

INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no change in the number of shares held by the Company's directors, supervisors and senior management during the reporting period.

2. EMPLOYMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

On 18 April 2005, the Supervisory Committee approved the resignation of Mr. Yuan Limin from the position of Supervisor for reason of work changes.

On 20 May 2005, the Supervisory Committee approved the resignation of Ms. Xu Xiuqin from the position of Supervisor for reason of work changes.

On 2 June 2005, the 2004 General Meeting was held, at which Mr. Fu Xiuheng and Ms. Dai Guiqing were considered and approved as the additionally appointed Supervisor of shareholders representatives. Their terms of were from 2 June 2005 to 7 March 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

1. DISCUSSION AND ANALYSIS OF OVERALL OPERATION IN THE REPORTING PERIOD

During the reporting period, under the leadership of the Board of Directors, the Company focused on the guideline "enhancing communication to invovated idea, pressing ahead stringent specialised management to minimise cost, emphasising on quality for continual improvements and striving for a new breakthrough". Perfecting management fundamentals, the Company implemented strict budget management system to control costs and expenses strictly. Meanwhile, through actively adjusting product mix and marketing strategies and exploring new market in full effort, the Company effectively overcame the impacts from the increasing prices of raw materials and other adverse factors, maintaining a sound progress in production and operation. During the reporting period, the Company recorded an income from sales of RMB245.75 million, and net profit of RMB8.73 million.

2. OPERATION DURING THE REPORTING PERIOD

(1) Principal business and its operation

1. Principal business, industry and the status of the Company

The Company and its subsidiaries are the major base of manufacturing, research and export of electrical transmission and transformation equipment in China and the major supplier of electrical transmission and transformation equipment used for Three Gorges Project and electricity network transformation in cities and towns. The Company's principal business is the manufacture and sale of system protection and transmission equipment including power capacitors, closed busbars and high-voltage isolated switch.

2. Operating results for the reporting period

- (1) The Company recorded an income from principal operations of RMB245,752,023 and cost of principal operations of RMB190,778,452. Gross profit margin and net profit were 22.37% and RMB8,731,049 respectively.

Constitution of income and profit from principal operations of the Company by business, product and geographical segment.

Principal operations by business and product segment.

By Business/ By Product	Income from principal operations	Costs of principal operations	Gross profit margin (%)	Increase/ (decrease) in income from principal operations compared with last year (%)	Increase/ (decrease) in costs of principal operations compared with last year (%)	Unit: RMB
						Increase/ (decrease) in gross profit margin compared with last year (%)
1. By Business						
Electric transmission and transformation	214,331,711	168,450,031	21.41	Note	Note	Note
Logistics	16,106,745	10,464,280	35.03	Note	Note	Note
Accommodation and catering	15,313,5567	11,864,141	22.52	6.63	-0.16	increase 5.64 percentage points
Of which: connected transactions	—	—	—	—	—	—
2. By Product						
High voltage switch, circuit breaker	84,156,248	74,537,423	11.43	Note	Note	Note
Power capacitor	90,002,311	62,843,585	30.18	-5.43	-4.52	decrease 0.66 percentage points
Closed busbar	31,244,749	23,892,699	23.53	Note	Note	Note
Others	8,928,403	7,176,324	19.62	—	—	—
Of which: connected transactions	—	—	—	—	—	—

Note: As there was material change for the scope of consolidation of the financial statements during the Reporting Period as compared with same period last year, thus, income from principal operations and gross profit margin by industry, product segment was not comparable to the same period last year.

Principal operations by geographical segments

Unit: RMB0'000

Region	Income from principal operations
Domestic	24,144
Overseas	431

- (2) During the Reporting Period, there was material change in profit composition, principal business and its structure and profitability when compared with the previous reporting period.

During the Reporting Period, the profitability of principle business increased through shrinking of cost and adjusting the types of ordered goods. In addition, as the scope of consolidation in the financial statements changed and decrease in bank loans, expenses in finance costs decreased. As compared with the previous reporting period, there were no need for provision of losses for guarantee occurred during the Reporting Period.

- (3) During the reporting period, there was no other operating activity that would have a significant impact on the Company's profit.
- (4) Business nature, major products or services and net profit of investee companies with investment income contributing over 10% (including 10%) to the Company's net profit.

Great Power Technology Limited is a company incorporated in the British Virgin Islands with limited liability. Its principle operation was investment shareholdings and trading, realizing net profit of RMB49.57 million in the Reporting Period with legal capital shares of 12,626 shares and 20.8% of its shares was held by the Company.

- (5) Problems and difficulties in operation and measures therefor

During the period, the major difficulty faced by the Company was the enduring high prices of energy power and main raw material, production cost remained high and thus the profitability was affected. The Company has taken the following measures:

- (i) Embarking on bidding purchases to minimise procuring cost of raw materials; furthering internal production management, and increasing utilisation ratio of raw materials to overcome the adverse impacts of the increasing prices of raw materials on its production cost;
- (ii) Restructuring the product mix and improving the production and sales of products with higher gross profit margin;
- (iii) Strengthening internal audit on operation of quality management system, organising on-spot specific study for key issues, implementing quality rectification measures, as well as carrying out target-oriented activities to tackle key problems of technological quality;
- (iv) Gradually carrying out systemic and target-oriented equipment upgrading and renovation to sharpen its competitive edge, laying a solid foundation for its sustainable operation and future development.

3. INVESTMENT OF THE COMPANY

(1) The use of proceeds during the reporting period

No proceed was used during the reporting period or used during the previous reporting period and subsisted in the reporting period.

(2) The circumstances and actual progress for non-fundraising investment project

For details please refer to “(6) Acquisition and disposal of assets during the Reporting Period” under Section 6 “Significant Events”.

4. ANALYSIS OF THE COMPANY'S FINANCIAL STATUS UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG

As at the end of the reporting period, the balance of monetary fund was RMB28.92 million. (Same as below).

There is no obvious seasonal principle in the Company's funding requirements.

The funds are mainly satisfied by 1) the cash flow from the Company's operation and capital operation and 2) the borrowings from financial institutions.

As at the end of the reporting period, the Company had bank loans amounting to RMB73.65 million, representing 5.97% of the total assets. These bank loans bear fixed interests.

The Company's asset to liability ratio was 9.43% (asset to liability ratio = total bank loans / total share capital and reserve X 100%).

As at the end of the reporting period, the Company had net assets of RMB6.72 million used as security.

Please refer to Note 44 to the Financial Statements for details of the Company's contingent liabilities.

5. ECONOMIC PROSPECTS AND OPERATING PLAN FOR THE NEXT HALF YEAR

The backbone power grid is expected to become the focus of investment during the second half year and next several years, as a result of the fast development opportunities in the transmission and transformation equipment industry brought forth by the transmission project of electricity from the west to the east China and the national power grid linkage. As such, transmission and transformation equipment with increasing investment is expected to outrun power station equipment to drive the continuously booming electric equipment industry. With total output remaining in high level, the undersupply of electric equipment is unlikely to see an essential change and the profitability is expected to maintain stable growth.

According to its annual operating plan set out in the year beginning, the Company will make reasonable allocation and coordination of resources to achieve its annual operating targets.

6. EXPLANATION ON MATTERS CONTAINED IN THE AUDITED REPORT OF LAST YEAR

A qualified opinion with an emphasised matter contained in the 2004 financial report was provided by the auditors.

The Board and the Supervisory Committee are of opinion that, with the virtual completion of disposal of equity interest in Shengyang High-voltage Switchgears Co. Ltd. in 2004, the issue related to the qualified opinion addressed in the 2004 audited report has been removed. Thus, no material impacts will be incurred as to net assets of the Company by the end of 2004 and to the operating results of the Reporting Period and the following years thereafter.

As for the litigation lodged by China Development Bank (the “Bank”), being the emphasised matter, the lawyer issued a letter of legal opinion suggesting that the transfer of equity interests is legally valid without breach of mandatory provisions of the PRC laws. The litigation initiated by the Bank was overruled by Beijing Higher People's Court in the first hearing, and thus the claims of the Bank shall not be supported by the court. For the detailed progress of the litigation, please refer to item 4 headed “Material litigation and arbitration” in section 6.