## 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 VCBs 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 — Changzhoushi 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. During the year, 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 VCBs 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 the Stock Exchange on 11 July 2005 (the "**Listing Date**").

3. For the year the Company made a net profit of RMB49.5 million, representing an increase of 17% compared with RMB42.3 million of the previous year.

### BUSINESS REVIEW *(continued)*

For the year our total expenses, including selling and distribution costs, administrative expenses, other expenses and finance costs, amounted to RMB40.4 million, representing an increase of RMB10.24 million compared with RMB30.2 million of the previous year. The increase was mainly due to the following reasons:

1. For the year our administrative expenses amounted to approximately RMB24.7 million (2004: RMB15.3 million), representing an increase of 61%. The increase was mainly due to the increase in staff costs, as more management and administrative staffs were employed in the year with the expansion of business. The increase was also attributable to the increase in annual audit remuneration audit annual listing expenses as the Company's shares were listed on the main board of the Stock Exchange on 11 July 2005.

2. The finance costs for the year amounted to RMB4.9 million (2004: RMB3.5 million ), representing an increase of 41%. The increase resulted from the increase in bank borrowings since the later half year of 2004 to finance 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 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.

## FUTURE OUTLOOK *(continued)*

**Implementation measures *(continued)***

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 RMB'000** | 31 December 2004 RMB'000 | Increase |
|---|---|---|---|
| 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.