

If you are in any doubt as to any aspect of this Composite Document or as to the action to be taken you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your SIH Shares, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



**EATON HOLDING II S.A.R.L.**

*(Incorporated in Luxembourg with limited liability)*



**SENYUAN INTERNATIONAL HOLDINGS LIMITED**

**森源國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3333)**

**VOLUNTARY CONDITIONAL CASH OFFER BY  
DBS ASIA CAPITAL LIMITED, ON BEHALF OF  
EATON HOLDING II S.A.R.L.,  
A WHOLLY-OWNED INDIRECT SUBSIDIARY OF  
EATON CORPORATION,  
FOR ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
SENYUAN INTERNATIONAL HOLDINGS LIMITED**

**Financial adviser to  
Eaton Holding II S.a.r.l.**

**Financial adviser to  
Senyuan International Holdings Limited**



**Quam Capital Limited**

**Independent financial adviser to the independent board committee of  
Senyuan International Holdings Limited**

**CIMB**

**CIMB-GK Securities (HK) Limited**

A letter from the SIH Independent Board Committee containing its recommendations to the SIH Shareholders is set out on pages 26 to 27 of this Composite Document and a letter from the Independent Financial Adviser, containing its opinion on the Offer to the SIH Independent Board Committee, is set out on pages 28 to 42 of this Composite Document.

The procedures for acceptance of the Offer and other related information are set out in Appendix II to this Composite Document and in the accompanying Form of Acceptance. Acceptances should be received by the Receiving Agent, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queens Road East, Hong Kong no later than 4:00 p.m. on Friday, 22 September 2006 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code).

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## EXPECTED TIMETABLE

**The timetable set out below is indicative and any changes to the timetable will be announced by the Offeror.**

Opening date of the Offer ..... Friday, 1 September 2006

First Closing Date (*Note 1*) ..... Friday, 22 September 2006

Latest time for acceptance of the Offer on the  
First Closing Date (*Note 2*) ..... 4:00 p.m. on Friday, 22 September 2006

Announcement of the results of the Offer  
as at the First Closing Date, on the website  
of the Stock Exchange ..... no later than 7:00 p.m. on Friday,  
22 September 2006

Announcement of the results of the Offer  
as at the First Closing Date,  
in the newspapers in Hong Kong ..... Monday, 25 September 2006

Latest date for posting of remittances to SIH Shareholders  
in respect of valid acceptances received by the First Closing Date,  
assuming the Offer becomes, or is declared,  
unconditional on such date (*Note 3*) ..... Saturday, 30 September 2006

Latest time and date by which the Offer can  
become or be declared unconditional as  
to acceptances (*Note 4*) ..... 7:00 p.m. on Tuesday,  
31 October 2006

### Notes:

1. In accordance with the Takeovers Code, since the offer document and the offeree board circular in respect of the Offer are combined in a composite document, the Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document was posted. The Offeror reserves its right to extend the Offer until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offer, which announcement will state either the next closing date or if the Offer is at that time unconditional as to acceptances, a statement that the Offer will remain open until further notice. In the latter case, at least 14 days notice in writing must be given before the Offer is closed to those SIH Shareholders who have not accepted the Offer.

Beneficial owners of SIH Shares who hold their SIH Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix II) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

2. The Offer will close for acceptances at 4:00 p.m. on Friday, 22 September 2006 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror will issue an announcement when the Offer becomes unconditional as to acceptances.

## EXPECTED TIMETABLE

3. Remittances in respect of the consideration for the SIH Shares tendered under the Offer will be posted to those SIH Shareholders accepting the Offer as soon as possible, but in any event within 10 days from the later of the date of receipt by the Receiving Agent of all the relevant documents to render the acceptance under the Offer complete and valid, and the Unconditional Date. In the event that the 90% Threshold Condition is satisfied, further remittances in respect of the additional consideration for any SIH Shares which were tendered under the Offer before the 90% Threshold Condition was satisfied will be posted to the relevant SIH Shareholders as soon as possible but in any event within 10 days from the date on which the satisfaction of the 90% Threshold Condition is announced. Where a period laid down by the Takeovers Code ends on a day which is not a business day, the period is extended until the next business day.
4. In accordance with the Takeovers Code, where the Offer becomes or is declared unconditional whether as to acceptances or in all respects it should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offer is closed to SIH Shareholders who have not accepted the Offer. In accordance with the Takeovers Code, except with the consent of the Executive, the Offer may not become or be declared unconditional as to acceptances after 7.00 p.m. on the 60th day after the day this Composite Document was posted. Accordingly, unless the Offer has previously become unconditional as to acceptances, the Offer will lapse after 7:00 p.m. on Tuesday, 31 October 2006 unless extended with the consent of the Executive. If the Offer becomes or is declared unconditional as to acceptances, the Offeror may declare the Offer open for acceptances: (i) up to the date four months from the day this Composite Document was posted; or (ii) if the Offeror has by that time become entitled to exercise compulsory acquisition rights, until any such later date as the Offeror may choose to close the Offer in accordance with the Takeovers Code. The Offeror will issue an announcement when the Offer becomes unconditional in all respects. In accordance with the Takeovers Code, except with the consent of the Executive, all Conditions must be fulfilled or the Offer must lapse within 21 days of the First Closing Date or of the date the Offer becomes or is declared unconditional as to acceptances, whichever is the later.

**All time references contained in this Composite Document are to Hong Kong time.**

## DEFINITIONS

*In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:*

“Accepting Shareholder(s)”	means the SIH Shareholder(s) who accept(s) the Offer by duly completing and returning the Form of Acceptance;
“acting in concert”	has the meaning ascribed to it in the Takeovers Code;
“Affiliates”	means any Controlled company and any subsidiary Controlled by such company, in each case from time to time and includes SI;
“Announcement”	means the announcement dated 22 August 2006 jointly made by Offeror and SIH in relation to the Offer;
“associates”	has the meaning ascribed to it in the Listing Rules;
“Basic Offer Price”	means the amount of HK\$1.49 payable by the Offeror to holders of SIH Shares for each SIH Share accepted under the Offer;
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC;
“Changzhou Senyuan”	means 常州森源開關有限公司 (Changzhou Senyuan Switch Co., Ltd.), a wholly foreign owned enterprise established in the PRC and a wholly-owned subsidiary of SIH;
“Closing Date”	means the First Closing Date or any subsequent closing date(s) as the Offeror may determine and announce as permitted under the Takeovers Code;
“Committed Shares”	means the 228,750,000 SIH Shares which are subject to the Irrevocable Undertakings, registered in the name of SI, a company beneficially owned as to 50% by Mr. Zhou and as to 37.5% by Mr. Tsang;
“Companies Law”	means the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“Companies Ordinance”	means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended);

## DEFINITIONS

“Composite Document”	means this offer and response document, dated 1 September 2006, issued jointly by DBS Asia Capital, on behalf the Offeror and SIH in connection with the Offer;
“Compulsory Acquisition”	means subject to the Offeror becoming so entitled and choosing to proceed under section 88 of the Companies Law and Rule 2.11 of the Takeovers Code, the compulsory acquisition under those provisions of those SIH Shares which have not been acquired under the Offer;
“Concert Parties”	means parties acting in concert with the Offeror within the meaning of the Takeovers Code;
“Conditions” or “Offer Conditions”	means the conditions of the Offer, as set out under clause 1 under the section headed “Offer Conditions and Further Terms of the Offer” of this Composite Document;
“Consulting Services Agreements”	means the agreements, dated 20 August 2006, entered into between Eaton Suzhou and Mr. Tsang, and between Eaton Suzhou and Mr. Zhou respectively, and “Consulting Services Agreement” means either of these agreements;
“Controlled”	means holding or having the right to exercise 30% or more of the voting rights of a company, or otherwise being able to direct the management and operations of such company;
“DBS Asia Capital”	means DBS Asia Capital Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, and the financial adviser to the Offeror in relation to the Offer;
“Deed of Warranties”	means the deed dated 20 August 2006 entered into between Mr. Tsang, Mr. Zhou and SI;
“Eaton Suzhou”	means Eaton Electrical (Suzhou) Co., Ltd;
“Enhanced Offer Price”	means the amount of HK\$1.62 (inclusive of the Basic Offer Price) payable to holders of SIH Shares for each SIH Share accepted under the Offer, if the 90% Threshold Condition is satisfied;

## DEFINITIONS

“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“First Closing Date”	means 22 September 2006, being the 21st day following the date on which this Composite Document was posted and the first closing date for the Offer;
“Form of Acceptance”	means the form of acceptance and transfer in respect of the Offer which accompanies this Composite Document;
“Greater China”	means the People’s Republic of China including the Hong Kong Special Administrative Region, Taiwan and the Macao Special Administrative Region;
“HK\$” or “\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“Hong Kong”	means the Hong Kong Special Administrative Region of the Peoples Republic of China;
“Independent Financial Adviser”	means CIMB-GK Securities (HK) Ltd, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the SIH Independent Board Committee in relation to the Offer;
“Irrevocable Undertakings”	means the irrevocable undertakings, dated 20 August 2006, given by each of Mr. Tsang and Mr. Zhou respectively in favour of the Offeror and DBS Asia Capital in respect of the Committed Shares;
“Last Trading Date”	means 18 August 2006, being the last trading day prior to the suspension of trading in SIH Shares pending the publication of the Announcement;
“Latest Practicable Date”	means Tuesday, 29 August 2006, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document;

## DEFINITIONS

“LEL”	means Lanling Electrical Limited, a company incorporated in the British Virgin Islands with limited liability, the total issued shares in which are held beneficially by Mr. Zhou;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Mr. Tsang”	means Mr. Tsang Shui Ching, Patrick, an executive SIH Director;
“Mr. Zhou”	means Mr. Zhou Anmin, an executive SIH Director;
“New Lanling”	means Changzhou Lanling Electrical Co., Ltd. (常州蘭陵電器有限公司) (formerly known as Changzhou Andison Electrical Group Co., Ltd.);
“Offer”	means the voluntary conditional cash offer at the Basic Offer Price or the Enhanced Offer Price (as the case may be) for all the issued SIH Shares;
“Offer Period”	means the period from the date of the Announcement until whichever is the latest of the date when the Offer closes for acceptances, the date when the offer lapses and the date when an announcement is made of the withdrawal of a proposed offer;
“Offeror”	means Eaton Holding II S.a.r.l., a company incorporated in Luxembourg with limited liability and a wholly-owned indirect subsidiary of Eaton Corporation;
“Offeror Board”	means the board of directors of the Offeror;
“Offeror Directors”	means the directors of the Offeror for the time being;
“Old Lanling”	means Changzhou Lansen Electrical Co., Ltd. (常州蘭森電器有限公司) (formerly known as Changzhou Lanling Electrical Group Co., Ltd.);
“Overseas Shareholders”	means the SIH Shareholders whose registered addresses, as shown on the register of members of SIH, are outside Hong Kong;
“PRC”	means the People’s Republic of China excluding the Hong Kong Special Administrative Region, Taiwan and the Macao Special Administrative Region;



## DEFINITIONS

“Receiving Agent”	means Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong;
“Registrar”	means Tricor Investor Services Limited, the share registrar and transfer office of SIH;
“RMB”	means Renminbi, the lawful currency of the PRC and the exchange rate for RMB into HK\$ for the purpose of this Composite Document is RMB1.03 = HK\$1.00;
“Securities and Futures Ordinance” or “SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Senyuan Investments” or “SII”	means Senyuan International Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by SIH;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SI”	means Senyuan International Ltd, a company incorporated in the British Virgin Islands with limited liability and Controlled by Mr. Zhou and Mr. Tsang;
“SIH”	means Senyuan International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange;
“SIH Board”	means the board of directors of SIH;
“SIH Director(s)”	means the director(s) of SIH;
“SIH Group”	means SIH and its subsidiaries;
“SIH Independent Board Committee”	means the independent committee of the SIH Board comprising Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun;
“SIH Shareholders”	means registered holders for the time being of SIH Shares;
“SIH Shares”	means ordinary shares of HK\$0.10 each in the issued share capital of SIH;
“Stamp Office”	means the Stamp Office of the Inland Revenue Department of Hong Kong;

## DEFINITIONS

“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it in Section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“TAIL”	means Tai Ah International Limited, a company incorporated in the British Virgin Islands with limited liability, the total issued shares of which are held beneficially by Mr. Tsang, Mr. Tsang Shui Woon, Mr. Lou Chong Wei and Mr. Tang Yan Kit as to 75%, 20%, 2.5% and 2.5% respectively;
“Takeovers Code”	means The Hong Kong Code on Takeovers and Mergers;
“Team Billion”	means Team Billion Investment Limited, a company incorporated in Hong Kong with limited liability, the total issued share capital of which is held legally and beneficially by SII;
“Unconditional Date”	means the date on which the Offer becomes or is declared unconditional in all respects;
“US\$”	means United States dollar(s), the lawful currency of the USA and the exchange rate for US\$ into HK\$ for the purpose of this Composite Document is US\$1.00 = HK\$7.80;
“USA”	means the United States of America;
“Valuer”	means American Appraisal China Limited;
“90% Threshold Condition”	means the receipt of valid acceptances of the Offer in respect of the SIH Shares which constitute not less than 90% of the SIH Shares to which the Offer relates; and
“%”	means per cent.



1 September 2006

To SIH Shareholders

Dear Sir or Madam,

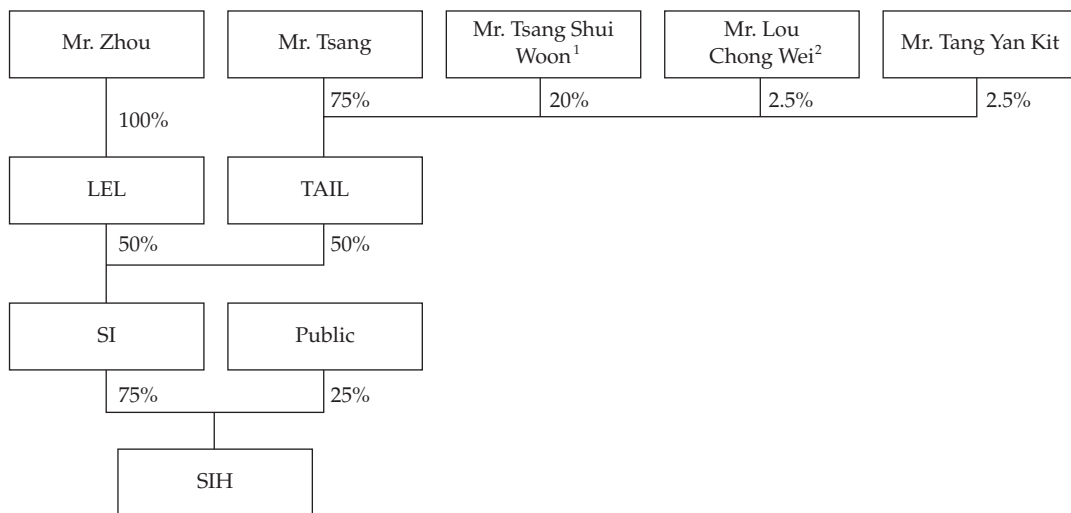
**VOLUNTARY CONDITIONAL CASH OFFER BY  
DBS ASIA CAPITAL LIMITED, ON BEHALF OF  
EATON HOLDING II S.A.R.L.,  
A WHOLLY-OWNED INDIRECT SUBSIDIARY OF  
EATON CORPORATION,  
FOR ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
SENYUAN INTERNATIONAL HOLDINGS LIMITED**

**INTRODUCTION**

On 22 August 2006, the Offeror and SIH jointly announced that the Offeror will make, through DBS Asia Capital, a voluntary conditional cash offer to acquire all the issued shares in the share capital of SIH.

There are 305 million SIH Shares in issue as at the Latest Practicable Date. SIH has no options, warrants or other securities in issue that carry a right to subscribe for or which are convertible into SIH Shares.

As at the Latest Practicable Date, the simplified shareholding structure of SIH was as follows:



*Notes:*

1. Mr. Tsang Shui Woon is a brother of Mr. Tsang.
2. Mr. Lou Chong Wei is an executive SIH Director and a brother-in-law of Mr. Tsang.

## LETTER FROM DBS ASIA CAPITAL

To the best knowledge, information and belief of the Offeror Directors, the Chairman and Chief Executive Officer of Eaton Corporation and the Executive Vice President and Chief Financial and Planning Officer of Eaton Corporation, Mr. Zhou, Mr. Tsang, Mr. Tsang Shui Woon, Mr. Lou Chong Wei, Mr. Tang Yan Kit, LEL, TAIL, SI and SIH are independent from and are not connected with Eaton Corporation or any of its directors, the chief executive of Eaton Corporation or substantial shareholders of Eaton Corporation or its subsidiaries, or any of their respective associates and are not acting in concert with the Offeror or its Concert Parties.

This letter sets out the details of the principal terms of the Offer, together with information relating to the Offeror and the intentions of Eaton Corporation and the Offeror in relation to the SIH Group. Further details of the terms of the Offer and the procedures for acceptance of the Offer are set out in Appendix II to this document and in the Form of Acceptance. Your attention is also drawn to the letter from the SIH Board, the letter from the SIH Independent Board Committee and the letter from the Independent Financial Adviser contained in this Composite Document.

### THE OFFER

DBS Asia Capital is making the Offer for and on behalf of the Offeror, subject to the terms set out in this Composite Document and in the accompanying Form of Acceptance on the following basis:

Basic Offer Price for each SIH Share ..... HK\$1.49 in cash

OR

Enhanced Offer Price (payable only if the 90%

Threshold Condition is satisfied) for each SIH Share ..... HK\$1.62 in cash

### Comparisons of value

The Basic Offer Price and Enhanced Offer Price represent:

- a premium of approximately 4.20% or 13.29%, respectively, over the closing price of HK\$1.43 per SIH Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 4.93% or 14.08%, respectively, over the average closing price of approximately HK\$1.42 per SIH Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 10.37% or 20.00%, respectively, over the average closing price of approximately HK\$1.35 per SIH Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Date;

## LETTER FROM DBS ASIA CAPITAL

- a premium of approximately 13.74% or 23.66%, respectively, over the average closing price of approximately HK\$1.31 per SIH Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 26.27% or 37.29%, respectively, over the issue price of SIH at its initial public offering on 11 July 2005 of HK\$1.18 per SIH Shares; and
- a premium of approximately 132.81% or 153.13%, respectively, over the audited net assets value per SIH Share of approximately HK\$0.64 as at 31 December 2005 (based on the net asset value of approximately RMB202 million (equivalent to approximately HK\$196.12 million) and 305 million SIH Shares in issue as at 31 December 2005 according to the audited accounts of SIH).

### **Highest and lowest prices**

The highest and lowest prices at which SIH Shares were traded on the Stock Exchange in the six-month period immediately prior to the Last Trading Date were HK\$1.50 on 4 August 2006, 7 August 2006 and 8 August 2006 and HK\$1.07 on 25 May 2006, respectively.

### **Total consideration**

If the 90% Threshold Condition is satisfied and the Enhanced Offer Price of HK\$1.62 per SIH Share becomes payable, the aggregate maximum amount payable by the Offeror, assuming 305 million SIH Shares in issue, would be approximately HK\$494.1 million.

The total value of the 305 million SIH Shares in issue at the Basic Offer Price is approximately HK\$454.5 million.

### **Confirmation of financial resources**

DBS Asia Capital has been appointed as the financial adviser to the Offeror in respect of the Offer.

DBS Asia Capital is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offer. The Offer will be financed by the Offeror's internal resources.

### **Further Terms of the offer**

The SIH Shares will be acquired with all rights attached thereto as at the date of the Announcement, or subsequently becoming attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Announcement, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

## LETTER FROM DBS ASIA CAPITAL

### **Irrevocable Undertakings to Accept the Offer**

The Offeror has received Irrevocable Undertakings from Mr. Tsang and Mr. Zhou (the indirect controlling shareholders of SIH) that they will accept, or procure the acceptance by their Affiliates of, the Offer in respect of the Committed Shares, which represent 75% of the entire issued share capital of SIH as at the date Latest Practicable Date. The Offer will become unconditional as to acceptances upon the receipt of acceptances of the Committed Shares. The Irrevocable Undertakings will be binding even if a higher offer is made for the SIH Shares and will lapse only if (i) the Offeror is not obliged to make or proceed with the Offer, if after the release of the Announcement, (a) the Executive consents to the Offeror not making the Offer; (b) an event occurs as a result of which the Offeror is no longer required by the Takeovers Code to proceed with the Offer; or (c) the Offeror becomes aware that any Condition of the Offer as set out in the Announcement has or can reasonably be expected to become incapable of being fulfilled; or (ii) the Offer lapses or is withdrawn. The Irrevocable Undertakings will also apply to any new offer made by or on behalf of the Offeror to acquire SIH Shares following an announcement of a general offer by a third party for SIH provided that (a) such new offer is made within 18 months of the lapsing or withdrawal of the Offer; (b) the Offeror did not request the Executive to allow it to withdraw the Offer, and (c) the terms of such new offer by the Offeror are no less favourable to acceptors than the term set out in the Announcement. The Offeror will make an announcement when the Offer becomes unconditional as to acceptances.

The Irrevocable Undertakings require that Mr. Tsang and Mr. Zhou will accept, or procure that their Affiliates will accept, the Offer in respect of the Committed Shares not later than 7 days after this Composite Document is posted to the SIH Shareholders. The Offeror will make an announcement when the Offer becomes unconditional as to acceptances.

### **Payment**

Payment in respect of acceptances of the Offer (less the relevant stamp duty and the amount of dividend paid or due to be paid, in respect of the relevant SIH Shares, on or after the date of the Announcement) will be made as soon as possible but in any event within 10 days from the date of receipt of a complete and valid acceptance or of the Unconditional Date, whichever is the later. In the event that the 90% Threshold Condition is satisfied, further remittances in respect of the additional consideration for any SIH Shares which were tendered under the Offer before the 90% Threshold Condition was satisfied will be posted to the relevant SIH Shareholders as soon as possible but in any event within 10 days from the date on which the satisfaction of the 90% Threshold Condition is announced. Relevant documents of title must be received by the Offeror to render each acceptance of the Offer complete and valid.

### **Stamp duty**

Sellers ad valorem stamp duty arising in connection with acceptance of the Offer will be payable by each SIH Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the greater of (i) the value of the consideration payable by the Offeror for SIH Shares; and (ii) the market value of SIH Shares, and will be deducted from the cash

## LETTER FROM DBS ASIA CAPITAL

amount due to such accepting SIH Shareholder. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting SIH Shareholders.

### CONDITIONS OF THE OFFER

The Offer is conditional on:

- (a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date which is 21 days after the making of the Offer (or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of the SIH Shares which constitute not less than 75% of the SIH Shares to which the Offer relates;
- (b) each and every member of the SIH Group remaining solvent and not subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, provisional liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any part of the assets or undertakings of any member of the SIH Group from the date of the Announcement up to the date when all the other Conditions are satisfied or waived;
- (c) no event having occurred which would make the Offer or the acquisition of any of the SIH Shares by the Offeror void, unenforceable, illegal or which would prohibit its implementation of the Offer or impose any additional material conditions or obligations with respect to the Offer or any part thereof or on the acquisition of any of the SIH Shares;
- (d) any necessary consent or approval (including approval in principle) of any governmental or regulatory body in relation to the offer having been obtained pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and overseas;
- (e) no government, governmental, quasi-governmental, supernational, statutory or regulatory bodies or courts in any jurisdiction having instituted any action, proceeding, suit, investigation or enquiry, or enacted or made, and there not continuing to be outstanding, any statute, regulation or order that would make the Offer void, unenforceable or illegal or prohibit the implementation of, the Offer; and
- (f) any necessary third party consents in relation to the Offer required pursuant to any agreement (including any financing agreement) to which any member of the SIH Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the SIH Group taken as a whole) having been obtained or waived by the relevant party(ies).

## LETTER FROM DBS ASIA CAPITAL

The Offeror reserves the right to waive all or any of the Conditions to the Offer set out above, in whole or in part. The Offer will become unconditional as to acceptances upon the receipt of acceptances in respect of the Committed Shares. The Offer will close for acceptances at 4.00 p.m. on Friday, 22 September unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror will issue an announcement when the Offer becomes unconditional as to acceptances and when it becomes unconditional in all respects. The last day on which the Offer can become unconditional as to acceptances is Tuesday, 31 October 2006.

In addition to the Conditions set out above, the Offer is also made on the basis that acceptance of the Offer by any person will constitute a warranty by such person or persons to the Offeror that the SIH Shares acquired under the Offer are sold free from all third party rights, liens, charges, equities and encumbrances and together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the date of the Announcement.

### INFORMATION ON THE OFFEROR AND EATON CORPORATION

The Offeror is a wholly owned indirect subsidiary of Eaton Corporation, a company incorporated in the State of Ohio, USA. Eaton Corporation is listed on the New York Stock Exchange and is a constituent of the S&P 500 index. Eaton Corporation is a diversified industrial manufacturer which operates through four business segments, namely, electrical, fluid power, truck and automotive. Eaton's Electrical Group designs, manufactures, markets and services electrical systems and components for power quality, distribution and control and its products include low and medium-voltage power distribution and control products, and a range of circuit breakers. Eaton's Fluid Power Group designs, manufactures, markets and services fluid power systems and services for industrial, mobile and aircraft equipment. Eaton's Truck Group offers products including heavy, medium and light duty agricultural mechanical transmissions and Eaton's Automotive Group's products include automotive engine air management systems, powertrain solutions and specialty controls for performance, fuel economy and safety.

The Offeror is a company incorporated in Luxembourg on 13 May 2004 with limited liability. The directors of the Offeror are Mr. Carlo Schlessler, Mr. Robert Parmenter and Mr. David Otto. The Offeror is a holding company, the subsidiaries of which are engaged in all four of Eaton's business segments. The directors of Eaton Corporation are Christopher M. Connor, Michael J. Critelli, Alexander M. Cutler, Ernie Green, Ned C. Lautenbach, Deborah L. McCoy, John R. Miller, Gregory R. Page, Victor A. Pelson and Gary L. Tooker.

The audited consolidated net profit before and after taxation of Eaton Corporation was approximately US\$996 million (equivalent to approximately HK\$7,769 million) and US\$805 million (equivalent to approximately HK\$6,279 million), respectively for the financial year ended 31 December 2005.



# LETTER FROM DBS ASIA CAPITAL

## REASONS AND BENEFITS FOR THE OFFER

The Offeror is of the view that the making of the Offer provides an excellent opportunity for Eaton to enlarge its electrical equipment and controls business in the PRC and to capitalise on SIH Groups distribution network in the PRC. The acquisition of SIH would diversify Eatons existing business and enhance growth prospects.

## THE OFFEROR'S INTENTIONS IN RELATION TO SIH

Following completion of the Offer, Eaton and the Offeror intend that the SIH Group will carry on its current business of manufacturing and selling of electrical distribution and control equipment in the PRC, and the management and the daily operations of SIH will be carried out by the existing management of SIH along with existing management of the Eaton Electrical Group. The Offeror intends to continue with the employment of the employees of the SIH Group. Given the adequacy of assets already in place, Eaton does not anticipate the need for significant additional capital expenditure in respect of SIH beyond current levels. Apart from that which is contemplated in the previous section titled, "Reasons and Benefits for the Offer", the Offeror does not intend to introduce any other major changes to the business of the SIH Group and does not intend to redeploy any of the fixed assets of the SIH Group.

## BENEFITS OF THE OFFER FOR THE SIH SHAREHOLDERS

The Offer gives SIH Shareholders an opportunity to realize their investment in the SIH Group at a price which is above the market price of SIH Shares on the Last Trading Date and which is also at a significant premium to the issue price of HK\$1.18 per SIH Share at its initial public offering. The average daily trading volume of SIH Shares was approximately 664,000 shares per day for the last 30 trading days and approximately 201,000 SIH Shares per day for the last 180 trading days prior to and including the Last Trading Date (representing approximately 0.22% and 0.07% of the issued share capital of SIH respectively). Given the thin trading volume, the Offer provides an opportunity to the SIH Shareholders to realize in full their investment in SIH.

## COMPULSORY ACQUISITION, SUSPENSION OF DEALINGS AND DE-LISTING

If the 90% Threshold Condition is satisfied, the Offeror intends to apply the provisions of the Companies Law to compulsorily acquire any outstanding SIH Shares and to apply for a de-listing of SIH Shares from the Stock Exchange.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise SIH by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Company Law, acceptances of the Offer and purchases made by the Offeror and its Concert Parties during the period of four months after posting of this Composite Document total 90% of the SIH Shares other than those held by the Offeror and its Concert Parties.

## LETTER FROM DBS ASIA CAPITAL

Pursuant to Rule 15.6 of the Takeovers Code, where the Offeror has stated its intention to avail itself of any powers of compulsory acquisition, the Offer may not remain open for acceptance for more than 4 months from the posting of the offer document, unless the Offeror has by that time become entitled to exercise such powers of compulsory acquisition, in which event it must do so without delay.

As neither Mr. Tsang nor Mr. Zhou nor their Affiliates are acting in concert with the Offeror, acceptances of the Offer for the Committed Shares will be taken into account when calculating the 90% Threshold Condition.

### **MAINTAINING THE LISTING STATUS OF SIH**

If the Offer were to become unconditional but compulsory acquisition rights were not available to the Offeror, the Offeror will use reasonable endeavours to maintain the listing of SIH on the Stock Exchange and will ensure that not less than 25% of the SIH Shares will be held by the public as soon as possible following the closing of the Offer in compliance with the Listing Rules.

**The Stock Exchange has stated that if, at the close of the Offer, less than 25% of the SIH Shares, are held by the public, or if the Stock Exchange believes that:**

a false market exists or may exist in the trading of the SIH Shares, or

there are insufficient SIH Shares in public hands to maintain an orderly market,

**then it will consider exercising its discretion to suspend dealings in the SIH Shares.**

### **AGREEMENT WITH MR. TSANG AND MR. ZHOU**

Mr. Tsang and Mr. Zhou (the indirect controlling shareholders of SIH) have each entered into a Consulting Services Agreement with Eaton Suzhou (a wholly-owned indirect subsidiary of Eaton) under which, subject to the Offer becoming unconditional, Mr. Tsang and Mr. Zhou will serve as independent contractors to provide consulting services to Eaton Suzhou for a period of 18 months. Under each Consulting Services Agreement, Mr. Tsang and Mr. Zhou have agreed with Eaton Suzhou, that, subject to certain exceptions, they will not compete with the business of assembly, manufacture, distribution or sale of cable plugs, controls and switchgear, and components for controls and switchgears for high, medium and low voltage electrical applications (i) anywhere in the world during the term of the Consulting Services Agreements, and (ii) in Greater China for a period of thirty-six (36) months from the signing of the Consulting Services Agreement.

Under the Consulting Services Agreements, the annual consulting fee payable by Eaton Suzhou to each of Mr. Tsang and Mr. Zhou is RMB0.98 million (equivalent to approximately HK\$951,456). Eaton Suzhou will also make a non-compete payment of RMB0.5 million (equivalent to approximately HK\$485,437) to each of Mr. Tsang and Mr. Zhou payable in 18 monthly instalments during the term of the Consulting Services Agreements.

## LETTER FROM DBS ASIA CAPITAL

Each of Mr. Tsang and Mr. Zhou has an existing service agreement dated 30 May 2005 with SIH. The annual salary payable by SIH to Mr. Tsang and Mr. Zhou under these service agreements is HK\$1,440,000 and HK\$1,440,000 respectively. It is the intention of the Offeror to terminate these service agreements after completion of the Offer. No compensation will be payable to Mr. Tsang or Mr. Zhou on termination of the service agreements.

It is the intention of the Offeror that SIHs existing senior management team will continue to manage SIH after completion of the Offer along with existing management of Eatons Electrical Group, and Mr. Tsang and Mr. Zhou will continue to participate in the running of SIH through their Consulting Services Agreements.

### INTEREST OF THE OFFEROR IN SIH

Neither the Offeror nor any of its Concert Parties owns, controls or directs any SIH Shares or convertible securities, warrants or options in respect of SIH Shares, has any holdings in SIH Shares or has dealt in SIH Shares in the 6 months prior to the commencement of the Offer Period and up to and including the Latest Practicable Date.

### ACCEPTANCE AND SETTLEMENT

#### Procedure for acceptance of the Offer

To accept the Offer, you should complete the accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

The completed Form of Acceptance should then be forwarded, together with the relevant SIH Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of SIH Shares in respect of which you intend to accept the Offer, by ordinary post using the enclosed pre-paid envelope (applicable for use in Hong Kong only), by express mail or other similar services, or by hand to the Receiving Agent at 26th Floor, Tesbury Centre, 28 Queens Road East, Hong Kong, as soon as possible **and in any event so as to reach the Receiving Agent by no later than 4:00 p.m. on Friday, 22 September 2006**, being the First Closing Date, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code.

No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

To ensure equality of treatment of all SIH Shareholders, those registered SIH Shareholders who hold SIH Shares for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of SIH Shares, whose investments are registered in the names of nominees, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

## LETTER FROM DBS ASIA CAPITAL

Your attention is drawn to the further details regarding the Offer set out in Appendix II to this Composite Document and in the Form of Acceptance.

### **Settlement of the Offer**

Subject to the Offer becoming or being declared unconditional and provided that a valid Form of Acceptance and the relevant SIH Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order, a cheque for the amount due to the Accepting Shareholder in respect of the SIH Shares tendered by the Accepting Shareholder under the Offer, less sellers ad valorem stamp duty (if any) payable by the Accepting Shareholder and the amount of dividend paid or due to be paid on or after the date of the Announcement, to any such Accepting Shareholder will be despatched to the Accepting Shareholder by ordinary post at his/her own risk as soon as possible but in any event within 10 days from the later of the date on which the Offer becomes or is declared unconditional and the date on which all relevant documents are received by the Receiving Agent to render such acceptance complete and valid. The consideration shall be for the Basic Offer Price if the percentage threshold for acceptances in Condition (a) is satisfied or waived, or the Enhanced Offer Price if the 90% Threshold Condition is satisfied. In the event that the 90% Threshold Condition is satisfied, further remittances in respect of the additional consideration for any SIH Shares which were tendered under the Offer before the 90% Threshold Condition was satisfied will be posted to the relevant SIH Shareholders as soon as possible but in any event within 10 days from the date on which the satisfaction of the 90% Threshold Condition is announced.

The attention of SIH Shareholders with registered addresses outside Hong Kong is drawn to sub-paragraph (m) of the paragraph headed "General" of Appendix II to this Composite Document.

If the Offer does not become or is not declared unconditional within the time permitted by the Takeovers Code, the Form of Acceptance and the relevant SIH Share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Offeror will be returned to the SIH Shareholder(s) by post or such documents will be made available by the Receiving Agent for collection, as soon as possible but in any event within 10 days after the Offer has lapsed. Where a SIH Shareholder has forwarded one or more transfer receipt(s) and in the meantime one or more SIH share certificate(s) has/have been collected on behalf of a SIH Shareholder in respect thereof, the SIH Shareholder will be sent such SIH Share certificate(s) and any other document(s) of title by post in lieu of the transfer receipt(s).

Settlement of the consideration to which any SIH Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim, or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such SIH Shareholder.

# LETTER FROM DBS ASIA CAPITAL

## GENERAL MATTERS

### Representations and Warranties

Each of Mr. Tsang, Mr. Zhou and SI (a company Controlled by them and the registered owner of the Committed Shares) has given certain representations and warranties in respect of the SIH Group and its business to the Offeror, as set out in the Deed of Warranties, dated 20 August 2006. Pursuant to the Deed of Warranties, Mr. Tsang, Mr. Zhou and SI have further agreed that 15% of the consideration payable for the Committed Shares shall be paid into an escrow account and shall be available to satisfy claims made by the Offeror under the Deed of Warranties. Any amount remaining in the escrow account will be released on the date which is 18 months after the date on which legal title to the Committed Shares is transferred to the Offeror.

### Fee arrangement

Mr. Tsang and Mr. Zhou (the indirect controlling shareholders of SIH) have each agreed to pay to the Offeror an amount equal to 2.5% of the value of the Committed Shares (being the price per SIH Share under the Offer multiplied by the number of Committed Shares) (i) if they violate the undertakings contained in the Irrevocable Undertakings to, amongst other things, accept the Offer; (ii) if the executive directors of SIH fail to pass a resolution supporting the Offer or revoke such resolution supporting the Offer (except if such failure to support the Offer or withdrawal of the support of the Offer by the Offeree's executive directors was due to a higher competing offer); or (iii) if there is a higher competing offer, Mr. Tsang or Mr. Zhou votes in his capacity as a SIH Director to support such higher competing offer.

The Offeror has agreed with Mr. Tsang and Mr. Zhou to pay SIH an aggregate amount equal to 5% of the value of the Committed Shares if, after all of the Conditions of the Offer have been met, the Offeror applies to, and receives consent from, the SFC to withdraw the Offer.

### General

The availability of the Offer to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions. The attention of the SIH Shareholders who are not resident in Hong Kong is drawn to sub-paragraph (m) of the paragraph headed "General" in Appendix II to this Composite Document.

You are recommended to consult your own professional advisers if you are in doubt as to the taxation implications of accepting the Offer. It is emphasised that none of the Offeror, Eaton, DBS Asia Capital, SIH, or any of their respective directors or Affiliates, or any other persons involved in the Offer, accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

## LETTER FROM DBS ASIA CAPITAL

All documents and remittances sent to the SIH Shareholders by post will be sent to them, or their designated agents, at their own risk to their addresses as stated on the Forms of Acceptance or if no such address is stated, as they appear in the register of members of SIH or, in the case of joint SIH Shareholders, to the SIH Shareholder whose name stands first in the register of members of SIH, as applicable. None of the Offeror, Eaton, DBS Asia Capital, SIH, the Registrar, the Receiving Agent or any of their respective directors or Affiliates, or any other person involved in the Offer, accepts any liability for any loss in postage or any other liabilities that may arise as a result.

### FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices, which form part of this Composite Document. Further terms and conditions of the Offer are set out in Appendix II to this Composite Document and the accompanying Form of Acceptance.

Yours faithfully,

For and on behalf of

**DBS Asia Capital Limited**

**George Hongchoy**

*Managing Director*

**Jason Wong**

*Managing Director*

**senyuan**  
**SENYUAN INTERNATIONAL HOLDINGS LIMITED**  
**森源國際控股有限公司**

*(Incorporated in the Cayman islands with limited liability)*  
**(Stock Code: 3333)**

*Executive SIH Directors:*

Mr. Tsang Shui Ching, Patrick  
Mr. Zhou Anmin  
Mr. Lou Chong Wei  
Mr. Shu Yi Jin

*Registered office:*

Century Yard  
Cricket Square, Hutchins Drive  
P.O. Box 2681 GT  
George Town, Grand Cayman  
British West Indies

*Independent non-executive SIH Directors:*

Mr. Keung Ping Yin, Raymond  
Mr. Wong Yiu Sun, Peter  
Mr. Lu Yan Sun

*Principal place of business:*

1 West Hengtanghe Road  
External-oriented Agricultural  
Development Zone  
Changzhou, Jiangsu Province  
The PRC

1 September 2006

*To the SIH Shareholders*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER  
BY DBS ASIA CAPITAL LIMITED, ON BEHALF OF  
EATON HOLDING II S.A.R.L.,  
A WHOLLY-OWNED INDIRECT SUBSIDIARY OF EATON CORPORATION,  
FOR ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
SENYUAN INTERNATIONAL HOLDINGS LIMITED**

**INTRODUCTION**

On 22 August 2006, the Offeror and SIH jointly announced that the Offeror will make, through DBS Asia Capital, a voluntary conditional cash offer to acquire all the issued shares in the share capital of SIH.

Messrs. Keung Ping Yin, Raymond, Wong Yiu Sun, Peter and Lu Yan Sun, all of whom are independent non-executive SIH Directors and who have no direct or indirect interest in the Offer, have been appointed as members of the SIH Independent Board Committee to make a recommendation in respect of the Offer to the SIH Shareholders. CIMB-GK Securities (HK) Limited has been approved by the SIH Independent Board Committee to act as the independent financial adviser to advise the SIH Independent Board Committee on the Offer.

## LETTER FROM THE SIH BOARD

The purpose of this Composite Document is to provide you with, among other matters, information relating to the SIH Group, the Offeror and the Offer as well as setting out the letter from the SIH Independent Board Committee containing its recommendation to the SIH Shareholders in respect of the Offer and the letter from the Independent Financial Adviser containing its advice to the SIH Independent Board Committee in respect of the Offer.

### THE OFFER

The Offeror, through DBS Asia Capital, offers to acquire all the SIH Shares in issue on the following basis:

Basic Offer Price for each SIH Share ..... HK\$1.49 in cash

OR

Enhanced Offer Price (payable only if the 90%  
Threshold Condition is satisfied) for each SIH Share ..... HK\$1.62 in cash

Further terms of the Offer are set out in Appendix II to this Composite Document and the accompanying Form of Acceptance. If a SIH Shareholder wishes to accept the Offer in respect of one or all of his/her SIH Share(s), he/she should complete the accompanying Form of Acceptance in accordance with the instructions set out therein.

### Comparisons of value

The Basic Offer Price and Enhanced Offer Price represent:

- a premium of approximately 4.20% and 13.29%, respectively, over the closing price of HK\$1.43 per SIH Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 4.93% and 14.08%, respectively, over the average closing price of approximately HK\$1.42 per SIH Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 10.37% and 20.00%, respectively, over the average closing price of approximately HK\$1.35 per SIH Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 13.74% and 23.66%, respectively, over the average closing price of approximately HK\$1.31 per SIH Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 26.27% and 37.29%, respectively, over the issue price of SIH at its initial public offering on 11 July 2005 of HK\$1.18 per SIH Share; and



## LETTER FROM THE SIH BOARD

- a premium of approximately 132.81% and 153.13%, respectively, over the audited net assets value per SIH Share of approximately HK\$0.64 as at 31 December 2005 (based on the net asset value of approximately RMB202 million (equivalent to approximately HK\$196.12 million) and 305 million SIH Shares currently in issue according to the audited accounts of SIH).

### **IRREVOCABLE UNDERTAKINGS TO ACCEPT THE OFFER**

The Offeror has received Irrevocable Undertakings from Mr. Tsang and Mr. Zhou (the indirect controlling shareholders of SIH) that they will accept, or procure the acceptance by their Affiliates of, the Offer in respect of the Committed Shares, which represented 75% of the entire issued share capital of SIH as at the Latest Practicable Date. The Offer will become unconditional as to acceptances upon the receipt of acceptances of the Committed Shares. The Irrevocable Undertakings will be binding even if a higher offer is made for the SIH Shares and will lapse only if (i) the Offeror is not obliged to make or proceed with the Offer, if after the release of the Announcement, (a) the Executive consents to the Offeror not making the Offer; (b) an event occurs as a result of which the Offeror is no longer required by the Takeovers Code to proceed with the Offer; or (c) the Offeror becomes aware that any Condition of the Offer as set out in the Announcement has or can reasonably be expected to become incapable of being fulfilled; or (ii) the Offer lapses or is withdrawn. The Irrevocable Undertakings will also apply to any new offer made by or on behalf of the Offeror to acquire SIH Shares following an announcement of a general offer by a third party for SIH provided that (a) such new offer is made within 18 months of the lapsing or withdrawal of the Offer; (b) the Offeror did not request the Executive to allow it to withdraw the Offer, and (c) the terms of such new offer by the Offeror are no less favourable to acceptors than the terms set out in the Announcement.

The Irrevocable Undertakings require that Mr. Tsang and Mr. Zhou will accept, or procure that their Affiliates will accept, the Offer in respect of the Committed Shares not later than 7 days after this Composite Document is posted to the SIH Shareholders.

### **FURTHER INFORMATION**

Please also refer to the letter from DBS Asia Capital and Appendix II to this Composite Document for information in relation to the Offer, the making of the Offer to the Overseas Shareholders and acceptance and settlement procedures of the Offer.

## LETTER FROM THE SIH BOARD

### INFORMATION ON THE SIH GROUP

The SIH Group is a well-established manufacturer of vacuum circuit breakers and other components of switchgears in the PRC.

The SIH Shares were listed on the Stock Exchange on 11 July 2005 by way of public offer and placing.

The audited consolidated profit before and after taxation of the SIH Group was approximately RMB55.8 million (equivalent to approximately HK\$54.2 million) and RMB49.5 million (equivalent to approximately HK\$48.1 million) respectively for the year ended 31 December 2005. For the year ended 31 December 2004, the audited consolidated profit before and after taxation of the SIH Group was approximately RMB47.5 million (equivalent to approximately HK\$46.1 million) and RMB42.3 million (equivalent to approximately HK\$41.1 million) respectively.

The audited net asset value of the SIH Group was approximately RMB202 million (equivalent to approximately HK\$196.1 million) as at 31 December 2005 and was approximately RMB76.5 million (equivalent to approximately HK\$74.3 million) as at 31 December 2004.

### INFORMATION ON THE OFFEROR

To the best knowledge of the SIH Directors, the Offeror is a company incorporated in Luxembourg with limited liability and is a wholly-owned indirect subsidiary of Eaton Corporation. Eaton Corporation is listed on the New York Stock Exchange. Please refer to the section headed "Information on the Offeror and Eaton Corporation" in the letter from DBS Asia Capital for more information about the Offeror.

### INTENTIONS OF THE OFFEROR REGARDING SIH GROUP

Your attention is drawn to the sections headed "The Offeror's Intentions in relation to SIH", "Compulsory Acquisition, Suspension of Dealings and De-listing" and "Maintaining the Listing Status of SIH" in the letter from DBS Asia Capital.

The SIH Shareholders should note that it is the intention of the Offeror that if the 90% Threshold Condition is satisfied, it will apply the provisions of the Companies Law to compulsorily acquire any outstanding SIH Shares and will apply for a de-listing of SIH Shares from the Stock Exchange.

## LETTER FROM THE SIH BOARD

### RECOMMENDATION

Your attention is drawn to the letter from the SIH Independent Board Committee and the letter from the Independent Financial Adviser which set out their recommendations and opinions in relation to the Offer and the principal factors considered by them before arriving at their recommendations. You are also advised to read this Composite Document and the Form of Acceptance in respect of the acceptance and settlement procedures of the Offer.

Yours faithfully,  
For and on behalf of the SIH Board  
**Tsang Shui Ching, Patrick**  
*Chairman*

**senyuan**  
**SENYUAN INTERNATIONAL HOLDINGS LIMITED**  
**森源國際控股有限公司**  
*(Incorporated in the Cayman islands with limited liability)*  
**(Stock Code: 3333)**

1 September 2006

*To the SIH Shareholders*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER  
BY DBS ASIA CAPITAL LIMITED, ON BEHALF OF  
EATON HOLDING II S.A.R.L.,  
A WHOLLY-OWNED INDIRECT SUBSIDIARY OF EATON CORPORATION,  
FOR ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
SENYUAN INTERNATIONAL HOLDINGS LIMITED**

**INTRODUCTION**

We refer to the composite offer and response document (the “**Composite Document**”) dated 1 September 2006 jointly issued by the Offeror and SIH, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

We have been appointed as members of the SIH Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the SIH Shareholders are concerned.

CIMB-GK Securities (HK) Limited has been appointed as the independent financial adviser to the SIH Independent Board Committee to advise us in respect of the terms of the Offer. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the letter from the Independent Financial Adviser contained in the Composite Document. The Independent Financial Adviser considers that the terms of the Offer are fair and reasonable so far as the SIH Shareholders are concerned, and advise us to recommend the SIH Shareholders to accept the Offer.

**LETTER FROM THE SIH INDEPENDENT BOARD COMMITTEE**

**RECOMMENDATION**

Having taken into account the terms of the Offer and the advice of the Independent Financial Adviser, we consider that the terms of the Offer are fair and reasonable so far as the SIH Shareholders are concerned and, accordingly, we recommend the SIH Shareholders that they should consider accepting the Offer.

Notwithstanding our recommendation, the SIH Shareholders should consider carefully the terms of the Offer.

Yours faithfully,

The SIH Independent Board Committee

**Keung Ping Yin, Raymond**

**Wong Yiu Sun, Peter**

**Lu Yan Sun**

*Independent non-executive SIH Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of the letter from the Independent Financial Adviser to the SIH Independent Board Committee for inclusion in this Composite Document.*

# CIMB

**CIMB-GK Securities (HK) Limited**

25/F., Central Tower  
28 Queen's Road Central  
Hong Kong

1 September 2006

*To the SIH Independent Board Committee and the SIH Shareholders*

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFER  
BY DBS ASIA CAPITAL LIMITED, ON BEHALF OF  
EATON HOLDING II S.A.R.L.,  
A WHOLLY-OWNED INDIRECT SUBSIDIARY OF EATON CORPORATION,  
FOR ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
SENYUAN INTERNATIONAL HOLDINGS LIMITED**

### INTRODUCTION

We refer to our appointment, as approved by the SIH Independent Board Committee, as the independent financial adviser to the SIH Independent Board Committee and the SIH Shareholders in relation to the Offer details of which are set out in the Composite Document dated 1 September 2006, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

The SIH Board currently comprises four executive directors and three independent non-executive directors. The SIH Independent Board Committee comprising Messrs. Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun, all of whom have no direct or indirect interest in the Offer, has been established to advise the SIH Shareholders on the terms of the Offer.

In our capacity as the independent financial adviser to the SIH Independent Board Committee and the SIH Shareholders, our role is to provide the SIH Independent Board Committee and the SIH Shareholders with an independent opinion and recommendation as to whether the terms of the Offer are fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In July 2005, we acted as one of the underwriters of SIH's initial public offerings, of which our underwriting obligations only accounted for less than 2% of the total number of SIH Shares offered. We have neither taken any position of SIH Shares during the initial public offerings nor held any securities of SIH since its initial public offerings. Apart from the above, which we consider would not likely to create, or create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice, we are not associated with the Offeror or SIH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly we are considered eligible to give independent advice on the Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or SIH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts supplied to us and representations expressed by the SIH Directors and/or management of SIH Group and have assumed that all such information and facts and any representations made to us or contained in the Composite Document were true, accurate and complete at the time they were made and continue to be so at the date of the Composite Document and during the period up to the close of the Offer. We have been advised by the SIH Directors and/or the management of SIH Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of SIH Group.

We have not considered the tax implications on the SIH Shareholders of their acceptances or non-acceptances of the Offer since this is particular to their own individual circumstances. In particular, the SIH Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offer and, if in any doubt, should consult their own professional advisers.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Offer, we have considered the following principal factors and reasons:

### I. Background to and terms of the Offer

On 22 August 2006, the Offeror and SIH jointly announced that the Offeror will make, through DBS Asia Capital, a voluntary conditional cash offer to acquire all the issued shares in the share capital of SIH.

As set out in the “Letter from DBS Asia Capital” of the Composite Document, as at the Latest Practicable Date, there were 305,000,000 SIH Shares in issue and there were no options, warrants or other securities in issue that carried a right to subscribe for or which were convertible into SIH Shares. DBS Asia Capital is making, on behalf of the Offeror, the Offer on the following basis:

**Basic Offer Price for each SIH Share . . . . . HK\$1.49 in cash**

OR

**Enhanced Offer Price (payable only if the 90%  
Threshold Condition is satisfied) for each SIH Share . . . . . HK\$1.62 in cash**

The Offer will be conditional upon, amongst others, valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on Friday, 22 September 2006 in respect of SIH Shares which represent not less than 75% of the SIH Shares to which the Offer relates.

#### *Irrevocable Undertakings to Accept the Offer*

As disclosed in the “Letter from DBS Asia Capital” of the Composite Document, the Offeror has received irrevocable undertakings from Mr. Tsang and Mr. Zhou (the indirect controlling shareholders of SIH) (the “Irrevocable Undertakings”) that they will accept, or procure the acceptance by their Affiliates of, the Offer in respect of the Committed Shares, which represent 75% of the entire issued share capital of SIH as at the Latest Practicable Date, by not later than 7 days after the Composite Document is posted to SIH Shareholders. The Irrevocable Undertakings will be binding even if a higher offer is made for the SIH Shares and will lapse only if (i) the Offeror is not obliged to make or proceed with the Offer if after the release of the Announcement, (a) the Executive consents to the Offeror not making the Offer; (b) an event occurs as a result of which the Offeror is no longer required by the Takeovers Code to proceed with the Offer; or (c) the Offeror becomes aware that any Offer Conditions as set out in the Composite Document has or can reasonably be expected to become incapable of being fulfilled; or (ii) the Offer lapses or is withdrawn. The Irrevocable Undertakings will also apply to any new offer made by or on behalf of the Offeror to acquire SIH Shares following an announcement of a



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

general offer by a third party for SIH provided that (i) such new offer is made within 18 months of the lapsing or withdrawal of the Offer, (ii) the Offeror did not request the Executive to allow it to withdraw the Offer, and (iii) the terms of such new offer by the Offeror are no less favourable to acceptors than the terms of the Offer.

Upon acceptance of the Offer by Mr. Tsang and Mr. Zhou under the Irrevocable Undertakings, the Offer will become unconditional as to acceptances.

Further terms and conditions of the Offer, including the procedure for acceptance, are set out in the “Letter from DBS Asia Capital” of the Composite Document.

### *Background to the Offeror and its future intention*

As stated in the “Letter from DBS Asia Capital”, the Offeror is a wholly-owned indirect subsidiary of Eaton Corporation, a company incorporated in the State of Ohio, USA. Eaton Corporation is listed on the New York Stock Exchange and a constituent of the S&P 500 index. Eaton Corporation is a diversified industrial manufacturer which operates through four business segments, namely, electrical, fluid power, truck and automotive. Eaton Corporation’s electrical group designs, manufactures, markets and services electrical systems and components for power quality, distribution and control and its products include low and medium-voltage power distribution and control products, and a range of circuit breakers.

The Offeror is a company incorporated in Luxembourg on 13 May 2004 with limited liability. The directors of the Offeror are Mr. Carlo Schlessler, Mr. Robert Parmenter and Mr. David Otto. The Offeror is a holding company, the subsidiaries of which are principally engaged in all four of Eaton Corporation’s business segments.

For the financial year ended 31 December 2005, the audited consolidated net profit before and after taxation of Eaton Corporation was approximately US\$996 million (equivalent to approximately HK\$7,769 million) and US\$805 million (equivalent to approximately HK\$6,279 million), respectively.

According to the “Letter from DBS Asia Capital”, the Offeror is of the view that the making of the Offer provides an opportunity for Eaton Corporation to enlarge its electrical equipment and controls business in the PRC and to capitalise on SIH Group’s distribution network in the PRC. This would diversify Eaton Corporation’s existing businesses and enhance its growth prospects. Accordingly, it is the intention of Eaton Corporation and the Offeror that, following the completion of the Offer, SIH will continue to carry on its current business of manufacturing and selling of electrical distribution and control equipment in the PRC market and that the management and daily operations of SIH will be carried out by the existing management of SIH along with existing management of Eaton Corporation’s electrical group. Given the adequacy of assets already in place, Eaton Corporation does not anticipate the need for significant additional capital expenditure in respect of SIH beyond current levels. Save as mentioned above, the Offeror does not intend to introduce any other major changes to the business of the SIH Group and does not intend to redeploy any of the fixed assets of the SIH Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The SIH Shareholders should note that Eaton Corporation, the Offeror's parent company, is a sizable company listed on the New York Stock Exchange and a constituent of the S&P 500 index which also participates in electrical distribution and control equipment business. While the Offeror has stated its intention to carry on SIH's current business, we have no information as to the Offeror's future development plan for SIH following completion of the Offer and thus are unable to provide an opinion on the future prospects of SIH Group.

### *Compulsory acquisition rights*

As stated in the "Letter from DBS Asia Capital", if the 90% Threshold Condition is satisfied, the Offeror intends to apply the provisions of the Companies Law to compulsorily acquire any outstanding SIH Shares and to apply for a de-listing of SIH Shares from the Stock Exchange and in the event that the Offer becomes unconditional and closes, but compulsory acquisition rights are not available to the Offeror, the Offeror will use its reasonable endeavors to maintain the listing of SIH on the Stock Exchange.

After taking into account all relevant factors, including the terms of the Offer and the background of the Offeror, SIH Shareholders may consider retaining some or all of their SIH Shares. However, SIH Shareholders should be aware that, if the 90% Threshold Condition is satisfied, the Offeror intends to apply the provisions of the Companies Law to compulsorily acquire all outstanding SIH Shares at the Enhanced Offer Price.

## **II. Historical financial performance of SIH Group**

As stated in the "Letter from the SIH Board" of the Composite Document, SIH Group is a well-established manufacturer of vacuum circuit breakers and other components of switchgears in the PRC.

The following sets out a summary of the financial results of SIH Group for each of the three years ended 31 December 2005 as extracted from the annual report of SIH for the year ended 31 December 2005 (the "2005 Annual Report") and the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

prospectus of SIH dated 28 June 2005 (the “Prospectus”) and a discussion of the financial performance of SIH Group:

	<b>Year ended</b> <b>31 December</b> <b>2005</b> <b>(Audited)</b> <i>RMB'000</i>	<b>Year ended</b> <b>31 December</b> <b>2004</b> <b>(Audited)</b> <i>RMB'000</i>	<b>Year ended</b> <b>31 December</b> <b>2003</b> <b>(Audited)</b> <i>RMB'000</i>
Turnover	374,128	298,971	243,944
Profit from operations	60,751	50,474	39,567
Share of results of an associate	–	509	236
Profit before taxation	55,826	47,467	36,825
Profit after taxation and minority interests	49,492	42,134	31,996
Net assets	202,039	76,547	79,011

As disclosed in the Prospectus, SIH Group is principally engaged in the manufacture and sale of vacuum circuit breakers and other components of switchgears in the PRC. For the year ended 31 December 2003 (“FY2003”), SIH Group recorded a turnover of approximately RMB243.9 million, which was attributable to the sale of vacuum circuit breakers and other components of switchgears. The consolidated net profit of SIH for FY2003 was approximately RMB32.0 million, representing an increase of approximately 51.6% from the previous financial year. The increase of consolidated net profit of SIH was a result of (i) the increase in demand for SIH Group’s vacuum circuit breakers and other components of switchgear due to the growth in demand for switchgears in the PRC; and (ii) the decrease in the average cost of vacuum circuit breakers.

For the year ended 31 December 2004 (“FY2004”), SIH Group recorded a turnover of approximately RMB\$299.0 million. Apart from the sale of vacuum circuit breakers and other components of switchgears, service income in respect of research and development services provided to the customers also accounted for approximately RMB1.2 million of SIH Group’s turnover in FY2004. The consolidated net profit of SIH for FY2004 was approximately RMB42.1 million, representing an increase of approximately 31.7% from FY2003. As referred to in the annual report for FY2004, the increase of consolidated net profit of SIH was a result of (i) the growth in sales volume of vacuum circuit breakers due to increase in the market size of 12kV vacuum circuit breakers in the PRC; and (ii) the decrease of selling and distribution costs due to the outsourcing of after-sales service.

For the year ended 31 December 2005 (“FY2005”), SIH Group recorded a turnover of approximately RMB374.1 million, representing an increase of approximately 25.1% from FY2004. The increase of SIH Group’s turnover was mainly attributable to (i) SIH’s expansion into sales of assembled products; (ii) the strengthened cooperation by setting up joint ventures with third parties, in particular,

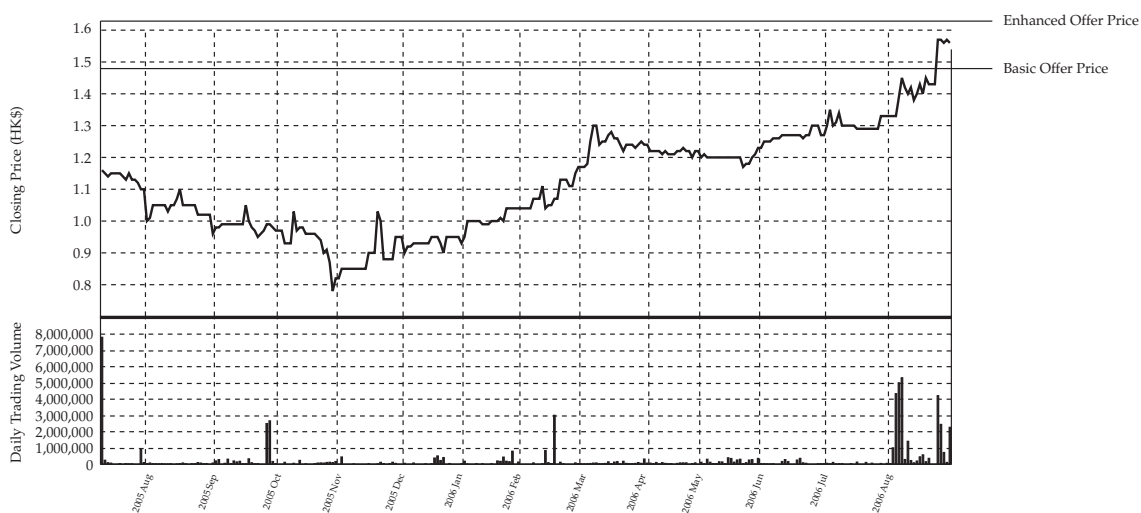
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

with electricity power system related companies; and (iii) the promotion of licensed products with brand names in the developed areas in the PRC. The consolidated net profit of SIH for FY2005 was approximately RMB49.5 million, representing an increase of approximately 17.5% from FY2004. According to the 2005 Annual Report, the increase of consolidated net profit of SIH was a result of the expanded production of vacuum circuit breakers and switchgear cubicles to assembled products.

### III. Offer Price

#### (i) Historical market price and liquidity of SIH Shares

The following chart shows the closing price and trading volume of SIH Shares as quoted on the Stock Exchange from 11 July 2005, being the date of SIH's initial public offering on the main board of the Stock Exchange, to the Latest Practicable Date (both dates inclusive) (the "Review Period"):



Source: Bloomberg

As shown in the above chart, during the period from 11 July 2005 to the Last Trading Date (both dates inclusive) (the "Pre-Announcement Period"), the highest and lowest closing prices of SIH Shares as quoted on the Stock Exchange were HK\$1.45 recorded on 7 August 2006 and 17 August 2006, and HK\$0.78 recorded on 28 October 2005 respectively. The Basic Offer Price and the Enhanced Offer Price represent a premium of approximately 2.8% and 11.7%, respectively, over such highest closing price; and a premium of approximately 91.0% and 107.7%, respectively, over such lowest closing price per SIH Share.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It should be noted that the Basic Offer Price and the Enhanced Offer Price represent a considerable premium of approximately 34.2% and 45.9%, respectively, over the average closing price of HK\$1.11 per SIH Share during the Pre-Announcement Period, and also exceed the highest closing price per SIH Share during the same period.

Trading of SIH Shares was suspended on 21 August 2006 and 22 August 2006 pending the release of the Announcement. Closing price per SIH Share on 23 August 2006, being the trading day SIH Shares resumed trading on the Stock Exchange, was HK\$1.57, which was above the closing price of HK\$1.43 per SIH Share on the Last Trading Date. During the period from 23 August 2006 to the Latest Practicable Date (both dates inclusive) (the “Post-Announcement Period”), the highest and lowest closing prices of SIH Shares as quoted on the Stock Exchange were HK\$1.57 recorded on 23 August 2006, 24 August 2006 and 28 August 2006, and HK\$1.56 recorded on 25 August 2006 and 29 August 2006 respectively. The Basic Offer Price represents a discount of approximately 5.1% and 4.5%, respectively, to such highest closing price and lowest closing price per SIH Share; whilst the Enhanced Offer Price represents a premium of approximately 3.2% and 3.8%, respectively, over such highest closing price and lowest closing price per SIH Share.

We note that during the Post-Announcement Period, the SIH Shares were traded consistently above the Basic Offer Price. Based on this observation, we consider that the market perceives that there is a higher chance for the 90% Threshold Condition to be satisfied and the Offer to be made at the Enhanced Offer Price.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets out the trading volume of SIH Shares during the Review Period:

	Total trading volume for the month/ period	Average daily trading volume for the month/ period <i>(Note 1)</i>	Percentage of average daily trading volume to total number of SIH Shares in issue as at the Latest Practicable Date <i>(in % approximately)</i>	Percentage of average daily trading volume to total number of SIH Shares held by public shareholders as at the Latest Practicable Date <i>(Note 2) (in % approximately)</i>
<b>2005</b>				
July (from 11 July 2005)	9,342,000	622,800	0.20	0.82
August	672,000	29,217	0.01	0.04
September	7,282,000	346,762	0.11	0.45
October	1,150,000	57,500	0.02	0.08
November	832,000	37,818	0.01	0.05
December	1,768,000	88,400	0.03	0.12
<b>2006</b>				
January	2,342,000	123,263	0.04	0.16
February	4,320,000	216,000	0.07	0.28
March	1,682,000	73,130	0.02	0.10
April	826,000	48,588	0.02	0.06
May	3,404,000	170,200	0.06	0.22
June	1,513,000	68,773	0.02	0.09
July	684,000	32,571	0.01	0.04
August (up to and including the Last Trading Date)	19,448,000	1,389,143	0.46	1.82
<b>Simple Average during the Pre-Announcement Period</b>		<b>236,012</b>	<b>0.08</b>	<b>0.31</b>
August (from 23 August 2006 to the Latest Practicable Date, both dates inclusive)	9,764,000	1,952,800	0.64	2.56

Source: Bloomberg

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of SIH Shares on the Stock Exchange were suspended for the whole trading day.
2. Based on 76,250,000 Shares held by public shareholders as at the Latest Practicable Date, being the total number of SIH Shares in issue less the number of SIH Shares held by Mr Tsang, Mr Zhou, the Offeror and parties acting in concert with it as at the Latest Practicable Date.

As illustrated in the above table, the simple average daily trading volume of SIH Shares during the Pre-Announcement Period was approximately 236,012 SIH Shares, representing approximately 0.08% of the total number of SIH Shares in issue or approximately 0.31% of the total number of SIH Shares held by public shareholders as at the Latest Practicable Date.

Trading volume of SIH Shares increased to approximately 4,214,000 SIH Shares on 23 August 2006, the date of publication of the Announcement. Trading volume of SIH Shares decreased after 23 August 2006, with the average daily trading volume of SIH Shares during the Post-Announcement Period being 1,952,800 SIH Shares, representing approximately 0.64% of the total number of SIH Shares in issue as at the Latest Practicable Date and approximately 2.56% of the total number of SIH Shares held by the public SIH Shareholders as at the Latest Practicable Date.

In view of the above, we consider that the overall liquidity of SIH Shares was low in the Review Period. As such, SIH Shareholders who intend to dispose of a large number of SIH Shares may not be able to do so without exerting a downward pressure on the price of SIH Shares. We consider that the Offer provides an alternative exit to such SIH Shareholders to realize their investment in SIH at a price above the highest closing price of SIH Shares during the Pre-Announcement Period.

*(ii) Basic Offer Price and the Enhanced Offer Price*

The Basic Offer Price and the Enhanced Offer Price of HK\$1.49 and HK\$1.62 per SIH Share represent:

- (a) a premium of approximately 4.2% and 13.3%, respectively, over the closing price of HK\$1.43 per SIH Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 4.9% and 14.1%, respectively, over the average closing price of HK\$1.42 per SIH Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Date;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) a premium of approximately 10.4% and 20.0%, respectively, over the closing price of HK\$1.35 per SIH Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Date;
- (d) a premium of approximately 13.7% and 23.7%, respectively, over the closing price of HK\$1.31 per SIH Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to and including the Last Trading Date;
- (e) a premium of approximately 26.3% and 37.3%, respectively, over the issue price of SIH Shares at its initial public offering of HK\$1.18 per SIH Share (the "IPO Price");
- (f) a premium of approximately 34.2% and 45.9%, respectively, over the average closing prices of SIH Shares of approximately HK\$1.11 during the Pre-Announcement Period;
- (g) a discount of approximately 4.5% to and premium of approximately 3.8% over, respectively, the closing price of HK\$1.56 per SIH Share as at the Latest Practicable Date;
- (h) a premium of approximately 132.8% and 153.1%, respectively, over the audited net assets value per SIH Share of approximately HK\$0.64 as at 31 December 2005 (based on the net asset value of approximately RMB202.0 million and 305,000,000 SIH Shares in issue as at 31 December 2005 according to the 2005 Annual Report); and
- (i) a premium of approximately 112.9% and 131.4%, respectively, over the Adjusted NAV per SIH Share (as detailed below) of approximately HK\$0.70.

*(iii) Comparison of the price of SIH Shares with the comparables*

SIH would ideally be compared with companies listed on the Stock Exchange which are principally engaged in manufacturing of vacuum circuit breakers and components of switchgears. However, we could not find any companies listed on the Stock Exchange that are principally engaged in manufacturing of vacuum circuit breakers and/or components of switchgears. Alternatively, based on our best knowledge, we have identified three companies, whose shares are listed on the stock exchanges in the Asia Pacific region (the "Comparable Companies") that we consider to be SIH Group's closest comparables. In selecting the Comparable Companies, we have identified all those companies that are engaged in the manufacture of circuit breakers and/or components of switchgears and which have a market capitalization of HK\$600 million or below. The selection results in identification



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the three Comparable Companies, details of which are set out in the table (“Table A”) below:

Name of company	Exchange	Principal business of the company, its subsidiaries and/or associates and/or jointly controlled entities	Market capitalization (Note 1) (HK\$ million) (approximately)	Price/earnings multiple (Note 2) (times)	(Discount)/Premium of closing price to net asset value per share (Note 3)	Dividend yield (Note 3)
Seiko Electric Co., Ltd. (“Seiko Electric”)	Fukuoka	manufacture of heavy electric machinery, including condensers, switchgears for power stations, control equipment and systems, and computer information systems	500.5	N/A (Note 4)	(15.0%)	0.0%
Seondo Electric Co., Ltd (“Seondo”)	Korea	manufacture of heavy electrical equipment, such as relay panels, gas insulated switchgears, vacuum circuit breakers, and solar water heating systems	269.0	14.0	(38.0%)	1.3%
SMB United Limited (“SMB United”)	Singapore	manufacture of electrical low voltage switchgears and wholesale, import, export, and distribute low voltage electrical and electronic components and equipment	356.9	10.7	(28.0%)	6.9%
		<b>Average</b>		12.3	(27.0%)	4.1%
<i>SIH</i>		– Based on the Basic Offer Price	454.5	9.2	132.8%	3.7%
		– Based on the Enhanced Offer Price	494.1	10.0	153.1%	3.4%

Source: Bloomberg

Notes:

1. Based on the market capitalization in the respective original currency, and adjusted to HK\$ based on the exchange rates as quoted on Bloomberg on the Last Trading Date.
2. Calculated by dividing the closing price on the Last Trading Date as quoted on Bloomberg by the fully diluted earnings per share.
3. Based on the closing price per share as quoted on Bloomberg on the Last Trading Date.
4. Not applicable, as Seiko Electric has recorded a loss in the latest financial year.

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(a) Price/earnings multiple

In July 2005, SIH went public in Hong Kong by an initial public offering (“IPO”) of 76,250,000 SIH Shares at the IPO Price. Such IPO Price represented a fully diluted price/earnings multiple (“PER”) of approximately 6.8 times of SIH’s audited combined net profits for the year ended 31 December 2004. Based on the net profit of HK\$49.5 million as reported in the 2005 Annual Report and the 305,000,000 SIH Shares in issue as at 31 December 2005, SIH Group’s fully diluted earnings per share for the year ended 31 December 2005 was approximately HK\$0.162 (“FY2005 EPS”). Based on FY2005 EPS, the Basic Offer Price and the Enhanced Offer Price represent PERs of approximately 9.2 times and 10.0 times respectively, both of which are significantly higher than the PER of SIH Shares at the time of SIH’s IPO.

As set out in Table A, two of the three Comparable Companies were profitable in their respective latest financial year and their shares were traded on the Last Trading Date at a PER of approximately 10.7 times and approximately 14.0 times, with an average PER of approximately 12.3 times.

PER is regarded as the most common valuation method to value a company with recurrent income base. Whilst we understand that valuation of a company can be affected by a number of various factors, such as industry prospects, trading performance and company-specific fundamental values of a company as well as its particular business and financial position, we consider that the Comparable Companies would give us a general indication on how the market would value SIH with reference to its earnings. Based on the above findings, we note that the PER implied by the Basic Offer Price and the Enhanced Offer Price of approximately 9.2 times and 10.0 times respectively are slightly lower than the lower range of the PER of approximately 10.7 times implied by the Comparable Companies. Although the Comparable Companies are regarded as having a similar business profile to SIH, we consider that the differentiation in their respective valuations in terms of PER is understandable and reflects the fundamental differences, such as products, customers mix, markets and operating performance specific to SIH and the Comparable Companies respectively. In this regard, we consider that the implied valuation of SIH based on the Basic Offer Price and the Enhanced Offer Price is not unreasonably low in this context and is comparable to the implied valuation based on the Comparable Companies.

In addition, we note that all three Comparable Companies were traded at a discount to their respective latest disclosed consolidated net assets values.

(b) Net asset value

In considering the reasonableness of the Basic Offer Price and the Enhanced Offer Price, we have also made reference to the premium/discount of the Basic Offer Price and the Enhanced Offer Price over/to the consolidated net asset value of the Company. According to the 2005 Annual Report, the consolidated audited net asset value of SIH as at 31 December 2005 was approximately RMB202.0 million (equivalent to approximately HK\$196.1 million), equivalent to approximately HK\$0.64 per SIH Share ("2005 NAV per SIH Share") based on the 305,000,000 SIH Shares in issue as at 31 December 2005. As referred to in the property valuation report as set out in appendix III to the Composite Document, the value of property interests owned by SIH Group as at 31 July 2006 was approximately RMB81.0 million (equivalent to approximately HK\$78.6 million) (the "Revalued Figure"). Taking into account the Revalued Figure, a premium of approximately RMB18.3 million (equivalent to approximately HK\$17.8 million) will be attributable to the SIH Shareholders. On this basis, the consolidated audited net asset value of SIH will be approximately RMB220.3 million (equivalent to approximately HK\$213.9 million), equivalent to approximately HK\$0.70 per SIH Share ("Adjusted NAV per SIH Share") based on the 305,000,000 SIH Shares in issue as at 31 December 2005.

As set out in Table A, based on the closing price per share of the Comparable Companies on the Last Trading Date, the Comparable Companies were closed at a level ranging from a discount of approximately 38% to a discount of approximately 15% to their respective consolidated net asset value per share, with an average discount of approximately 27% (based on the latest published annual or interim report prior to the Last Trading Date). On the other hand, the Basic Offer Price and the Enhanced Offer Price represent a premium of approximately 132.8% and 153.1%, respectively, over the 2005 NAV per SIH Share; and a premium of approximately 112.9% and 131.4%, respectively, over the Adjusted NAV per SIH Share. Accordingly, in terms of consolidated net asset value per share, the terms of the Offer are favorable to the SIH Shareholders.

(c) Dividend yield

SIH did not declare any dividend for the year ended 31 December 2004. According to the 2005 Annual Report, dividend per SIH Share for the year ended 31 December 2005 was HK\$0.0546.

The dividend per SIH Share represents a dividend yield of approximately 3.7% and 3.4% based on the Basic Offer Price and the Enhanced Offer Price respectively. As set out in Table A, the dividend yields of the three Comparable Companies are 0%, approximately 1.3% and approximately 6.9% (based on closing price per share as at the Last Trading Date). Accordingly, the dividend yield of SIH Shares based on the Basic Offer Price and the Enhanced Offer Price are comparable to the dividend yield of the Comparable Companies.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- both the Basic Offer Price and the Enhanced Offer Price represent a premium of approximately 2.8% and 11.7%, respectively, over the historical high closing price of SIH Shares during the Pre-Announcement Period;
- the low liquidity of SIH Shares during the Review Period;
- the Basic Offer Price and the Enhanced Offer Price represent PERs of approximately 9.2 times and 10.0 times, respectively, both of which are significantly higher than the PER of SIH Shares of approximately 6.8 times at the time of SIH's IPO;
- the Basic Offer Price and the Enhanced Offer Price represent a premium of approximately 132.8% and 153.1%, respectively, over the 2005 NAV per SIH Share of approximately HK\$0.64; and a premium of approximately 112.9% and 131.4%, respectively, over the Adjusted NAV per SIH Share of approximately HK\$0.70, whilst all three Comparable Companies were traded at a discount to their respective latest disclosed consolidated net assets values; and
- the PERs as implied by, and the dividend yield based on the Basic Offer Price and the Enhanced Offer Price are comparable to those of the Comparable Companies;

we consider the terms of the Offer, in particular both the Basic Offer Price and the Enhanced Offer Price, fair and reasonable so far as the SIH Shareholders are concerned. Accordingly, we advise the SIH Independent Board Committee to recommend the SIH Shareholders to accept the Offer.

Irrespective of the above, if the SIH Shareholders consider retaining some or all of their SIH Shares, they are reminded that, if the 90% Threshold Condition is satisfied, the Offeror intends to apply the provisions of the Companies Law to compulsorily acquire all outstanding SIH Shares at the Enhanced Offer Price.

As at the Latest Practicable Date, the closing price of SIH Shares represented a premium to the Basic Share Offer Price. SIH Shareholders may be able to sell all or some of their SIH Shares on the market at a price higher than the Basic Share Offer Price. However, SIH Shareholders are reminded that, if the 90% Threshold Condition is satisfied, the offer price will be adjusted from the Basic Offer Price of HK\$1.49 per SIH Share to the Enhanced Offer Price of HK\$1.62 per SIH Share, which is higher than the closing price of SIH Shares as at the Latest Practicable Date.

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

*Executive Vice President*

**Heidi Cheng**

*Senior Vice President*

## 1. SHARE CAPITAL

The authorised and issued share capital of SIH as at the Latest Practicable Date are set out as follows:

*Authorised:*

<i>SIH Shares</i>	<i>HK\$</i>
1,000,000,000	100,000,000

*Issued and fully paid or credited as fully paid:*

<i>SIH Shares</i>	<i>HK\$</i>
305,000,000	30,500,000

There has been no alteration in the number of SIH Shares since 31 December 2005, which is the financial year end date of SIH prior to the Latest Practicable Date.

All of the SIH Shares currently in issue rank *pari passu* in all respects with each other, including in particular, as to dividends, voting rights and capital.

As at the Latest Practicable Date, SIH did not have any outstanding options, warrants or other securities convertible or exchangeable into SIH Shares and no other share or loan capital of SIH had been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the SIH Shares or other derivatives in respect of securities which are being offered for or which carry voting rights had been issued or granted or agreed conditionally or unconditionally to be issued or granted.

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION ON THE SIH GROUP</b>
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**2. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2005**

The following financial information has been extracted from the published audited financial statements of the SIH Group for each of the three years ended 31 December 2005:

**CONSOLIDATED INCOME STATEMENTS**

	<b>Year ended 31 December</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	374,128	298,971	243,944
Cost of sales	<u>(279,988)</u>	<u>(222,949)</u>	<u>(178,288)</u>
Gross profit	94,140	76,022	65,656
Other income and gains	2,090	1,112	265
Selling and distribution costs	(10,746)	(11,037)	(11,655)
Administrative expenses	(24,651)	(15,270)	(14,571)
Other expenses	<u>(82)</u>	<u>(353)</u>	<u>(128)</u>
Profit from operations	60,751	50,474	39,567
Finance costs	(4,925)	(3,496)	(2,951)
Share of profits of an associate	–	509	236
Amortisation of goodwill on acquisition of an associate	<u>–</u>	<u>(20)</u>	<u>(27)</u>
Profit before tax	55,826	47,467	36,825
Tax	<u>(6,334)</u>	<u>(5,163)</u>	<u>(4,668)</u>
Profit for the year	<u><b>49,492</b></u>	<u><b>42,304</b></u>	<u><b>32,157</b></u>
Attributable to:			
Equity holders of the parent	49,492	42,134	31,996
Minority interests	<u>–</u>	<u>170</u>	<u>161</u>
	<u><b>49,492</b></u>	<u><b>42,304</b></u>	<u><b>32,157</b></u>
Dividends			
Proposed final	<u><b>17,322</b></u>	<u><b>–</b></u>	<u><b>45,000</b></u>

*Note:* There were no extraordinary items or exceptional items for each of the three years ended 31 December 2005.

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION ON THE SIH GROUP</b>
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### 3. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below are the audited financial statements of the SIH Group extracted from the annual report of the SIH Group for the year ended 31 December 2005:

#### CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Revenue	4	374,128	298,971
Cost of sales		<u>(279,988)</u>	<u>(222,949)</u>
Gross profit		94,140	76,022
Other income and gains	4	2,090	1,112
Selling and distribution costs		(10,746)	(11,037)
Administrative expenses		(24,651)	(15,270)
Other expenses		<u>(82)</u>	<u>(353)</u>
Profit from operations		60,751	50,474
Finance costs	6	(4,925)	(3,496)
Share of profits of an associate		–	509
Amortisation of goodwill on acquisition of an associate		<u>–</u>	<u>(20)</u>
Profit before tax	5	55,826	47,467
Tax	9	<u>(6,334)</u>	<u>(5,163)</u>
Profit for the year		<u><u>49,492</u></u>	<u><u>42,304</u></u>
Attributable to:			
Equity holders of the parent	10	49,492	42,134
Minority interests		<u>–</u>	<u>170</u>
		<u><u>49,492</u></u>	<u><u>42,304</u></u>
Dividends			
Proposed final	11	<u>17,322</u>	<u>–</u>
Earnings per share attributable to			
Equity holdings of the parent			
Basic (RMB)	12	<u>18.5 cents</u>	<u>18.4 cents</u>

**APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP**

**CONSOLIDATED BALANCE SHEET**

31 December 2005

	<i>Notes</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i> (Restated)
Non-current assets			
Property, plant and equipment	13	88,681	77,437
Prepaid land lease payments	14	7,932	8,103
Long term prepayments	15	3,013	3,813
Interests in an associate	17	5,499	–
Available-for-sale equity investment	18	600	600
Deferred tax assets	27	921	681
		106,646	90,634
Total non-current assets			
Current assets			
Inventories	19	62,426	34,935
Trade receivables	20	79,628	78,346
Prepayments, deposits and other receivables	21	9,379	7,442
Due from related companies	35(ii)	21,209	7,043
Cash and cash equivalents	22	80,847	21,498
		253,489	149,264
Total current assets			
Current liabilities			
Trade and bills payables	23	74,508	65,421
Deferred income	24	1,900	–
Other payables and accruals	25	14,313	11,081
Interest-bearing bank and other borrowings	26	63,000	80,800
Due to related companies	35(ii)	1,324	5,275
Tax payable		3,051	774
		158,096	163,351
Total current liabilities			
Net current assets/(liabilities)		95,393	(14,087)
Total assets less current liabilities		202,039	76,547
Net assets		202,039	76,547
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	28	32,473	–
Reserves	30(a)	152,244	76,547
Proposed final dividend	11	17,322	–
		202,039	76,547



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**BALANCE SHEET**

*31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	13	24	–
Interests in subsidiaries	16	86,791	–
		<hr/>	<hr/>
Total non-current assets		86,815	–
		<hr/>	<hr/>
Current assets			
Prepayments, deposits and other receivables	21	182	–
Cash and cash equivalents	22	56	–
		<hr/>	<hr/>
Total current assets		<u>238</u>	<u>–</u>
		<hr/>	<hr/>
Current liabilities			
Other payables and accruals	25	1,152	–
		<hr/>	<hr/>
Net current liabilities		914	–
		<hr/>	<hr/>
Total assets less current liabilities		<u>85,901</u>	<u>–</u>
		<hr/>	<hr/>
Equity			
Issued share capital	28	32,473	–
Reserves	30(b)	36,106	–
Proposed final dividend	11	17,322	–
		<hr/>	<hr/>
Total equity		<u>85,901</u>	<u>–</u>
		<hr/>	<hr/>

**APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*Year ended 31 December 2005*

	Attributable to equity holders of the parent									
	Issued share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Reserve funds* RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2004	-	-	12,388	16,644	-	4,979	45,000	79,011	171	79,182
Exchange realignment	-	-	-	-	35	-	-	35	-	35
Net profit for the year	-	-	-	-	-	42,134	-	42,134	170	42,304
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	-
Purchase of additional equity interest in a subsidiary	-	-	62	84	-	195	-	341	(341)	-
Proposed final 2004 dividend	-	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
Capitalisation of reserves arising from the Reorganisation	-	-	7,470	(7,471)	-	-	-	(1)	-	(1)
Transfer from retained profits	-	-	-	-	-	-	-	-	-	-
At 31 December 2004	-	-	19,947	12,995	35	43,570	-	76,547	-	76,547
At 1 January 2005	-	-	19,947	12,995	35	43,570	-	76,547	-	76,547
Exchange realignment	-	-	-	-	(1,661)	-	-	(1,661)	-	(1,661)
Net profit for the year	-	-	-	-	-	49,492	-	49,492	-	49,492
Proposed final 2005 dividend	-	(17,322)	-	-	-	-	17,322	-	-	-
Capitalisation of reserves arising from the Reorganisation	24,355	(24,355)	-	-	-	-	-	-	-	-
Issue of shares for cash consideration	-	-	35	-	(35)	-	-	-	-	-
Share issue expense	8,118	87,678	-	-	-	-	-	95,796	-	95,796
Transfer from retained profits	-	(18,135)	-	-	-	-	-	(18,135)	-	(18,135)
Transfer from retained profits	-	-	-	8,238	-	(8,238)	-	-	-	-
At 31 December 2005	<u>32,473</u>	<u>27,866</u>	<u>19,982</u>	<u>21,233</u>	<u>(1,661)</u>	<u>84,824</u>	<u>17,322</u>	<u>202,039</u>	<u>-</u>	<u>202,039</u>

The consolidated reserves in the consolidated balance sheet includes share premium account, capital reserve, reserve funds, exchange fluctuation reserve and retained profits.

\* Detail movement of reserve funds are set out in note 30(a).

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION ON THE SIH GROUP</b>
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**CONSOLIDATED CASH FLOW STATEMENT**

*Year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Cash flows from operating activities			
Profit before tax and minority interests		55,826	47,467
Adjustments for:			
Finance costs	6	4,925	3,496
Interest income	4	(414)	(68)
Gain on disposal of property, plant and equipment	4	(352)	–
Loss on disposal of an associate	5	–	77
Depreciation	5	7,737	5,052
Amortisation in prepaid land lease payments	5	171	171
Amortisation of long term prepayments	5	800	187
Amortisation of goodwill on acquisition of an associate	5	–	20
Impairment of an interest in an associate	5	–	(509)
Provision/(reversal of provision) for bad and doubtful debts	5	434	(164)
Operating profit before working capital changes		69,127	55,729
Increase in inventories		(27,491)	(13,314)
Increase in trade receivables		(1,716)	(18,254)
Increase in prepayments, deposits and other receivables		(1,937)	(1,457)
Decrease in a loan to a Director		–	802
(Increase)/decrease in due from related companies		(14,166)	44,102
Increase in due from an associate		(2,473)	(660)
Increase in trade and bills payables		9,087	18,070
Increase in deferred income		1,900	–
Increase/(decrease) in other payables and accruals		5,146	(8,752)
Decrease in due to related companies		(3,951)	(200)
Cash generated from operations		33,526	76,066
Interest paid		(4,938)	(3,546)
Income tax paid		(4,298)	(5,238)
Net cash inflow from operating activities		24,290	67,282

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION ON THE SIH GROUP</b>
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	<i>Notes</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Net cash inflow from operating activities		24,290	67,282
Cash flows from investing activities			
Proceeds from disposal of an associate		–	917
Interest received		414	68
Acquisition of additional interest in a subsidiary		–	(8,672)
Purchases of items of property, plant and equipment		(20,764)	(58,174)
Additions to prepaid land lease payments		(1,900)	–
Additions to long term prepayments		–	(2,800)
Investment in an associate		(3,026)	–
Proceeds from disposal of property, plant and equipment		2,135	–
Net cash outflow from investing activities		(23,141)	(68,661)
Cash flows from financing activities			
Proceeds from issue of shares	28	95,796	12,477
Share issue expenses	28	(18,135)	–
New bank loans		196,000	85,000
Repayment of bank loans		(213,800)	(50,000)
Repayment of other loans		–	(1,210)
Dividends paid		–	(45,000)
Net cash inflow from financing activities		59,861	1,267
Net increase/(decrease) in cash and cash equivalents		61,010	(112)
Cash and cash equivalents at beginning of year		21,498	21,610
Effect of foreign exchange rate changes, net		(1,661)	–
Cash and cash equivalents at end of the year		80,847	21,498
Analysis of balances of cash and cash equivalents			
Cash and bank balances	22	80,847	21,498

**NOTES TO FINANCIAL STATEMENTS**

31 December 2005

**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.

**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

## APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

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
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
HKFRS 3	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.

**(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.

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.

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.

**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.

#### **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)

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.

*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.

*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.

**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.

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.

#### **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.

**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.

**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.



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

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

## 5. PROFIT BEFORE TAX

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

	<i>Notes</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
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		<u>–</u>	<u>77</u>

\* *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**

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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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(b) Executive Directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Total remuneration RMB'000
<b>2005</b>			
<i>Executive Directors:</i>			
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
	<u>1,599</u>	<u>1,054</u>	<u>2,653</u>
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Total remuneration RMB'000
<b>2004</b>			
<i>Executive Directors:</i>			
Mr. Tsang Shui Ching, Patrick	–	300	300
Mr. Zhou Anmin	300	–	300
Mr. Lou Chong Wei	–	–	–
Mr. Shu Yi Jin	–	631	631
	<u>300</u>	<u>931</u>	<u>1,231</u>

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

## 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:

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

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.

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## 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 <i>RMB'000</i>	2004 <i>RMB'000</i>
Group		
Current	6,574	4,425
Deferred ( <i>note 27</i> )	(240)	738
	6,334	5,163

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 <i>RMB'000</i>	Elsewhere <i>RMB'000</i>	Total <i>RMB'000</i>
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 <i>RMB'000</i>	Elsewhere <i>RMB'000</i>	Total <i>RMB'000</i>
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.

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

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

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.

The calculation of basic earnings per share is based on:

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Earnings</b>		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>49,492</u>	<u>42,134</u>
<b>Number of shares</b>		
	<b>2005</b>	<b>2004</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>266,875,000</u>	<u>228,750,000</u>

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
<b>31 December 2005</b>							
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	<u>26,720</u>	<u>28,716</u>	<u>-</u>	<u>982</u>	<u>1,988</u>	<u>19,031</u>	<u>77,437</u>
At 1 January 2005, net of accumulated depreciation							
Cost	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	<u>39,164</u>	<u>29,391</u>	<u>596</u>	<u>1,932</u>	<u>2,520</u>	<u>15,078</u>	<u>88,681</u>
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	<u>39,164</u>	<u>29,391</u>	<u>596</u>	<u>1,932</u>	<u>2,520</u>	<u>15,078</u>	<u>88,681</u>

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 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
<b>31 December 2004</b>							
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	<u>-</u>	<u>14,551</u>	<u>215</u>	<u>1,347</u>	<u>2,268</u>	<u>5,934</u>	<u>24,315</u>
At 1 January 2004, net of accumulated depreciation							
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	<u>26,720</u>	<u>28,716</u>	<u>-</u>	<u>982</u>	<u>1,988</u>	<u>19,031</u>	<u>77,437</u>
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	<u>26,720</u>	<u>28,716</u>	<u>-</u>	<u>982</u>	<u>1,988</u>	<u>19,031</u>	<u>77,437</u>

## Company

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

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)).

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 14. PREPAID LAND LEASE PAYMENTS

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

	<b>Group</b>
	<b>Long term</b>
	<b>prepayments</b>
	<i>RMB'000</i>
<b>31 December 2005</b>	
Cost at 1 January 2005, net of accumulated amortisation	3,813
Amortisation provided during the year	(800)
	3,013
At 31 December 2005	3,013
<b>At 31 December 2005</b>	
Cost	4,000
Accumulated amortisation	(987)
	3,013
Net carrying amount	3,013
<b>31 December 2004</b>	
At 1 January 2004	
Cost	1,200
Accumulated amortisation	-
	1,200
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)
	3,813
At 31 December 2004	3,813
<b>At 31 December 2004 and at 1 January 2005</b>	
Cost	4,000
Accumulated amortisation	(187)
	3,813
Net carrying amount	3,813



## APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

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.

### 16. INTERESTS IN SUBSIDIARIES

	<b>Company 2005 RMB'000</b>
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		Principal activities
			Direct	Indirect	
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

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 17. INTERESTS IN AN ASSOCIATE

	<b>2005</b>	<b>Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	3,026	–
Due from an associate	2,473	–
	5,499	–
	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:

	<b>Place of registration and operation</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activities</b>
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:

	<b>2005</b>
	<i>RMB'000</i>
Assets	12,137
Liabilities	33
Revenue	–
Profit	–
	–

## 18. AVAILABLE FOR SALE EQUITY INVESTMENT

	<b>2005</b>	<b>Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investment, at cost	600	600
	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.

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 19. INVENTORIES

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

## 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 RMB'000	2004 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
	<u>86,851</u>	<u>85,135</u>
Less: Provision for doubtful debts	(7,223)	(6,789)
	<u>79,628</u>	<u>78,346</u>

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005 RMB'000	2004 RMB'000 (Restated)	2005 RMB'000	2004 RMB'000
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	-	-
	<u>9,379</u>	<u>7,442</u>	<u>182</u>	<u>-</u>

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	<u>80,847</u>	<u>21,498</u>	<u>56</u>	<u>–</u>

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.

## 23. TRADE AND BILLS Payable

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
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>74,508</u>	<u>65,421</u>

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	–
	<u>14,313</u>	<u>11,081</u>	<u>1,152</u>	<u>–</u>

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

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION ON THE SIH GROUP</b>
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26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
<b>Current</b>				
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
			<u>63,000</u>	<u>80,800</u>
			<b>Group</b>	
			<b>2005</b>	<b>2004</b>
			<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:				
Bank loans repayable:				
within one year			<u>63,000</u>	<u>80,800</u>

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.

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 27. DEFERRED TAX ASSETS/(LIABILITIES)

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

### Deferred tax assets/(liabilities)

<i>Group</i>	Timing difference in recording depreciation <i>RMB'000</i>	Provision for bad and doubtful debts <i>RMB'000</i>	2005 Timing difference in recording expenses <i>RMB'000</i>	Timing difference in recording sales <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2005	268	679	(22)	(244)	681
Deferred tax credited/ (charged) to the income statement during the year ( <i>note 9</i> )	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)

<i>Group</i>	Timing difference in recording depreciation <i>RMB'000</i>	Provision for bad and doubtful debts <i>RMB'000</i>	2004 Timing difference in recording expenses <i>RMB'000</i>	Timing difference in recording sales <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2004	269	834	707	(391)	1,419
Deferred tax credited/ (charged) to the income statement during the year ( <i>note 9</i> )	(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

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.

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 28. ISSUED SHARE CAPITAL

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

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 divided 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.
- (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.

## APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

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:

	<i>Notes</i>	<b>Number of ordinary shares of HK\$0.1 each</b>	<b>Nominal value of ordinary shares RMB'000</b>
Authorised:			
Upon incorporation and as at 31 December 2004	<i>(i)</i>	3,900,000	406
Increase in authorised share capital	<i>(ii)</i>	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>(i)</i>	2	–
On acquisition of Senyuan Investment			
– new issue of shares	<i>(iii)</i>	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	<i>(iv)</i>	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	<i>(iv)</i>	–	24,355
New issue of shares	<i>(v)</i>	76,250,000	8,118
As at 31 December 2005		305,000,000	32,473

### 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.

### 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.

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## *Reserve Funds*

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

	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discre- tionary surplus reserve RMB'000	Total 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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	3,738	-	3,427	3,830	2,000	12,995
Transfer from retained profits	8,238	-	-	-	-	8,238
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	<u>11,976</u>	<u>-</u>	<u>3,427</u>	<u>3,830</u>	<u>2,000</u>	<u>21,233</u>

## *Reserve fund and enterprise expansion fund*

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

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

Subsequent to the re-registration of Changzhou Senyuan as a wholly foreign-owned enterprise in the PRC on 10 November 2004, allocation to the enterprise expansion fund is no longer required. According to the relevant 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.

## APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

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.

### (b) Company

	Notes	Share	Capital	Exchange	Accumulated	Total
		premium	Reserve	translation	losses	
		account		reserve		
		RMB'000	RMB'000	RMB'000	RMB'000	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)
		<u>27,866</u>	<u>12,512</u>	<u>(2,035)</u>	<u>(2,237)</u>	<u>36,106</u>
At 31 December 2005		<u>27,866</u>	<u>12,512</u>	<u>(2,035)</u>	<u>(2,237)</u>	<u>36,106</u>

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	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks in connection with facilities granted to:				
Related parties	-	36,263	-	-
A third party	-	2,000	-	-
	<u>-</u>	<u>38,263</u>	<u>-</u>	<u>-</u>

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

## 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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for - buildings:	18,748	9,884	-	-

## 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	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of goods to ( <i>note k</i> ):		
Changzhou Tuoyuan	2,019	-
Lanling ( <i>note c</i> )*	27,879	17,948
SY Tai Ah ( <i>note d</i> )*	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., "Changzhou Guodian") ( <i>note e</i> )*	750	-
常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Group Co., Ltd., "New Tai Ah") ( <i>note f</i> )*	279	1,446
	32,580	22,021



<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION ON THE SIH GROUP</b>
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(ii) Outstanding balances with related parties:

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

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

# APPENDIX I FINANCIAL INFORMATION ON THE SIH GROUP

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

	Group	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	2,266	1,468
Pension scheme contributions	101	128
	2,367	1,596
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.

**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.



#### 4. AUDIT OPINION

No qualified opinion was given in the auditors' report in respect of each of the three years ended 31 December 2005.

#### 5. MATERIAL CHANGE

The SIH Directors are not aware of any material change in the financial or trading position or outlook of the SIH Group since 31 December 2005, the date of which the latest audited financial statements of the SIH Group was made up.

#### 6. INDEBTEDNESS

The table below sets forth the SIH Group's borrowings as at 31 July 2006:

	<b>Bank Borrowings</b> <i>RMB millions</i>
Current	90
Non-current	0
	90

RMB13.3 million of the SIH Group's bank borrowings are secured by mortgages over certain of the Group's land use rights with an aggregate net book value of approximately RMB8.0 million at 31 July 2006.

RMB28 million of the SIH Group's bank borrowings are secured by mortgages over certain of the Group's plant and machinery with an aggregate net book value of approximately RMB36.45 million as at 31 July 2006.

As at 31 July 2006, there were contingent liabilities amounting to approximately RMB13 million resulting from the discounting of undue note receivables.

As at 31 July 2006, there were contingent liabilities amounting to approximately RMB19.54 million in respect of the undue letters of credit issued to third party suppliers in the normal course of business.

Except as disclosed above, as at 31 July 2006, the SIH Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchases commitments, acceptance credits, guarantees or other material contingent liabilities.

**1. THE OFFER CONDITIONS**

The Offer is conditional on:

- (a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date which is 21 days after the making of the Offer (or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of the SIH Shares which constitute not less than 75% of the SIH Shares to which the Offer relates;
- (b) each and every member of the SIH Group remaining solvent and not subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, provisional liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any part of the assets or undertakings of any member of the SIH Group from the date of the Announcement up to the date when all the other Conditions are satisfied or waived;
- (c) no event having occurred which would make the Offer or the acquisition of any of the SIH Shares by the Offeror void, unenforceable, illegal or which would prohibit its implementation of the Offer or impose any additional material conditions or obligations with respect to the Offer or any part thereof or on the acquisition of any of the SIH Shares;
- (d) any necessary consent or approval (including approval in principle) of any governmental or regulatory body in relation to the Offer having been obtained pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and overseas;
- (e) no government, governmental, quasi-governmental, supernational, statutory or regulatory bodies or courts in any jurisdiction having instituted any action, proceeding, suit, investigation or enquiry, or enacted or made, and there not continuing to be outstanding, any statute, regulation or order that would make the Offer void, unenforceable or illegal or prohibit the implementation of the Offer; and
- (f) any necessary third party consents in relation to the Offer required pursuant to any agreement (including any financing agreement) to which any member of the SIH Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the SIH Group taken as a whole) having been obtained or waived by the relevant party(ies).

The Offeror reserves the right to waive all or any of the Conditions to the Offer set out above, in whole or in part. The Offer will become unconditional as to acceptances upon the receipt of acceptances in respect of the Committed Shares. The Offeror will issue an announcement when the Offer becomes unconditional as to acceptances and when it becomes unconditional in all respects. The last day on which the Offer can become unconditional as to acceptances is Tuesday, 31 October 2006.

In addition to the Conditions set out above, the Offer is also made on the basis that acceptance of the Offer by any person will constitute a warranty by such person or persons to the Offeror that the SIH Shares acquired under the Offer are sold free from all third party rights, liens, charges, equities and encumbrances and together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the date of the Announcement.

## **2. PROCEDURES FOR ACCEPTANCE AND SETTLEMENT**

### **The Offer**

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your SIH Shares is/are in your name, and you wish to accept the Offer in respect of your SIH Shares, you must send the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Receiving Agent.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your SIH Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your SIH Shares, you must either:
  - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Receiving Agent; or
  - (ii) arrange for the SIH Shares to be registered in your name by SIH through the Receiving Agent, and deliver the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Receiving Agent; or
  - (iii) if your SIH Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your SIH Shares have been lodged with your Investor Participant Account with CCASS, submit your instruction via the CCASS Phone System or CCASS Internet System no later than the deadline set by HKSCC Nominees Limited.
- (c) If you have lodged transfer(s) of any of your SIH Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your SIH Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Receiving Agent together with the transfer receipt(s) duly signed by yourself. Such action will constitute an authority to DBS Asia Capital and/or the Offeror or their respective agent(s) to collect from SIH or the Receiving Agent on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Receiving Agent as if it was/they were delivered to the Receiving Agent with the Form of Acceptance.
- (d) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your SIH Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your SIH Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Receiving Agent together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Receiving Agent as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Receiving Agent for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Receiving Agent.
- (e) Acceptance of the Offer will be treated as valid and counted as fulfilling an acceptance condition only if the Form of Acceptance is duly completed, is received by the Receiving Agent by no later than 4:00 p.m. on Friday, 22 September 2006 (or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code) and the Receiving Agent has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant SIH Share(s) in blank or in favour of the Accepting Shareholder executed by the registered holder) in order to establish your right to become the registered holder of the relevant SIH Shares; or
- (ii) from a registered SIH Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the SIH Shares which are not taken into account under another sub-paragraph under this paragraph (e)); or
- (iii) certified by the Receiving Agent or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered SIH Shareholder, appropriate documentary evidence of authority to the satisfaction of the Receiving Agent (e.g. grant of probate or certified copy of a power of attorney) must be produced.

- (f) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) In accordance with Rule 20.1 of the Takeovers Code, payment will be posted to the accepting SIH Shareholders by ordinary post at their own risk as soon as possible but in any event within 10 days from the date of receipt by the Receiving Agent of the complete and valid Form of Acceptance, or the Unconditional Date, whichever is later. Relevant documents of title must be received by the Receiving Agent to render each acceptance of the Offer complete and valid. The consideration shall be for the Basic Offer Price if the percentage threshold for acceptances in Condition (a) is satisfied or waived, or the Enhanced Offer Price if the 90% Threshold Condition is satisfied. In the event that the 90% Threshold Condition is satisfied, further remittances in respect of the additional consideration for any SIH Shares which were tendered under the Offer before the 90% Threshold Condition was satisfied will be posted to the relevant SIH Shareholders as soon as possible but in any event within 10 days from the date on which the satisfaction of the 90% Threshold Condition is announced.
- (h) If the Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Receiving

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

Agent will be posted by the Receiving Agent to the SIH Shareholders who have accepted the Offer by ordinary post at their own risk as soon as possible but in any event within 10 days after the Offer has lapsed.

- (i) The address of the Receiving Agent is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

### Acceptance Period and Revisions

- (a) The Offer is made on Friday, 1 September 2006, namely the date of posting of this Composite Document, and is capable of acceptance on and from this date.
- (b) Unless the Offer has previously been revised or extended, or has previously become or been declared unconditional, all acceptances must be received by 4:00 p.m. on Friday, 22 September 2006, being the First Closing Date. In accordance with Rule 15.3 of the Takeovers Code, where the Offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offer becomes or is declared unconditional as to acceptances and unconditional in all respects. The Offeror will also make an announcement as and when the 90% Threshold Condition is satisfied.
- (c) The Offeror reserves the right to extend or revise the Offer in accordance with the relevant provisions of the Takeovers Code. If the Offer is extended, the announcement of such extension will state the next closing date of the Offer or, if the Offer is unconditional as to acceptances, that the Offer will remain open until further notice. No revised offer document may be posted in the 14 days ending on the last day the Offer is able to become unconditional as to acceptances.
- (d) If the Offer (in its original or any previously revised form(s)) is revised (either in its terms and conditions or in the value or nature of the consideration offered or otherwise) and such revision represents, on the date on which such revision is announced (on such basis as DBS Asia Capital may reasonably consider appropriate), no diminution in the value of the Offer as so revised (compared with the consideration or terms previously offered), the benefit of the revised Offer will, subject to paragraphs 2(f) and (g) below, be made available to any SIH Shareholders who have accepted the Offer in its original or any previously revised form(s) ("**Previous Acceptor**"). The revised Offer will be kept open for at least 14 days following the date on which the revised offer document is posted.

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

The acceptance by or on behalf of a Previous Acceptor of the Offer in its original or any previously revised form(s) shall, subject as provided in paragraphs 2(f) and (g) below, be treated as an acceptance of the Offer as so revised. It shall also constitute an authority to any Offeror Director or to DBS Asia Capital as his agent:

- (i) to accept the revised Offer on behalf of such Previous Acceptor;
- (ii) if any revised or previously revised Offer includes alternative forms of consideration, to make such elections for and accept such alternative forms of consideration in such proportions (as nearly as practicable) as those made by such Previous Acceptor in the Form(s) of Acceptance previously executed by him/her/it or on his/her/its behalf (or, if no such alternatives were previously available, to make an election for the consideration in the previous form); and
- (iii) to execute on behalf of and in the name of such Previous Acceptor all such further documents (if any) as may be required to give effect to such acceptances and/or elections.

In making any such election and/or acceptance, such agent shall take into account the nature of any previous acceptances made by or on behalf of the Previous Acceptor and such other facts or matters as he may reasonably consider relevant.

- (e) Subject to paragraph 2(f) below, the authorities conferred by paragraphs 2(d) to (g) (inclusive) and any acceptance of a revised Offer and/or any election pursuant thereto shall be irrevocable unless and until the Previous Acceptor becomes entitled to withdraw his acceptance under the paragraph headed "Right of Withdrawal" in this Appendix II and duly does so.
- (f) The deemed acceptance referred to in paragraph 2(d) above shall not apply and the authority conferred on any Offeror Director or on DBS Asia Capital by that paragraph shall be ineffective, if a Previous Acceptor shall lodge, within 14 days of the posting of the document pursuant to which the revision of the Offer referred to in paragraph 2(d) above is made available to the SIH Shareholders, a form (which will be provided by the Offeror and DBS Asia Capital in the revised offer document) in which he/she/it validly elects to receive the consideration receivable by him/her/it in some other manner.
- (g) The deemed acceptance referred to in paragraph 2(d) above shall not apply and the authorities conferred on any Offeror Director or on DBS Asia Capital by such paragraph shall not be exercised by any Offeror Director or by DBS Asia Capital, if as a result thereof the Previous Acceptor would (on such basis as DBS Asia Capital may reasonably consider appropriate) thereby receive less in aggregate in cash than he/she/it would have received in aggregate in cash (if any) as a result of acceptance of any previously revised Offer in the form in which it was previously accepted by him/her/it. The authority

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

conferred by paragraph 2(d) above shall not be exercised in respect of any election available under such revised Offer save in accordance with this paragraph.

### Announcements

- (a) By 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on a Closing Date (the First Closing Date being Friday, 22 September 2006), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension, expiry or unconditionality of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional (whether as to acceptances or in all respects). Such announcement must be republished in accordance with the requirements set out below on the next business day.

The announcement will state the total number of SIH Shares and rights over shares:

- (i) for which acceptances of the Offer have been received;
- (ii) held, controlled or directed by the Offeror or its Concert Parties before the Offer Period; and
- (iii) acquired or agreed to be acquired during the Offer Period by the Offeror or its Concert Parties.

The announcement will specify the percentages of the issued share capital of SIH and the percentages of voting rights, represented by these numbers.

- (b) As required under the Takeovers Code regarding the publication of documents, all announcements in relation to the Offer will be made in accordance with the requirements of the Listing Rules.

### Right of Withdrawal

An acceptor of the Offer shall be entitled to withdraw his/her/its acceptance after 21 days from the First Closing Date if the Offer has not by then become unconditional as to acceptances. An acceptor of the Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Receiving Agent.

Such entitlement to withdraw shall be exercisable only until such time as the Offer becomes or is declared unconditional as to acceptances. Furthermore, in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that



## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offer as described under the paragraph headed "Announcements" above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met. Save as aforesaid, acceptances of the Offer shall be irrevocable and not capable of being withdrawn.

### General

- (a) All communications, notices, Forms of Acceptance, certificates of SIH Shares, transfer receipts, other documents of title or indemnities and remittances to be delivered by or sent to or from the SIH Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, DBS Asia Capital, SIH, the Registrar, the Receiving Agent or any of their respective directors, or any other person involved in the Offer, accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) Subject to the terms of the Takeovers Code, acceptance(s) of the Offer may, at the absolute discretion of the Offeror, be treated as valid even if not entirely in order or which is not accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), but, in such cases, the cheque(s) for the consideration due will not be despatched until the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), has/have been received by the Receiving Agent. However, such acceptances to the Offer will not be counted towards fulfilling the acceptance condition unless Rule 30.2 of the Takeovers Code has been fully complied with.
- (c) If no number of SIH Shares is specified in the Form of Acceptance or the number of SIH Shares specified by the acceptor in the Form of Acceptance is greater than the number of the SIH Shares, registered in the name of the acceptor as holder, the acceptor shall be deemed to have accepted the Offer in respect of the entire holding of the SIH Shares registered in the acceptor's name.
- (d) Subject to paragraph (b) above, if the number of SIH Shares specified by the acceptor in the Form of Acceptance is greater than the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), that are forwarded by the acceptor to the Receiving Agent, the acceptor shall be deemed to have accepted the relevant Offer only in respect of the number of SIH Shares represented by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

- indemnities in respect thereof) received by the Receiving Agent, in good order before 4:00 p.m. on the First Closing Date (or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code).
- (e) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Offer.
  - (f) The accidental omission to despatch this document and/or Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
  - (g) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
  - (h) Due execution of the Form of Acceptance will constitute an irrevocable authority to the Offeror and/or DBS Asia Capital (or such person or persons as the Offeror and/or DBS Asia Capital may direct) to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror (or such person or persons as it may direct) the SIH Shares in respect of which such person has accepted the Offer.
  - (i) Acceptance of the Offer by any person or persons will constitute a warranty by such person or persons to the Offeror that the SIH Shares acquired under the Offer are sold by any such person or persons free from all third party rights, liens, charges, equities and encumbrances and together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them, including (as appropriate) the right to receive all dividends and distributions declared, made or paid on or after the date of the Announcement.
  - (j) References to the Offer in this document and in the Form of Acceptance shall include any extension and/or revision thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.
  - (k) Seller's ad valorem stamp duty for the SIH Shares arising in connection with the acceptance of the Offer will be payable by the SIH Shareholders, at the rate of 0.1% of the greater of (i) the value of the consideration payable by the Offeror for such person's SIH Shares; and (ii) the market value of SIH Shares, and will be deducted from the cash amount due to such person under the Offer. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting SIH Shareholders in respect of the SIH Shares accepted under the Offer.

## APPENDIX II OFFER CONDITIONS AND FURTHER TERMS OF THE OFFER

- (l) Settlement of the consideration to which any SIH Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such SIH Shareholder.
- (m) The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. SIH Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. The Offeror, DBS Asia Capital and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay.
- (n) The English text of this document and of the Form of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

*The following is the text of the letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this Composite Document received from American Appraisal China Limited, an independent property valuer, in connection with its opinion of values of the property interest of the SIH Group as at 31 July 2006.*



*American Appraisal China Limited*

1 September 2006

The Directors  
Senyuan International Holdings Limited  
1 West Hengtanghe Road  
External-oriented Agricultural Development Zone  
Changzhou  
Jiangsu Province  
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the property interest owned by Senyuan International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have based on the investigation as documented in our previous Report Ref. 04/0804, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such property interests as at 31 July 2006 (the "valuation date").

#### **BASIS OF VALUATION**

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

#### **VALUATION METHODOLOGY**

Our valuation has been based on the depreciated replacement cost of the buildings and structures (referred to as the "Buildings") which is defined as the gross replacement cost of the Buildings, from which appropriate deductions may then be made to allow for age, condition, economic/external and functional obsolescence and environmental factors etc. All of these might result in the existing Buildings being worth less to the undertaking in occupation than would a new replacement. In the valuation of the land portion, reference has been made to actual sales or market price information of comparable properties. When valuing the land parcels on which the Buildings were constructed, reference will be made to the Standard Land Prices of the area.

**ASSUMPTIONS**

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to increase the value of such property interests. In addition, no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the property interests are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their rental values.

For the property interests held under land use rights in the PRC, we have assumed that the owner of the property interests has free and uninterrupted rights to use, lease, sell or mortgage the property interests for the whole of the unexpired term of its respective land use rights. Unless stated as otherwise, vacant possession is assumed for the property interests concerned.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificate. Further, it is assumed that the utilisation of the property and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificate.

**TITLESHP INVESTIGATION**

We have been provided with the extracts of documents in relation to the property interests situated in the PRC. However, we have not scrutinised the original documents to verify ownership of to verify any amendment, which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Group and the opinion given by the Group's legal adviser, Sinotimes & Partners, on the PRC Law.

All legal documents disclosed in this letter and valuation certificate are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificate.

**LIMITING CONDITIONS**

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, site and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the property interests included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the property interests are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services. In the course of our inspection, we did not notice any serious defects.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the proposed development, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

#### REMARKS

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institute of Chartered Surveyors and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Chartered Surveyors.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi Yuan (RMB).

We enclose herewith the summary of valuation and the valuation certificate.

Yours faithfully,  
For and on behalf of  
**AMERICAN APPRAISAL CHINA LIMITED**  
**LEO C. HO**

*B.Sc. (Real Estate), PG Dip (Accounting), MBA*

*MHKIS, MRICS, RPS(GP)*

*Vice President*

*Note:* Mr. Leo C. Ho, who is a Chartered Surveyor since March 1989, has extensive experience in valuation of properties in Hong Kong, the PRC and other areas in the Asian Pacific Region.

## SUMMARY OF VALUATION

Property	Capital value in existing state as at 31 July 2006
<b>Property Interests Owned by the Group in the PRC</b>	
An Industrial Complex located at 1 West Hengtanghe Road External-oriented Agricultural Development Zone Changzhou Jiangsu Province The People's Republic of China	RMB81,000,000

## VALUATION CERTIFICATE

## Property Interests Owned and Occupied by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31 July 2006
An Industrial Complex located at 1 West Hengtanghe Road External-oriented Agricultural Development Zone Changzhou Jiangsu Province The People's Republic of China	The subject property comprises an industrial complex erected on a piece of land with a total site area of approximately 65,100 square meters.  The industrial complex consists of six buildings completed in 2006. The gross floor area of the buildings is approximately 32,825.19 square meters, details of which are summarised as follows:	The property is occupied by the Group for industrial use.	RMB81,000,000
		<b>GFA</b>	
	<b>Usage</b>	<b>Square meters</b>	
	Plant	23,187.19	
	Office	5,840	
	Auxiliary Plant	1,554	
	Canteen	1,880	
	Boiler Room	207	
	Power Room	157	
	<b>Total:</b>	<b><u>32,825.19</u></b>	
	The Land Use Rights of the property is held for a term up to 26 June, 2053.		

*Notes:*

- Pursuant to the State-owned Land Use Right Title Certificate Chang Guo Yong (2003) No.04440, the land use right is held by 常州森源開關有限公司 (Changzhou Senyuan Switch Co., Ltd.) ("Changzhou Senyuan"), a wholly owned subsidiary of the Company, for a term up to 26 June, 2053 for industry use.
- Pursuant to a Building Ownership Certificate Chang Fang Quan Zheng Zi No. 00155058, a two-floor workshop with a gross floor area of 23,187.19 square meters is held by Changzhou Senyuan.
- Pursuant to Construction Project Commencement Permit No.32040120045200201 dated 20 May 2004, a two-floor canteen with a gross floor area of 1,880 square meters was permitted to be constructed. Construction works were completed in early 2006. Changzhou Senyuan is in the process of applying for a building ownership certificate of the building.
- Pursuant to Construction Project Planning Permit Chang Gui Jian No.1-2004-19 dated 28 April 2004, a three-floor office with a gross floor area of 5,840 square meters was permitted to be developed. Construction works were completed in early 2006. Changzhou Senyuan is in the process of applying for a building ownership certificate of the building.



5. Pursuant to Construction Project Planning Permit Chang Gui Jian No.1-2004-19 dated 28 April 2004, a three-floor auxiliary workshop with a gross floor area of 1,554 square meters was permitted to be developed. Construction works were completed in early 2006. Changzhou Senyuan is in the process of applying for a building ownership certificate of the building.
6. Pursuant to Construction Project Planning Permit Chang Gui Jian No.1-2004-19 dated 28 April 2004, a single-floor boiler room with a gross floor area of 207 square meters was permitted to be developed. Construction works were completed in early 2006. Changzhou Senyuan is in the process of applying for a building ownership certificate of the building.
7. Pursuant to Construction Project Planning Permit Chang Gui Jian No.1-2004-19 dated 28 April 2004, a single-floor power room with a gross floor area of 157 square meters was permitted to be constructed. Construction works were completed in early 2006. Changzhou Senyuan is in the process of applying for a building ownership certificate of the building.
8. According to the preliminary assessment by the management of SIH, the potential tax liabilities would be about RMB 11.44 million assuming sales proceeds equal to RMB 81 million. The SIH Group has no current intention to dispose of its property interests. Details of the tax liabilities calculation is as follows:

	<i>RMB (million)</i>
Business tax @ 5%	4.1
Corporate income tax @ 10%	1.8
Land appreciation tax @ 30%	5.5
Stamp duty @ 0.05%	0.04
	11.44
Total tax liabilities	11.44

9. The PRC legal opinion states, inter alia, that:
  - (a) Changzhou Senyuan has legal rights to freely occupy, use, and enjoy the ownership benefits of the property in accordance with the terms and conditions under the Land Use Rights Certificate.
  - (b) Changzhou Senyuan has settled all land premium and other related levies. Thus, Changzhou Senyuan has already obtained the legal title of the land and buildings without further payments.
  - (c) The property is currently used in accordance with the permitted usage.
  - (d) The ownership, occupation and usage of the property by Changzhou Senyuan is in compliance with PRC laws and has been approved by the relevant authorities. There are no pending orders and notices which may affect the owners' right to freely use and occupy the property.

**1. RESPONSIBILITY**

- 1.1 The issue of this Composite Document has been approved by the Offeror Directors.
- 1.2 This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offeror, Eaton Corporation and the Offer.
- 1.3 The Offeror Directors, the Chairman and Chief Executive Officer of Eaton Corporation and the Executive Vice President and the Chief Financial and Planning Officer of Eaton Corporation, jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the SIH Group) and confirm that, having made all reasonable enquiries, to the best of their knowledge, opinions expressed in this Composite Document (other than those relating to the SIH Group) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the SIH Group) not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

**2. DISCLOSURE OF SHAREHOLDINGS AND DEALINGS IN SIH SHARES**

- 2.1 Save as disclosed in the paragraph headed "Irrevocable Undertakings to Accept the Offer" in the section headed "Letter from DBS Asia Capital" in this Composite Document:
  - (a) neither the Offeror nor its Concert Parties owns or controls;
  - (b) none of the Offeror Directors (including their respective spouses, de facto spouse, children, parents, siblings, related trusts and companies controlled by any of them) was beneficially interested in; and
  - (c) none of the persons who, prior to the posting of this Composite Document, have irrevocably committed themselves to accept or reject the Offer, owned or controlled,

directly or indirectly, any SIH Shares, convertible securities, warrants, options or derivatives in respect of SIH Shares as at the Latest Practicable Date and no such person has dealt for value in any SIH Shares, convertible securities, warrants, options or derivatives in respect of SIH Shares, during the period beginning 6 months prior to the commencement of the Offer Period on 22 August 2006 and ending with the Latest Practicable Date.

- 2.2 Mr. Tsang and Mr. Zhou have not had any dealings in any SIH Shares, convertible securities, warrants, options or derivatives in respect of SIH Shares as at the Latest Practicable Date during the period beginning 6 months prior to the commencement of the Offer Period on 22 August 2006 and ending with the Latest Practicable Date.
- 2.3 As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between the Offeror (or its Concert Parties) and any other person.
- 2.4 As at the Latest Practicable Date, no arrangement, agreement or undertaking has been entered into for the transfer, charge or pledge to any other person of any SIH Shares acquired pursuant to the Offer.
- 2.5 As at the Latest Practicable Date, no benefit has been, or will be given, by the Offeror or, as far as the Offeror is aware, by any other party to any SIH Director as compensation for loss of office or otherwise in connection with the Offer (save as statutory compensation required under the appropriate laws).
- 2.6 As at the Latest Practicable Date, and save as disclosed in the paragraphs headed "Irrevocable Undertakings to Accept the Offer", "Agreement with Mr. Tsang and Mr. Zhou" and "General Matters" in the section headed "Letter from DBS Asia Capital" in this Composite Document, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror (or any of its Concert Parties) and any of the SIH Directors or recent SIH Directors, SIH Shareholders or recent SIH Shareholders having any connection with or dependence upon the Offer.

### **3. INFORMATION ON THE OFFEROR AND EATON CORPORATION**

- 3.1 The Offeror is a wholly-owned indirect subsidiary of Eaton Corporation, a company incorporated in the State of Ohio, USA. Eaton Corporation is listed on the New York Stock Exchange and is a constituent of the S&P 500 index. Eaton Corporation is a diversified industrial manufacturer which operates through four business segments, electrical, fluid power, truck and automotive. Eatons Electrical Group designs, manufactures, markets and services electrical systems and components for power quality, distribution and control and its products include low and medium-voltage power distribution and control products, and a range of circuit breakers. Eaton's Fluid Power Group designs, manufactures, markets and services fluid power systems and services for industrial, mobile and aircraft equipment. Eaton's Truck Group offers products including heavy, medium and light duty agricultural mechanical transmissions and Eaton's Automotive Group's products include automotive engine air management systems, powertrain solutions and specialty controls for performance, fuel economy and safety.

- 3.2 The Offeror is a company incorporated in Luxembourg on 13 May 2004. The Offeror Directors are Mr. Carlo Schlessler, Mr. Robert Parmenter and Mr David Otto. The Offeror is a holding company, the subsidiaries of which are principally engaged in all four of Eaton's business segments.

The audited consolidated net profit before and after taxation of Eaton Corporation was approximately US\$996 million (equivalent to approximately HK\$7,769 million) and US\$805 million (equivalent to approximately HK\$6,279 million), respectively for the financial year ended 31 December 2005.

- 3.3 The registered office of the Offeror is situated at 23, avenue Monterey, L-2086 Luxembourg. The correspondence address of the Offeror and the registered address of Eaton Corporation are both situated at 1111 Superior Avenue, Cleveland, OH44114-2584, USA.

#### **4. CONSENT**

- 4.1 The following are the qualifications of DBS Asia Capital whose letter is contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
DBS Asia Capital	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- 4.2 DBS Asia Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion in this Composite Document of their letter and references to its name in the form and context in which it appears.
- 4.3 The registered office of DBS Asia Capital is 22/F, The Center, 99 Queen's Road Central, Hong Kong.

**1. RESPONSIBILITY**

- 1.1 The issue of this Composite Document has been approved by the SIH Directors.
- 1.2 This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information in respect of the SIH Group.
- 1.3 The SIH Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document in respect of the SIH Group and confirm that, having made all reasonable enquiries, to the best of their knowledge, opinions expressed in this Composite Document in respect of the SIH Group have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document in respect of the SIH Group, the omission of which would make any statements in this Composite Document in respect of the SIH Group misleading.

**2. DISCLOSURE OF SHAREHOLDINGS IN SIH SHARES**

- 2.1 As at the Latest Practicable Date, the interests or short positions of the SIH Directors and their respective associates in the securities of SIH and its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to SIH and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to SIH and the Stock Exchange, were as follows:

<b>Name of the SIH Director</b>	<b>Nature of Interests</b>	<b>Number of SIH Shares</b>	<b>Percentage</b>
Mr. Tsang	Corporate interest (Note)	228,750,000	75%
Mr. Zhou	Corporate interest (Note)	228,750,000	75%

*Note:* As at the Latest Practicable Date, these SIH Shares were owned by SI, the issued share capital of which was owned as to 50% and 50% by LEL and TAIL respectively. LEL was wholly-owned by Mr. Zhou. TAIL was owned as to 75% by Mr. Tsang. Mr. Zhou and Mr. Tsang were deemed to be interested in these SIH Shares by virtue of their interest in LEL and TAIL respectively pursuant to Part XV of the SFO.

- 2.2 As at the Latest Practicable Date, neither SIH nor any of the SIH Directors had any interest in the securities of the Offeror or Eaton Corporation.
- 2.3 Quam Capital Limited is the financial adviser to SIH in respect of the Offer. Mr. Bernard Pouliot, the ultimate controlling shareholder of Quam Capital Limited, currently holds 1,000,000 SIH Shares, representing approximately 0.33% of the entire issued share capital of SIH.

Cheng Wong Lam & Partners is the legal adviser to SIH in relation to the Offer. Mr. Cheng Hoo, the senior partner of Cheng Wong Lam & Partners, currently holds 224,000 SIH Shares, representing approximately 0.07% of the entire issued share capital of SIH.

Save as disclosed in this paragraph 2.3, none of the subsidiaries of SIH, any pension fund of SIH or any member of the SIH Group or any adviser to SIH as specified in class (2) of the definition of “associate” under the Takeovers Code, owned or controlled any securities in SIH as at the Latest Practicable Date.

- 2.4 As at the Latest Practicable Date, there were no holdings of SIH Shares or convertible securities, warrants, options or derivatives in respect of SIH Shares, owned or controlled by any person with whom SIH or any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.
- 2.5 As at the Latest Practicable Date, no SIH Share was managed on a discretionary basis by fund managers connected with SIH.

### 3. DISCLOSURE OF DEALINGS IN SIH SHARES AND OFFEROR'S SHARES

- 3.1 During the period beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date, neither SIH nor any of the SIH Directors had dealt for value in the equity share capital or securities of the Offeror or Eaton Corporation or, in respect of such equity share capital and securities, convertible securities, warrants, options or derivatives.
- 3.2 During the period beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date, none of the SIH Directors had dealt for value in any SIH Shares or, in respect of such securities, convertible securities, warrants, options or derivatives.
- 3.3 During the period beginning with the Offer Period and ending with the Latest Practicable Date:
- (a) no subsidiary of SIH, or any pension fund of SIH or any member of the SIH Group or any adviser to SIH as specified in class (2) of the definition of “associate” under the Takeovers Code, but excluding exempt principal traders, had dealt for value in any SIH Shares or convertible securities, warrants, options or derivatives in respect of SIH Shares;

- (b) no person with whom SIH or any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt for value in SIH Shares or convertible securities, warrants, options or derivatives in respect of SIH Shares;
- (c) Quam Asset Management Limited is under the same control as Quam Capital Limited, the financial adviser to SIH in respect of the Offer. On 24 August 2006, Quam Asset Management Limited sold 650,000 SIH Shares at HK\$1.57 per SIH Share.

Save as disclosed above, no fund managers connected with SIH and who managed funds on a discretionary basis had dealt for value in any SIH Shares or convertible securities, warrants, options or derivatives in respect of SIH Shares; and

- (d) neither Mr. Tsang nor Mr. Zhou had dealt for value in any SIH Shares or convertible securities, warrants, options or derivatives in respect of SIH Shares.

#### 4. MARKET PRICES

- 4.1 The closing prices of the SIH Shares as quoted on the Stock Exchange on the Last Trading Date and on the Latest Practicable Date were HK\$1.43 and HK\$1.56, respectively.
- 4.2 The table below sets out the closing prices of the SIH Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the period commencing six months preceding the commencement of the Offer Period and ending on the Latest Practicable Date:

	<b>Closing Price</b> <i>HK\$</i>
28 February 2006	1.17
31 March 2006	1.24
28 April 2006	1.22
30 May 2006	1.23
30 June 2006	1.27
31 July 2006	1.33

- 4.3 The highest and lowest prices at which SIH Shares were traded on the Stock Exchange during the period commencing six months preceding the commencement of the Offer Period and ending on the Latest Practicable Date were HK\$1.58 on 23 August and 24 August 2006 and HK\$1.07 on 25 May 2006 respectively.

## 5. LITIGATION

As at the Latest Practicable Date, neither SIH nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the SIH Directors to be pending or threatened by or against SIH or any of its subsidiaries.

## 6. MATERIAL CONTRACTS

The following material contracts, not being contracts entered into in the ordinary course of business, have been entered into by the SIH Group within 2 years immediately before the date of the Announcement and up to the Latest Practicable Date:

- (a) a transfer agreement (in Chinese) dated 8 October 2004 between Changzhou Senyuan and Old Lanling in relation to transfer of 50% interest in Changzhou Guodian Senyuan Insulating Electrical Co., Ltd. by Changzhou Senyuan to Old Lanling for a consideration of RMB916,552.83;
- (b) a transfer agreement (in Chinese) dated 18 October 2004 between Senyuan Investments and Tai Ah Investment Company Limited (“**Tai Ah HK**”) in relation to the transfer of 49.75% interest in Changzhou Senyuan by Tai Ah HK to Senyuan Investments for a consideration of US\$294,000;
- (c) a transfer agreement (in Chinese) dated 18 October 2004 between Senyuan Investments and Changzhou Lanling Electrical Complete Set Factory Co., Ltd. (常州市蘭陵電器成套廠有限公司) (“**Changzhou Lanling Factory**”) in relation to the transfer of 50.25% interest in Changzhou Senyuan by Changzhou Lanling Factory to Senyuan Investments for a consideration of US\$1,206,000;
- (d) a share swap agreement dated 31 May 2005 between SIH, TAIL, LEL, Mr. Tsang and Mr. Zhou in relation to transfer of the entire issued share capital of Senyuan Investments by TAIL and LEL to SIH in exchange for 998 shares of SIH, all credited as fully paid, being allotted and issued to SI;
- (e) a deed of indemnity dated 31 May 2005 executed by Mr. Tsang, Mr. Zhou, TAIL, LEL and SI in favour of SIH (for SIH and as trustee for each of SII and Changzhou Senyuan) containing the indemnities in respect of certain estate duty, tax and other liabilities;
- (f) an underwriting agreement dated 27 June 2005 entered into between, among other parties, SIH, the executive SIH Directors, the joint sponsors, the lead manager and the underwriters to the public offer and placing of shares of SIH (the details of which is set out in the prospectus dated 28 June 2005 issued by SIH);



- (g) a joint venture contract (in Chinese) dated 13 September 2005 in respect of Changzhou Tuoyuan Electrical & Equipment Co., Ltd. between Changzhou Su Yuan Group Electricity Company Limited (常州蘇源集團電力有限公司), Senyuan Investments and Changzhou Tuoyuan Electrical Manufacturing Equipment Company Limited (常州市拓源電氣製造有限公司) with equity contribution of US\$375,000 made payable by Senyuan Investments;
- (h) a shareholders agreement in respect of Unique Vantage Limited (“**Unique Vantage**”) dated 22 February 2006 between Gain Source, NKT Cables Group A/S and Unique Vantage;
- (i) an equity transfer contract (in Chinese) dated 23 December 2005 between Guangzhou Jian Xin Electrical Company Limited (廣州建新電器有限公司) and Teamachieve Investments Limited (“**Teamachieve**”) in relation to transfer of 25% interest in the registered capital in Shanxi Senyuan Electrical Co., Ltd (山西森源電器有限公司) (“**Shanxi Senyuan**”) for a consideration of RMB1,500,000;
- (j) a joint venture contract (in Chinese) (the “**Shanxi Senyuan JV Contract**”) in respect of Shanxi Senyuan dated 23 December 2005 between Taiyuan Electricity Supply Bureau Electrical Equipment Factory (太原市供電局電器設備廠), Teamachieve, Shanxi Jin Neng Electricity Development Company Limited (山西晉能電力開發有限公司) and Beautystate International Limited (“**Beautystate**”) with equity contribution of RMB1,500,000 made payable by Teamachieve;
- (k) a supplemental agreement (in Chinese) to the Shanxi Senyuan JV Contract undated between Taiyuan Electricity Supply Bureau Electrical Equipment Factory (太原供電局電器設備廠), Teamachieve, Shanxi Jin Neng Electricity Development Company Limited (山西晉能電力開發有限公司) and Beautystate in relation to the equity contribution by Teamachieve to Shanxi Senyuan;
- (l) a sale and purchase agreement (in Chinese) dated 27 July 2006 between Mr. Tsang, Mr. Zhou and SII in relation to (i) transfer by Mr. Tsang and Mr. Zhou to SII of 100% of the entire issued share capital of Team Billion; and (ii) the assignment to SII of two shareholder’s loans (for the aggregate amount of HK\$7,800,000) extended by each of Mr. Tsang and Mr. Zhou to Team Billion, for a total consideration of HK\$7,800,000;
- (m) a deed of assignment dated 1 August 2006 executed by Mr. Tsang, Senyuan Investments and Team Billion in relation to the assignment by Mr. Tsang to SII of his shareholder’s loan of HK\$3,900,000 to Team Billion;
- (n) a deed of assignment (in Chinese) dated 1 August 2006 executed by Mr. Zhou to SII of his shareholder’s loan of HK\$3,900,000 to Team Billion;
- (o) an agreement dated 21 July 2006 between Old Lanling and New Lanling in relation to the re-sale arrangement of products;

- (p) an options contract (in Chinese) dated 15 August 2006 between Mr. Tsang, Mr. Zhou, Senyuan Investments in relation to granting options to Senyuan Investments to acquire 100% interest in Tai Ah Electrical Limited for a total consideration of US\$500,000;
- (q) a consultancy contract (in Chinese) (the “**Consultancy Contract**”) dated 15 May 2006 between Teamachieve and Beautystate in relation to provision of consultancy services to Teamachieve with consideration of RMB2,000,000 made payable by Teamachieve to Beautystate;
- (r) a supplemental agreement to the Consultancy Contract (in Chinese) undated between Teamachieve and Beautystate;
- (s) an asset transfer agreement (the “**Lanling Asset Transfer Agreement**”) dated 28 December 2005 between New Lanling and Old Lanling in relation to certain plant, machinery and other fixed assets to New Lanling with a consideration of RMB6,078,400 made payable by New Lanling to Old Lanling;
- (t) a supplemental agreement to the Lanling Asset Transfer Agreement dated 30 December 2005 between New Lanling and Old Lanling in relation to transfer of certain remaining assets of Old Lanling to New Lanling with a consideration of RMB1,934,320 made payable by New Lanling to Old Lanling; and
- (u) a trademark transfer contract dated 25 October 2005 between New Lanling and Old Lanling in relation to transfer of the “蘭電” trademark for a consideration of RMB20,000.

## 7. SIH DIRECTORS’ SERVICE AGREEMENTS

- 7.1 Each of Mr. Tsang, Mr. Zhou, Mr. Lou Chong Wei and Mr. Shu Yi Jin entered into a service contract with SIH on 30 May 2005 for a term of 3 years from 11 July 2005 unless and until such employment is terminated in accordance with the terms of the service contract. The annual fixed remuneration payable under these service contracts to Mr. Tsang, Mr. Zhou, Mr. Lou Chong Wei and Mr. Shu Yi Jin, excluding arrangements for pension payments, performance bonus and other benefits in kind, is HK\$1,440,000, HK\$1,440,000, HK\$144,000 and HK\$744,000 respectively. Under the terms of these service contracts, each of them may also be entitled to receive discretionary bonuses. Such bonuses, if any, are gratuitous in nature and shall be such amounts as the SIH Board, in its absolute discretion, may from time to time determine.

Each of Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun has signed a letter of appointment dated 25 August 2006 with SIH under which they agreed to act as independent non-executive SIH Directors for a period of one year from 30 May 2006 unless terminated in accordance with the terms of the appointment letters. The annual fixed remuneration payable under these letters of appointment to Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun is HK\$180,000, HK\$144,000 and HK\$144,000 respectively. The letters of appointment do not provide for payment of any variable remuneration to Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun.

- 7.2 Save as disclosed in paragraph 7.1 above, as at the Latest Practicable Date, none of the SIH Directors had entered into any service contracts with SIH or any of its subsidiaries or associated companies:
- (a) which (including both continuous or fixed term contracts) had been entered into or amended within six months before the commencement of the Offer Period;
  - (b) which are continuous contracts with a notice period of 12 months or more; or
  - (c) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 8. CONSENTS

- 8.1 The following are the qualifications of experts who have given opinion or advice which are contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
CIMB-GK Securities (HK) Ltd.	Corporation licensed under the SFO to carry out type 1 (dealing in securities), type 4 (advising in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
American Appraisal China Limited	Property valuers
Sinotimes & Partners – PRC Lawyers	PRC legal advisers

- 8.2 Each of CIMB-GK Securities (HK) Ltd., American Appraisal China Limited and Sinotimes & Partners – PRC Lawyers has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion in this Composite Document of its letter and references to its names, in the form and context in which it appears.
- 8.3 The registered office of the Independent Financial Adviser is 25/F, Central Tower, 28 Queens Road, Central, Hong Kong.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection on the website of SIH ([www.czsykg.com](http://www.czsykg.com)) and the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this Composite Document until the end of the Offer Period up to and including the Closing Date:

- (a) the articles of association of the Offeror;
- (b) the memorandum and articles of association of SIH;
- (c) the annual report of SIH for the year ended 31 December 2005;
- (d) the letter from DBS Asia Capital, the text of which is set out on pages 9 to 20 of this Composite Document;
- (e) the letter from the SIH Board, the text of which is set out on pages 21 to 25 of this Composite Document;
- (f) the letter from the SIH Independent Board Committee, the text of which is set out on pages 26 to 27 of this Composite Document;
- (g) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 28 to 42 of this Composite Document;
- (h) the valuation report prepared by the Valuer, the text of which is set out on pages 98 to 103 of this Composite Document;
- (i) the PRC legal opinion referred to in the valuation report prepared by the Valuer, an extract of which is set out in Appendix III to this Composite Document;
- (j) the written consents referred to in the paragraphs headed "Consent" in Appendix IV to this Composite Document and "Consents" in this Appendix V;
- (k) the Irrevocable Undertakings and the Deed of Warranties;
- (l) the material contracts set out under the paragraph headed "Material Contracts" in this Appendix V; and
- (m) each service contract referred to in the paragraph headed "SIH Directors' Service Agreements" in this Appendix V.

**10. MISCELLANEOUS**

- (a) None of the SIH Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer (save for statutory compensation required under the appropriate laws).
- (b) Except for the Irrevocable Undertakings, the Consulting Services Agreements and the Deed of Warranties which were entered into by each of Mr. Tsang and Mr. Zhou (the nature of their interest under these documents is set out in the letter from DBS Asia Capital in this Composite Document), there is no agreement or arrangement between any SIH Director and any other person which is conditional on or dependent on or otherwise connected with the outcome of the Offer.
- (c) As at the Latest Practicable Date, except for the Irrevocable Undertakings and the Deed of Warranties which were entered into by each of Mr. Tsang, Mr. Zhou and SI (the nature of their interest under these documents is set out in the letter from DBS Asia Capital in this Composite Document), there were no material contracts entered into by the Offeror in which the SIH Directors have a material personal interest.
- (d) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between SIH or any of its associates (as defined in the Takeovers Code) or any other person.
- (e) As at the Latest Practicable Date, each of Mr. Tsang, Mr. Zhou and Mr. Lou Chong Wei intended, in respect of his beneficial shareholdings in SIH Shares, to accept the Offer. As at the Latest Practicable Date, except for Mr. Tsang, Mr. Zhou and Mr. Lou Chong Wei, none of the SIH Directors held any beneficial shareholdings in SIH Shares.
- (f) As at the Latest Practicable Date, none of the SIH Directors intended, in respect of his beneficial shareholdings in SIH Shares, to reject the Offer.
- (g) The secretary of SIH is Wong Kwok Wai, Allan, who is an associate of The Institute of Bankers (London), a Certified Practising Accountant of CPA (Australia) and a fellow of The Hong Kong Institute of Certified Public Accountants.
- (h) The registered office of SIH is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.
- (i) The principal place of business of SIH is situated at 1 West Hengtanghe Road, External-oriented Agricultural Development Zone, Changzhou, Jiangsu Province, the PRC.
- (j) The share registrar and transfer office of SIH in Hong Kong is Tricor Investor Services Limited, which is situated at 26th Floor, Tesbury Centre, 28 Queen' s Road East, Hong Kong.
- (k) The English language text of this Composite Document and the accompanying Form of Acceptance shall prevail over the Chinese language text.