

# 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)

## RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

### FINANCIAL HIGHLIGHTS

- Turnover for the first half of 2005 was RMB166.7 million, representing an increase of 24.1% over the corresponding period last year.
- Net profit attributable to equity holders of the Company for the first half of 2005 was RMB19.7 million which is close to that for the corresponding period last year.
- Basic earnings per share for the first half of 2005 was RMB6.5 cents.

### 2005 INTERIM RESULTS (UNAUDITED)

The directors (the “Directors”) of Senyuan International Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2005 (the “Interim Period”) together with the comparative figures for the corresponding period in 2004 as set out below.

### CONDENSED CONSOLIDATED INCOME STATEMENTS

		Six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
<b>Turnover</b>	2	<b>166,736</b>	134,265
Cost of sales		<b>(131,159)</b>	(97,692)
<b>Gross profit</b>		<b>35,577</b>	36,573
Other revenue		<b>2,855</b>	69
Selling and distribution costs		<b>(3,776)</b>	(5,745)
Administrative expenses		<b>(10,267)</b>	(6,550)
Other operating expenses		<b>(8)</b>	(352)
<b>Profit from operating Activities</b>	4	<b>24,381</b>	23,995
Finance costs		<b>(2,473)</b>	(1,428)
Share of profits of an associate		–	238
Amortisation of goodwill on acquisition of an associate		–	(14)
<b>Profit before tax</b>		<b>21,908</b>	22,791
Income tax	5	<b>(2,187)</b>	(2,822)
<b>Net profit from ordinary activities attributable to shareholders</b>		<b>19,721</b>	19,969
<b>Proposed interim dividends</b>	6	<b>–</b>	–
Earnings per share – Basic			
– RMB(cents)	7	<b>6.5</b>	6.5

## CONDENSED BALANCE SHEETS

	<i>Notes</i>	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Unaudited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>60,887</b>	58,406
Land use rights		<b>11,189</b>	8,274
Construction in progress		<b>24,934</b>	19,031
Long term prepayments		<b>3,413</b>	3,813
Long term investment		<b>600</b>	600
Deferred tax assets		<b>681</b>	681
<b>Total non-current assets</b>		<b>101,704</b>	90,805
<b>Current assets</b>			
Inventories		<b>56,307</b>	34,935
Trade receivables	8	<b>115,777</b>	78,346
Other receivables		<b>7,106</b>	7,271
Due from related companies		<b>6,944</b>	7,043
Cash and cash equivalents		<b>44,877</b>	21,498
<b>Total current assets</b>		<b>231,011</b>	149,093
<b>Current liabilities</b>			
Trade and bills payable	9	<b>103,534</b>	65,421
Tax payable		<b>2,020</b>	774
Other payables and accruals		<b>5,075</b>	11,081
Interest-bearing bank borrowings		<b>125,000</b>	80,800
Due to related companies		<b>818</b>	5,275
<b>Total current liabilities</b>		<b>236,447</b>	163,351
<b>Net current liabilities</b>		<b>(5,436)</b>	(14,258)
<b>Total assets less current Liabilities</b>		<b>96,268</b>	76,547
<b>Total non-current liabilities</b>		<b>–</b>	–
<b>Net assets</b>		<b>96,268</b>	76,547
<b>Combined capital and reserves</b>			
Issued capital		–	12,477
Reserves		<b>96,268</b>	64,070
<b>Equity</b>		<b>96,268</b>	76,547

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of preparation and principal accounting policies

##### a. Corporate reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 October 2004, under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 31 May 2005, the Company became the holding company of the subsidiaries comprising the Group set out in note c below pursuant to a group reorganisation (the “Reorganisation”), details of which are set out in the section headed “Reorganisation” in Appendix V of our prospectus dated 28 June 2005 (the “Prospectus”).

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

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

b. *Impact of recently issued Hong Kong Financial Reporting Standards (“HKFRSs”)*

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004 within our Prospectus, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which also include HKASs and Interpretations that affect the Group and are adopted for the first time for the Company’s financial statements in 2005:

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 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
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	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong land leases
HKAS-Int 15	Operating Leases – Incentives

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 31, 32, 33, 37, 38, 39, 40, HKFRS 2, HK(SIC)-Int 21, HK-Int 4 and HKAS-Int 15 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements. Particular policies which have material impact on the accounting policies of the Group’s condensed consolidated financial statement are described below:

**HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets**

This HKFRS does not apply to business combinations involving entities under common control.

**HKAS24 – Related Party Disclosures**

Related parties include, amongst other parties, key management personnel of the Company or its parent as well as their close family members.

c. *Basis of presentation*

This interim financial report has been prepared by adopting a uniting of interests method of accounting as a result of the Reorganisation in more detail in the Prospectus. Under this method, the Company and Senyuan Investments have been treated as the holding company and the intermediate holding company of its subsidiaries for the Interim Period rather than from the date of acquisition of the subsidiaries. The Reorganisation has regarded the Group as comprising the Company and its subsidiaries as a continuing entity. Accordingly, the combined income statements, cash flow statements, statements of movements in equity and combined balance sheets of the companies now comprising the Group have been prepared as if the Group structure as at 31 May 2005 had been in existence from the respective dates of their incorporation and to the extent of interests held by the Company’s shareholder. All material intra-group transactions and balances have been eliminated on combination.

The condensed financial statements have also been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention.

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

Company	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Senyuan Investments	British Virgin Islands 21 September 2004	US\$1,507,500	100	–	Investment holding
Changzhou Senyuan	The PRC 21 January 1997	US\$2,400,000	–	100	Manufacture and sale of vacuum circuit breakers and components of switchgears

## 2. Turnover

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

	Six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Turnover		
Sales of goods	<b>166,736</b>	<b>134,265</b>

Over the past three years, the Group has demonstrated an established seasonal sales pattern with a proportion of 4:6 for the first half year and the second half year.

## 3. Segment Information

The Group's turnover and profit for the interim periods were mainly derived from manufacture and sale of vacuum circuit breakers and components of medium voltage switchgears.

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

## 4. Profit from Operating Activities

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

	Six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Cost of inventories sold	166,736	85,410
Depreciation	3,101	2,132
Amortisation of land use rights	86	86
Amortisation of goodwill	–	14
Auditors' remuneration	–	–
Minimum lease payments under operating leases – in respect of buildings	–	393
Staff costs (including Directors' remuneration):		
Wages and salaries	7,222	5,589
Pension Scheme contributions	992	743
	<b>8,214</b>	<b>6,332</b>
Provision for doubtful debts	<b>405</b>	–

## 5. Tax

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

Changzhou Senyuan is located and operates in one of the coastal "economic opening zone" 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 investment, 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 a “double-intensity enterprise” (兩個密集型企業) and approved by the State Administration of Tax, Changzhou Senyuan has been entitled to an applicable tax rate of 15% since 2004. In addition, Changzhou Senyuan, as an advanced-technology enterprise with foreign investment, is also entitled to a 50% reduction (with a minimum tax rate of 10%) of the national income tax for an additional three-years after the initial five-year tax holiday as stated above. Accordingly, pursuant to approval by the State Administration of Tax of Changzhou, Jiangsu Province, Changzhou Senyuan is subject to an applicable income tax rate of 10% from 2004 to 2006.

	<b>Six months ended 30 June</b>	
	<b>2005</b> (Unaudited) <i>RMB'000</i>	2004 (Unaudited) <i>RMB'000</i>
Current year provision at the concession tax rate of 10%	2,187	2,447
Deferred tax	–	375
<b>Tax charge</b>	<b>2,187</b>	<b>2,822</b>

**6. Dividends**

The Directors do not recommend the payment of an interim dividend (six months ended 30 June 2004: Nil).

**7. Earnings per Share**

The calculation of basic earnings per Share for the Interim Period is based on the net profit from ordinary activities attributable to shareholders for the Interim Period and on the assumption that 305,000,000 shares of the Company (the “Shares”) in issue had been in issue on 1 January 2005 and throughout the Interim Period.

Diluted earnings per Share for each of the interim periods have not been disclosed as no diluting events existed during the interim periods.

**8. Trade Receivables**

Trade receivables, which generally have credit terms ranging from 30 to 90 days, were recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The ages of trade receivables are analysed as follows:

	<b>30 June</b> <b>2005</b> (Unaudited) <i>RMB'000</i>	31 December 2004 (Audited) <i>RMB'000</i>
Outstanding balances with ages:		
Within 30 days	59,998	30,686
Between 31 days to 90 days	27,696	17,512
Between 91 days to 180 days	10,510	11,472
Between 181 days to 365 days	12,021	13,617
Between 1 year to 2 years	6,489	6,926
Over 2 years	5,852	5,086
	<b>122,566</b>	<b>85,299</b>
Less: Provision for doubtful debts	<b>(6,789)</b>	<b>(6,953)</b>
	<b>115,777</b>	<b>78,346</b>

**9. Trade and Bills Payable**

The ages of trade and bills payable which are based on invoiced dates are analysed as follows:

	<b>30 June</b> <b>2005</b> (Unaudited) <i>RMB'000</i>	31 December 2004 (Audited) <i>RMB'000</i>
Outstanding balances with ages:		
Within 30 days	33,177	43,203
Between 31 days to 90 days	48,655	18,564
Between 91 days to 180 days	14,138	2,686
Between 181 days to 365 days	6,603	737
Between 1 year to 2 years	437	55
Between 2 years to 3 years	524	176
	<b>103,534</b>	<b>65,421</b>

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

**10. Post Balance Sheet Event**

On 11 July 2005 the Company was successfully listed on the main board of the Stock Exchange.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

For the Interim Period the Group achieved turnover of RMB166.7 million, representing an increase of 24.1% when compared with RMB134.3 million of the corresponding period in the previous year. The increase was mainly attributable to:

- (i) Leveraging on our competitiveness of production of VCBs and switchgear cubicles, we increased sales of assembled products.
- (ii) We further penetrated into markets in Northern Jiangsu Province and developed sales agencies in Northern Anhui Province. Moreover, we actively tendered bids and conducted market research in North East and South West China.
- (iii) Components of C-GIS product series covering models SIMOSEC & 8DC11 were successfully introduced to Shenyang and Guangdong Province and the sales started to gain momentum, which laid a solid foundation for us to update our products to meet the forthcoming demand for C-GIS products.

In addition, to identify new growth opportunities and achieve sustainable development, we adopted the following major measures:

#### 1. Market development

In order to materialize our marketing strategy, we had been actively seeking cooperation opportunity with power system related companies.

#### 2. Product development

We finalised the design of heavy duty 3150A/40KA embedded pole. Its mould was developed and basic tests were carried out on the mould. The prototype of the embedded pole passed the type test. Capacity for pilot production of embedded pole vacuum circuit breaker 3AS1 and 3AS2 was set up. On the other hand, metal-enclosed load break switch and ring main unit were sent to Xian High Voltage Apparatus Research Institute for full set of type tests.

#### 3. Improvement in industrial engineering

29 sets of tools and fixtures for manufacturing C-GIS auxiliary tools and 12 special tools for assembly were made in order to ensure assembly works to comply with high quality requirements.

For the Interim Period, net profit attributable to the shareholders of the Company amounted to RMB19.72 million which is close to that for the corresponding period of the previous year. Our net profit during the Interim Period remained more or less the same due to the following reasons:

1. The administrative expense of the Company for the Interim Period amounted to RMB10.27 million (six months ended 30 June 2004: RMB6.55 million) representing an increase of 57% compared with the corresponding period in the previous year. The increase was mainly due to the completion of new buildings in October 2004 resulting in an increase of depreciation, water and electricity expenses. Also, according to the newly issued relevant regulations in the PRC, the Company incurred an increase of expense in employee social welfare contribution.
2. For the Interim Period the finance costs amounted to RMB2.47 million, representing an increase of 73.2% when compared with RMB1.43 million of the corresponding period in the previous year. The increase was due to the financing of our new plant by bank loans.

### FUTURE OUTLOOK

Electricity is an infrastructure industry. As long as the economy grows, the growth of electricity industry will not diminish. China is a fast developing country. It is experiencing acute imbalance in the supply and demand for electricity and serious electricity shortages in various areas. The imbalance can only be resolved in the medium to long term.

Changzhou Senyuan, the Company's principal operating subsidiary, currently has a strong competitive edge in the electricity industry in the PRC. By adjusting its product mix during the Interim Period Changzhou Senyuan has further improved its competitiveness. Therefore, the outlook of the Company whether from the external or internal aspects is optimistic.

#### Directions and measures

Directions: increase revenue and reduce expenses; cut cost and improve efficiency; further strengthen management; grow bigger and become stronger.

Implementation measures:

1. To consolidate existing products which are still competitive, to target new and high-technology product segment and gradually expand the market coverage of both power transmission & distribution equipment, and licensed C-GIS product series.

2. To expedite the management re-structuring, to set up independent profit centres and cost centres within the marketing division in order to provide market development executives with incentives and to expand the market coverage.
3. To strengthen internal management, to streamline systems and procedures, to better perform planning, human resource management (team building), product quality control, treasury management & risk assessment.
4. To strengthen cost control, to further raise cost consciousness, to cut costs especially administration expenses. To achieve cost reduction through better management.
5. To strength cooperation and to look for new joint-venture partners. To cooperate with joint-venture partners equipped with advanced technology in addition to setting up joint ventures with local joint-venture partners.

#### **Annual target**

To ensure that the annual core economic indicator - net profit can be achieved.

#### **Financial Review**

##### *Liquidity and Financial Resources*

	<b>30 June 2005 RMB'000</b>	31 December 2004 RMB'000	increase
Cash and bank deposits	<b>44,877</b>	21,498	108.7%

As at 30 June 2005, the Group's bank loans amounted to RMB125 million, increased by 55% as compared with the end of 2004. The Group did not have long term bank loan.

<b>Financial ratio</b>	<b>Basis of calculation</b>	<b>30 June 2005</b>	31 December 2004
Gearing ratio	Total liabilities/Total assets *100%	<b>71.1%</b>	68.1%

As at 30 June 2005, equity available to shareholders of the Company was approximately RMB96.3 million (31 December 2004: RMB76.5 million).

#### **Capital structure**

As at 30 June 2005, the Group's borrowings and cash and cash equivalents were predominantly denominated in Renminbi. The total borrowings of RMB125 million bore an average interest rate of approximately 5.74%, with little change from that at the end of 2004.

#### **Pledge of assets**

As at 30 June 2005, the Group's secured loans amounted to RMB50.3 million (with nil guaranteed loan), representing a decrease of RMB30.5 million when compared with RMB8.4 million secured and RMB72.4 million guaranteed at the beginning of the Interim Period. The loans were secured by such fixed assets as property, plant and equipment with a net book value of RMB84.5 million.

#### **Exchange risks**

All our sales and purchases are denominated in Renminbi except for the importation of certain machinery and equipment. As at 30 June 2005 the Group had outstanding letters of credit denominated in foreign currencies totaling US\$2 million. Fluctuation in exchange rates has brought risks relating to foreign exchange to the Group.

#### **Contingent liabilities and capital commitments**

As at 30 June 2005, the Group did not provide any guarantees for any third party and had no significant contingent liabilities. The Group did not have any capital commitment.

#### **Major acquisitions and disposals**

For the Interim Period the Group did not make any major acquisition and disposal.

#### **Human resources**

As at 30 June 2005, the Group had 515 employees and for the Interim Period incurred total staff costs of RMB8.2 million. The pay levels of these employees are commensurate with their responsibilities, performance and market condition. The Group is committed to nurturing a learning culture in the organization. Heavy emphasis is placed on training and development, as the Group's success is dependent on the efforts of a skillful and motivated work force.

#### **INTERIM DIVIDEND**

The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2005.

## **PURCHASES, SALE OR REDEMPTION OF SHARES**

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

## **CODE ON CORPORATE GOVERNANCE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the Interim Period, in compliance with the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

## **MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules regarding securities transactions by its directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have fully complied with the required standard set out in the Model Code during the Interim Period.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim report.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)). The interim report will be despatched to the shareholders and available on the same website in due course.

As at the date of this announcement, the board of directors is composed of Mr. Tsang Shui Ching, Patrick, Mr. Zhou Anmin, Mr. Lou Chong Wei and Mr. Shu Yi Jin as executive directors and Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun as independent non-executive directors.

By Order of the Board  
**TSANG SHUI CHING, PATRICK**  
*Chairman*

Hong Kong, 23 September 2005

"Please also refer to the published version of this announcement in The Standard."