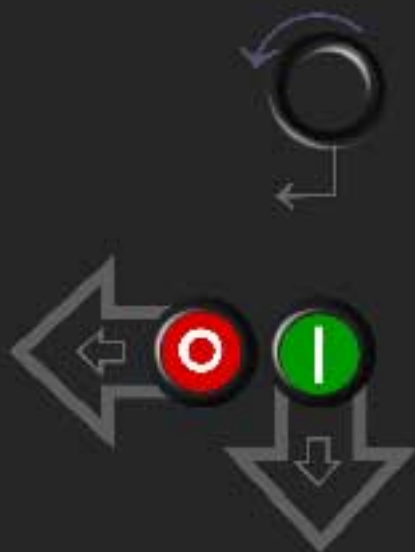


senyuan

Senyuan International
Holdings Limited

森源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)



INTERIM REPORT
2005

CONTENTS

| | |
|------------------------------------|----|
| Corporate Information | 2 |
| Interim Results | 3 |
| Management Discussion and Analysis | 19 |
| Other Information | 23 |

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wong Kwok Wai, Allan

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

LEGAL ADVISOR

Cheng Wong Lam & Partners
Rooms 1105-1109, Jardine House
1 Connaught Place
Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1105-1109, Jardine House
1 Connaught Place, Central
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL REGISTRAR

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town
Grand Cayman
Cayman Islands

BRANCH REGISTRAR

Tricor Investor Services Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

INTERIM RESULTS

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

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2005 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 |
| Turnover | 2 | 166,736 | 134,265 |
| Cost of sales | | (131,159) | (97,692) |
| Gross profit | | 35,577 | 36,573 |
| Other revenue | | 2,855 | 69 |
| Selling and distribution costs | | (3,776) | (5,745) |
| Administrative expenses | | (10,267) | (6,550) |
| Other operating expenses | | (8) | (352) |
| Profit from operating Activities | 4 | 24,381 | 23,995 |
| Finance costs | 5 | (2,473) | (1,428) |
| Share of profits of an associate | 6 | - | 238 |
| Amortisation of goodwill on acquisition of an associate | | - | (14) |
| Profit before tax | | 21,908 | 22,791 |
| Income tax | 8 | (2,187) | (2,822) |
| Net profit from ordinary activities attributable to shareholders | | 19,721 | 19,969 |
| Proposed interim dividends | 9 | - | - |
| Earnings per share – Basic – RMB(cents) | 10 | 6.5 | 6.5 |

The notes on pages 7 to 18 form part of this interim financial report.

Condensed balance sheets

| | | 30 June 2005 (Unaudited) RMB'000 | 31 December 2004 (Unaudited) RMB'000 |
|--|-------|---|---|
| | Notes | | |
| Non-current assets | | | |
| Property, plant and equipment | | 60,887 | 58,406 |
| Land use rights | | 11,189 | 8,274 |
| Construction in progress | | 24,934 | 19,031 |
| Long term prepayments | | 3,413 | 3,813 |
| Long term investment | | 600 | 600 |
| Deferred tax assets | | 681 | 681 |
| Total non-current assets | | 101,704 | 90,805 |
| Current assets | | | |
| Inventories | | 56,307 | 34,935 |
| Trade receivables | 11 | 115,777 | 78,346 |
| Other receivables | | 7,106 | 7,271 |
| Due from related companies | | 6,944 | 7,043 |
| Cash and cash equivalents | | 44,877 | 21,498 |
| Total current assets | | 231,011 | 149,093 |
| Current liabilities | | | |
| Trade and bills payable | 12 | 103,534 | 65,421 |
| Tax payable | | 2,020 | 774 |
| Other payables and accruals | | 5,075 | 11,081 |
| Interest-bearing bank borrowings | 13 | 125,000 | 80,800 |
| Due to related companies | | 818 | 5,275 |
| Total current liabilities | | 236,447 | 163,351 |
| Net current liabilities | | (5,436) | (14,258) |
| Total assets less current Liabilities | | 96,268 | 76,547 |
| Total non-current liabilities | | - | - |
| Net assets | | 96,268 | 76,547 |
| Combined capital and reserves | | | |
| Issued capital | 14 | - | 12,477 |
| Reserves | 15 | 96,268 | 64,070 |
| Equity | | 96,268 | 76,547 |

The notes on pages 7 to 18 form part of this interim financial report.

Condensed consolidated statements of changes in equity

| | Six months ended 30 June | |
|--|---|---|
| | 2005 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 |
| At 1 January 2005 – Total equity | 76,547 | 79,182 |
| Adjustment of issued capital arising from the Reorganisation | (12,477) | – |
| | 64,070 | 79,182 |
| Issue of shares during the interim period | 0.106 | – |
| Exchange differences on translation of the financial statements of foreign entities | (35) | – |
| Capital reserve (net) arising from the Reorganisation | 12,512 | – |
| Net profit for the period | 19,721 | 19,969 |
| At 30 June 2005 – Total equity | 96,268 | 99,151 |

Condensed consolidated cash flow statements

| | Six months ended 30 June | |
|--|---------------------------------------|---------------------------------------|
| | 2005 (Unaudited) <i>RMB'000</i> | 2004 (Unaudited) <i>RMB'000</i> |
| Net cash outflow from operating activities | (29,643) | (1,743) |
| Net cash outflow from investing activities | (10,899) | (19,522) |
| Net cash inflow from financing activities | <u>63,921</u> | <u>2,990</u> |
| Increase/(decrease) in cash and cash equivalents | 23,379 | (18,275) |
| Cash and cash equivalent at beginning of the interim period | 21,498 | 21,610 |
| Effect of foreign exchange rate changes, net | <u>-</u> | <u>-</u> |
| Cash and cash equivalents at end of the interim period | 44,877 | 3,335 |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | <u>44,877</u> | <u>3,335</u> |

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 | <u>166,736</u> | <u>134,265</u> |

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 |
| | <u>8,214</u> | <u>6,332</u> |
| Provision for doubtful debts | <u>405</u> | <u>–</u> |

5. Finance Costs

| | Six months ended 30 June | |
|------------------------------|--------------------------------|--------------------------------|
| | 2005 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 |
| Interests on bank borrowings | 2,387 | 1,424 |
| Bank charges and others | 85 | 4 |
| | <u>2,472</u> | <u>1,428</u> |

6. Share of profit of an associate

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

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

7. Depreciation and amortisation

During the Interim Period, depreciation of RMB3,101,000 (2004: RMB2,132,000) was charged to the profit and loss account in respect of the Group's property and equipment; and amortization of RMB86,000 (2004: RMB100,000) was charged to the profit and loss account in respect of the Group's intangible assets and goodwill arising on consolidation.

8. 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.

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

9. Dividends

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

10. 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.

11. 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:

| | 30 June 2005 (Unaudited) RMB'000 | 31 December 2004 (Audited) RMB'000 |
|------------------------------------|---|---|
| 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 |
| | 122,566 | 85,299 |
| Less: Provision for doubtful debts | (6,789) | (6,953) |
| | 115,777 | 78,346 |

12. Trade and bills payable

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

| | 30 June 2005 (Unaudited) RMB'000 | 31 December 2004 (Audited) RMB'000 |
|---------------------------------|---|---|
| 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 |
| | 103,534 | 65,421 |

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

13. Interest-bearing bank borrowings

| | 30 June 2005 (Unaudited) RMB'000 | 31 December 2004 (Audited) RMB'000 |
|---|---|---|
| Bank borrowings: | | |
| Secured | 50,300 | 8,420 |
| Guaranteed | — | 72,380 |
| | <u>50,300</u> | <u>80,800</u> |
| Bank borrowings repayable: | | |
| Within one year | 125,000 | 80,800 |
| In the second year | — | — |
| | <u>125,000</u> | <u>80,800</u> |
| Portion classified as current liabilities | <u>125,000</u> | <u>80,800</u> |
| Long term portion | <u>—</u> | <u>—</u> |

As at 30 June 2005, the Group's bank borrowings of RMB125,000,000 bore interests at the rate of 5.742% per annum. The bank borrowings were secured by property, plant and equipment.

As at 31 December 2004, the Group's bank borrowings of RMB80,800,000 bore interest rates ranging from 5.49% to 5.84% per annum, and were guaranteed by Changzhou Lanling Electrical Group Co., Ltd., a related party of the Company, free of charge.

14. Share capital

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

Following the Reorganisation, the issued capital as at 30 June 2005 represented shares issued to the shareholders of the Company.

| | 30 June 2005 (Unaudited) RMB | 31 December 2004 (Audited) RMB |
|---|---|---|
| Authorised : | | |
| The Company | | |
| 1,000,000,000 Shares of HK\$0.10 each=HK\$100,000,000 | 106,500,000 | 415,350 |
| Senyuan Investments | | |
| 2,000,000 shares of US\$1 each=US\$2,000,000 | 16,553,000 | 16,553,000 |
| Issued and fully paid : | | |
| The Company | | |
| 1,000 Share of HK\$0.10 each=HK\$100 | 107 | 0.21 |
| Senyuan Investments | | |
| 1,507,500 Shares of US\$1 each=US\$1,507,500 | 12,476,824 | 12,476,824 |

A summary of the movements in the Company's share capital is as follows :

| | Number of Share issued | Paid-up nominal value |
|----------------------------------|-----------------------------------|----------------------------------|
| The Company | | |
| Issued capital at 1 January 2005 | 2 | RMB0.21 |
| Add: Shares issued | 998 | RMB106.29 |
| | <hr/> | <hr/> |
| Issued capital at 30 June 2005 | 1,000 | RMB106.50 |
| | <hr/> | <hr/> |

15. Reserves

| | Translation reserve RMB'000 | Reserve fund RMB'000 | Statutory surplus reserve RMB'000 | Statutory public welfare fund RMB'000 | Discret- ionary surplus reserve RMB'000 | Capital reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|------------------------------------|-----------------------------------|----------------------------|--|---|---|-------------------------------|--------------------------------|------------------|
| As at 1 January 2005 | 35 | 3,738 | 3,427 | 3,830 | 2,000 | 7,470 | 43,570 | 64,070 |
| Exchange adjustment | -35 | | | | | | | -35 |
| Arising from the Reorganisation | | | | | | 12,512 | | 12,512 |
| Net profit for the period | | | | | | | 19,721 | 19,721 |
| As at 30 June 2005 | <u>-</u> | <u>3,738</u> | <u>3,427</u> | <u>3,830</u> | <u>2,000</u> | <u>19,982</u> | <u>63,291</u> | <u>96,268</u> |

The capital reserve represents the following differences:

- (i) The nominal value of the issued capital of Changzhou Senyuan acquired by Senyuan Investments and the nominal value of Senyuan Investments' shares issued in exchange therefor; and
- (ii) The nominal value of the issued capital of Senyuan Investments acquired by the Company and the nominal value of the Company Shares issued in exchange therefor.

16. Post balance sheet event

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

17. Commitments

In addition to certain operating lease commitments, the Group had the following commitments as at 31 December 2004:

| | 30 June 2005 (Unaudited) RMB'000 | 31 December 2004 (Audited) RMB'000 |
|---|---|---|
| Contracted, but not provided for in respect of buildings | <u>-</u> | <u>9,884</u> |

18. Contingent liabilities

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

| | 30 June 2005 (Unaudited) RMB'000 | 31 December 2004 (Audited) RMB'000 |
|---|---|---|
| Guarantees given to banks in connection with facilities granted to: | | |
| – a related party (note 19) | – | 32,263 |
| – a third party | – | 2,000 |
| | <hr/> | <hr/> |
| | – | 34,263 |
| | <hr/> | <hr/> |

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

19. Related party transactions

The Group had the following material transactions with related parties during the interim periods:

| | Six months ended 30 June | |
|--|---|--------------------------------|
| | 2005 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 |
| Sales of goods to (note (ii)) | | |
| – 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.) | 7,243 | 6,509 |
| – 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.) | 53 | 2,240 |
| – 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) | 327 | 1,236 |
| – 常州國電森源絕緣電器有限公司 (Changzhou Guodian Senyuan Insulation Electrical Co., Ltd.) | 845 | – |
| | <hr/> | <hr/> |
| | 8,468 | 9,985 |
| | <hr/> | <hr/> |

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2005 | 2004 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Purchases of raw materials from (note (ii)) | | |
| — 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.) | 524 | 4,800 |
| — 常州森源大亞電器有限公司 (Changzhou Senyuan Tai Ah Electrical Co., Ltd.) | 152 | 3,558 |
| — 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.) | — | 362 |
| — 常州國電森源絕緣電器有限公司 (Changzhou Guodian Senyuan Insulation Electrical Co., Ltd.) | 195 | 2,391 |
| — 常州新大亞電器有限公司 (Changzhou New Tai Ah Electrical Co., Ltd.) | — | 1,744 |
| — 常州華東電器有限公司 (Changzhou Huadong Electrical Co., Ltd.) | 1,079 | 1,584 |
| — 北京京森源電器有限公司 (Beijing Jing Senyuan Electrical Co., Ltd.) | 3,240 | 204 |
| | <u>5,190</u> | <u>14,643</u> |
| Purchases of property, plant and equipment from (note (ii)) | | |
| — 常州埃森耐爾電器有限公司 (Changzhou S&I Electrical Co., Ltd.) | — | 1,711 |
| Payments of services made to (note (iii)) | | |
| — 瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.) | — | 158 |
| Loans lent to (note (iv)) | | |
| — 瑞安花園大酒店有限公司 (Changzhou Ruian Garden Grand Hotel Co., Ltd.) | — | 920 |
| Bank borrowings guaranteed by (note (v)) | | |
| — 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.) | — | 40,000 |
| Guarantee on bank borrowings granted to (note (vi)) | | |
| — 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.) | — | 12,630 |
| Guarantee on issuance of bank drafts granted to (note (vi)) | | |
| — 常州蘭陵電器集團有限公司 (Changzhou Lanling Electrical Group Co., Ltd.) | — | 4,206 |

Notes:

- (i) The Company was under the significant influence of Mr. Zhou Anmin and Mr. Tsang Shui Ching, Patrick throughout the interim periods. The companies controlled by or under the significant influence of Mr. Zhou Anmin and Mr. Tsang Shui Ching, Patrick are considered to be the Company's related parties.
- (ii) The sale and purchase transactions were carried out based on normal commercial terms and at market prices.
- (iii) Payment of services made to the related company was determined based on terms available to independent third party customers. Such service fees mainly comprised the uses of hotel rooms and facilities.
- (iv) Loans lent to the related company were interest free and repayable on demand.
- (v) Certain bank loans of the Group were guaranteed by the related party free of charge.
- (vi) The Group also guaranteed bank loans of the related company free of charge.

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

| | 30 June 2005 RMB'000 | 31 December 2004 RMB'000 | increase |
|------------------------|-------------------------------------|--------------------------------|----------|
| Cash and bank deposits | 44,877 | 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.

| Financial ratio | Basis of calculation | 30 June 2005 | 31 December 2004 |
|------------------------|--------------------------------------|-------------------------|---------------------|
| Gearing ratio | Total liabilities/Total assets *100% | 71.1% | 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.

DIRECTORS' INTERESTS

As at 30 June 2005, the Directors were not aware of any disclosure of beneficial interests or short positions of the Directors or chief executive in any shares or underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")) which should be made to the Company under provisions of Divisions 7 and 8 of Part XV of SFO as the Company was not listed on the Stock Exchange on that date.

Following the completion of the Share Offer (as defined in the Prospectus) and the Capitalisation Issue (as defined in the Prospectus), the beneficial interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

(A) Long positions in Shares of the Company

| Name of director | Nature of interest | Number of Shares | Percentage of shareholding |
|--|-------------------------------|------------------|----------------------------|
| Mr. Zhou Anmin ("Mr. Zhou") | Corporate interests (Note) | 228,750,000 | 75% |
| Mr. Tsang Shui Ching, Patrick ("Mr. Tsang") | Corporate interests (Note) | 228,750,000 | 75% |

Note: These Shares are owned by Senyuan International Limited ("**SY International**"), the issued share capital of which is owned as to 50% and 50% by Lanling Electrical Ltd. and Tai Ah International Limited respectively.

Lanling Electrical Ltd. is wholly owned by Mr. Zhou. Tai Ah International Limited is owned as to 75% by Mr. Tsang.

Mr. Zhou and Mr. Tsang are deemed to be interested in these Shares by virtue of their interests in Lanling Electrical Ltd. and Tai Ah International Limited respectively pursuant to Part XV of the SFO.

(B) Long positions in shares of the associated corporation of the Company

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

Note: Lanling Electrical Ltd. is wholly owned by Mr. Zhou. Mr. Zhou is deemed to be interested in the one share held by Lanling Electrical Ltd. in SY International by virtue of Part XV of the SFO.

Tai Ah International Limited is owned as to 75% by Mr. Tsang. Mr. Tsang is deemed to be interested in the one share held by Tai Ah International Limited in SY International by virtue of Part XV of the SFO.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2005, the Directors were not aware of any disclosure of beneficial interests or short positions in any Shares or underlying shares of the Company which should be made to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO as the Company was not listed on the Stock Exchange on that date.

Following the completion of the Share Offer and the Capitalisation Issue, shareholders (other than the Directors or chief executives of the Company) who had beneficial interests or short positions in the Shares or underlying shares of the Company which were recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Long positions in Shares of the Company

| Name of shareholders | Number of Shares | Percentage of shareholding |
|---------------------------------------|------------------|----------------------------|
| SY International | 228,750,000 | 75% |
| Lanling Electrical Ltd. (Note 1) | 228,750,000 | 75% |
| Tai Ah International Limited (Note 1) | 228,750,000 | 75% |
| Mr. Zhou (Note 2) | 228,750,000 | 75% |
| Ms. Wu Tong (Note 2) | 228,750,000 | 75% |
| Mr. Tsang (Note 3) | 228,750,000 | 75% |
| Ms. Lou Bing (Note 3) | 228,750,000 | 75% |

Notes:

1. SY International is owned as to 50% and 50% by Lanling Electrical Ltd. and Tai Ah International Limited respectively. Therefore, both of Lanling Electrical Ltd. and Tai Ah International Limited are deemed to be interested in the 228,750,000 Shares held by SY International under Part XV of the SFO.
2. As Lanling Electrical Ltd. is wholly owned by Mr. Zhou, Mr. Zhou is deemed to be interested in the 228,750,000 Shares held by SY International under Part XV of the SFO. Ms. Wu Tong, being Mr. Zhou's spouse, is deemed to be interested in the 228,750,000 Shares held by SY International under Part XV of the SFO.
3. As Tai Ah International is 75% owned by Mr. Tsang, Mr. Tsang is deemed to be interested in the 228,750,000 Shares held by SY International under Part XV of the SFO. Ms. Lou Bing, being Mr. Tsang's spouse, is deemed to be interested in the 228,750,000 Shares held by SY International under Part XV of the SFO.

Save as disclosed above, following the completion of the Share Offer and Capitalisation Issue, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had beneficial interests or short position in the Shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company became unconditional on 11 July 2005 (the "Date of Adoption") pursuant to its terms and conditions.

There has been no option granted since the Date of Adoption of the Share Option Scheme.

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 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 this unaudited interim report.

As at the date of this report, 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