

## REVIEW OF PRINCIPAL OPERATIONS

In line with the development in the information technology industry, there were profound changes in various aspects in the market of telecommunication cables including the types, variety and specifications as well as the mode of sales. The Company was already fully prepared for and had formulated counter-measures with respect to such changes. As a result, the works undertaken by the Company achieved significant progress during the first half of 2001. The Company has improved its results of incurring losses in the past two consecutive years and laid a solid foundation for the future development of the Company. The principal operating activities of the Company during the first half of 2001 are summarized as follows:

1. The Company strengthened the core technological innovation function of the national-scale technological centre in order to address market competition and the Company's development needs. Consequently, the technological innovation mechanism with the technological centre as the principal executor has been improved. The emphasis and recent tasks in technological innovation have also been set out. In addition, the initial investment capital and the relevant construction schemes which are necessary to technological innovation have been approved. Finally, a new incentive scheme for technological innovation has been proposed and implemented.
2. Owing to the serious oversupply of plastic telephone cables, the era of meagre profit has inevitably arrived. Under such circumstances, the Company endeavoured to look for new markets and opportunities for plastic cables. Preliminary achievements were attained through the efforts of the Company to improve its operating results. Furthermore, the Board of Directors approved the projects for expanding the production scale of and improving the technologies for high-end new products like new program-controlled telephone exchange system cables and broadband data transmission cables. Such projects were proceeding smoothly. The production of such cables commenced gradually as scheduled. Markets for such products were also identified and opened. Such new products were expected to contribute to the improvement of the Company's operating results.
3. The Company timely grasped the opportunity brought about by the global shortage in optical fibre supply. In the previous year, the Company made the decisive decision to expand the production line for optical fibre lines. The expansion project was completed in May this year. At present, the equipment tests and trial productions were in full swing. Upon completion, the output of Chengdu SEI Optical Fiber Co., Ltd. was expected to be boosted to 600,000 km. The investment would then generate satisfactory returns.
4. To cope with the rapidly increasing demand of optical fibre, CCS timely invested in equipment like fibre-fixing machines, colouring machines and plastic layer-affixing machines. The operations of such machines satisfied market needs, significantly boosted the output and profit of CCS.
5. Following the disposal and restructuring of the joint ventures by the Company in last year, the Company continued to dispose and reorganise other joint ventures with the aim of fostering the healthy development of joint venture companies, reducing risks, protecting the

Company's investments and enhancing returns. During the Period, the Company has finished the disposal and reorganisation of Chongqing Shahzad Multi-layer PCB Co., Ltd. ("Chongqing Shahzad"), 四川新龍網絡科技有限責任公司（「新龍網絡公司」） and Sichuan Provincial Telecommunications Cable Plant ("Sichuan Telecommunications").