

The directors of the Company (the “**Directors**”) present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 October 2004 under the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 31 May 2005 (the “**Reorganisation**”). Further details of the Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 2.1 and 16 to the financial statements and in the prospectus of the Company dated 28 June 2005 (the “**Prospectus**”).

The shares of the Company have been listed on the main board of the Stock Exchange since 11 July 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 80.

The Directors recommend the payment of a final dividend of HK5.46 cents per share for the year ended 31 December 2005. This recommendation has been incorporated in the financial statements as a transfer from the share premium account to the proposed final dividend account within the equity section of the balance sheet.

USE OF PROCEEDS FROM THE COMPANY’S INITIAL PUBLIC OFFERING

The proceeds from the Company’s public offer and placing of 76,250,000 shares in July 2005, after deduction of related issuance expenses, amounted to approximately RMB77,661,000. These proceeds were partially applied during the year ended 31 December 2005 in accordance with the proposed applications set out in the Prospectus as follows:

- approximately HK\$18.2 million was used to perform research and development of new products including the purchase of production machinery and testing equipment;
- approximately HK\$3.3 million was used to finance the final stage of the construction works of new production complex in Changzhou, Jiangsu Province, the PRC, which is expected to be completed in 2006;

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING *(continued)*

- approximately HK\$12.0 million was used to repay existing bank loans that were drawn down in the second half of 2004 to finance capital expenditures in relation to new production complex in Changzhou, Jiangsu Province, the PRC. The bank loans bear an interest of 5.748% per annum and were repaid in August 2005;
- approximately HK\$0.3 million was 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 mainly to finance the research and development of new products and any strategic movements, acquisitions, or investments that the Company may decide to pursue.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 81 to 82. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

ISSUED SHARE CAPITAL

Details of movements in the Company's issued share capital during the year are set out in note 28 to the financial statements.

SHARE OPTIONS

The Company adopted a share option scheme which became unconditional on 11 July 2005 pursuant to its terms and conditions. There has been no option granted under the share option scheme during the year. Details of the share option scheme are set out in note 29 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated.

FIXED ASSETS

Details of the movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statement.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 28 in note 30(b) to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserve, including the share premium account, available for distribution, calculated in accordance with the provisions of Companies Law (2001 Second Revision) of the Cayman Islands, amounted to RMB53,428,000.

Under the laws of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the mainland of the PRC can legally distribute by way of a dividend is determined by reference to their profits as reflected in the mainland of the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These profits differ from those that are reflected in the Group's financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 26.65% of the total sales for the year and sales to the largest customer amounted to 13.71%. Purchases from the Group's five largest suppliers accounted for 32.00% of the total purchases for the year and purchases from the largest supplier amounted to 8.13%.

The Group's largest customer, Shanghai Nanhua Lanling Electrical Co., Ltd. (上海南華蘭陵電氣有限公司) is owned as to 25% by Tai Ah Investment Company Limited HK ("Tai Ah HK") which is owned as to 43% by Mr. Tsang Shui Ching, Patrick, an Executive Director and Chairman of the Board. The Group's fifth largest customer, Changzhoushi Tuoyuan Electrical & Equipment Co., Ltd. (常州市拓源成套電氣設備有限公司) is owned as to 25% by the Group. The Directors' interests in the Company are disclosed in "Directors' Interests in Shares, Underlying Shares and Debentures" below.

Save as disclosed above, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

EMOLUMENT POLICY

The Group's emolument policy is to structure remuneration package by reference to market conditions and individual performance. Salaries are reviewed annually and discretionary bonus are paid on annual basis based on performance and other factors.

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. Tsang Shui Ching, Patrick (*Chairman*)

Mr. Zhou Anmin (*Chief Executive Officer*)

Mr. Lou Chong Wei

(appointed on 24 May 2005)

Mr. Shu Yi Jin

(appointed on 24 May 2005)

Independent non-executive Directors:

Mr. Keung Ping Yin, Raymond

(appointed on 24 May 2005)

Mr. Wong Yiu Sun, Peter

(appointed on 24 May 2005)

Mr. Lu Yan Sun

(appointed on 24 May 2005)

In accordance with articles 87(1) and 87(2) of the Company's articles of association, one-third of the Directors shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun, and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Profile of the Directors of the Company and the senior management of the Group are set out on page 3 to 6 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors including those proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of Directors and/or the remuneration committee with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Except as provided in "Connected Transactions" and "Continuing Connected Transactions" below, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year in which a Director is interested.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company has engaged in any business that are required to be disclosed under Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the beneficial interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**") as recorded in the register kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in ordinary shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage of shareholding
Mr. Zhou Anmin ("Mr. Zhou")	Corporate interest	228,750,000	75%
Mr. Tsang Shui Ching, Patrick ("Mr. Tsang")	Corporate interest	228,750,000	75%

Note:

These Shares are owned by SY International the issued share capital of which is owned as to 50% and 50% by Lanling Electrical and Tai Ah International respectively. Lanling Electrical is wholly owned by Mr. Zhou. Tai Ah International is owned as to 75% by Mr. Tsang, Mr. Zhou and Mr. Tsang are deemed to be interested in these shares by virtue of their interest in Lanling Electrical and Tai Ah International respectively pursuant to Part XV of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Long positions in shares of the associated corporation of the Company

Name of Director	Name of associated corporation	Nature of Interest	Number of shares held in the associated corporation	Percentage of shareholding in the associated corporation
Mr. Zhou	SY International	Corporate interest <i>(Note a)</i>	1	50%
Mr. Tsang	SY International	Corporate interest <i>(Note b)</i>	1	50%

Note:

- (a) Lanling Electrical is wholly owned by Mr. Zhou. Mr. Zhou is deemed to be interested in the one share held by Lanling Electrical in SY International by virtue of Part XV of the SFO.
- (b) Tai Ah International is owned as to 75% by Mr. Tsang. Mr. Tsang is deemed to be interested in the one share held by Tai Ah International in SY International by virtue of Part XV of the SFO.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company or their associates had any beneficial interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or were notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, shareholders (other than Directors or chief executives of the Company) who had beneficial interests or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares of the Company

Name of shareholders	Notes	Number of shares	Percentage of shareholding
SY International	(a)	228,750,000	75%
Lanling Electrical	(a)	228,750,000	75%
Tai Ah International	(a)	228,750,000	75%
Mr. Zhou	(b)	228,750,000	75%
Ms. Wu Tong	(b)	228,750,000	75%
Mr. Tsang	(c)	228,750,000	75%
Ms. Lou Bing	(c)	228,750,000	75%

Notes:

- (a) SY International is owned as to 50% and 50% by Lanling Electrical and Tai Ah International respectively. Therefore, both of Lanling Electrical and Tai Ah International are deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO.
- (b) As Lanling Electrical is wholly owned by Mr. Zhou, Mr. Zhou is deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO. Ms. Wu Tong, being Mr. Zhou's spouse, is deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO.
- (c) As Tai Ah International is 75% owned by Mr. Tsang, Mr. Tsang is deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO. Ms. Lou Bing, being Mr. Tsang's spouse, is deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO.

Save as disclosed above, as at 31 December 2005, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had beneficial interests or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

In September and October 2005, Changzhou Senyuan sold circuit breakers and switchgear components to 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd., “**SY Tai Ah**”) for a total consideration of RMB1,653,000.

SY Tai Ah is owned as to 75% by Lanling and 25% by Tai Ah HK. Lanling is owned as to 48.845% and 48.845% by Changzhou Lanling Factory and Tai Ah HK respectively. Changzhou Lanling Factory is owned as to 90% and 10% by Mr. Zhou, a Director, and his spouse respectively. Tai Ah HK is owned as to 43% and 18% by Mr. Tsang, a Director, and Mr. Tsang Shui Woon (a brother of Mr. Tsang) respectively. Since Lanling is a connected person of the Company, SY Tai Ah being a subsidiary of Lanling is also a connected person of the Company under the Listing Rules. Therefore, the transactions constitute connected transactions of the Company, which have been disclosed in compliance with requirement of Chapter 14A of the Listing Rules.

Since the Listing Date, save as disclosed above, the Company has not engaged in any connected transaction which are required to be disclosed pursuant to Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

(1) Purchases of wooden packaging materials from Changzhou Huadong

Changzhou Senyuan and 常州華東電器有限公司 (Changzhou Huadong Electrical Co., Ltd., “**Changzhou Huadong**”), a subsidiary of Lanling, entered into a master purchase agreement (the “**Huadong Agreement**”) dated 18 March 2005 for a term commencing on the Listing Date and ending 31 December 2007.

Pursuant to the Huadong Agreement, Changzhou Senyuan may from time to time purchase wooden packaging materials from Changzhou Huadong for packing finished goods at a price no less favourable than that available from parties independent of and not connected with the Company or its connected persons.

During the year, the aggregate purchases of wooden packaging materials from Changzhou Huadong were RMB2,761,000.

(2) Purchases of metal parts from SY Tai Ah

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

Pursuant to the Tai Ah Agreement, Changzhou Senyuan may from time to time purchase metal parts, which are used in the Group’s production, from SY Tai Ah at a price no less favourable than that available from parties independent of and not connected with the Company or its connected persons.

During the year, the aggregate purchases of metal parts from SY Tai Ah were RMB2,366,000.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(3) Sales of VCBs and other components of switchgear to Lanling

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

Pursuant to the Lanling Agreement, Changzhou Senyuan may from time to time sell products including VCBs and other components of switchgear to Lanling at a price no more favourable than that available to parties independent of and not connected with the Company or its connected persons.

During the year, the aggregate sales of VCBs and other components of switchgear to Lanling were RMB27,879,000.

The continuing connected transactions have been disclosed in the Prospectus. The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CHARITABLE DONATION

HK\$1 million was donated to the Community Chest of Hong Kong during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report, being the latest practicable date prior to the date of this report.

POST BALANCE SHEET EVENT

No significant events have taken place subsequent to 31 December 2005.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices of the Company is set out on pages 21 to 24 of the annual report.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tsang Shui Ching, Patrick
Chairman

Hong Kong
24 April 2006