Management Discussion and Analysis

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(1) TURNOVER

During the Year, the Group mainly produced the following products: plastic urban telephone cables, program-controlled cables, television cables, cable-joining sleeves, optical fibres, optical cables and mobile telecommunication cables, etc.

During the Year, although the PRC's domestic telecommunication market maintained a steady growth, the cables industry continued to suffer from a slowdown. Due to the rise in prices of raw materials, relatively low prices of major products and intensifying market competition, the telecommunication manufacturing market became over-competitive. Although the Company's sales scale increased significantly over last year, its profits were still unsatisfactory.

For the year ended 31 December 2003, the turnover of the Group amounted to RMB465,345,000, representing an increase of 23.65% as compared to RMB376,341,000 for the year ended 31 December 2002.

During the Year, the turnover of copper cables was RMB319,095,000, representing an increase of 49% over the same period last year, of which plastic urban telephone cables accounted for RMB227,860,000, representing an increase of 42.14% over the same period last year; program-controlled cables accounted for RMB36,220,000, representing an increase of 25% over the same period last year; television cables accounted for RMB10,990,000, representing an increase of 10% over the same period last year; and cable-joining sleeves accounted for RMB90,688,000, representing an increase of 48.21% over the same period last year.

During the Year, Chengdu CCS Optical Fibre Cable Co., Ltd. ("CCS"), a company in which the Company owns 50% equity interest, recorded a turnover of RMB219,470,000 and a loss of RMB31,640,000; Chengdu SEI Optical Fibre Co., Ltd. ("SEI"), a company in which the Company owns 60% equity interest, recorded a turnover of RMB55,562,000 and a loss of RMB9,408,000; and Dongguan CDC Cable Factory ("Dongguan CDC"), a company in which the Company owns 75% equity interest recorded a turnover of RMB60,884,000 and a loss of RMB10,979,000. During the Year, Shuangliu Heat Shrinkable Products Sub-Plant, a company in which the Company owns 66.67% equity interest recorded a turnover of RMB90,940,000 and a profit of RMB23,240,000.

(2) LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders of the Group amounted to RMB81,752,000. The net loss attributable to shareholders of the Group for the year ended 31 December 2002 amounted to RMB113,705,000. Loss attributable to shareholders decreased as compared with the corresponding period last year.

(3) ANALYSIS OF THE RESULTS

Main reasons for the decline in loss attributable to shareholders

1. The serious lack in the supply of metallic copper together with the decline in the inventory of copper boost the price of copper continuously, in particular its accelerating surge in the fourth quarter of the Year, which led to the sustained high prices of raw materials. The average purchasing costs for copper rod, the raw material of copper cable, increased by 22.75% over the same period last year, which in turn affected the Company's operating profits;

2. In view of the rise in prices of copper rod raw materials last year, the Company increased sales prices of part of its products. However, the scale of the increase in selling price can not fully off set the swelling in production cost due to the rise in the price of raw materials. Meanwhile, as the benefit brought forth from the leverage of selling price carries a lag effect, resulting in the impact of the increase in product price has not been reflected in the Year;

3. The slow down in the construction of optical fiber network in the PRC, resulting in the domestic production of optical fiber and cable far exceeds demand, together with the intensifying market competition and the impact of low-price imported optical fibres leading to the low selling price of optical fibres and cables, directly affecting the business operations and the operating profits of CCS and SEI, a subsidiary and an associate of the Company specialising in the production of optical fibres and cables, respectively, hence leading to an increase in the Company's share in losses.

(4) REVIEW OF PRINCIPAL BUSINESSES

In view of the change in operating conditions, the Company has continued to adjust its production and operating strategies to overcome difficulties so as to better complete the production and operation tasks for the Year. The Group's principal business activities during the Year are summarised as follows:

1. To step up the reform on corporate personnel system, the Company recruited senior management personnel in the open market for the first time. After completing tasks including recruitment research, organization evaluations and background investigations, the Company finished the recruitment exercise successfully. This resulted in the formation of the Company's new leading team for its operations and also marked a solid step forward of the Company's personnel system reform;

2. In accordance with the urban planning of the Chengdu Municipal Government, the Group has proceeded with strategic planning of the movement of the production and office areas of its headquarters. The Company established the China Putian Chengdu Industrial Base Leading Group, completed the first draft for the arrangement of technological equipment at the base and the first draft for the three-year planning of base products. In the light of the planning of the movement, the Company also established the leading group for the separation of the Group's principal and sideline businesses and the change of the system for sideline businesses, with a plan initially developed for that purpose, based on the spirit of the No.859 document issued by the State Economic & Trade Commission of the PRC;

3. In view of customers' increasing concern of input-output ratio and the significant decrease in the scale of investment during the Year, the Group adjusted its sales strategy in a timely manner, leading to a higher growth in sales volume and the recovery of receivables. For instance, sales of program-controlled cables in 2003 increased by 25% year on year. As far as the Tibetan telecommunications market was concerned, all receivables for 2002 and all payments for goods for the Year were recovered. Meanwhile, the Group also adopted new management measures for sales, launching new management systems and operating patterns; stepping up the construction of the marketing and sales team; and recruiting various sales personnel to strengthen its marketing and sales force;

4. With respect to technological development, the Group continued to step up technological innovation so as to increase core competitiveness, focusing on the development of 13 new products including program-controlled cables, Siemens cables, Category 6 cables and broadband urban telephone cables of which some were in mass production or in small batch test manufacturing. The Group also completed construction of part of the infrastructure for the technology centre, significantly enhancing technological innovation and development. The Chengdu Putian Sub-station, a post-doctoral working station in the Chengdu high and new technology centre(the "Post-doctoral Station"), had come into actual operation, with post-doctoral sessions on the first topic and academic reports already held. The establishment of the Post-doctoral Station has ensured the supply of talents and technology for the development of the Group's new products, which is of strategic importance to strengthening the ongoing development of the Group in the future;

5. The Company's full-scale budget management work was carried out in an all-round way during the Year with key points brought under monitoring. The Company had developed the cost budget objective and specific measures for control. Despite a significant increase in production and sales during the Year, costs were brought under effective control. Administrative costs dropped by approximately 7.15% over the same period last year. This accumulated experience has laid down a foundation for budget management in 2004. While implementing early warning and supervision for the full-scale budget, the Company stepped up financial cost management by analyzing key factors that affected the gross margin and took positive measures to effectively avoid risks arising from high prices of raw materials, thus easing fund pressure;

6. The Company continued to supervise and manage its joint ventures and identified their operating targets, financial budgets and incentive measures based on statistical analyses of financial statements; strengthen internal audit, proceeding with internal audit for some joint ventures; proceed with full-scale liquidation for the former Sichuan Provincial Telecommunications Cable Co. Ltd. ("STCP")in Sichuan Province, including making proper arrangements for the placement of former staff (the company is now producing according to the production workshop model); make positive efforts to conduct market research and seek for new items other than cables products. Besides, negotiations and feasibility analyses were carried out for investment items intended to be introduced and market research and technology demonstration were completed.

(5) FINANCIAL ANALYSIS

ANALYSIS HIGHLIGHTS

As at 31 December 2003, the Group's total assets were RMB1,113,523,000, representing a decrease of 0.75% over the previous year's RMB1,121,938,000, of which current assets amounted to RMB594,639,000, accounting for 53.4% of the total assets and representing an increase of 4.35% over the previous year's figure of RMB569,866,000. The increase was mainly due to the rise in income which led to the increase in inventory reserve. Fixed assets amounted to RMB304,207,000, accounting for 27.32% of the total assets, representing an increase of 2.95% over the previous year's figure of RMB295,485,000. The increase was mainly due to the project of accelerator was transferred to fixed assets.

As at 31 December 2003, the Group's liabilities totalled RMB386,023,000; the liability-to-asset ratio was 34.67% and short-term bank loan was RMB184,229,000 which representing an increase of 8.86% over the previous year's figure of RMB169,230,000. During the Year, the Group did not arrange for other equity fund raising activities.

As at 31 December 2003, the Group's bank deposits and cash totalled RMB210,925,000, representing a decrease of 5.67% over the previous year's figure of RMB223,613,000.

During the Year, the Group's distribution costs, administrative and other operation costs, and finance expenses amounted to RMB44,061,000, RMB70,436,000 and RMB10,822,000, respectively, representing an increase of 35.73%, a decrease of 5.55% and a decrease of 13.6% over the previous year's figures of RMB32,462,000, RMB74,574,000 and RMB12,525,000, respectively. The increase in distribution costs was mainly due to the relatively higher increase in sales revenue.

As at 31 December 2003, the Group's trade receivables and inventories amounted to RMB208,915,000 and RMB163,974,000, respectively, representing an increase of 3% and 22.12% over the previous year's figures of RMB202,823,000 and RMB134,276,000, respectively.

ANALYSIS OF CAPITAL LIQUIDITY

As at 31 December 2003, the Group's current assets amounted to RMB594,639,000 (2002: RMB569,866,000), current liabilities were RMB369,369,000 (2002: RMB306,528,000), annual receivables turnover period was 164 days and annual inventories turnover period was 137 days. The above data indicated that the Group's capital flow was ideal but there is still room for improvement. The ability of liquidity and repayment is satisfactory.

ANALYSIS OF FINANCIAL RESOURCES

As at 31 December 2003, the Group's short-term bank loan was RMB184,229,000. This loan shall be repaid by instalments. The Group does not have short-term repayment risk. Bank balances and cash were comparatively sufficient with a total amount of RMB210,925,000.

NON-CURRENT LIABILITIES OR LOAN

As at 31 December 2003, the outstanding amount of the Group's long-term loan incurred as a result of the purchase of a French accelerator was approximately RMB17,925,000 (equivalent to EUR1,734,000), of which banking credit facility amounted to approximately RMB6,762,000 (equivalent to EUR654,000) at the interest rate of 7.35% per annum, and French government secured bank loan amounted to approximately RMB11,163,000 (equivalent to EUR1,080,000) at the interest rate of 0.5% per annum. The said loans in euros are subject to certain exchange risks due to fluctuations of the exchange rate of US dollars in the international foreign exchange market. These two loans are instalment loans of which the maximum repayment period is 36 years. As the outstanding amount of the long-term loan is not substantial, there will be no adverse effect on the operation of the Group.

CAPITAL STRUCTURE OF THE GROUP

The Group's capital is derived from bank loans, proceeds from issuance of shares in the Company (the "Proceeds") and corporate profit. The use of Proceeds strictly complied with legal requirements. In order to ensure proper utilisation of capital, the Group has gradually established a stringent financial management system. The Group also paid attention to avoid risks and to improve return on investments. During the Year, loans and obligations which were due were repaid in accordance with the contractual terms.

CASH AND SOURCE OF FUNDS

The Group's net cash inflow from operating activities amounted to RMB13,467,000 during the Year (2002: RMB27,143,000).

During the Year, the Group spent a total of RMB5,982,000 (2002: RMB2,692,000) and RMB27,195,000 (2002: RMB35,770,000), respectively, on the purchase of property, plant, and equipment and on construction in progress.

As at 31 December 2003, the Group's total liabilities and minority interests amounted to RMB500,936,000 (2002: RMB438,427,000). The Group made interest payments of RMB10,822,000 (2002: RMB12,525,000) during the Year.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group did not have any contingent liabilities (2002: RMB140,000,000).

(6) BUSINESS OUTLOOK

The Board has conducted a serious analysis of the operating environment in 2004. Given the changes in the market and the Company's actual situation, the Company proposes to implement the following measures:

1. The Company will implement its movement plan for the production and office areas, in accordance with the unified planning of Chengdu and the high and new technology zone. This will be an excellent development opportunity for the Company. The Company would take advantage of the movement to step up the construction of China PUTIAN's industrial base in Chengdu, focus on restructuring the Company's industrial structure, make positive efforts to develop new items and products other than cables, strengthen the leading industry and increase the Company's core competitiveness and preserve the Company's sustained development so as to ensure the achievement of operating plans and objectives for the full year;

2. While implementing its movement plan and restructuring its industrial structure, make positive efforts to drive the Group's reform. Establish a modern corporate system, improve corporate governance and internal operating mechanism. Step up reforms in the systems of personnel, labour and distribution. Take active steps to discuss identity replacement for the staff of the Group so as to bring labour force to the market. Establish a strict performance appraisal system and an incentive regulatory mechanism to stimulate the initiative of all staff. Introduce a competitive mechanism to strengthen the sense of urgency and crisis for staff;

3. Based on market conditions in the cables industry, the Group will adjust its product structure, progressively reduce the capacity of urban telephone cables, increase the production of indoor cables products with program-controlled cables as the focus, which are in great demand by the market, and adjust the existing structure of television cables products; speed up the development of new products, change the single-product situation so as to achieve diversification and high technology of cables products; focus on research and development and manufacturing of cables equipment, as well as on the design and construction of cables installation systems and make efforts to build up the Group's technical service capability and allow technical staff to go to the market;

4. Strengthen marketing efforts. In accordance with market demand, the Group will focus on increasing sales of program-controlled cables, rapidly increase market share in the program-controlled cables market and make program-controlled cables as the new profit growth point. Make positive efforts to carry out market research, improve market forecast, identify target markets and key markets; formulate strategy of entering, occupying and expanding the market; put emphasis on improving operating channels; build relationship with intermediaries of all levels so as to progressively establish multiple distribution channels and marketing networks; adopt various modern marketing approaches to strengthen post-sales, sales and after-sales services of products and make use of China PUTIAN's sales platform to expand the sales network;

5. Improve sales incentive mechanism. Carry out appraisals based on the sales coefficient and performance to boost the work initiative of sales staff; strengthen the construction of the marketing team; implement the system of eliminating sales personnel with poor performance, increase sales personnel's competitive awareness and sense of urgency; step up internal control for sales and strive to cut down more expenses for the Group by eliminating unreasonable division of sales areas;

6. Further enhance the construction of the financial system. Amplify and improve management systems comprising financial budget, final financial accounts, external investment management, external guarantee management and asset disposal; strengthen the management of cost and expenditure by strictly adhering to the principle of "making forecast in advance, implementing control while in progress, conducting analysis afterwards"; combine economic contracts to carry out fixed-amount cost management in depth; implement whole-process cost and expenditure management for all personnel; reduce retained funds so as to speed up fund flow on; control expenditure such as financial costs and management fees and emphasize on the construction of the financial personnel team to increase their quality;

7. Amplify and improve the budget management institution and budget management system. Implement the budget execution reporting system in accordance with the Company's three-year overall planning in respect of budget management. Make regular summaries on budget execution; conduct timely analyses of any abnormal situations in the course of budget execution to identify any problems and develop measures for improvement and ensure the effective implementation of the overall budget;

8. Improve investment management. Adjust and push for the development strategies of associates such as SEI and CCS in an active and stable manner in response to the dramatic changes in the domestic and overseas markets; strengthen financial supervision and management for joint ventures and provide them with proper financial guidance; by taking full advantage of the listing status of the Company, carry out capital operation, replace poor quality assets and strengthen the Group; improve the consolidation and development of other joint ventures for wear and tear and increasing benefits and sustained development and put more efforts in developing products other than cables products. Improve market research and technology demonstration for new items in a positive manner.

The Board of Directors is optimistic about the future development of the Group. We will grasp every opportunity to progress in line with the latest market situation, expedite development, further re-align the Company's governance structure, enhance its management standard and strive to improve the operating environment of the Company, thereby bringing about more benefits for the shareholders.

Kuo Aiching
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General Manager

15 April 2004