

IV operation review and prospects

A. OPERATION REVIEW FOR THE FIRST HALF OF THE YEAR

In the first half of the year, the fierce market competition in electrical transmission and transformation equipment manufacturing industry escalated and the prices continued to drop, the Company was unable to make a turnaround profit despite the adoption of a series of measures in respect of technology and management innovation in order to cope with market changes. The Company continued to record material loss.

1. Sales Revenue and Profit

The Company recorded sales revenue of Rmb611,252,829 in the first half of the year, representing a 10.8% or Rmb59,603,426 increase from the same period of last year; loss of Rmb105,669,418, representing a 379% or Rmb83,633,220 increase from the same period of last year.

2. Reasons for Material Loss

- (1) Market competition has been fierce. Tender purchase is adopted in domestic and overseas markets. Selling prices of products were lower than last year. Profit on sales has been decreasing.
- (2) Owing to fierce market competition, selling fee increased by approximately 134% as compared to last year. It is mainly because increase in transportation fee and financial expenses, leading to decrease of profit.
- (3) For the implementation of new accounting regulations, on the basis of the original provisions for diminution in value of long-term and short-term investments, provision for loss on realisation of inventories and provision for bad debts of account receivables, provision for fixed assets was newly added for the year. Therefore, profit decreased.

B. INVESTMENT

1. Use of proceeds:

The Company issued and listed H shares and A shares in July and November 1995 respectively in Hong Kong and Shenzhen. Approximately Rmb458.29 million and Rmb145.55 million were raised respectively, amounting to Rmb603.84 million in total. The balance amounted to Rmb23.35 million as at 31 December 2000. During the reporting period, there was no proceeds invested.

2. During the reporting period, a total of Rmb38.46 million from non-proceeds raised were invested as follows: (Unit: Rmb'000)

Budgeted	Investment during	Current
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Items	total investment	the year	status	Remarks
(1) Super high pressure electrical transmission and transformation machinery-500KV transformers	13,000	1,677	In progress	Approved by State Economic and Trade Commission
(2) 500KV GIS	19,210	980	In progress	Financial by State Development Bank
(3) 500 KV instrument transformers improvement	2,453	1,189	In progress	State Loan
Total	34,663	3,846		

C. PROSPECTS IN THE SECOND HALF OF THE YEAR

It is expected that domestic market demand and investment in infrastructure and technology renovation of power industry will increase the second half of the year. The policies and projects including "renovation of two networks", development in western region of the PRC, "electricity transmission from western China to eastern China" and the rigorous development of connection of electricity grids will trigger market demand effectively.

The operations and production of the Company will be affected by China's entry into World Trade Organisation to a certain extent. Firstly, the relatively orderly competition environment will make way for extensive co-operation and exchange, thus bringing favourable conditions for the Company to achieve excellence, improve its weakness, reasonably arrange and utilize its resources; secondly, downward adjustment of tariff and decrease of cost of imported auxiliary parts will effectively reduce cost; thirdly, smooth channel for export will expand the room for its earnings.

It is expected that the fierce market competition will still continue. However, the Company has received substantially more orders for the products of the Company as compared to the corresponding period of last year. It is expected that profit on sales will increase at the end of the year from last year; and loss will be controlled.

Major measures for improvement and reduction of loss:

1. The Company will step up the development of technology and adjustment of product mix. The Company will strive to lead and deepen the development of marketable and competitive products in the area of the development and application of super high pressure electrical transmission and transformation machinery and direct current electrical transmission and transformation machinery. The Company will strive for more orders for successfully developed products and improve its services so as to bring effectiveness as soon as possible.
2. The Company will emphasize serious study and analysis on market resources and situation. The Company will also formulate and implement sales and marketing strategies in time so as to secure and develop markets. While the existing domestic

market will be continuously reinforced and strengthened, the development and services for the western region of the PRC will be enhanced. For international markets, South Africa and West Asia will be stressed.

3. The Company will strengthen asset reorganisation and joint co-operation. By the separation of principal and auxiliary operations, disposing of non-operating assets and auxiliary production resources, the Company's asset structure will be optimized and the quality of the assets will be enhanced. The Company will strengthen its control on investment and holding companies and increase capital operation efficiency so as to further enhance the consolidated quality and core competitiveness of the Company.
4. The Company will step up to perfect its management and incentive mechanisms, strengthen its control on cost reduction and increase its profitability through stringent internal control.