which will not continue after the listing of the Shares on the Stock Exchange. In addition, we will closely monitor trade balances due from related companies in the future in order to avoid a material amount of cash being piled up in balances due from related companies.

We generated net cash inflow from our operating activities in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004. We also intend to meet our working capital requirements in the future by internally generated funds.

Bank loans

In Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004, we arranged a number of short term bank loans. As at 30 April 2005, short term bank loans amounted to approximately RMB84.8 million. The bank loans were mainly used for financing capital expenditures in relation to the purchases of plant and machinery and construction of our new production complex. We have not experienced any defaults in repayment of bank loans and difficulties in raising funds by short term loans from various banks in the PRC. In addition, we have not experienced any liquidity problems in our normal course of business.

Taking into consideration of the internally generated funds, the Directors consider that our Group would have sufficient working capital and for financing the future plans as stated in the section headed "Future plans and use of proceeds" in the event that our Group was not listed within 12 months from the date of this prospectus.

Capital expenditures

Capital expenditures consist of purchases of property, plant and equipment, additions to construction in progress, long term prepayments and purchases of land use rights. We made cash payments for such capital expenditures of approximately RMB7.7 million, RMB11.9 million and RMB61.0 million in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively. Our capital expenditures increased in Fiscal Year 2004 was primarily because of our expansion of production facilities and increased investment in construction in progress relating to our new production complex in Changzhou, the PRC.

Production complex

We commenced to construct our new production complex in Changzhou, Jiangsu Province, the PRC in the second half of 2003 and the construction is expected to be completed in September 2005. 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 following table shows a breakdown of the estimated total capital expenditures in respect of our new production complex as at 31 December 2004 and 30 April 2005:

	31 December 2004 *RMB'000*	**30 April 2005** *RMB'000*
Capital expenditures incurred:		
– Cost of building	26,720	26,720
– Construction in progress	19,031	24,222
– Cost of land use rights *(Note)*	8,530	10,540
	54,281	61,482
Capital expenditures contracted but not provided for	9,884	2,683
Estimated capital expenditures to be incurred for outstanding work	835	835
Estimated total expenditures	65,000	65,000

Note: A breakdown of cost of land use rights as at 31 December 2004 and 30 April 2005 is set out below:

	31 December 2004 *RMB'000*	**30 April 2005** *RMB'000*
Land premium	7,800	7,800
Taxes, other expenses and fees related to the acquisition of the land use rights	730	2,740
	8,530	10,540

Capital commitments

The following table shows our capital commitments as at 31 December 2004 and 30 April 2005:

	31 December 2004	30 April 2005
	RMB'000	*RMB'000*
Contracted, but not provided for in respect of buildings	9,884	2,683
Authorised, but not contracted for in respect of:		
Buildings	835	835
Plant and machinery	–	2,544
	835	3,379
	10,719	6,062

We plan to fund all of our capital commitments of approximately RMB6.1 million as at 30 April 2005 with internally generated cash.

The Directors confirm that there has been no material change in the capital commitments of our Group since 30 April 2005.

Other receivables

The following table shows a breakdown of other receivables as at 31 December 2002, 2003 and 2004:

		31 December		
		2002	2003	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Advances to staff	*(a)*	506	3,411	734
Prepayments	*(b)*	2,071	2,255	976
Down payment for purchase of land use rights		1,950	–	–
Expenses relating to the Share Offer	*(c)*	–	–	3,096
Deposits and other receivables	*(d)*	150	148	2,465
		4,677	5,814	7,271

Notes:

(a) Advances to staff were advances made to the sales personnel (excluding the Directors) in relation to market development and business trip expenses. The increase in advances to staff as at 31 December 2003 compared to 31 December 2002 was mainly due to market development in remote areas such as Yunnan Province and Xinjiang Province in the PRC.

(b) Prepayments mainly represented prepayments for suppliers in relation to our purchases.

(c) Expenses relating to the Share Offer mainly represented progress payments for audit and tax advisory services provided by our Company's reporting accountant of approximately RMB1.5 million, sponsorship fee of approximately RMB0.6 million and legal advisory fee of approximately RMB0.9 million.

(d) Deposits and other receivables as at 31 December 2004 mainly represented bank deposits of approximately RMB2.3 million for issuance of letter of credit to purchase machinery and equipment.

Net current liabilities

As at 30 April 2005, our Group had net current liabilities of approximately RMB0.9 million. Current assets of our Group comprised inventories of approximately RMB33.4 million, trade receivables of approximately RMB94.5 million, other receivables of approximately RMB8.5 million, due from related companies of approximately RMB6.7 million, prepayments of approximately RMB14.5 million and cash and cash equivalents of approximately RMB11.9 million. Current liabilities of our Group comprised trade and bills payable of approximately RMB68.1 million, tax payable of approximately RMB1.4 million, other payables and accruals of approximately RMB12.6 million, due to related companies of approximately RMB3.5 million and interest-bearing bank and other borrowings of approximately RMB84.8 million.

Our net current liability position as at 30 April 2005 was principally due to utilisation of short term bank loans to finance our capital expenditures, which were classified as non-current assets.

The Directors confirmed that there have been no material adverse changes in the net current liabilities of our Group since 30 April 2005.

WORKING CAPITAL

Taking into consideration of the financial resources available to us including our internally generated funds, the available bank loans and the estimated net proceeds from the Share Offer, the Directors and the Joint Sponsors are of the opinion that the working capital available to our Group is sufficient for our present requirements, that is for at least the next 12 months from the date of this prospectus.

Moreover, the Joint Sponsors concur with the Directors' view that taking into consideration of our internally generated funds and the available bank loans, we would have sufficient working capital in the event that our Group was not listed within the next 12 months.

DIVIDENDS AND DIVIDEND POLICY

Dividends

The dividends declared by Changzhou Senyuan to its then shareholders were RMB45 million in 2004. Changzhou Senyuan did not declare any dividends in 2002 and 2003. The payment of dividends represented a return to the then shareholders for their contributions to Changzhou Senyuan given the past financial results and the availability of distributable reserves. The declaration of the dividends has taken into consideration of the then present and future cash requirements of our Group.

The payment of dividends of RMB45 million in Fiscal Year 2004 was financed by internal resources, instead of bank loans. The increase in bank loans of RMB35 million in Fiscal year 2004 was mainly used to finance construction in progress and property, plant and equipment totalling approximately RMB58.2 million in Fiscal Year 2004.

Dividend policy

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

In the future, the Directors intend to adopt a total shareholder return policy, that is to achieve a sustainable growth in the value of a Share over a specific period with dividends reinvested, resulting in the growth of earnings per Share. The Directors also intend to maintain a stable and attractive dividend yield. The specific measures are that the Directors intend to declare and recommend dividends which would amount, in total, to approximately 30% of the distributable profits of our Group for each financial year. The Directors, subject to review in light of the cash requirements of our Group, intend to adhere to such a dividend payout ratio. Shareholders may choose to receive cash or scrip dividend.

The Directors expect that in the future, subject to the financial performance of our Group, interim and final dividends shall be paid in each financial year. In general, interim dividend shall account for approximately one-third of the expected annual dividend.

No dividend in respect of the year ended 31 December 2004 will be declared after the listing of the Shares on the Stock Exchange.

Subject to the Companies Law and the Articles (as referred to in the section headed "Dividends" in appendix IV to this prospectus), our Company may pay dividends out of our distributable reserves. The ability to distribute dividends depends on, among other things, the available balance of distributable reserves of and the cash flow to our Company (but not our Group). As a company incorporated in the Cayman Islands, our Company's distributable reserves will include our share premium account in addition to distributable profits. Under the Companies Law, dividends or distributions may be paid to the Shareholders out of our Company's share premium account if immediately following the date on which the distribution or dividend is proposed to be paid, our Company shall be able to pay our debts as they fall due in the ordinary course of business.

FINANCIAL RATIOS

Our Group's debtors' turnover days, creditors' turnover days, inventory turnover days and gearing ratio in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 are set forth below:

			Fiscal Year	
	Notes	**2002**	**2003**	**2004**
Debtors' turnover days	*(a), (b)*	88	88	91
Creditors' turnover days	*(c)*	85	89	92
Inventory turnover days	*(d)*	50	44	57
Gearing ratio	*(e)*	19.1%	23.9%	33.7%

Notes:

(a) The calculation of debtors' turnover days is based on the amount of average trade receivables divided by turnover (excluding sales to related companies) and multiplied by 365 days.

(b) For reference purpose only, 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 in Fiscal Year 2002, Fiscal Year 2003 and Fiscal Year 2004 respectively.

Amount due from related companies relating to trade balances was approximately RMB9.4 million, RMB19.4 million and RMB3.3 million as at 31 December 2002, 2003 and 2004 respectively. The decrease in the balance as at 31 December 2004 compared to 31 December 2003 was mainly due to the subsequent settlement received from related companies. The ageing analysis of trade balances due from related companies is set out below:

As at	**Between 1 month to 6 months**	**Between 7 months to 12 months**	**Between 1 year to 2 years**	**Over 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2002	3,116	2,077	4,176	–	9,369
31 December 2003	9,135	2,259	2,445	5,559	19,398
31 December 2004	3,263	–	–	–	3,263

(c) The calculation of creditors' turnover days is based on the amount of average trade and bills payable divided by cost of sales and multiplied by 365 days.

(d) The calculation of inventory turnover days is based on the amount of inventories divided by cost of sales and multiplied by 365 days.

(e) The calculation of gearing ratio is based on the amount of total debts (bank and other borrowings) divided by total assets.

Fiscal Year 2004 compared to Fiscal Year 2003

Debtors' turnover days

Debtors' turnover days increased from 88 days in Fiscal Year 2003 to 91 days in Fiscal Year 2004 and such increase was mainly due to the fact that the credit terms of some of our customers had been extended.

The modified debtors' turnover days, which took into consideration of the sales to related companies, decreased from 105 days in Fiscal Year 2003 to 98 days in Fiscal Year 2004. This was caused by the settlement of long outstanding trade receivables by related companies in Fiscal Year 2004.

Creditors' turnover days

Creditors' turnover days increased slightly from 89 days in Fiscal Year 2003 to 92 days in Fiscal Year 2004. The increase was mainly due to the knock-on effect of the increase in debtors' turnover days.

Inventory turnover days

Inventory turnover days increased from 44 days in Fiscal Year 2003 to 57 days in Fiscal Year 2004. The increase in inventory turnover days was primarily attributable to the increase in inventories from approximately RMB21.6 million as at 31 December 2003 to approximately RMB34.9 million as at 31 December 2004 in relation to new products launched in October 2004.

Gearing ratio

Gearing ratio increased from approximately 23.9% in Fiscal Year 2003 to approximately 33.7% in Fiscal Year 2004. Such increase was mainly due to the fact that cash payments in respect of the construction in progress in relation to the new production complex in Changzhou, Jiangsu Province and purchases of property, plant and equipment totalling RMB58.2 million in Fiscal Year 2004 was financed by bank borrowings in addition to our internal resources. Bank borrowings increased by approximately RMB33.8 million from approximately RMB47.0 million as at 31 December 2003 to approximately RMB80.8 million as at 31 December 2004.

Fiscal Year 2003 compared to Fiscal Year 2002

Debtors' turnover days

Debtors' turnover days remained at 88 days in Fiscal Year 2003.

The modified debtors' turnover days, which took into consideration of the sales to related companies, increased from 99 days in Fiscal Year 2002 to 105 days in Fiscal Year 2003. This was resulted by the fact that trade balances due from related companies of approximately RMB8.0 million brought forward from Fiscal Year 2002 were outstanding as at 31 December 2003. Such amount was fully settled by the related companies in Fiscal Year 2004.

Creditors' turnover days

Creditors' turnover days increased from 85 days in Fiscal Year 2002 to 89 days in Fiscal Year 2003. The increase in creditors' turnover days was mainly due to suppliers of certain raw materials for the production of load break switch, a new product launched in 2002, extended the credit periods granted to our Group in Fiscal Year 2003 in view of the increases in sizes of our purchase orders and the established business relationship.

Inventory turnover days

Inventory turnover days decreased by 6 days from 50 days in Fiscal Year 2002 to 44 days in Fiscal Year 2003. The decrease was mainly due to the improvement in our inventory control. Our Group was able to maintain a minimal level of inventories despite the increase in sales.

Gearing ratio

Gearing ratio increased from approximately 19.1% in Fiscal Year 2002 to approximately 23.9% in Fiscal Year 2003 as a result of the increase in bank borrowings from approximately RMB26.4 million as at 31 December 2002 to around RMB47.0 million as at 31 December 2003. The increase in bank borrowings was principally for financing our capital requirements in relation to the construction of a new production complex in Changzhou, Jiangsu Province amounting to RMB10.7 million.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group is based on the audited net tangible assets of our Group as at 31 December 2004, as shown in the accountants' report set out in appendix I to this prospectus, and is adjusted as follows:

	Audited combined net tangible assets of our Group as at 31 December 2004	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*
Based on the Offer Price of HK$1.18 per Share	76,547	79,599	156,146	0.51

Notes:

1. With reference to the valuation of our Group's property interests as set out in appendix III to this prospectus, the aggregate revalued amount of the property interests of our Group, was RMB75 million. The unaudited net book value of these properties as at 30 April 2005 was about RMB34.5 million. Thus, the revaluation surplus, is approximately RMB40.5 million, which has not been included in the above unaudited pro forma adjusted net tangible assets of our Group. Such revaluation surplus will not be recorded in our Group's financial statements as our Group accounts for property interests at cost. If such revaluation surplus was included in our Group's financial statements for the year ending 31 December 2005, an additional depreciation charges of approximately RMB1.5 million per annum would be incurred.

2. The estimated net proceeds from the Share Offer are based on the Offer Price of HK$1.18 per Share, after deduction of the underwriting fees and other related expenses payable by our Company.

3. The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustment referred to in Note 2 above, and on the basis that 305,000,000 Shares are in issue.

DISTRIBUTABLE RESERVES

As our Company was only incorporated in the Cayman Islands on 12 October 2004 and the Reorganisation was completed on 31 May 2005, there were no reserves available for distribution to the Shareholders as at 31 December 2004.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2004, the date to which the latest published audited combined financial statements of our Group were made up.

PROPERTY INTERESTS

Our Group's production complex in Changzhou occupies an area of approximately 65,100 square meters which include office buildings and production workshops of approximately 32,825 square meter. Our Group have purchased the land use rights for the site from the PRC government for 50 years commencing in 2003.

The property interests of our Group have been valued at RMB75 million as at 30 April 2005 by American Appraisal China Limited, an independent valuer. The text of the letter, with a summary of valuation, and a valuation certificate of the property interests prepared by American Appraisal China Limited are set out in appendix III to this prospectus.

DISCLOSURE UNDER RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

The Directors confirmed that as at the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.