

## 4. MANAGEMENT DISCUSSION AND ANALYSIS

### 4.1 DISCUSSION AND ANALYSIS ON THE COMPANY'S PERFORMANCE DURING THE REPORTING PERIOD AND PROSPECTS

For the reporting period, the Company recorded an income from principal operations of RMB343,048,056, costs of principal operations of RMB231,021,755, gross profit margin of 32.66% and net profit of RMB4,155,601. The Company managed to cope with effects which directly or indirectly have had on the Company resulting from the outbreak of Sars and other negative factors by adopting measures to maintain its order in operations so that the favourable trend of production has been sustained during the year. The profit level of principal operations was higher than that of the same period last year and achieved the expected operating results. Sales achieved good developments in a number of aspects such as consolidating the existing markets, retaining markets which the Company has geographical advantages and resuming those which have been lost. As compared with the same period last year, the profitability of principal operations and the quality in the overall economic operations had increased that there was improvement in the operating environment.

The outbreak of Sars had some impact on the operations during the first half of the year, which directly led to a 19% decline in the Company's revenues from the businesses of restaurants and catering and loss was recorded. The receipt of orders and recovery of payment by the Company and its delivery of products had also been affected indirectly.

At present, most of the Company's key products are in the maturity stage in which their market shares captured are relatively large. However, the room for profit growth in the future will be small as they will not have apparent technological advantages. The technological development team of the Company is currently conducting research and development of new products in line with the needs of the market so as to strive to carry out production as soon as possible and expedite the progress of trial production, testing and publicity campaign in order to launch them to the market and be ultimately accepted and recognized by users, thereby generating profits for the Company.



#### 4.2 PRINCIPAL OPERATIONS BY SECTOR AND PRODUCT SEGMENTS

*Unit: RMB*

	Income from principal operations	Costs of principal operations	Gross profit margin (%)	Increase/ (decrease) in income from principal operations over last year	Increase/ (decrease) in costs of principal operations over last year	Increase/ (decrease) in gross profit margin over last year (%)
<b>By sector</b>						
Electric transmission and transformation	329,037,568	219,123,328	33.4	(42.09)	(43.03)	3.4
Accommodation and catering	14,010,488	11,898,427	15.08	(18,68)	2.11	(53.40)
Of which:						
connected transaction	77,961	66,204	15.08	—	—	—
<b>By product</b>						
High voltage switch, circuit breaker	242,662,811	162,698,655	32.95	2.55	6.34	23.97
Power capacitor	72,835,584	48,304,990	33.68	(0.85)	24.11	(28.36)

Note: The financial data of Shenyang Transformers Ltd. which had been disposed of, was included in the interim report of last year. Therefore, no comparison can be made in the indices such as income from principal operations, costs of principal operations and gross profit margin for the reporting period over those of the same period last year.

#### 4.3 PRINCIPAL OPERATIONS BY GEOGRAPHICAL SEGMENT

*Unit: RMB*

Region	Income from principal operations	Increase/(decrease) compared with previous year (%)
Domestic	335,208,056	(10.8)
Overseas	7,840,000	(6.7)

Note: Same as the item above

**4.4 INVESTMENT IN INVESTEE COMPANIES (APPLICABLE TO THOSE WITH INVESTMENT INCOME WHICH ACCOUNTED FOR MORE THAN 10% OF THE NET PROFIT)**

*Unit: RMB*

Name of investee company	Shenyang Furukawa Cable Company Limited
Investment income contributed for the period	1,669,950
Percentage of the Company's net profit	40.18%
Scope of business:	Principally engaged in the manufacturing and sale of high-tension cross-linking cables and ancillary products and provision of after-sales services.
Net profit	3,929,295

**4.5 INVESTMENT DURING THE REPORTING PERIOD**

4.5.1 There is no application of the proceeds during the reporting period nor any application of the proceeds which has commenced before the reporting period and extended to the reporting.

4.5.2 Investment, progress and earnings of material projects financed by non-publicly raised fund during the reporting period

During the first half of 2003, the Company had invested RMB24,346,000 in the 500KV SF6 totally enclosed compound electrical appliances, which commenced construction in 1998. As at 30 June 2003, an aggregate of RMB197,346,000 had been invested therein. For the reporting period, a sales income amounting to RMB15,410,000 was generated.

**4.6 COMPANY'S PREDICTION ABOUT ACCUMULATED PROFIT RECORDED BETWEEN THE BEGINNING OF THIS YEAR TO THE END OF THE NEXT REPORTING PERIOD**

The Company predicts that there would be a 50% decrease in net profit and a significant increase in operating profit for the third quarter ended 30 September 2003 as compared with the same period of the previous year, mainly because of an extraordinary income arising from the Company's disposal of its equity interest in the corresponding period last year.

**4.7 EXPLANATION FOR CHANGES IN AND HANDLING OF THE MATTERS BY THE COMPANY'S MANAGEMENT RELATED TO THE "AUDITING OPINION" ISSUED BY AUDITING FIRM IN THE PREVIOUS YEAR.**

The auditors issued qualified opinions with explanatory statement set out in the 2002 financial report. Since the Company completed the disposal of Shenyang Transformers Ltd. in 2002, the Board of Directors and the Supervisory Committee were of the opinion that matters leading to qualified opinions set out in the 2002 financial report have been completely resolved.