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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Senyuan International Holdings Limited (the "Company") was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 July 2005 (the "Listing Date").

FINANCIAL HIGHLIGHTS

- Turnover for 2005 was RMB374.1 million, representing an increase of 25.1% over 2004.
- Net profit attributable to equity holders of the Company for 2005 was RMB49.5 million, representing an increase of 17% over 2004.
- Basic earnings per share attributable to equity holders of the Company for 2005 was RMB18.5 cents, which is marginally above that for 2004.

ANNUAL RESULTS

The directors of the Company (the "Directors") are pleased to announce the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 and the consolidated balance sheet of the Group as at 31 December 2005 together with the comparative figures of 2004.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Revenue	*3*	**374,128**	298,971
Cost of sales		**(279,988)**	(222,949)
Gross profit		**94,140**	76,022
Other income and gains		**2,090**	1,112
Selling and distribution costs		**(10,746)**	(11,037)
Administrative expenses		**(24,651)**	(15,270)
Other expenses		**(82)**	(353)
Profit from operations		**60,751**	50,474
Finance costs		**(4,925)**	(3,496)
Share of profits of an associate		**—**	509
Amortisation of goodwill on acquisition of an associate		**—**	(20)
Profit before tax	*5*	**55,826**	47,467
Tax	*6*	**(6,334)**	(5,163)
Profit for the year		**49,492**	42,304
Attributable to:			
Equity holders of the parent		**49,492**	42,134
Minority interests		**—**	170
		49,492	42,304
Dividends			
Proposed final	*7*	**17,322**	—
Earnings per share attributable to Equity holdings of the parent			
Basic (RMB)	*8*	**18.5 cents**	18.4 cents

CONSOLIDATED BALANCE SHEET
31 December 2005

	Notes	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
Non-current assets			
Property, plant and equipment		**88,681**	77,437
Prepaid land lease payments		**7,932**	8,103
Long term prepayments		**3,013**	3,813
Interests in an associate		**5,499**	—
Available-for-sale equity investment		**600**	600
Deferred tax assets		**921**	681
Total non-current assets		**106,646**	90,634
Current assets			
Inventories		**62,426**	34,935
Trade receivables	*9*	**79,628**	78,346
Prepayments, deposits and other receivables		**9,379**	7,442
Due from related companies		**21,209**	7,043
Cash and cash equivalents		**80,847**	21,498
Total current assets		**253,489**	149,264
Current liabilities			
Trade and bills payables	*10*	**74,508**	65,421
Deferred income		**1,900**	—
Other payables and accruals		**14,313**	11,081
Interest-bearing bank and other borrowings		**63,000**	80,800
Due to related companies		**1,324**	5,275
Tax payable		**3,051**	774
Total current liabilities		**158,096**	163,351
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		**32,473**	—
Reserves		**152,244**	76,547
Proposed final dividend		**17,322**	—
		202,039	76,547

CONSOLIDATED STATEMENT OF CHANGE 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	—	—	7,470	(7,471)	—	—	—	(1)	—	(1)
Arising from the Reorganisation	—	—	27	—	—	—	—	27	—	27
Transfer from retained profits	—	—	—	3,738	—	(3,738)	—	—	—	—
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	24,355	(24,355)	—	—	—	—	—	—	—	—
Arising from the Reorganisation	—	—	35	—	(35)	—	—	—	—	—
Issue of shares for cash consideration	8,118	87,678	—	—	—	—	—	95,796	—	95,796
Share issue expense	—	(18,135)	—	—	—	—	—	(18,135)	—	(18,135)
Transfer from retained profits	—	—	—	8,238	—	(8,238)	—	—	—	—
At 31 December 2005	32,473	27,866	19,982	21,233	(1,661)	84,824	17,322	202,039	—	202,039

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

Notes:

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 Reorganization

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 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. 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
HKFRS3	Business Combinations

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

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to an associate was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of an associate is presented net of the Group's share of tax attributable to an associate.

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 of 31 December 2004 in the consolidated balance sheet have been reclassified to reflect the change.

(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.

3. REVENUE, OTHER INCOME AND GAINS

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

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

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

4. 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.

5. PROFIT BEFORE TAX

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

	2005	2004
	RMB'000	*RMB'000*
Cost of inventories sold	**279,988**	222,949
Depreciation	**7,737**	5,052
Amortisation of prepaid land lease payments*	**171**	171
Amortisation of long term prepayments	**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	**(414)**	(68)
Loss on disposal of an associate	**—**	77

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

6. TAX

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

	2005	2004
	RMB'000	*RMB'000*
Group		
Current	**6,574**	4,425
Deferred	**(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

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

Group — 2004

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

Changzhou Senyuan Switch Co., Ltd. ("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 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.

7. 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.

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

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

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

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

9. 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:

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

10. TRADE AND BILLS PAYABLES

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

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

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

11. 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 amounts have been reclassified to conform with the current year's presentation and accounting treatment.

FINAL DIVIDEND

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. Subject to shareholders' approval at the forthcoming annual general meeting to be held on 29 May 2006, the final dividend will be paid on or about 15 June 2006.

CLOSURE OF REGISTERS OF MEMBERS

The Register of Members of the Company will be closed from 25 May 2006 to 29 May 2006, both days inclusive, during which period no share transfers can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrars, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 24 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year the Group achieved turnover of RMB374.1 million, representing an increase of 25.1% when compared with RMB299 million of the previous year. The increase was mainly attributable to:

1. Leveraging on our competiveness of production of vacuum circuit breakers and switchgear cubicles, we expanded into sales of assembled products.

2. We put emphasis on market development. We further penetrated into the 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.

3. We strengthened cooperation by setting up joint ventures with third parties, in particular, with electricity power system related companies. During the year we successfully formed a joint venture — Changzhou Tuo Yuan Electrical & Equipment Co., Ltd. and were engaged in the formation of another joint venture, Shanxi Senyuan Electrical Co., Ltd. As a result, our markets were expanded.

4. We accelerated the promotion of licensed products with brand names in the developed areas of the PRC such as Shenyang and Guangdong Province. Sales of the components of C-GIS product series covering models SIMOSEC and 8DC11 have been increasing.

5. We strengthened our internal management, reduced the costs and expenses, especially the staff costs. During the year, to align with our business re-structuring, we analysed our human resource structure and re-deployed our human resources, which has produced fruitful results.

Along the directions of increasing revenue and reducing expenses, cutting cost and improving efficiency, further strengthening management and growing bigger and becoming stronger, we have made the following accomplishments:

1. Starting from May 2005 we expanded from production of vacuum circuit breakers and switchgear cubicles to assembled products. We were able to produce assembled products at the end of 2005;

2. The Company was successfully listed on the Main Board of Hong Kong Stock Exchange on 11 July 2005.

3. For the year the Company made a net profit of RMB49.49 million, representing an increase of 17% compared with RMB42.3 million of the previous year.

For the year our total expenses amounted to RMB40.4 million, representing an increase of RMB10.24 million compared with RMB30.16 million of the previous year. The increase was mainly due to the following:

1. For the year our administrative expenses amounted to approximately RMB24.65 million (2004: RMB15.27 million), representing an increase of 61%. 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 Group incurred an increase of expense in employee social welfare contribution.

2. The finance costs for the year amounted to RMB4.93 million (2004: RMB3.5 million), representing an increase of 41%. The increase was due to the financing of our new plant by bank loans.

FUTURE OUTLOOK

According to "The Eleventh Five-Year Plan" and the national economic development plan, electricity is an infrastructure of foremost importance and its importance will not diminish in the medium to long term.

Changzhou Senyuan, the Company's wholly-owned subsidiary, is a prestigeous manufacturer in the electricity industry in the PRC. By developing assembled products in 2005 we enriched our product mix, thereby strengthening our competitiveness. With its listing status in Hong Kong, the outlook of the Company is optimistic.

Directions and measures

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

Implementation measures

1. To adjust our product mix according to the market condition, to speed up both the absorbtion of new technology and the development of high-technology products, to improve market development of the new products, and to expand the market coverage of both the new products and the licensed products.

2. To improve the relationship between our marketing division as a profit center and the Group, to provide our market development executives and sales staff with incentives and to expand the market coverage.

3. To strengthen cooperation and to look for new joint-venture opportunities. We plan to set up two joint ventures in 2006 with foreign joint-venture partners with advanced technology, in addition to local joint venture partners.

4. To strengthen internal control and streamline systems and procedures. The focus of internal management will be on inter-department control co-ordination and strengthening internal control.

5. To further strengthen cost control, especially to cut administrative expenses. To achieve cost reduction through better cost management.

Annual target

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

FINANCIAL REVIEW

Liquidity and Financial Resources

	31 December 2005	31 December 2004	Increase
	RMB'000	*RMB'000*	
Cash and bank deposits	**80,847**	21,498	276.1%

As at 31 December 2005 the Group's bank loans amounted to RMB63 million, decreased by 22% as compared with the end of 2004. The Group did not have long term bank loan.

Financial ratio	Basis of calculation	31 December 2005	31 December 2004
Gearing ratio	Total liabilities/ Total assets * 100%	43.9%	68.1%

CAPITAL STRUCTURE

As at 31 December 2005 equity available to shareholders of the Group was approximately RMB202.0 million (31 December 2004: RMB76.5 million).

As at 31 December 2005 the Group's borrowings and cash and cash equivalents were predominantly denominated in Renminbi. All the Group's borrowings will be repayable within one year. The total borrowings of RMB63 million bore an average interest rate of approximately 5.74% per annum, with little change from that at the end of 2004.

PLEDGE OF ASSETS

As at 31 December 2005 the Group's secured loans amounted to RMB35.0 million, representing a decrease of RMB45.8 million when compared with RMB80.8 million secured at the beginning of the year. The loans were secured by land use right and such fixed assets as property, plant and equipment with an aggregate net book value of RMB46.2 million.

TREASURY POLICIES

The Group emphasizes trading and borrowing in the same currency to achieve natural hedging. Almost all our sales are denominated in Renminbi. Most of our purchases are denominated in Renminbi with the importation of certain raw materials in USD, HK$ and Euro as necessary, totalling to a equivalent of approximately RMB50 million. In addition, during the year Changzhou Senyuan's issued share capital increased by USD6.1 million and received a shareholder's loan of HK$24.9 million. As at 31 December 2005 the Group had outstanding letters of credit denominated in foreign currencies totaling approximately HK$7.5 million. Fluctuation in exchange rates has brought risks relating to foreign exchange to the Group.

All the Group's borrowings are on a fixed interest rate basis.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2005 the Group did not provide any guarantees for any third party and had no significant contingent liabilities. As at 31 December 2005 the Group had a capital commitment of approximately RMB18.7 million.

MAJOR ACQUISITIONS AND DISPOSALS

For the year the Group did not have any major acquisition and disposal.

HUMAN RESOURCES

As at 31 December 2005 the Group had 565 employees and for the year incurred total staff costs of RMB26.4 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 skilled and motivated work force.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's public offer and placing of 76,250,000 shares in July 2005, after deduction of related issuance expenses, amounted to approximately RMB77,661,000. These proceeds were partially applied during the year ended 31 December 2005 in accordance with the proposed applications set out in the Company's prospectus dated 28 June 2005 (the "Prospectus"), as follows:

— approximately HK$18.2 million was used to perform research and development of new products including the purchase of production machinery and testing equipment;

— approximately HK$3.3 million was used to finance the final stage of the construction works of new production complex in Changzhou, Jiangsu Province, the PRC, which is expected to be completed in 2006;

— approximately HK$12.0 million was used to repay existing bank loans that were drawn down in the second half of 2004 to finance capital expenditures in relation to new production complex in Changzhou, Jiangsu Province, the PRC. The bank loans bear an interest of 5.748% per annum and were repaid in August 2005;

— approximately HK$0.3 million was used to finance a testing laboratory, for the purposes of product quality assurance and development testing of new products; and

— the balance of the net proceeds will be used mainly to finance the research and development of new products and any strategic movements, acquisitions, or investments that the Company may decide to pursue.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

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

CORPORATE GOVERNANCE

Since the Listing Date, the Company has applied the principles and adopted the code provisions of the Code on Corporate Governance (the "**Code on Corporate Governance**") set out in Appendix 14 of the Listing Rules. Subject to the derivation set out below, the Company has complied with the code provisions of the Code on Corporate Governance:

(i) the terms of reference of the Remuneration Committee and the Audit Committee were not included in the Company's website until 15 March 2006;

(ii) the Company has not adopted the Model Code for Securities Transaction by Relevant Employees on no less exact terms than the Model Code until 24 April 2006.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "**Model Code**"). The Company has made specific enquiries of all the Directors and each of the Directors has confirmed that, for the year ended 31 December 2005, they have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") in May 2005 comprising of Mr. Keung Ping Yin, Raymond, Mr. Wong Yiu Sun, Peter and Mr. Lu Yan Sun, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Keung Ping Yin, Raymond.

The responsibility of the Audit Committee is to assist the board of Directors of the Company (the "**Board**") in fulfilling its audit duties through maintaining an appropriate relationship with the Company's external auditors, reviewing financial information of the Group, and reviewing and supervising the financial reporting process and internal control system of the Group.The annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

A remuneration committee (the "**Remuneration Committee**") was established by the Company in May 2005, comprising of Mr. Tsang Shui Ching, Patrick, Mr. Keung Ping Yin, Raymond and Mr. Wong Yiu Sun, Peter, the latter two being the independent non-executive Directors. The Remuneration Committee is chaired by Mr. Tsang Shui Ching, Patrick.

The responsibility of the Remuneration Committee is to assist the Board in setting Directors' remuneration policy and other remuneration related matters through (i) making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration package of all executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors; (iii) reviewing and approving performance-based remuneration, compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment, and compensation arrangements relating to dismissal or removal of Directors for misconduct; and (iv) ensuring no Director or any of his associates (as defined in the Listing Rules) is involved in deciding his own remuneration.

FIGURES OF THE RESULTS

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2005 have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance have been expressed by Ernst & Young on this preliminary results announcement.

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk).

As at the date of this results announcement, the Board 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, 24 April 2006

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