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1. CORPORATE INFORMATION

Senyuan International Holdings Limited (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.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business of the Group in the PRC is located at 1 West Hengtanghe Road, External-oriented Agriculture Development Zone, Changzhou, Jiangsu Province, the PRC.

During the year, the Group was involved in the manufacture and sale of vacuum circuit breakers and components of switchgears in the PRC. In the opinion of the Directors, the parent company and the ultimate holding company of the Group is Senyuan International Limited, a company incorporated in the British Virgin Islands ("BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 31 May 2005 (the "Reorganisation"). This was accomplished by acquiring the entire issued share capital of Senyuan International Investment Limited ("Senyuan Investment"), a company incorporated in the BVI, which is, as at the date of this report, the intermediate holding company of the subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of 998 ordinary shares of HK$0.1 each in the Company, credited as fully paid.

Further details of the Reorganisation are set out in the Company's prospectus dated 28 June 2005.

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

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2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements, which is prepared 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 has been treated as the holding company of the subsidiaries from 1 January 2004 rather than from the date of acquisition of the subsidiaries. The reorganisation of the Group in preparation for the listing of the shares on the Stock Exchange has been reflected in the financial statements by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared as if the group structure as at 31 May 2005 had been in existence for the period from 1 January 2004 to 31 May 2005, or from the respective dates of their incorporation where this is a shorter period. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities Amendment
HKFRS3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 36, 37, 38, 39 (Amendment) and HKFRS 3 had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from land use rights to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative balances as at 31 December 2004 in the consolidated balance sheet have been reclassified to reflect the change. Details of the reclassification are set out in note 14 to the financial statements.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 — Financial Instruments

Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB600,000 are designated as an available-for-sale investment under the transitional provisions of HKAS 39 and are stated at cost less any impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative balances have been reclassified for presentation purposes.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKFRS 29 Financial Reporting in Hyperinflationary Economics

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 21 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, 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 associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	20%
Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Long term prepayments

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 are reduced by amounts which equal to the cost savings of Changzhou Senyuan for goods purchase from the supplier, with purchase costs of the products increased by an equal amount upon the purchase of goods from the supplier.

Research and development costs

All research costs are charged to the income statement as incurred.

Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms of 50 years.

Investments and other financial assets

(Applicable to the year ended 31 December 2004)

The Group classified its equity investments, other than subsidiaries and associates, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in unlisted equity securities, and are stated at cost less any impairment.

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.

(Applicable to the year ended 31 December 2005)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Long term investments (continued)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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, 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

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 in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, 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 differences 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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) 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) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme

The employees of the Group'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 its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). These financial statements are presented in Renminbi (the "RMB"), which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Company and certain group companies are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and group companies with functional currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and group companies with functional currencies other than RMB which arise through the year are translated into RMB at the weighted average exchange rates for the year.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant accounting judgements and estimations

The preparation of the financial statements in conformity with HKFRS requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The following judgements have the most significant effect on the amounts recognised in the financial statements.

a. Provision for doubtful debts

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

b. Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

3. SEGMENT INFORMATION

Over 90% of the Group's turnover and profit for the year were 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 is engaged in only one business segment.

The Group's revenue wholly derived from customers based in the PRC and over 90% of the Group's operating assets are located in Changzhou City, Jiangsu Province, the PRC. Accordingly, no segment analysis by business and geographical segments is presented for the year.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover mainly, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	2005	2004
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**374,070**	297,799
Rendering of services	**58**	1,172
	374,128	298,971
Other income		
Bank interest income	**414**	68
Government grants and subsidies	**482**	83
Sale of scraps	**840**	926
Others	**2**	35
	1,738	1,112
Gains		
Gains on disposal of property, plant and equipment	**352**	—
	2,090	1,112

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5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 RMB'000	2004 RMB'000
Cost of inventories sold		**279,988**	222,949
Depreciation	*13*	**7,737**	5,052
Amortisation of prepaid land lease payments*	*14*	**171**	171
Amortisation of long term prepayments	*15*	**800**	187
Research and development costs:			
Current year expenditure		**10,164**	8,156
Goodwill:			
Amortisation of goodwill on acquisition of an associate		**—**	20
Minimum lease payments under operating leases in respect of buildings		**88**	694
Auditors' remuneration		**1,012**	30
Employee costs (including Directors' remuneration):			
Wages, salaries, and staff welfare		**24,352**	18,127
Pension scheme contributions		**2,042**	1,654
Share of profits of an associate		**—**	(509)
Provision for bad and doubtful debts		**434**	(164)
Bank interest income	*4*	**(414)**	(68)
Loss on disposal of an associate		**—**	77

* *The amortisation of prepaid land lease payments are included in "Administrative expenses" on the face of the consolidated income statement.*

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6. FINANCE COSTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Interest on bank loans		
wholly repayable within five years	**4,795**	3,451
Other finance costs:		
Bank charges and others	**130**	45
	4,925	3,496

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Fees	**1,830**	300
Other emoluments:		
Salaries, allowances and benefits in kind	**1,054**	931
Pension scheme contributions	**—**	—
	1,054	931
	2,884	1,231

(a) Independent non-executive Directors

The fees paid to independent non-executive Directors during the year were as follows:

	2005	2004
	RMB'000	*RMB'000*
Mr. Lu Yan Sun	**71**	—
Mr. Wong Yiu Sun, Peter	**71**	—
Mr. Keung Ping Yin, Raymond	**89**	—
	231	—

There were no other emoluments payable to the independent non-executive Directors during the year (2004: Nil).

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7. DIRECTORS' REMUNERATION *(continued)*

(b) Executive Directors

	Fees	Salaries, allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
2005			
Executive Directors:			
Mr. Tsang Shui Ching, Patrick	**563**	**331**	**894**
Mr. Zhou Anmin	**722**	**148**	**870**
Mr. Lou Chong Wei	**71**	**—**	**71**
Mr. Shu Yi Jin	**243**	**575**	**818**
	1,599	**1,054**	**2,653**

	Fees	Salaries, allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
2004			
Executive Directors:			
Mr. Tsang Shui Ching, Patrick	—	300	300
Mr. Zhou Anmin	300	—	300
Mr. Lou Chong Wei	—	—	—
Mr. Shu Yi Jin	—	631	631
	300	931	1,231

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

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: two) Directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,350**	1,966
Pension scheme contributions	**94**	10
	1,444	1,976

The remuneration of each of the highest paid, non-director employees fell within the range of nil to HK$1,000,000.

During the year, 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.

9. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005	2004
	RMB'000	*RMB'000*
Group		
Current	**6,574**	4,425
Deferred *(note 27)*	**(240)**	738
	6,334	5,163

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9. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate to the tax expense at the effective tax rate is as follows:

Group — 2005

	The PRC	**Elsewhere**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	**57,932**	**(2,106)**	**55,826**
Tax at the applicable tax rate	**5,793**	**—**	**5,793**
Expenses not deductible for tax	**541**	**—**	**541**
Tax charge at the Group's effective rate	**6,334**	**—**	**6,334**

Group — 2004

	The PRC	Elsewhere	Total
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	47,469	(2)	47,467
Tax at the applicable tax rate	4,747	—	4,747
Effect on opening deferred tax of decrease in applicable tax rates	237	—	237
Profit attributable to the associate	(51)	—	(51)
Expenses not deductible for tax	230	—	230
Tax charge at the Group's effective rate	5,163	—	5,163

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.

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9. TAX *(continued)*

Being granted the "double-intensity" enterprise status, and upon approval by State Administration of Tax Bureau 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 Bureau 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 an approval document issued by the State Administration of Tax Bureau of Changzhou City, Jiangsu Province, Changzhou Senyuan was subject to PRC income tax at an applicable income tax rate of 10% for the three year period from 2004 to 2006.

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 of the Company was RMB2,237,000 (2004: Nil) (note 30(b)).

11. DIVIDENDS

The Directors recommend the payment of a final dividend of HK5.46 cents per share out of the Company's share premium account for the year ended 31 December 2005.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year, on the assumption that 228,750,000 shares in issue immediately prior to the issue of the Company's shares to the public had been in issue on 1 January 2004.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2004 includes the pro forma issued share capital of the Company of 228,750,000 shares, comprising (i) 2 shares of the Company allotted and issued fully paid on 14 October 2004; (ii) 998 shares issued as consideration for the acquisition of the entire issued share capital of Senyuan Investment on 31 May 2005; and (iii) the capitalisation issue of 228,749,000 shares. The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2005 includes the weighted average of 38,125,000 shares relating to the shares issued upon the listing of the Company's shares on the Stock Exchange on 11 July 2005, in addition to the aforementioned 228,750,000 ordinary shares.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

The calculation of basic earnings per share is based on:

	2005	2004
	RMB'000	*RMB'000*
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**49,492**	42,134

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**266,875,000**	228,750,000

A diluted earnings per share amount for the year ended 31 December 2005 has not been disclosed as no diluting events existed during the year.

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost	26,720	41,365	2,296	3,992	4,166	19,031	97,570
Accumulated depreciation	—	(12,649)	(2,296)	(3,010)	(2,178)	—	(20,133)
Net carrying amount	26,720	28,716	—	982	1,988	19,031	77,437
At 1 January 2005, net of accumulated depreciation	26,720	28,716	—	982	1,988	19,031	77,437
Additions	—	5,776	—	591	2,398	11,999	20,764
Depreciation provided during the year	(1,336)	(4,914)	(158)	(543)	(786)	—	(7,737)
Transfers	13,780	—	1,210	962	—	(15,952)	—
Disposals	—	(187)	(456)	(60)	(1,080)	—	(1,783)
At 31 December 2005, net of accumulated depreciation	39,164	29,391	596	1,932	2,520	15,078	88,681
At 31 December 2005:							
Cost	40,500	46,368	2,835	5,030	3,087	15,078	112,898
Accumulated depreciation	(1,336)	(16,977)	(2,239)	(3,098)	(567)	—	(24,217)
Net carrying amount	39,164	29,391	596	1,932	2,520	15,078	88,681

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13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Buildings	Plant and machinery	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2004							
At 1 January 2004:							
Cost	—	23,622	2,296	3,812	3,732	5,934	39,396
Accumulated depreciation	—	(9,071)	(2,081)	(2,465)	(1,464)	—	(15,081)
Net carrying amount	—	14,551	215	1,347	2,268	5,934	24,315
At 1 January 2004, net of accumulated depreciation	—	14,551	215	1,347	2,268	5,934	24,315
Additions	—	17,743	—	180	434	39,817	58,174
Depreciation provided during the year	—	(3,578)	(215)	(545)	(714)	—	(5,052)
Transfers	26,720	—	—	—	—	(26,720)	—
At 31 December 2004, net of accumulated depreciation	26,720	28,716	—	982	1,988	19,031	77,437
At 31 December 2004:							
Cost	26,720	41,365	2,296	3,992	4,166	19,031	97,570
Accumulated depreciation	—	(12,649)	(2,296)	(3,010)	(2,178)	—	(20,133)
Net carrying amount	26,720	28,716	—	982	1,988	19,031	77,437

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Office equipment *RMB'000*
31 December 2005	
At 1 January 2005, net of accumulated depreciation	—
Additions	26
Depreciation provided during the year	(2)
At 31 December 2005, net of accumulated depreciation	24
At 31 December 2005:	
Cost	26
Accumulated depreciation	(2)
Net carrying amount	24

As at 31 December 2005, certain of the Group's buildings with a carrying amount of approximately RMB25,518,000 (2004: Nil) were pledged to secure general banking facilities granted to the Group (Note 26(ii)).

As at 31 December 2005, certain of the Group's plant and machinery with a carrying amount of approximately RMB12,581,000 (2004: RMB5,290,000) were pledged to secure general banking facilities granted to the Group (Note 26(iii)).

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14. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Carrying amount at 1 January	**8,274**	8,445*
Recognised during the year	**(171)**	(171)
Carrying amount at 31 December	**8,103**	8,274*
Current portion included in prepayments, deposits and other receivables	**(171)**	(171)
Non-current portion	**7,932**	8,103

The leasehold land is held under a long term lease and is situated in the PRC.

As at 31 December 2005, the Group's prepaid land lease payments with a carrying amount of RMB8,103,000 (2004: RMB8,274,000) were pledged to secure bank loans granted to the Group (Note 26(i)).

** The balances were previously classified as land use rights in the prior year's financial statements (Note 2.2(a)).*

15. LONG TERM PREPAYMENTS

	Group Long term prepayments *RMB'000*
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	3,813
Amortisation provided during the year	(800)
At 31 December 2005	3,013
At 31 December 2005	
Cost	4,000
Accumulated amortisation	(987)
Net carrying amount	3,013
31 December 2004	
At 1 January 2004	
Cost	1,200
Accumulated amortisation	—
Net carrying amount	1,200
Cost at 1 January 2004, net of accumulated amortisation	1,200
Additions - purchases from a third party	2,800
Amortisation provided during the year	(187)
At 31 December 2004	3,813
At 31 December 2004 and at 1 January 2005	
Cost	4,000
Accumulated amortisation	(187)
Net carrying amount	3,813

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 was 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 are reduced by amounts which equal to the cost savings of Changzhou Senyuan for goods purchased from the supplier, with purchase costs of the products increased by an equal amount upon the purchase of goods from the supplier.

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16. INTERESTS IN SUBSIDIARIES

	Company 2005 *RMB'000*
Unlisted shares, at cost	61,557
Due from subsidiaries	25,773
Due to subsidiaries	(539)
	86,791
Impairment	—
	86,791

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Senyuan Investments	BVI	US$7,607,500	100	—	Investment holding
Changzhou Senyuan #	PRC	US$8,500,000	—	100	Manufacture and sale of vacuum circuit breakers and components of switchgears
Teamachieve Investments Limited	BVI	US$1	—	100	Investment holding

Changzhou Senyuan is a wholly foreign owned enterprise established in the PRC

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17. INTERESTS IN AN ASSOCIATE

	Group 2005 RMB'000	Group 2004 RMB'000
Share of net assets	**3,026**	—
Due from an associate	**2,473**	—
	5,499	—

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from an associate approximates to its fair values.

Particulars of the associate are as follows:

	Place of registration and operation	Percentage of ownership interest attributable to the Group	Principal activities
常州拓源成套電氣設備有限公司 (Changzhou Tuoyuan Electrical & Equipment Co., Ltd., "Changzhou Tuoyuan") *	the PRC	25	Manufacture of electronic products

* *Not audited by Ernst &Young Hong Kong or other Ernst & Young International member firms.*

The Group's voting power held and profit sharing arrangement in relation to Changzhou Tuoyuan is 25%. The associate has been accounted for using the equity method in the consolidated financial statements. The associate was established on 13 September 2005 and still in preliminary stage as at 31 December 2005.

The following table illustrates the summarized financial information of the Group's associate extracted from its management accounts:

	2005 RMB'000
Assets	**12,137**
Liabilities	**33**
Revenue	—
Profit	—

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18. AVAILABLE FOR SALE EQUITY INVESTMENT

	Group	
	2005	2004
	RMB'000	*RMB'000*
Unlisted equity investment, at cost	**600**	600

The unlisted equity investment represents a 20% equity interest in北京京森源電器有限公司 (Beijing Jing Senyuan Electrical Co., Ltd., "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.

19. INVENTORIES

	Group	
	2005	2004
	RMB'000	*RMB'000*
Raw materials	**45,058**	24,665
Work in progress	**13,384**	5,126
Finished goods	**3,984**	5,144
	62,426	34,935

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20. TRADE RECEIVABLES

The general contractual credit terms for customer ranges from 30 to 90 days. The debtors' turnover days for the years ended 31 December 2004 and 2005 were 91 days and 94 days respectively. The Group has not taken aggressive actions in collecting overdue balances from certain customers, in particular state-owned enterprises which have lengthy internal approval procedures for cash payments, based on the assessment of their credit standing, so as to maintain good credit relationship. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An age analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within 30 days	**30,226**	24,670
31 days to 90 days	**24,281**	26,794
91 days to 180 days	**12,473**	10,210
181 days to 365 days	**7,639**	13,538
1 to 2 years	**7,909**	6,046
Over 2 years	**4,323**	3,877
	86,851	85,135
Less: Provision for doubtful debts	**(7,223)**	(6,789)
	79,628	78,346

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Advances to employees	**557**	734	**—**	—
Prepayments	**6,059**	1,147	**182**	—
Expenses relating to the Initial Public Offering	**—**	3,096	**—**	—
Deposits and other receivables	**2,763**	2,465	**—**	—
	9,379	7,442	**182**	—

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**80,847**	21,498	**56**	—

At the balance sheet date, cash and bank balances of the Group denominated in RMB amounted to RMB68,746,216 (2004: RMB21,468,840). RMB is not freely convertible into other currencies, however, under Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

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23. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Within 30 days	**25,577**	35,294
31 days to 90 days	**25,275**	21,984
91 days to 180 days	**18,449**	7,417
181 days to 365 days	**3,656**	10
1 to 2 years	**947**	541
2 to 3 years	**604**	175
	74,508	65,421

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 180 days.

24. DEFERRED INCOME

Deferred income represented the fair value of government grants received related to prepaid land lease payments. It is released to the income statement over the land lease term of 50 years by equal annual instalment.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advance from customers	**2,436**	1,166	**—**	—
Staff bonus and welfare fund	**1,082**	1,082	**—**	—
Accruals	**390**	895	**—**	—
Value-added tax payable	**4,646**	2,702	**—**	—
Cost of land use rights payable	**—**	3,900	**—**	—
Others	**5,759**	1,336	**1,152**	—
	14,313	11,081	**1,152**	—

Other payables are non-interest-bearing and have an average term of four months.

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26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 RMB'000	Group 2004 RMB'000
Current				
Bank loans — unsecured	5.49-5.84	2006	**28,000**	—
Bank loans — guaranteed	5.49-5.84	2005	**—**	72,380
Bank loans — secured	5.49-5.84	2006	**35,000**	8,420
			63,000	80,800

	Group 2005 RMB'000	Group 2004 RMB'000
Analysed into:		
Bank loans repayable:		
within one year	**63,000**	80,800

Notes:

As at 31 December 2005 the Group's bank loans were secured by:

(i) mortgages over the Group's prepaid land lease payments, which had a carrying amount at the balance sheet date of approximately RMB8,103,000 (2004: RMB8,274,000) (note 14);

(ii) mortgages over the Group's buildings, which had a carrying amount at the balance sheet date of approximately RMB25,518,000 (2004: Nil) (note 13); and

(iii) mortgages over the Group's plant and machinery, which had a carrying amount at the balance sheet date of approximately RMB12,581,000 (2004: RMB5,290,000) (note 13).

All bank loans of the Group either secured, guaranteed or unsecured bear interest at fixed interest rates in a range of 5.49% to 5.84% per annum.

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27. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax assets during the year are as follows:

Deferred tax assets/(liabilities)

Group	2005				
	Timing difference in recording depreciation *RMB'000*	**Provision for bad and doubtful debts** *RMB'000*	**Timing difference in recording expenses** *RMB'000*	**Timing difference in recording sales** *RMB'000*	**Total** *RMB'000*
At 1 January 2005	**268**	**679**	**(22)**	**(244)**	**681**
Deferred tax credited/(charged) to the income statement during the year *(note 9)*	**44**	**73**	**460**	**(337)**	**240**
Deferred tax assets/ (liabilities) at 31 December 2005	**312**	**752**	**438**	**(581)**	**921**
Net deferred tax assets per consolidated balance sheet					**921**

Deferred tax assets/(liabilities)

Group	2004				
	Timing difference in recording depreciation *RMB'000*	Provision for bad and doubtful debts *RMB'000*	Timing difference in recording expenses *RMB'000*	Timing difference in recording sales *RMB'000*	Total *RMB'000*
At 1 January 2004	269	834	707	(391)	1,419
Deferred tax credited/(charged) to the income statement during the year *(note 9)*	(1)	(155)	(729)	147	(738)
Deferred tax assets/ (liabilities) at 31 December 2004	268	679	(22)	(244)	681
Net deferred tax assets per consolidated balance sheet					681

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27. DEFERRED TAX ASSETS/LIABILITIES *(continued)*

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associate as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. ISSUED SHARE CAPITAL

		Company	
Shares		**2005**	2004
		RMB'000	*RMB'000*
Authorised:			
1,000,000,000 (2004: 3,900,000) ordinary shares of HK$0.1 each	(ii)	**106,470**	406
Issued and fully paid:			
305,000,000 (2004: 2) ordinary shares of HK$0.1 each		**32,473**	—

During the period from 12 October 2004 (date of incorporation) to 31 December 2005, the movements in share capital were as follows:

(i) Upon incorporation of the Company, the authorised share capital of the Company was HK$390,000 dividend into 3,900,000 shares of HK$0.1 each, of which one share was allotted and issued fully paid at par to Codan Trust Company (Cayman) Limited ("Codan"). On the same day, Codan transferred one share to Tai Ah International Limited ("Tai Ah International") and one new share was allotted and issued fully paid at par to Lanling Electrical Limited ("Lanling Electrical"). On 6 February 2005, each of Tai Ah International and Lanling Electrical transferred one share to Senyuan International Limited.

(ii) On 31 May 2005, the shareholders resolved to increase the authorised share capital of the Company from HK$390,000 to HK$100,000,000.

(iii) On 31 May 2005, in consolidation of the acquisition of the entire issued share capital of Senyuan Investments as to 50% from Tai Ah International and as to 50% from Lanling Electrical, the Group allotted and issued an aggregate of 998 Shares to SY International, all credited as fully paid, at their direction.

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28. ISSUED SHARE CAPITAL *(continued)*

(iv) Pursuant to the resolutions passed on 11 July 2005, a total of 228,749,000 ordinary shares of HK$0.1 each were allotted and issued as fully paid at par, by way of capitalisation of the sum of HK$22,874,900 (RMB equivalent: 24,355,000) standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (v) below.

(v) On 11 July 2005, in connection with the Company's initial public offering, 76,250,000 ordinary shares of HK$0.1 each were issued to the public by way of public offer and placing at HK$1.18 each for a total cash consideration, before the related issuing expenses, of RMB95,796,000.

A summary of the transactions during the period from 12 October 2004 (date of incorporation) to 31 December 2005 with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Notes	**Number of ordinary shares of HK$0.1 each**	**Nominal value of ordinary shares** *RMB'000*
Authorised:			
Upon incorporation and as at 31 December 2004	(i)	3,900,000	406
Increase in authorised share capital	(ii)	996,100,000	106,064
As at 31 December 2005		1,000,000,000	106,470
Issued:			
Upon incorporation		—	—
Allotted and issued fully paid	(i)	2	—
On acquisition of Senyuan Investment -new issue of shares	(iii)	998	—
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(iv)	228,749,000	—
Pro forma share capital as at 31 December 2004		228,750,000	—
Capitalisation of the share premium account as set out above	(iv)	—	24,355
New issue of shares	(v)	76,250,000	8,118
As at 31 December 2005		305,000,000	32,473

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29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee of: (i) any member of the Group; (ii) the supplier of any member of the Group and its shareholders; and (iii) the customer of any member of the Group and its shareholders (the "Eligible Participants"). The Scheme became effective on 11 July 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each Eligible Participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting with such Eligible Participants and his associates abstaining from voting.

Share options granted to a Director, chief executive or substantial shareholder (excluding the proposed Director or chief executive) of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the offeree of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares on each date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An offer of the grant of options must be accepted within 21 days from the date of grant (inclusive of the day on which such offer was made). The amount payable to the Company on acceptance of the offer for the grant of an option is HK$1.00. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant.

The exercise price of share options is determinable by the Directors, but may not be less than the higher of (i) the Closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer for the grant of the option (which is deemed to be the date of grant if the offer for the grant of the option is accepted by the Eligible Participants); and (ii) the average closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No option has been granted or agreed to be granted under the Scheme as of 31 December 2005.

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30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 28 of the financial statements.

Capital reserve

The capital reserve of the Group represents the excess of the nominal value of the share capitals of the subsidiaries acquired pursuant to the Reorganisation set out in note 2.1 to the financial statements, over the nominal value of the 998 shares of HK$0.1 each of the Company issued in exchange therefor and the then existing 1,000 shares of HK$0.1 each credited as fully paid at par.

Reserve Funds

The movements of the reserve funds for the current year and the prior year are set out as below:

	Reserve fund	Enterprise expansion fund	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	1,611	1,611	7,622	3,810	1,990	16,644
Purchase of additional equity interest in a subsidiary	8	8	38	20	10	84
Capitalisation of reserve	(1,619)	(1,619)	(4,233)	—	—	(7,471)
Transfer from retained profits	3,738	—	—	—	—	3,738
At 31 December 2004	3,738	—	3,427	3,830	2,000	12,995
Transfer from retained profits	8,238	—	—	—	—	8,238
At 31 December 2005	11,976	—	3,427	3,830	2,000	21,233

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30. RESERVES *(continued)*

(a) Group *(continued)*

Reserve Funds (continued)

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 revelant 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 regulations of the PRC 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.

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.

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30. RESERVES *(continued)*

(b) Company

	Notes	Share premium account RMB'000	Capital Reserve RMB'000	Exchange translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Arising from reorganisation		—	12,512	—	—	12,512
Issue of shares	28	87,678	—	—	—	87,678
Capitalisation of reserve	28	(24,355)	—	—	—	(24,355)
Share issue expenses	28	(18,135)	—	—	—	(18,135)
Net loss for the year		—	—	—	(2,237)	(2,237)
Exchange translation reserve		—	—	(2,035)	—	(2,035)
Proposed final 2005 dividend	11	(17,322)	—	—	—	(17,322)
At 31 December 2005		27,866	12,512	(2,035)	(2,237)	36,106

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Reorganisation as set out in note 2.1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefore and the then existing 1,000 shares of HK$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve and share premium account may be 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.

31. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Guarantees given to banks in connection with facilities granted to:				
Related parties	—	36,263	—	—
A third party	—	2,000	—	—
	—	38,263	—	—

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32. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are included in notes 26 to the financial statements.

33. OPERATING LEASE COMMITMENTS

The Group leases certain apartments for employees' under operating lease arrangements. Leases terms are all within one year.

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**56**	11	**—**	—

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for				
— buildings:	**18,748**	9,884	**—**	—

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35. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group 2005 RMB'000	Group 2004 RMB'000
Sale of goods to *(note k)*:		
Changzhou Tuoyuan	**2,019**	—
Lanling *(note c)**	**27,879**	17,948
SY Tai Ah *(note d)**	**1,653**	2,627
常州國電森源絕緣電器有限公司 (Changzhou Guodian Senyuan Insulation Electrical Group Co., Ltd., "Changhzhou Guodian") *(note e)**	**750**	—
常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Group Co., Ltd., "New Tai Ah") *(note f)**	**279**	1,446
	32,580	22,021
Purchase of raw materials from *(note k)*:		
Changzhou Huadong *(note g)**	**2,761**	3,017
大亞(中國)有限公司 (Tai Ah (China) Co., Ltd.,"Tai Ah (China)") *(note h)**	**3,887**	—
Lanling *(note c)**	**657**	9,456
常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Group Co., Ltd., "Changzhou S&I") *(note i)*	**—**	423
New Tai Ah *(note f)**	**—**	2,313
SY Tai Ah *(note d)**	**2,366**	3,715
Changzhou Guodian *(note e)**	**114**	6,731
	9,785	25,655

35. RELATED PARTY TRANSACTIONS *(continued)*

(i) *(continued)*

	Group	
	2005	2004
	RMB'000	*RMB'000*
Purchases of property, plant and equipment from:		
SY Tai Ah *(note d)**	—	6,678
Lanling *(note c)**	—	3,821
Changzhou S&I *(note i)*	—	1,711
Changzhou Guodian *(note e)**	—	1,332
	—	13,542
Payments of services made to:		
常州瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd., "Ruian Garden") *(note j)*	—	245
Bank borrowings guaranteed by:		
Lanling *(note c)**	—	44,380
SY Tai Ah *(note d)**	—	28,000
	—	72,380
Guarantee on bank borrowings granted to:		
Lanling *(note c)**	—	47,464
Guarantee on issuance of bank drafts granted to:		
Lanling *(note c)**	—	27,648
SY Tai Ah *(note d)**	—	700
	—	28,348

* *The related party transactions also constitute connected transactions or continuing connected transactions as defined in chapter 14A of the Listing Rules.*

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35. RELATED PARTY TRANSACTIONS *(continued)*

(ii) Outstanding balances with related parties:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Due from related companies:		
Trade balances:		
Lanling *(note c)*	**21,039**	2,667
SY Tai Ah *(note d)*	**158**	6
Changzhou Huadong *(note g)*	**—**	590
Changzhou Guodian *(note e)*	**12**	—
	21,209	3,263
Non-trade balances:		
Tai Ah Investment Co., Ltd. ("Tai Ah HK") *(note a)*	**—**	3,780
	21,209	7,043
Due to related companies:		
Trade balances:		
SY Tai Ah *(note d)*	**263**	—
Changzhou Huadong *(note g)*	**723**	—
Tai Ah (China) *(note h)*	**338**	346
Lanling *(note c)*	**—**	118
	1,324	464
Non-trade balances:		
Tai Ah HK *(note a)*	**—**	1,064
Changzhou Lanling Factory *(note b)*	**—**	3,743
Tai Ah (China) *(note h)*	**—**	4
	—	4,811
	1,324	5,275

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

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35. RELATED PARTY TRANSACTIONS *(continued)*

(iii) Compensation of key management personnel of the Group:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,266**	1,468
Pension scheme contributions	**101**	128
Total compensation paid to key management personnel	**2,367**	1,596

Further details of Directors' emoluments are included in note 7 to the financial statements.

Notes:

(a) Tai Ah HK is a limited liability company incorporated in Hong Kong and is owned as to 43%, 18%, 28.5% and 10.5% by Mr. Tsang, Mr. Tsang Shui Woon (a brother of Mr. Tsang), Broad Respect Industries Limited (a company beneficially owned by Mr. Tang Yan Kit) and Mr. Tang Yan Kit respectively. Each of Broad Respect Industries Limited and Mr. Tang Yan Kit is independent of and not connected with the group or the connected persons.

(b) Changzhou Lanling Factory is a limited liability company incorporated in the PRC and is owned as to 90% by Mr. Zhou and 10% by Ms. Wu Tong, the spouse of Mr. Zhou.

(c) Lanling is a limited liability company incorporated in the PRC on 13 April 1993 and is owned as to 48.845%, 48.845% and 2.31% by Changzhou Lanling Factory, Tai Ah HK and Changzhou Tianning Trading Company respectively.

(d) SY Tai Ah is a limited liability company incorporated in the PRC on 20 February 2001 and is owned as to 75% by Lanling and 25% by Tai Ah HK.

(e) Changzhou Guodian is a limited liability company incorporated in the PRC on 19 December 2001 and is owned as to 50% each by Lanling and SY Tai Ah.

(f) New Tai Ah is a trading company established in the PRC on 3 July 2001 and is owned as to 90% by Mr. Zhou and 10% by an individual who is independent of and not connected with the group or the connected persons.

(g) Changzhou Huadong was a limited liability company incorporated in the PRC on 9 January 2002 and is owned as to 62.5%, 37.12% and 0.38% by Lanling, Mr. Zhou and two parties, which are independent of and not connected with the group or the connected persons, respectively.

(h) Tai Ah (China) is owned as to 10% by Mr. Tsang, 80% by Mr. Tsang Shui Woon (Mr. Tsang's brother) and 10% by Broad Respect Industries Limited, a party independent of and not connected with the group or connected persons.

(i) Changzhou S&I was owned as to 40% and 60% by Lanling and Switchgear and Instrumentation (International) Limited, a party independent of and not connected with the group or the connected persons, respectively. It was disposed to an independent third party in December 2003.

(j) Ruian Garden was owned as to 51% and 49% by Lanling and Tai Ah HK respectively. It was disposed to independent third parties in November 2004.

(k) 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.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instrument, comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the General Manager.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. As at 31 December 2005, all of the Group's debts would mature in less than one year (2004: 100%).

37. POST BALANCE SHEET EVENTS

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

38. COMPARATIVE AMOUNTS

As further explained in note 2 due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative balances have been reclassified to conform with the current year's presentation and accounting treatment.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 24 April 2006.