

*The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the auditors and reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



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Two International Finance Centre  
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Central  
Hong Kong

28 June 2005

The Directors  
Senyuan International Holdings Limited  
Quam Capital Limited  
Altus Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Senyuan International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31 December 2002, 2003 and 2004 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 28 June 2005 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 October 2004, under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 31 May 2005, the Company became the holding company of the subsidiaries comprising the Group set out in note 3 of Section II below pursuant to the group reorganisation (the "Reorganisation") as set out in Appendix V of the Prospectus.

The Company had not carried on any business since the date of its incorporation, save for the acquisition on 31 May 2005 of the entire issued share capital of Senyuan International Investments Limited ("Senyuan Investments"), a company incorporated in the British Virgin Islands (the "BVI"), which is, at the date of this report, the immediate holding company of the other subsidiary comprising the Group as set out in note 3 of Section II below.

Changzhou Senyuan Switch Co., Ltd. ("Changzhou Senyuan") is the Company's principal operating subsidiary which currently accounts for 100% of the Group's turnover. Changzhou Senyuan was a company established on 21 January 1997 in the People's Republic of China (the "PRC") as a joint venture with foreign investments. It was re-registered as a wholly-foreign owned enterprise in the PRC on 10 November 2004 upon becoming a wholly-owned subsidiary of Senyuan Investments pursuant to the Reorganisation.

Save for the acquisition on 29 October 2004 of the entire equity interest in Changzhou Senyuan, Senyuan Investments had not carried on any business since the date of its incorporation.

The Group is principally engaged in the manufacture and sale of vacuum circuit breakers and components of switchgears in the PRC. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, PO Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business in the PRC of the Group is located at 1 West Hengtanghe Road, External-oriented Agricultural Development Zone, Changzhou, Jiangsu Province, the PRC.

We have examined the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group for the Relevant Periods, or from the respective dates of their incorporation, where this is a shorter period, and have carried out such additional procedures as we considered necessary in accordance with Hong Kong Statements of Auditing Standards and the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

As at the date of this report, no audited financial statements have been prepared for the Company and Senyuan Investments since their respective dates of incorporation as they are investment holding companies and have not carried on any business, save for the acquisitions disclosed above. We have, however, performed our own independent review of all relevant transactions of the Company and Senyuan Investments since their respective dates of incorporation, and carried out such procedures as we considered necessary for inclusion of financial information relating to the Company and Senyuan Investments in this report.

The financial statements of Changzhou Senyuan for the years ended 31 December 2002 and 2003 as prepared in accordance with PRC accounting rules and regulations ("PRC GAAP") for statutory reporting purposes were audited by Changzhou Dahua United Certified Public Accountants. The financial statements of Changzhou Senyuan for the year ended 31 December 2004 prepared in accordance with PRC GAAP was audited by Changzhou Zhongnan Certified Public Accountants. For the purpose of this report, we have carried out such audit procedures as we considered necessary to present the financial information in accordance with the accounting policies set out in note 4 of Section II.

The financial information set out in this report, including the combined income statements, combined cash flow statements, and combined statements of movements in equity of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 31 December 2002, 2003 and 2004, together with the notes thereon (collectively referred to as the "Financial Information"), has been prepared from the audited financial statements and management accounts, where appropriate, of the companies now comprising the Group, after making such adjustments as are appropriate to comply with accounting standards issued by the HKICPA and accounting principles generally accepted in Hong Kong on the basis set out in note 4 of Section II below.

The Directors of the Company are responsible for the preparation of the Financial Information, which give a true and fair view. The Directors of the respective companies of the Group are responsible for the preparation of the respective financial statements and, where appropriate, management accounts which give a true and fair view. In preparing the Financial Information, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information set out below, for the purpose of this report, gives a true and fair view of the combined income statements and combined cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 31 December 2002, 2003 and 2004.

## I. COMBINED FINANCIAL STATEMENTS

### Combined income statements

	Notes	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
<b>Turnover</b>	6	180,696	243,944	298,971
Cost of sales		(137,617)	(178,288)	(222,949)
<b>Gross profit</b>		43,079	65,656	76,022
Other revenue	6	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)
<b>Profit from operating activities</b>	7	26,421	39,567	50,474
Finance costs	8	(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)
<b>Profit before income tax and minority interests</b>		24,528	36,825	47,467
Income tax	11	(3,319)	(4,668)	(5,163)
<b>Net profit before minority interests</b>		21,209	32,157	42,304
<b>Minority interests</b>		(106)	(161)	(170)
<b>Net profit from ordinary activities attributable to shareholders</b>		<u>21,103</u>	<u>31,996</u>	<u>42,134</u>
Proposed final dividends	12	<u>–</u>	<u>45,000</u>	<u>–</u>
Earnings per share – Basic – RMB (cents)	13	<u>9.2</u>	<u>14.0</u>	<u>18.4</u>

## Combined balance sheets

		31 December		
		2002	2003	2004
	Notes	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	14	20,427	18,381	58,406
Land use rights	15	–	8,445	8,274
Construction in progress	16	–	5,934	19,031
Long term prepayments	17	–	1,200	3,813
Interest in an associate	18	535	(155)	–
Long term investment	19	600	600	600
Deferred tax assets	20	721	1,419	681
Total non-current assets		<u>22,283</u>	<u>35,824</u>	<u>90,805</u>
<b>Current assets</b>				
Inventories	21	18,794	21,621	34,935
Trade receivables	22	51,477	59,928	78,346
Other receivables	23	4,677	5,814	7,271
Loan to a Director	24	802	802	–
Due from related companies	25	30,880	51,146	7,043
Cash and cash equivalents		8,869	21,610	21,498
Total current assets		<u>115,499</u>	<u>160,921</u>	<u>149,093</u>
<b>Current liabilities</b>				
Trade and bills payables	26	39,536	47,351	65,421
Tax payable		1,882	1,587	774
Other payables and accruals	27	11,737	19,883	11,081
Interest-bearing bank and other borrowings	28	26,370	37,010	80,800
Due to related companies	29	11,232	1,732	5,275
Total current liabilities		<u>90,757</u>	<u>107,563</u>	<u>163,351</u>
Net current assets/(liabilities)		<u>24,742</u>	<u>53,358</u>	<u>(14,258)</u>
<b>Total assets less current liabilities</b>		<u>47,025</u>	<u>89,182</u>	<u>76,547</u>
<b>Non-current liabilities</b>				
Interest-bearing bank borrowings	28	–	10,000	–
Total non-current liabilities		–	10,000	–
Minority interests		235	171	–
<b>Net assets</b>		<u>46,790</u>	<u>79,011</u>	<u>76,547</u>
<b>Combined capital and reserves</b>				
Paid-up/issued capital	30	12,388	12,388	12,477
Reserves	31	34,402	21,623	64,070
Proposed final dividends	12	–	45,000	–
Equity		<u>46,790</u>	<u>79,011</u>	<u>76,547</u>

## Combined statements of movements in equity

	Notes	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
<b>Paid-up capital</b>	30			
At beginning of year		12,388	12,388	12,388
Purchase of additional equity interest in a subsidiary		-	-	62
Increase in paid-up capital by capitalisation of reserves		-	-	7,470
Arising from the Reorganisation		-	-	(19,920)
At end of year		<u>12,388</u>	<u>12,388</u>	<u>-</u>
<b>Issued capital</b>	30			
At beginning of year		-	-	-
Issue of ordinary shares		-	-	12,477
At end of year		<u>-</u>	<u>-</u>	<u>12,477</u>
<b>Paid-up/issued capital</b>		<u>12,388</u>	<u>12,388</u>	<u>12,477</u>
<b>Capital reserve</b>	31			
At beginning of year		-	-	-
Arising from the Reorganisation		-	-	7,470
At beginning of year		<u>-</u>	<u>-</u>	<u>7,470</u>
<b>Reserve fund</b>	31			
At beginning of year		1,611	1,611	1,611
Purchase of additional equity interest in a subsidiary		-	-	8
Transferred from retained profits		-	-	3,738
Transferred to paid-up capital		-	-	(1,619)
At end of year		<u>1,611</u>	<u>1,611</u>	<u>3,738</u>
<b>Enterprise expansion fund</b>	31			
At beginning of year		1,611	1,611	1,611
Purchase of additional equity interest in a subsidiary		-	-	8
Transferred to paid-up capital		-	-	(1,619)
At the end of year		<u>1,611</u>	<u>1,611</u>	<u>-</u>

	Notes	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
<b>Statutory surplus reserve</b>	31			
At beginning of year		1,849	1,849	7,622
Purchase of additional equity interest in a subsidiary		–	–	38
Transferred from retained profits		–	5,773	–
Transferred to paid-up capital		–	–	(4,233)
At end of year		<u>1,849</u>	<u>7,622</u>	<u>3,427</u>
<b>Statutory public welfare fund</b>	31			
At beginning of year		924	924	3,810
Purchase of additional equity interest in a subsidiary		–	–	20
Transferred from retained profits		–	2,886	–
At end of year		<u>924</u>	<u>3,810</u>	<u>3,830</u>
<b>Discretionary surplus reserve</b>	31			
At beginning of year		–	–	1,990
Purchase of additional equity interest in a subsidiary		–	–	10
Transferred from retained profits		–	1,990	–
At end of year		<u>–</u>	<u>1,990</u>	<u>2,000</u>
<b>Retained profits</b>	31			
At beginning of year		7,204	28,407	4,979
Net profit for the year		21,203	31,996	42,134
Purchase of additional equity interest in a subsidiary		–	–	195
Transferred to reserve fund		–	–	(3,738)
Transferred to statutory surplus reserve		–	(5,773)	–
Transferred to statutory public welfare fund		–	(2,886)	–
Transferred to discretionary surplus reserve		–	(1,990)	–
Proposed final dividends		–	(44,775)	–
At end of year		<u>28,407</u>	<u>4,979</u>	<u>43,570</u>

	<i>Notes</i>	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
Translation reserve				
At beginning of year		–	–	–
Exchange differences arising on translation of financial statements prepared in foreign currency		–	–	35
		<u>–</u>	<u>–</u>	<u>35</u>
At end of year		<u>–</u>	<u>–</u>	<u>35</u>
<b>Reserves</b>		<u>34,402</u>	<u>21,623</u>	<u>64,070</u>
<b>Proposed final dividends</b>	12			
At beginning of year		20,021	–	45,000
Final dividends declared		(20,021)	–	(45,000)
Proposed final dividends for the year		–	45,000	–
		<u>–</u>	<u>45,000</u>	<u>–</u>
At end of year		<u>–</u>	<u>45,000</u>	<u>–</u>
<b>Total capital and reserves</b>		<u>46,790</u>	<u>79,011</u>	<u>76,547</u>

**Combined cash flow statements**

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
<b>Cash flows from operating activities</b>			
Profit before income tax and minority interests	24,528	36,825	47,467
Adjustments for:			
Finance costs	1,939	2,951	3,496
Interest income	(48)	(115)	(68)
Share of profits of an associate	(57)	(236)	(509)
Depreciation	3,683	4,145	5,052
Amortisation of land use rights	–	85	171
Amortisation of goodwill	11	27	20
Amortisation of long term prepayments	–	–	187
Loss on disposal of an associate	–	–	77
Provision for bad and doubtful debts	1,486	2,491	(164)
<b>Operating profit before working capital changes</b>	<u>31,542</u>	<u>46,173</u>	<u>55,729</u>
Increase in inventories	(8,585)	(2,827)	(13,314)
Increase in trade receivables	(22,890)	(10,942)	(18,254)
(Increase)/decrease in other receivables	73	(3,087)	(1,457)
Decrease in a loan to a Director	–	–	802
(Increase)/decrease in amounts due from related companies	10,211	(20,266)	44,102
Increase in trade and bills payables	15,129	7,815	18,070
Increase/(decrease) in other payables and accruals	1,419	4,237	(8,752)
Increase/(decrease) in an amount due from an associate	(239)	899	(660)
Decrease in an amount due to related companies	(1,979)	(9,500)	(200)
<b>Cash generated from operations</b>	<u>24,681</u>	<u>12,502</u>	<u>76,066</u>
Interest paid	(1,893)	(2,942)	(3,546)
Income tax paid	(2,816)	(5,661)	(5,238)
<b>Net cash inflow from operating activities</b>	<u>19,972</u>	<u>3,899</u>	<u>67,282</u>



	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
<b>Net cash inflow from operating activities</b>	19,972	3,899	67,282
<b>Cash flows from investing activities</b>			
Proceeds from disposal of an associate	–	–	917
Interest received	48	115	68
Acquisition of interest in Changzhou Senyuan	–	–	(8,672)
Purchases of property, plant and equipment	(5,704)	(2,099)	(18,357)
Purchase of land use rights	(1,950)	(2,680)	–
Additions to construction in progress	–	(5,934)	(39,817)
Additions to long term prepayments	–	(1,200)	(2,800)
Acquisition of an associate	(250)	–	–
<b>Net cash outflow from investing activities</b>	<u>(7,856)</u>	<u>(11,798)</u>	<u>(68,661)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital	–	–	12,477
New bank borrowings	62,600	90,100	85,000
Repayment of bank borrowings	(57,600)	(67,100)	(50,000)
New other borrowings	1,210	–	–
Repayment of other borrowings	–	(2,360)	(1,210)
Repayment of loans borrowed from a related company	(4,242)	–	–
Dividends paid	(20,021)	–	(45,000)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>(18,053)</u>	<u>20,640</u>	<u>1,267</u>
Net increase/(decrease) in cash and cash equivalents	(5,937)	12,741	(112)
Cash and cash equivalents at beginning of year	<u>14,806</u>	<u>8,869</u>	<u>21,610</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>8,869</u></u>	<u><u>21,610</u></u>	<u><u>21,498</u></u>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	<u><u>8,869</u></u>	<u><u>21,610</u></u>	<u><u>21,498</u></u>

## II. NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 October 2004, under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 31 May 2005, the Company became the holding company of the subsidiaries comprising the Group set out in note 3 of Section II below pursuant to the Reorganisation as set out in Appendix V of the Prospectus.

The Company had not carried on any business since the date of its incorporation, save for the acquisition on 31 May 2005 of the entire issued share capital of Senyuan Investments, a company incorporated in the BVI, which is, at the date of this report, the immediate holding company of the other subsidiary comprising the Group as set out in note 3 below.

Changzhou Senyuan is the Company's principal operating subsidiary which currently accounts for 100% of the Group's turnover. Changzhou Senyuan was a company established on 21 January 1997 in the PRC as a joint venture with foreign investments. It was re-registered as a wholly-foreign owned enterprises on 10 November 2004 upon becoming a wholly-owned subsidiary of Senyuan Investments pursuant to the Reorganisation.

### 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the Financial Information.

The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

### 3. BASIS OF PRESENTATION

The Financial Information, which is prepared based on the audited financial statements and, where appropriate, management accounts of the companies now comprising the Group, have been prepared by adopting a uniting of interests method of accounting as a result of the Reorganisation. Under this method, the Company and Senyuan Investments have been treated as the holding company and the intermediate holding company of its subsidiaries for the Relevant Periods rather than from the date of acquisition of the subsidiaries. The Reorganisation has been reflected in the Financial Information by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the combined income statements, cash flow statements, statements of movements in equity and combined balance sheets of the companies now comprising the Group have been prepared as if the group structure as at 31 May 2005 had been in existence throughout the Relevant Periods, or from the respective dates of their incorporation where this is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

The Financial Information has been prepared under the historical cost convention in accordance with accounting standards issued by the HKICPA and accounting principles generally accepted in Hong Kong. This basis of accounting differs from that used on the statutory and management accounts of the Group, which were prepared in accordance with the accounting principles and the relevant financial regulations applicable to companies established in the PRC.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which have substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company	Place and date of incorporation/ establishment/ and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Senyuan Investments	British Virgin Islands 21 September 2004	US\$1,507,500	100	-	Investment holding
Changzhou Senyuan	The PRC 21 January 1997	RMB12.45 million	-	100	Manufacture and sale of vacuum circuit breakers and components of switchgears

As set out above, the combined financial statements of the Group have been prepared as if the Group's structure as at 31 May 2005 had been in existence throughout the Relevant Periods, or from the respective dates of establishment/incorporation of the companies now comprising the Group (where this is a shorter period), to the extent of interests held by the Company's shareholder.

As at 1 January 2002, Changzhou Lanling Electrical Complete Set Ltd., which was controlled by Mr. Zhou Anmin, and Tai Ah Investment Co., Ltd., which was controlled by Mr. Tsang Shui Ching, Patrick and his brother, collectively held a 99.5% equity interest in Changzhou Senyuan. On 9 September 2004, pursuant to certain share transfer agreements, Changzhou Lanling Electrical Complete Set Factory Co., Ltd. acquired a 0.5% equity interest in Changzhou Senyuan from Changzhou Tianning Lanling Trading Company, the minority shareholder of Changzhou Senyuan. Pursuant to relevant PRC laws and regulations, the above transactions and changes in shareholders of Changzhou Senyuan took effect from 14 September 2004 following the registration of these changes with the relevant government authorities. For the preparation of the combined financial statements of the Group for the Relevant Periods, the Group accounted for Changzhou Senyuan as a 99.5% subsidiary for the period from 1 January 2002 to 30 September 2004 and a wholly-owned subsidiary thereafter.

#### 4. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies, adopted by the Group in arriving at the financial information set out in this report, which conform with accounting standards issued by the HKICPA and accounting principles generally accepted in Hong Kong, are set out below:

##### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

##### Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the income statement and reserves, respectively. The Group's interest in the associate is stated in the balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of the associate is included as part of the Group's interests in an associate.

**Goodwill**

Goodwill arising on the acquisition of an associate represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the combined balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years. In the case of an associate, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the combined balance sheet.

On disposal of the associate, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**Long term investment**

Long term investment is a non-trading investment in unlisted equity securities in Beijing Jing Senyuan Electrical Co., Ltd. ("Beijing Jing Senyuan"), which is stated at cost less any impairment losses.

When a decline in the fair value of the investment below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the Directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Building	20 years
Plant and machinery	10 years
Leasehold improvement	Over the lease terms
Office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### **Land use rights**

Land use rights are stated at cost less accumulated amortisation and any impairment losses. Land use rights are amortised using the straight-line basis over the unexpired period of 50 years.

#### **Construction in progress**

Construction in progress represents a factory building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### **Long term prepayments**

During the Relevant Periods, Changzhou Senyuan entered into contracts with a major supplier such that Changzhou Senyuan carried out and paid for costs of product design and development of the supplier. The supplier is committed in return to sell its products to Changzhou Senyuan at prices lower than those which would otherwise be available to Changzhou Senyuan for a period specified in the contracts. The expenditures incurred by Changzhou Senyuan under this arrangement 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 purchase from the supplier, with purchase costs of the products being increased by an equal amount.

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises.

**Research and development costs**

All research costs are charged to the income statement 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.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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.

**Trade receivables**

Trade receivables, which generally have 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.

**Cash and cash equivalents**

For the purpose of the combined cash flow statements, cash and cash equivalents comprise cash on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to its use.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) revenue from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction; and
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

**Government grants and subsidies**

Grants and subsidies from the government are recognised at their fair value where there is reasonable assurance that the grant or subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity, if it relates to items that are recognised directly in equity in the same or a different period.

Deferred tax is provided, using the liability method, on all significant temporary differences at the balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- (a) except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets can be utilised:

- (a) except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

### **Dividends**

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

### **Employee benefits**

#### *Pension Scheme*

The employees of the Company's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 21% of their basic payroll costs to the central pension scheme during the Relevant Periods. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

### **Foreign currencies**

The books and records of the Company and Senyuan Investments are maintained in Hong Kong dollars ("HKD") and United States dollars ("USD"), respectively. The books and records of the subsidiary in the PRC are maintained in Renminbi ("RMB"). The principal activities of the Group are transacted in RMB. The Group's functional and presentation currency is RMB.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On combination, the income statements of the Company and Senyuan Investments are translated into RMB at the weighted average exchange rates for the year, and their balance sheets are translated into RMB at the exchange rates ruling at the balance sheet dates. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the combined cash flow statements, the cash flows of the Company and Senyuan Investments are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and Senyuan Investments which arise throughout the Relevant Periods are translated into RMB at the weighted average exchange rates for the Relevant Periods.

## **5. SEGMENT INFORMATION**

The Group's turnover and profit for the Relevant Periods were mainly derived from the manufacture and sale of vacuum circuit breakers and components of switchgears. The products of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

The Group's revenue is wholly derived from customers based in the PRC and the Group's operating assets are substantially located in Changzhou City, Jiangsu Province, the PRC. Accordingly, no segment analysis by business and geographical segments is provided for the Relevant Periods.



## 6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value or contracted value of goods sold upon dispatch of goods, after allowances for returns and trade discounts and business/sales tax where applicable. All significant intra-Group transactions have been eliminated on combination.

	Notes	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
<b>Turnover</b>				
Sale of goods		180,696	243,944	297,799
Service income	(i)	–	–	1,172
		<u>180,696</u>	<u>243,944</u>	<u>298,971</u>
<b>Other revenue</b>				
Interest income		48	115	68
Government grants and subsidies	(ii)	–	118	83
Sale of scraps		–	–	926
Others		2	32	35
		<u>50</u>	<u>265</u>	<u>1,112</u>
Total revenue		<u>180,746</u>	<u>244,209</u>	<u>300,083</u>

## Notes:

- (i) The service income represents income from research and development services provided to customers.
- (ii) The government grants and subsidies comprise subsidies received from Changzhou Science and Technology Committee in respect of research and development activities undertaken by Changzhou Senyuan.

## 7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cost of inventories sold	137,617	178,288	222,949
Depreciation	3,683	4,145	5,052
Amortisation of land use rights	–	85	171
Amortisation of goodwill	11	27	20
Auditors' remuneration	33	26	30
Minimum lease payments under operating leases in respect of buildings	1,080	787	694
Research and development costs	8,129	11,717	8,156
Loss on disposal of an associate	–	–	77
Staff costs (including Directors' remuneration note (9)):			
Wages and salaries	9,448	15,144	17,827
Directors' fees	–	300	300
Pension scheme contributions	503	1,210	1,654
	<u>9,951</u>	<u>16,654</u>	<u>19,781</u>
Provision for doubtful debts	<u>1,486</u>	<u>2,491</u>	<u>(164)</u>

## 8. FINANCE COSTS

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	1,870	2,883	3,451
Bank charges and others	69	68	45
	<u>1,939</u>	<u>2,951</u>	<u>3,496</u>

## 9. DIRECTORS' REMUNERATION

Details of directors' remuneration during the Relevant Periods are as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Fees	–	300	300
Other emoluments:			
– Salaries, allowances, and benefits in kind	315	775	931
	<u>315</u>	<u>1,075</u>	<u>1,231</u>

For the years ended 31 December 2003 and 2004, Changzhou Senyuan paid remuneration in an aggregate amount of RMB300,000 and RMB300,000, respectively, to Mr. Zhou Anmin and remuneration in an aggregate amount of RMB300,000 and RMB300,000, respectively, to Mr. Tsang Shui Ching, Patrick. Save for the above, no remuneration was paid to the Directors for the years ended 31 December 2003 and 2004.

On 24 May 2005, Mr. Shu Yi Jin was appointed as a Director of the Company. For the three years ended 31 December 2002, 2003 and 2004, Changzhou Senyuan paid remuneration in an aggregate amount of RMB315,000, RMB475,000 and RMB631,000 respectively, to Mr. Shu Yi Jin.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the Relevant Periods.

#### 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included two Directors of Changzhou Senyuan and three non-Director individuals for the years ended 31 December 2003 and 2004. For the year ended 31 December 2002, the five highest paid employees were all non-Director individuals. Information relating to the Directors' remuneration is set in note (9) above. The remuneration of the remaining highest paid, non-Director individuals during the Relevant Periods is as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	642	873	1,966
Pension scheme contributions	22	41	10
	<u>664</u>	<u>914</u>	<u>1,976</u>

The remuneration of each of the highest paid, non-Director employees for each of the Relevant Periods fell within the range of nil to HK\$499,999.

During the Relevant Periods, no emoluments were paid by the Group to the Directors or the other highest paid non-Director employees as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office.

#### 11. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

Changzhou Senyuan is located and operates in one of the coastal cities of the PRC and the applicable income tax rate is 24%. According to the prevailing tax law of the PRC, Changzhou Senyuan, being a manufacturing enterprise with foreign investments, is entitled to full exemption from corporate income tax for the first and second profitable years (after offsetting accumulated tax losses, which can be carried forward for utilisation for a maximum period of five years), and a further 50% exemption for the succeeding three years.

The years ended 31 December 2002 and 2003 were Changzhou Senyuan's fourth and fifth years of its tax holiday, respectively. Accordingly, Changzhou Senyuan was subject to PRC income tax at an applicable income tax rate of 12% for the years ended 31 December 2002 and 2003.

Being granted the "double-intensity" enterprise status, and upon approval by State Administration of Tax of Changzhou City, Jiangsu Province, Changzhou Senyuan is entitled to an applicable tax rate of 15% since 2004. In addition, being an advanced-technology enterprise, upon approval by the State Administration of Tax of Changzhou City, Jiangsu Province, Changzhou Senyuan is entitled to a 50% tax exemption (with a minimum tax rate of 10%) for a subsequent three-year period after the initial five-year tax holiday as stated above. Accordingly, pursuant to approval document issued by the State Administration of Tax of Changzhou City, Jiangsu Province, Changzhou Senyuan was subject to PRC income tax at an applicable income tax rate of 10% for the period from 2004 to 2006.

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Current year provision	3,518	5,366	4,425
Deferred tax	(199)	(698)	738
	<u>3,319</u>	<u>4,668</u>	<u>5,163</u>
Tax charge	<u>3,319</u>	<u>4,668</u>	<u>5,163</u>

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Profit before tax	<u>24,528</u>	<u>36,825</u>	<u>47,467</u>
Tax at the applicable tax rate (2002: 12%, 2003: 12%, 2004: 10%)	2,943	4,419	4,747
Effect on opening deferred tax of decrease in applicable tax rates	–	–	237
Income not subject to tax	(7)	(28)	(51)
Expenses not deductible for tax purpose	<u>383</u>	<u>277</u>	<u>230</u>
Income tax expense	<u>3,319</u>	<u>4,668</u>	<u>5,163</u>

## 12. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends proposed by the companies now comprising the Group to its then shareholders during the Relevant Periods were as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Changzhou Senyuan	<u>–</u>	<u>45,000</u>	<u>–</u>

As a part of the Reorganization, Changzhou Senyuan was re-registered as a "Sino-foreign co-operative joint venture company" pursuant to the approval of the Foreign Trade and Economic Cooperation Department of Changzhou City on 9 September 2004. According to article 53 of its then articles of association after becoming a "Sino-foreign co-operative joint venture company", only the foreign joint venture partner, i.e. Tai Ah Investment Co., Ltd., is entitled to dividends of Changzhou Senyuan for the year ended 31 December 2004 and the year ending 31 December 2005. For the years ending 31 December 2006 and 2007, only the Chinese joint venture partner, i.e. Changzhou Lanling Electrical Complete Set Factory Co., Ltd., will be entitled to dividends of Changzhou Senyuan. From 1 January 2008 onwards, dividends of Changzhou Senyuan will then be shared by the investors based on the proportion of their ownership of Changzhou Senyuan's registered and paid-up capital.

Pursuant to a resolution of the board of Directors of Changzhou Senyuan dated 16 September 2004, a final dividend pertaining to the year ended 31 December 2003 in the amount of RMB45,000,000 was declared to the foreign joint venture partner of Changzhou Senyuan, i.e. Tai Ah Investment Co., Ltd., according to the then article 53 of Changzhou Senyuan's articles of association.

Pursuant to agreements dated 18 October 2004 entered into by Senyuan Investments, Changzhou Lanling Electrical Complete Set Factory Co., Ltd. and Tai Ah Investment Co., Ltd., Senyuan Investments acquired a 50.25% interest (of which the beneficial owner of a 0.25% interest was Tai Ah Investment Co., Ltd.) in Changzhou Senyuan from Changzhou Lanling Electrical Complete Set Factory Co., Ltd. and the 49.75% interest in Changzhou Senyuan from Tai Ah Investment Co., Ltd. On 29 October 2004, pursuant to the approval of the Foreign Trade and Economic Cooperation Bureau of Changzhou, Changzhou Senyuan was a re-registered as a wholly-foreign owned enterprise. According to article 7.3 of its then articles of association, dividends are to be declared and paid solely to Senyuan Investments after the acquisition.

The dividend rates and the number of shares ranking for dividends are not presented as the paid-up capital of Changzhou Senyuan is not divided into shares and such information is not meaningful for the purpose of this report.

### **13. EARNINGS PER SHARE**

The calculation of basic earnings per share for the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 228,750,000 shares in issue immediately prior to issue of the Company shares to the public had been in issue on 1 January 2002 and throughout the Relevant Periods.

Diluted earnings per share amount for each of the Relevant Periods have not been disclosed as no diluting events existed during the Relevant Periods.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and machinery RMB'000	Leasehold improvement RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost:</b>						
As at 1 January 2002	-	19,023	2,296	2,987	1,353	25,659
Additions	-	3,306	-	310	2,088	5,704
As at 31 December 2002 and 1 January 2003	-	22,329	2,296	3,297	3,441	31,363
Additions	-	1,293	-	515	291	2,099
As at 31 December 2003 and 1 January 2004	-	23,622	2,296	3,812	3,732	33,462
Additions	-	17,743	-	180	434	18,357
Transferred from construction in progress	26,720	-	-	-	-	26,720
As at 31 December 2004	26,720	41,365	2,296	3,992	4,166	78,539
<b>Accumulated depreciation:</b>						
As at 1 January 2002	-	4,249	1,261	1,338	405	7,253
Charge for the year	-	2,331	411	571	370	3,683
As at 31 December 2002 and 1 January 2003	-	6,580	1,672	1,909	775	10,936
Charge for the year	-	2,491	409	556	689	4,145
As at 31 December 2003 and 1 January 2004	-	9,071	2,081	2,465	1,464	15,081
Charge for the year	-	3,578	215	545	714	5,052
As at 31 December 2004	-	12,649	2,296	3,010	2,178	20,133
<b>Net book value:</b>						
As at 31 December 2002	-	15,749	624	1,388	2,666	20,427
As at 31 December 2003	-	14,551	215	1,347	2,268	18,381
As at 31 December 2004	26,720	28,716	-	982	1,988	58,406

As at 31 December 2002, 2003 and 2004, property, plant and equipment and motor vehicles with a carrying amount of RMB17,923,810, RMB7,431,063 and RMB5,289,845 have been pledged to secure the Group's bank loans of RMB22,800,000, RMB35,800,000 and RMB1,420,000, respectively.

## 15. LAND USE RIGHTS

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cost:			
At beginning of year	–	–	8,530
Additions	–	8,530	–
	<u>–</u>	<u>8,530</u>	<u>–</u>
At end of year	<u>–</u>	<u>8,530</u>	<u>8,530</u>
Accumulated amortisation:			
At beginning of year	–	–	85
Provided during the year	–	85	171
	<u>–</u>	<u>85</u>	<u>171</u>
At end of year	<u>–</u>	<u>85</u>	<u>256</u>
Net book value	<u>–</u>	<u>8,445</u>	<u>8,274</u>

As at 31 December 2004, a land use right with a carrying amount of RMB8,274,000, has been pledged to secure the Group's bank loans of RMB7,000,000.

## 16. CONSTRUCTION IN PROGRESS

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cost:			
At beginning of year	–	–	5,934
Additions	–	5,934	39,817
Transferred to property, plant and equipment	–	–	(26,720)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of year	<u>–</u>	<u>5,934</u>	<u>19,031</u>

## 17. LONG TERM PREPAYMENTS

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cost:			
At beginning of year	–	–	1,200
Additions	–	1,200	2,800
	<u>–</u>	<u>1,200</u>	<u>2,800</u>
At end of year	<u>–</u>	<u>1,200</u>	<u>4,000</u>
Accumulated amortisation:			
At beginning of year	–	–	–
Provided during the year	–	–	187
	<u>–</u>	<u>–</u>	<u>187</u>
At end of year	<u>–</u>	<u>–</u>	<u>187</u>
Net book value	<u>–</u>	<u>1,200</u>	<u>3,813</u>

## 18. INTEREST IN AN ASSOCIATE

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Share of net assets of the associate	171	407	–
Goodwill	125	98	–
	<u>296</u>	<u>505</u>	<u>–</u>
Due from/(to) the associate	239	(660)	–
	<u>535</u>	<u>(155)</u>	<u>–</u>

The balance due from/(to) the associate are interest-free and has no fixed terms of repayment.

Particulars of the associate, which is established and operating in the PRC and was acquired by the Group on 9 October 2003 and disposed of by the Group on 8 October 2004, are as follows:

Company	Percentage of equity interest held	Principal activities
Changzhou Guodian Senyuan Insulation Electrical Co., Ltd. ("Changzhou Guodian Senyuan")	50%	Manufacture and sale of insulating parts.

## 19. LONG TERM INVESTMENT

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Unlisted equity investment, at cost	<u>600</u>	<u>600</u>	<u>600</u>

The unlisted equity investment represents a 20% equity interest held in Beijing Jing Senyuan, which was incorporated in the PRC on 30 December 2001 with a registered capital of RMB3 million. The principal activities of Beijing Jing Senyuan are the manufacture and sale of vacuum interrupters. The Directors consider that the Group does not have significant influence over this company.



## 20. DEFERRED TAX ASSETS/LIABILITIES

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
Provision for bad and doubtful debts	535	834	679
Timing differences in recording depreciation of property, plant and equipment	203	269	268
Accrued expenses	402	707	–
	<u>1,140</u>	<u>1,810</u>	<u>947</u>
Deferred tax liabilities:			
Timing differences in recording sales	(402)	(391)	(244)
Timing differences in recording expenses	(17)	–	(22)
	<u>(419)</u>	<u>(391)</u>	<u>(266)</u>
Net deferred tax assets	<u>721</u>	<u>1,419</u>	<u>681</u>

## 21. INVENTORIES

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Raw materials	9,041	12,962	24,665
Work in progress	4,764	3,611	5,126
Finished goods	4,989	5,048	5,144
	<u>18,794</u>	<u>21,621</u>	<u>34,935</u>

No inventories were carried at net realisable value as at the balance sheet dates.

## 22. TRADE RECEIVABLES

The ages of trade receivables are analysed as follows:

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:			
Within 30 days	25,169	17,168	24,670
31 days to 90 days	17,116	17,331	26,794
91 days to 180 days	3,917	13,389	10,210
181 days to 365 days	3,417	5,734	13,538
1 to 2 years	4,168	8,890	6,046
Over 2 years	2,152	4,369	3,877
	<u>55,939</u>	<u>66,881</u>	<u>85,135</u>
Less: Provision for doubtful debts	<u>(4,462)</u>	<u>(6,953)</u>	<u>(6,789)</u>
	<u>51,477</u>	<u>59,928</u>	<u>78,346</u>

According to contractual terms, general credit terms ranging from 0 to 90 days were granted to customers during the Relevant Periods.

## 23. OTHER RECEIVABLES

	31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances to staff	506	3,411	734
Prepayments	2,071	2,255	976
Down payment for purchase of land use rights	1,950	–	–
Expenses relating to the Initial Public Offering	–	–	3,096
Deposits and other receivables	150	148	2,465
	<u>4,677</u>	<u>5,814</u>	<u>7,271</u>

## 24. LOAN TO A DIRECTOR

Particulars of a loan to a Director for the Relevant Periods are as follows:

Name	At 1 January 2002	Maximum amount outstanding during the year	At 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Zhou Anmin	<u>802</u>	<u>802</u>	<u>802</u>

  

Name	At 1 January 2003	Maximum amount outstanding during the year	At 31 December 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Zhou Anmin	<u>802</u>	<u>802</u>	<u>802</u>

  

Name	At 1 January 2004	Maximum amount outstanding during the year	At 31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Zhou Anmin	<u>802</u>	<u>802</u>	<u>–</u>

The loan to a Director was unsecured, interest-free and had no fixed terms of repayment.

## 25. DUE FROM RELATED COMPANIES

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
<b>Trade balances:</b>			
常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	8,004	14,300	2,667
常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	–	5,098	6
常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.)	13	–	–
常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.)	1,352	–	–
常州市華東電器有限公司 (Changzhou Huadong Electrical Co., Ltd.)	–	–	590
	<u>9,369</u>	<u>19,398</u>	<u>3,263</u>
<b>Non-trade balances:</b>			
常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.)	800	3,570	–
常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	11,680	22,445	–
常州蘭陵電器成套廠有限公司 (Changzhou Lanling Electrical Complete Set Ltd.)	9,031	–	–
常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	–	5,733	–
大亞投資發展有限公司 (Tai Ah Investment Co., Ltd.)	–	–	3,780
	<u>21,511</u>	<u>31,748</u>	<u>3,780</u>
Total	<u><u>30,880</u></u>	<u><u>51,146</u></u>	<u><u>7,043</u></u>

The companies controlled by or under the significant influence of Mr. Zhou Anmin and Mr. Tsang Shui Ching, Patrick are considered to be the Company's related parties.

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

Had interest been charged on the outstanding balances of amounts due from related companies during the Relevant Periods, 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 Relevant Periods, the Group would have received interest income of approximately RMB1,745,000, RMB2,067,000 and RMB1,451,000 for the years ended 31 December 2002, 2003 and 2004, respectively.

The maximum amounts outstanding during the Relevant Periods were as follows:

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
常州蘭陵電器成套廠有限公司 (Changzhou Lanling Electrical Complete Set Ltd.)	10,000	9,031	–
常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	41,742	53,611	37,085
常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	–	16,617	13,924
常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.)	28	88	–
常州國電森源絕緣電器有限公司 (Changzhou Guodian Senyuan Insulation Electrical Co., Ltd.)	659	637	–
常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.)	800	3,570	4,890
常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	–	–	1,477
常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.)	1,352	–	–
大亞投資發展有限公司 (Tai Ah Investment Co., Ltd.)	–	–	3,780
常州市華東電器有限公司 (Changzhou Huadong Electrical Co., Ltd.)	–	–	590
	<u>          </u>	<u>          </u>	<u>          </u>

Non-trade balances were fully settled subsequent to 31 December 2004.

## 26. TRADE AND BILLS PAYABLES

The ages of trade and bills payables are analysed as follows:

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:			
Within 30 days	26,573	29,453	35,294
31 days to 90 days	10,428	15,797	21,984
91 days to 180 days	2,295	1,799	7,417
181 days to 365 days	67	121	10
1 to 2 years	113	67	541
2 to 3 years	60	114	175
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>39,536</u>	<u>47,351</u>	<u>65,421</u>

General credit terms granted by the suppliers range from 30 to 180 days.

## 27. OTHER PAYABLES AND ACCRUALS

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Advances from customers	1,985	3,228	1,166
Staff bonus and welfare fund	1,619	1,082	1,082
Accruals	3,918	7,048	895
Value-added tax payable	3,130	3,568	2,702
Cost of land use rights payable	–	3,900	3,900
Others	1,085	1,057	1,336
	<u>11,737</u>	<u>19,883</u>	<u>11,081</u>

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Bank borrowings:			
Secured	22,800	35,800	8,420
Guaranteed	–	10,000	72,380
	<u>22,800</u>	<u>45,800</u>	<u>80,800</u>
Other borrowings:			
Unsecured	3,570	1,210	–
	<u>26,370</u>	<u>47,010</u>	<u>80,800</u>
Bank borrowings repayable:			
Within one year	22,800	35,800	80,800
In the second year	–	10,000	–
	<u>22,800</u>	<u>45,800</u>	<u>80,800</u>
Other borrowings repayable:			
On demand	3,570	1,210	–
	<u>26,370</u>	<u>47,010</u>	<u>80,800</u>
Portion classified as current liabilities	<u>(26,370)</u>	<u>(37,010)</u>	<u>(80,800)</u>
Long term portion	<u>–</u>	<u>10,000</u>	<u>–</u>

As of 31 December 2002, 2003 and 2004, the Group's bank borrowings of RMB22,800,000, RMB35,800,000 and RMB1,420,000 bore interest at rates ranging from, 6.05% to 6.59%, 5.50% to 5.84% and 5.742% per annum, respectively. The bank borrowings were secured by property, plant and equipment as set out in note 14.

As of 31 December 2004, the Group's bank borrowings of RMB7,000,000 bore interest at a rate of 5.54% per annum, were secured by a land use right as set out in note 15.

As of 31 December 2003, the Group's bank borrowings of RMB10,000,000 bore interest at a rate of 5.49% per annum, were guaranteed by Changzhou Lanling Electrical Group Co., Ltd., a related party of the Company, free of charge.

As of 31 December 2004, the Group's bank borrowings of RMB28,000,000 and RMB44,380,000 bore interest at rates ranging from 5.49% to 5.84% per annum, were guaranteed by Changzhou Senyuan Tai Ah Electrical Co., Ltd., and Changzhou Lanling Electrical Group Co., Ltd., respectively, the related parties of the Company, free of charge.

Other borrowings as of 31 December 2004 represented borrowings from employees which bore interest at a rate of 10% per annum.

## 29. DUE TO RELATED COMPANIES

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
<b>Trade balances:</b>			
常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	–	–	118
常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	10,884	–	–
大亞(中國)有限公司 (Tai Ah (China) Co., Ltd.)	–	346	346
常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.)	–	225	–
常州市華東電器有限公司 (Changzhou Huadong Electrical Co., Ltd.)	348	735	–
	<u>11,232</u>	<u>1,306</u>	<u>464</u>
<b>Non-trade balances:</b>			
<i>Advance from:</i>			
大亞(中國)有限公司 (Tai Ah (China) Co., Ltd.)	–	–	4
<i>Unpaid consideration for purchase of 50.25% interest in Changzhou Senyuan:</i>			
常州蘭陵電器成套廠有限公司 (Changzhou Lanling Electrical Complete Set Factory Co., Ltd.)	–	–	3,743
<i>Tax refund received on behalf of:</i>			
大亞投資發展有限公司 (Tai Ah Investment Co., Ltd.)	–	426	1,064
	<u>–</u>	<u>426</u>	<u>4,811</u>
	<u>11,232</u>	<u>1,732</u>	<u>5,275</u>

The amount due to related companies are unsecured, interest-free and have no fixed terms of repayment.

Had interest been charged on the outstanding balances of due to related companies during the Relevant Periods, 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 Relevant Periods, the Group would have paid interest expense of approximately RMB547,000, RMB327,000 and RMB177,000 for the years ended 31 December 2002, 2003 and 2004, respectively.

Non-trade balances were fully settled subsequent to 31 December 2004.

## 30. PAID-UP/ISSUED CAPITAL

The paid-up capital as at 31 December 2002 and 2003 represented capital contributions of Changzhou Senyuan made by Changzhou Lanling Electrical Complete Set Ltd. and Tai Ah Investment Co., Ltd. prior to the Reorganisation. Capital contributions made by Changzhou Tianning Lanling Trading Company were accounted for as minority interests as of 31 December 2002 and 2003.

The issued capital as at 31 December 2004 represented shares issued to the shareholders of Senyuan Investments.

**31. RESERVES****Capital reserve**

The capital reserve represents the difference between the nominal value of the paid-up capital of Changzhou Senyuan acquired by Senyuan Investments pursuant to the Reorganisation and the nominal value of Senyuan investments' shares issued in exchange therefor.

**Reserve fund and enterprise expansion fund**

In accordance with the Company Law of the PRC and the articles of association of Changzhou Senyuan, Changzhou Senyuan is required to set aside a certain percentage of its net profit, as determined in accordance with PRC GAAP applicable to Changzhou Senyuan, as decided by the board of Directors with due consideration to the business performance of Changzhou Senyuan from time to time, to the reserve fund and the enterprise expansion fund.

The reserve fund and the enterprise expansion fund are non-distributable reserves and subject to certain restrictions set out in the Company Law of the PRC and the articles of association of Changzhou Senyuan and approval of relevant government authorities, the reserve fund and the enterprise expansion fund can be converted to increase paid-up capital.

Subsequent to the re-registration of Changzhou Senyuan as a wholly foreign-owned enterprise in the PRC on 10 November 2004, allocation to the enterprise expansion fund is no longer required. According to the relevant PRC regulations applicable to wholly foreign-owned enterprise, Changzhou Senyuan is required to allocate certain portion (not less than 10%), as determined by the board of Directors, of its profit after tax in accordance with PRC GAAP to the reserve fund until such reserve fund reaches 50% of its registered capital.

No appropriation to the reserve fund and the enterprise expansion fund was declared during the Relevant Periods, which the Directors believe is acceptable under the articles of association and the Company Laws of the PRC as appropriation to the reserve fund and the enterprise expansion fund is at the discretion of the Directors.

**Statutory surplus reserve ("SSR"), statutory public welfare fund ("SPWF") and discretionary surplus reserve ("DSR")**

Pursuant to a resolution of the board of Directors of Changzhou Senyuan dated 16 September 2004, Changzhou Senyuan appropriated RMB5,802,000, RMB2,901,000 and RMB2,000,000 from its retained profits to the SSR, the SPWF and the DSR, respectively.

The SSR and the DSR are non-distributable reserves other than in the event of liquidation, and they may be converted to increase share capital, provided that the remaining SSR after capitalisation is not less than 25% of the registered capital. The SPWF must be used for capital expenditures on staff welfare facilities. Although such facilities are for staff use, they are owned by Changzhou Senyuan. When the SPWF is utilised, an amount equal to the lower of the cost of the assets and the balance of the SPWF is transferred from the SPWF to the general surplus reserve. The general surplus reserve is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the SPWF are reversed.

The use and distribution of the SSR, the SPWF and the DSR are not defined in Changzhou Senyuan's articles of association of the Relevant Periods, but pursuant to a resolution of the board of Directors of Changzhou Senyuan dated 15 November 2004, the Directors of Changzhou Senyuan intend that the uses of the SSR, the SPWF and the DSR as declared for the Relevant Periods are the same as defined in Changzhou Senyuan's new articles of association, which became effective from 29 October 2004.

**32. PLEDGE OF ASSETS**

Details of the Group's bank loans which are secured by assets of the Group are included in notes 14, 15 and 28 to the financial statements.

## 33. OPERATING LEASE ARRANGEMENTS

At the respective balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Within one year	786	538	11
In the second to fifth years, inclusive	658	160	–
After five years	80	40	–
	<u>1,524</u>	<u>738</u>	<u>11</u>

Guarantees given to the related parties and third parties as at 31 December 2004 were released subsequent to 31 December 2004.

## 34. COMMITMENTS

**Capital commitments**

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the respective balance sheet dates:

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for in respect of buildings	–	18,822	9,884
	<u>–</u>	<u>18,822</u>	<u>9,884</u>

## 35. CONTINGENT LIABILITIES

As at the respective balance sheet dates, the Group had the following contingent liabilities:

	31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Guarantees given to banks in connection with facilities granted to:			
– related parties ( <i>note 36</i> )	–	31,824	32,263
– a third party	–	2,000	2,000
	<u>–</u>	<u>33,824</u>	<u>34,263</u>

Save for the above, the Group did not have any material contingent liabilities at the balance sheet dates during the Relevant Periods.



## 36. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group had the following material transactions with related parties:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
<b>Continuing transactions</b>			
<i>Sales of goods to (note (ii))</i>			
- 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	5,193	6,296	17,948
<i>Purchases of raw materials from (note (ii))</i>			
- 常州市華東電器有限公司 (Changzhou Huadong Electrical Co., Ltd.)	1,843	2,852	3,017
- 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	24,089	13,133	3,715
	<u>25,932</u>	<u>15,985</u>	<u>6,732</u>
<b>Discontinued/discontinuing transactions</b>			
<i>Sales of goods to (note (ii))</i>			
- 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	7,052	5,098	2,627
- 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	1	648	1,446
	<u>7,053</u>	<u>5,746</u>	<u>4,073</u>
<i>Purchases of raw materials from (note (ii))</i>			
- 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	77	1,065	9,456
- 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.)	13	228	423
- 常州國電森源絕緣電器有限公司 (Changzhou Guodian Senyuan Insulating Electrical Co., Ltd.)	632	3,466	6,731
- 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	1,232	-	2,313
- 常州大亞電器有限公司 (Changzhou Tai Ah Electrical Co., Ltd.)	15	-	-
	<u>1,969</u>	<u>4,759</u>	<u>18,923</u>

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
<i>Purchases of property, plant and equipment from (note (iii))</i>			
- 大亞(中國)有限公司 (Tai Ah (China) Co., Ltd.)	-	346	-
- 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.)	-	104	-
- 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.)	-	-	1,711
- 常州國電森源絕緣電器有限公司 (Changzhou Guodian Senyuan Insulation Electrical Co., Ltd.)	-	-	1,332
- 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	-	-	6,678
- 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	-	-	3,821
	<u>-</u>	<u>450</u>	<u>13,542</u>
<i>Operating lease rentals paid in respect of buildings (note (iv))</i>			
- 常州蘭陵電器成套廠有限公司 (Changzhou Lanling Electrical Complete Set Factory Co., Ltd.)	294	-	-
	<u>294</u>	<u>-</u>	<u>-</u>
<i>Payments of services made to (note (v))</i>			
- 常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.)	124	159	245
	<u>124</u>	<u>159</u>	<u>245</u>
<i>Interests paid to (note (vi))</i>			
- 大亞(中國)有限公司 (Tai Ah (China) Co., Ltd.)	217	-	-
	<u>217</u>	<u>-</u>	<u>-</u>
<i>Bank borrowings guaranteed by (note (vii))</i>			
- 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	-	10,000	44,380
- 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	-	-	28,000
	<u>-</u>	<u>10,000</u>	<u>72,380</u>
<i>Guarantee on bank borrowings granted to (note (vii))</i>			
- 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	-	29,656	47,464
	<u>-</u>	<u>29,656</u>	<u>47,464</u>
<i>Guarantee on issuance of bank drafts granted to (note(vii))</i>			
- 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.)	-	2,168	27,648
- 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.)	-	-	700
	<u>-</u>	<u>2,168</u>	<u>28,348</u>

**Acquisition of an associate from a related company**

On 9 August 2002, Changzhou Senyuan acquired a 50% equity interest in Changzhou Guodian Senyuan Insulating Electrical Co., Ltd. ("Guodian Senyuan") from Changzhou Lanling Electrical Complete Set Factory Co., Ltd. at its original investment cost of RMB250,000. The remaining 50% equity interest in Guodian Senyuan is owned by an independent third party. The net assets of Guodian Senyuan at the date of acquisition amounted to RMB228,000.

**Disposal of an associate to a related company**

On 8 October 2004, Changzhou Senyuan disposed of its 50% equity interest in Guodian Senyuan to Changzhou Lanling Electrical Group Co., Ltd. for a consideration of RMB916,553, which is equivalent to Changzhou Senyuan's share of net assets in Guodian Senyuan as of that date.

*Notes:*

- (i) The Company was under the significant influence of Mr. Zhou Anmin and Mr. Tsang Shui Ching, Patrick throughout the Relevant Periods. The companies either controlled by or under the significant influence of Mr. Zhou An Min and Mr. Tsang Shui Ching, Patrick are considered to be the Company's related parties.
- (ii) The sales of goods and purchases of raw materials transactions were entered into in the ordinary and usual course of business and on normal commercial terms.
- (iii) The purchase prices of the property, plant and equipment are determined based on either the carrying amounts of the assets per the suppliers' book or the appraised amounts per the appraisals carried out by qualified appraisers in the PRC. The Directors are of the view that the purchase prices of the property, plant and equipment were not significantly different from their fair values as at the transaction dates.
- (iv) The operating leases in respect of buildings and plant and machinery with related companies were entered into in the ordinary and usual course of business on commercial terms.
- (v) The Group used restaurants, hotel rooms and hotel facilities of the related company in the ordinary and usual course of business. The service fees charged by the related company are based on normal commercial terms available to hotel guests.
- (vi) The loans borrowed from Tai Ah Investment Co., Ltd. bear interest at a commercial interest rate of 6.048% per annum.
- (vii) Certain bank loans of the Group were guaranteed by the related party free of charge. The Group also guaranteed bank loans of related companies free of charge.

The Directors are of the view that except for guarantees provided by/to related companies free of charge, the related party transactions set out above were entered into in the ordinary and usual course of business of the Group and on normal commercial terms.

## 37. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY

The Company was incorporated in the Cayman Islands on 12 October 2004. The Company's balance sheet as of 31 December 2004 was as follows:

	31 December 2004
	<i>RMB</i>
<b>Assets</b>	
Cash and cash equivalents	0.20
	<u>          </u>
<b>Capital</b>	
Issued capital	0.20
	<u>          </u>

## 38. POST BALANCE SHEET EVENT

On 31 May 2005, the Company became the holding company of the subsidiaries comprising the Group set out in note 3 of Section II pursuant to the Reorganisation as set out in Appendix V of the Prospectus.

Save for the above and transactions of the Reorganisation set out in the paragraph headed "Reorganisation" in Appendix V to the Prospectus, no significant events have taken place subsequent to 31 December 2004.

## 39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2004.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
 Hong Kong