

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

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

- Continue our committed efforts in developing new products and improving existing products

The turnover of VCBs contributes to a significant proportion of our total turnover. We will continue to improve the quality of our VCBs. Based on the recent market research and customer interviews, the trends of market demand and industry development, and leveraged on our competitive advantages, we are dedicated to continuously strengthen the performance of our core product, 12kV VCBs, and progressively add new features such as product intelligence, miniaturisation and multi-functionality so as to sustain our product's competitiveness in the market.

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 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 better electrical insulation and protection against external influence and mechanical strength to support the pole itself. The starting point of the development of the 12kV embedded pole VCB is the development of the embedded pole.

A framework sales agreement was signed between Siemens Vacuum Interrupters (Wuxi) Limited and Changzhou Senyuan in September 2003, pursuant to which we agreed to provide research capital to Siemens Vacuum Interrupters (Wuxi) Limited to develop two types of embedded poles 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. The embedded poles are stand-alone products and ready for sale to other VCB manufacturers for their further assembling. 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 first type of embedded pole is 1,600A whilst the rated current of second type of embedded pole is 2,500A.

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We are in the final negotiation stage with Siemens Aktiengesellschaft, the holding company of the Siemens Group, regarding the production and sale of embedded pole VCBs, which is expected to be released to the market in the second half of 2005. Embedded pole VCBs are stand-alone products which are targeted for sale to high-end customers. Our partnership with the Siemens Group will enable our Group to have the opportunity to gain entry into the high-end market segment, which is currently dominated by sino-foreign joint ventures with or licensed manufacturers of international well-known companies.

We believe that our future success and profitability rely not only on the growth in the sales volume of our VCBs but also the growth in sales volume of other components of switchgears. By consolidating our Group's technical resources, we are accelerating the progress of development of high value-added and technically advanced products such as components of C-GIS, cable plugs, epoxy resin insulators and 40.5kV assembled switchgear components.

Components of C-GIS such as VCBs to be used in C-GIS and gas vessels are currently under development. While the VCBs used in C-GIS will also have rated voltage of 12kV, the main difference of the VCBs used in C-GIS compares with our existing 12kV VCBs is that the former type of VCBs requires a gas-tight inter-phase device to connect the operation mechanism to vacuum interrupters. The gas vessel of CGIS is filled with SF<sub>6</sub> gas and it accommodates primary parts and provides protection against environmental hazards, including dust, water moisture and corrosion, thereby enhancing the operational safety, reliability and durability of the switchgear. On the other hand, the secondary power distribution equipment market has started to grow rapidly because of the urbanisation of costal cities and emergence of metropolises. This leads to the increasing demand for more compact, reliable and safe switchgear such as C-GIS. C-GIS can be widely used in the secondary power distribution systems, for example, electricity substation, building complex, airport, underground railway station, sewage treatment plant and stand-by power generating plant. We intend to complete the development of the C-GIS components in 2007.

Cable plug, our new product currently under development, connects a cable termination to C-GIS to ensure that the connection point of cable and C-GIS is insulated. Cable plugs will be sold to switchgear assembling factories as auxiliary products for supplying completed switchgears to power companies on project bases. The development of cable plugs is expected to be completed in 2005.

Epoxy resin insulators are components of 12kV VCBs as well as switchgears. Epoxy resin insulator can be formed in different shapes by adopting the automatic pressure gelation process. The basic function of the insulator is to provide insulation and support to the primary conductive live parts (including those in circuit breakers). Thus the primary conductive live parts are not in direct contact with the switchgear cubicle, which is connected to the earth potential. It is our intention to complete the first phase of the development of the epoxy resin insulator in 2005. There will be a progressive development of different types of insulators until 2008.

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We currently manufacture components of 12kV switchgears including 12kV VCBs and other primary components. The market of 40.5kV switchgear components provides us a further opportunity for sustaining our growth as the number of primary distribution substations and substations for underground railway system have been on an increasing trend. 40.5kV is another standard voltage specification adopted in the PRC for power distribution equipment. 40.5kV is a higher operating voltage than 12kV. In 2005, we intend to complete the development of 40.5kV switchgear components such as 40.5kV VCBs and cubicles in which the VCBs for this voltage level use air as the insulation medium.

- Leverage on the relationship with reputable manufacturers in the industry

We are determined to further strengthen our cooperation with internationally well recognised manufacturers to leverage on their predominant brand names and advanced technologies to gain entry to the higher market segment with increased profit margin.

- Increase the brand awareness of our products through various marketing promotions

We aim to broaden our customer base and market share by continuing to increase the brand awareness of our products through marketing promotions including participation in exhibitions and trade shows and advertisements in technical magazines. For details, please refer to the section headed "Business – Sales and marketing".

- Strengthen the relationships with our existing customers and continue to explore opportunities for sales growth

We will continue to focus on strengthening our relationships with existing customers to increase the sales volume of existing products. We also collaborate closely with them to identify changing customers' needs and market demand in order to develop new products or improve existing products.

Apart from maintaining a close business relationship with our existing customers in the PRC, we will continue to identify and develop relationships with new customers.

- Minimise the production costs

We are committed to minimising the production costs so as to keep our products competitive in price and at the same time, maintain and improve the quality of our products. The costs that are aimed to be reduced include labour cost, cost of raw materials and energy cost. We also plan to select our suppliers based on tenders submitted in order to obtain a price that is most cost-effective to us.

- Enhance research and development capability

In order to keep abreast of the latest technologies, we will continue to enhance our research and development capability. We intend to set up a testing laboratory that will be equipped with advanced equipment in order to strengthen our capability in research and development, product testing and analysis.

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The testing laboratory consists of three testing divisions, namely high-voltage testing, high-current testing and mechanical testing. We are in the process of setting up the laboratory and expect to complete the entire laboratory in 2006.

The high-voltage testing division is designed to perform power frequency high-voltage withstand test, partial discharge test and high-voltage impulse withstand test. An electro-magnetic shield will be built to cover the testing field, together with the installation of an impulse voltage generator, a high-voltage (150kV) transformer, a variable transformer, a voltage divider, a control and measuring units.

The high-current testing division is designed to perform temperature-rise test. A busbar system will be built to facilitate the connection of different current settings, together with the installation of a three-phase voltage transformer, a current divider, a temperature measuring system and a control unit.

The mechanical testing division is designed to perform circuit breaker characteristic test, material hardness and strength measurement, surface coating measurement and corrosion test of our products' parts and components.

- Continue to attract and retain experienced and dedicated management team and engineers in the industry

We will continue to attract and retain experienced management and engineers in the industry. We believe that the significant experience and dedication of our management team and our engineers will enable us to capitalise on opportunities in the growing demand for VCBs in the PRC.

- Grow strategically through acquisitions or formation of joint ventures

We plan to grow through acquisitions or formation of joint ventures with other manufacturers in our industry. We have not yet identified any acquisition targets to date, but we plan to prudently pursue acquisition opportunities that would enhance the Shareholders' value.

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### USE OF PROCEEDS

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

- approximately HK\$51.9 million in aggregate will be used to perform research and development of the following new products and provide funding for expenditures relating to acquisition of production machinery and testing equipment:
  - approximately HK\$27.8 million will be used in developing the following products:
    - (a) approximately HK\$14.3 million will be used to develop components of C-GIS such as 12kV VCBs (used in a SF<sub>6</sub> insulating medium), gas vessels and switchgear cubicles;
    - (b) approximately HK\$6.3 million will be used to develop 12kV embedded pole VCBs;
    - (c) approximately HK\$3.2 million will be used to develop epoxy resin insulators, which are components of 12kV VCBs and switchgears;
    - (d) approximately HK\$1.8 million will be used to develop 40.5kV assembled switchgears components including 40.5kV VCBs and cubicles; and
    - (e) approximately HK\$2.2 million will be used to develop cable plugs;
  - approximately HK\$24.1 million will be used in purchasing production machinery and testing equipment for new products:
    - (a) for the development of C-GIS components, we intend to use approximately HK\$12.8 million to purchase a laser welding machine, a gas filling device and leakage detector, cleaning equipment and a high-voltage tester;
    - (b) for the development of embedded pole VCBs, we intend to use approximately HK\$1.1 million to purchase tools, fixtures and moulds;
    - (c) for the development of epoxy resin insulators, we intend to use approximately HK\$4.3 million to purchase an automatic gelation pressure machine, a partial discharge tester and an x-ray scanner;

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- (d) for the development of 40.5kV assembled switchgear components, we intend to use approximately HK\$5.6 million to purchase a turret punch press machine, logistics facilities and auxiliary production equipment; and
  - (e) for the development of cable plugs, we intend to use approximately HK\$0.3 million to purchase testing equipment.
- approximately HK\$3.3 million will be used to finance the final stage of the construction works of our new production complex in Changzhou, Jiangsu Province, the PRC, which is expected to be completed in September 2005. A full description relating to the construction in progress is set out in the section headed “Business – Production – Production complex” in this prospectus;
  - approximately HK\$12.0 million will be used to repay existing bank loans that were drawn down in the second half of 2004 to finance our capital expenditures in relation to our new production complex in Changzhou, Jiangsu Province. The bank loans bear an interest rate of 0.479% per month and are repayable in August 2005;
  - approximately HK\$3.6 million will be used to finance a testing laboratory, for the purposes of product quality assurance and development testing of new products; and
  - the balance of the net proceeds will be used as working capital for our Group and any strategic movements, acquisitions, or investments that our Company may decide to pursue.

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