MANAGMENT'S DISCUSSION AND ANALYSIS

MR. KUO AICHING
Deputy Managing Director and General Manager of the Company

(1) TURNOVER

For the Year, the turnover of the Group amounted to RMB485,570,000, a decrease of 5.3% as compared to RMB512,820,000 for the year ended 31 December 2004 (the "Previous Year.")

During the Year, the turnover of copper cables was RMB357,645,000, a decrease of 10.5% as compared with the Previous Year, of which plastic urban telephone cables accounted for RMB164,140,000, a decrease of 24.8% as compared with the Previous Year; program-controlled telephone exchange system cable accounted for RMB41,710,000, a decrease of 18.9% as compared with the Previous Year; television cables accounted for RMB4,250,000, a decrease of 56.4% as compared with the Previous Year; and cable-joining sleeves operation accounted for RMB79,558,000, an increase of 28.4% as compared with the Previous Year.

Chengdu CCS Optical Fibre Cable Co., Ltd. ("CCS"), a company in which the Company owns 50% equity interest, recorded a turnover of RMB150,770,000 and a net loss of RMB29,042,000; Chengdu SEI Optical Fibre Co., Ltd. ("SEI"), a company in which the Company owns 60% equity interest, recorded a turnover of RMB48,367,000 and a net loss of RMB27,072,000; and Chengdu Cable Plant of the Ministry of Posts and Telecommunications Shuangliu Heat Shrinkable Products Sub-Plant ("Shuangliu"), a company in which the Company owns 66.7% equity interest, recorded a turnover of RMB79,648,000 and a net loss of RMB1,519,000. Turnover of Chengdu MCIL Radio Communications Cable Co. Ltd ("Chengdu MCIL"), in which the Company owns 90% equity interest, was RMB69,716,000 with a net loss of RMB2,892,000.

(2) PROFITS ATTRIBUTABLE TO SHAREHOLDERS

The net profits attributable to the Shareholders for the Year amounted to RMB28,255,000. The net loss attributable to Shareholders for the Previous Year amounted to RMB61,438,000. Profits attributable to Shareholders showed an increase of 146% as compared with the Previous Year.

(3) ANALYSIS OF THE RESULTS

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

During the Year, the Company received approximately RMB160,000,000 for the first stage payment of the disposal of the land on which the Company's headquarters were situated (the "Land"). There is still a profit of RMB122,723,000 after deducting the historical cost of the Land, tax, land transfer payment and transaction expenditure of the land auction and offsetting loss of principal business or other provisions.

Main reasons for the loss in principal business

1. The purchase price of copper rods continued to rise during the Year. The average purchase price of copper rods had risen as much as 26.4% as compared to the same period during the Previous Year, resulting in a sharp rise in the production cost of copper cables. Further, the Company's working funds for copper rod purchase was relatively hard pressed. Considering from perspectives of cost control and fund arrangement, production quantity of copper cable products was reduced in the light of the situation, thus bringing an adverse impact on the Group's operating profits.

2. Competitive prices of domestic optical fibres and optical cables posed continual hardship on the operation of the optical fibre and optical cable industries. Continual deficits of SEI and Chengdu CCS Co had directly affected the Group's profitability.

3. Continual restricted electricity supply adopted by Chengdu city due to electricity shortage in the area also adversely affected the Group's production in the first quarter of the Year.

(4) REVIEW OF PRINCIPAL BUSINESSES

1. Relocation of headquarters. The Company will be relocated to the western zone of Gaoxin district, Chengdu City in accordance with the comprehensive planning of Chengdu City and in response to the Company's need for development. The Company had specially set up a working group on relocation of headquarters. After conducting extensive thorough research, meticulous planning and making circumspect arrangements, adjustments were made for the old factory site concerning land composition, supporting area, capacity and aeronautical height limit. The Land was successfully transferred by way of auction in public trading in Chengdu Land Auction Centre on 19 July 2005, and transaction price for each mu of land reached RMB3,240,000. The total price was around RMB793,060,000, which achieved the expected good result.

2. Industrial base. The Company commenced the early preparatory work for comprehensive planning of China PUTIAN industrial base ("Industrial Base") after the Company had been selected as the eighth group of Chengdu enterprises to be relocated eastward. After the Company conducted strategic planning on the Industrial Base, designed and inspected the site, and hired a bidding agency, the invitation of public tendering for construction work and construction supervision was completed, thus laying a foundation for the construction of the Industrial Base. In late 2005, the controlling shareholder of the Company approved Stages I and II of the works program for the Industrial Base, symbolizing an official commencement of the construction works for the Industrial Base.

3. Marketing. In view of the increase in copper price, the Company made timely adjustments to its marketing strategy, communicated with clients proactively and increased prices of certain products. These measures gained clients' understanding and support. In addition, the Company applied considerable efforts in the management and collection of receivables and appointed special personnel to handle each item. The Company collected approximately RMB25,000,000 of aged debts in the Year. There was a downward trend in unpaid receivables which released the capital pressure of the Company and saved potential losses.

4. Enhancing production structure. The Company restructured the copper cable business according to the new schemes, thereby materializing the flexible nature of its management philosophy. In addition, the Company kept abreast of new technology and market forecast, fully integrated the current facility and technological resources, and applied a small amount of capital towards the railway project market that has a great demand and a high additional value. Construction of production line 1 was completed and adjustments to line 2 are in vigorous progress. Sample and conductor productions for certain models were finished. Upgraded conversion for environmental-friendly program-controlled cables was done, achieving satisfactory results for products produced for key consumers like Huawei, Zhongxing and Ericsson.

5. Thorough innovation. During the Year, the Company thoroughly revamped its transport company and established Nanxian Logistics Co. Ltd* (南翔物流有限公司), a self-sustaining company with clear asset title and independent audit system. This is the Company's new attempt in structural adjustment as well as an important step towards in-depth internal reform for the Group. In order to adapt to the new mechanism to be implemented upon the Company's relocation, views were put forward on overall corporate organization and reform. The Company also formulated an overall staffing plan and staff reduction plan for the Industrial Base.

6. Financial management. To cope with the Company's budget, supervision, control and management were tightened up for forecasting and implementation. A lot of work was done on tax and accounting in support of the sale of the old factory land lot. Much communication was carried out with relevant government departments concerning land revenue. Amendments were made to the reimbursement system and its management so as to minimize potential defects in management. Co-ordination with financial institutions was enhanced so as to guarantee that the needs for corporate financing could be met. Adjustments were completed for departmental structure for improvement of financial management.

7. Management of outside investments. The Group continued its supervision and guidance on joint ventures.It jointly acquired 30% of the equity interests held by the original foreign party of Chengdu MCIL with Shuangliu. Upon changes in the shareholding structure, Chengdu MCIL enhanced its product specifications and has now become an important domestic supplier of RF cables. After negotiation, it entered into an agreement with Hong Kong Advance Enterprise Co. Ltd（香港先進企業有限公司）to establish Chengdu Gaonengfuzhao Cable Co. Ltd (成都高能輻照電纜有限公司). This project is being finalized at the moment, and it symbolizes the Group's involvement in the hi-tech cable field. As to the organic light-emitting diode project ("OLED"), the Company is actively negotiating with the sources of technology and funding.

(5) FINANCIAL ANALYSIS

ANALYSIS HIGHLIGHTS

As at 31 December 2005, the Group's total assets were RMB935,685,000, representing a decrease of 8.2% over the Previous Year's RMB1,019,244,000. Current assets amounted to RMB542,167,000, accounting for 57.9% of the total assets and representing a decrease of 6% over the Previous Year's RMB536,473,000. The decrease was mainly due to the reduction of inventories, receivables and currency-capital. Property, plant and equipment amounted to RMB181,847,000, accounting for 19.4% of the total assets and representing a decrease of 21.3% over the Previous Year's RMB230,936,000. The decrease was mainly due to the charge of depreciation and the retirement of some of the equipment during relocation of the factory site.

As at 31 December 2005, the Group's liabilities totaled at RMB271,808,000; the liability-to-asset ratio was 29%; short-term bank loan was RMB112,493,000, representing a decrease of 27.4% over the Previous Year's RMB154,955,000. During the Year, the Group did not arrange for other capital raising activities.

As at 31 December 2005, the Group's bank deposits and cash totalled at RMB150,366,000, representing a decrease of 13.1% over the Previous Year's RMB173,058,000.

During the Year, the Group's distribution costs, administrative and other operation expenses, and finance costs amounted to RMB49,136,000, RMB97,872,000 and RMB8,747,000 respectively, representing an increase of 0.8%, an increase of 25.7% and a decrease of 20.9% over the Previous Year's figures of RMB48,746,000, RMB77,870,000 and RMB11,055,000 respectively. The distribution costs basically remained the same as the Previous Year. The increase in administrative and other operation expenses was mainly due to the increase in provision for impairment of distributed commodities and the increase of electricity costs. The decrease in finance costs was mainly due to the reduction of the Company's loan size and the depreciation of Euro leading to an increase of the Company's foreign exchange gain.

As at 31 December 2005, the Group's trade and bills receivables and inventories amounted to RMB148,822,000 and RMB142,083,000 respectively, representing a decrease of 19.1% and 13.8% over the Previous Year's figures of RMB183,975,000 and RMB164,812,000 respectively.

ANALYSIS OF CAPITAL LIQUIDITY

As at 31 December 2005, the Group's current assets amounted to RMB542,167,000 (2004: RMB536,473,000), current liabilities were RMB258,958,000 (2004: RMB338,811,000), annual receivables turnover period was 112 days and annual inventories turnover period was 128 days. The above data indicated that the Group's capital flow was reasonable but there is still room for improvement. The ability of liquidity and repayment was satisfactory.

ANALYSIS OF FINANCIAL RESOURCES

As at 31 December 2005, the Group's short-term bank loan was RMB112,493,000. This short-term loan shall be repaid by installments. The Group does not have short-term repayment risk. Bank balances and cash were comparatively sufficient with a total amount of RMB150,366,000.

NON-CURRENT LIABILITIES OR LOAN

As at 31 December 2005, the outstanding amount of the Group's long-term loan incurred as a result of the purchase of a French accelerator was approximately RMB14,103,000 (approximately EUR1,472,000), of which bank credit facility amounted to approximately RMB3,756,000 (approximately EUR392,000) at the interest rate of 7.35% per annum, and French government guaranteed bank loan amounted to approximately RMB10,347,000 (approximately EUR1,080,000) at the interest rate of 0.5% per annum. The said loans in Euros are subject to exchange risks resulting from fluctuations of the exchange rate of US dollars in the international foreign exchange market. These two loans are installment loans of which the maximum repayment period is 36 years. As the outstanding amount of the long-term loan is not substantial, there shall not be any 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, corporate profit and proceeds from transfer of old plant land lots. The use of Proceeds strictly complied with legal requirements. In order to ensure proper utilization of capital, the Group has refined its stringent financial management system. The Group also paid attention to avoid risks and to improve return on investments. During the Year, due loans and obligations were repaid and performed in accordance with relevant contractual terms.

CASH AND SOURCE OF FUNDS

The Group's net cash outflow from operating activities amounted to RMB17,022,000 during the Year (2004 net cash inflow: RMB13,942,000).

During the Year, the Group spent RMB2,207,000 (2004:RMB5,042,000) and RMB7,536,000 (2004: RMB7,363,000) respectively on purchases of property, plant and equipment and on construction in progress.

As at 31 December 2005, the Group's liabilities and minority interests amounted to RMB354,746,000 (2004: RMB468,030,000).The Group's interest expenses were RMB8,747,000 (2004: RMB11,055,000) for the Year.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any contingent liabilities (2004: Nil).

(6) BUSINESS OUTLOOK

1. IMPLEMENTATION OF BASE PLAN

In connection with the construction of Industrial Base, the Company will place considerable effort on the construction plan of the Industrial Base, product specifications, structural adjustments, managing resources and labour reform. In 2006, the Company will complete the construction of the planned area of the new plant on time while keeping the total construction cost under control. Meanwhile, the Company will continue to make steady progress in demolishing old plants and collecting land fee in order to lay a strong foundation for the sustainable growth of the Company.

2. INSISTING ON DEEPENING THE REFORM

The Company will treat relocation as a step of adjusting and enhancing its business. It will continue to adjust its business portfolio and fully utilize the Company's advantage in the cable industry. Core business will be developed making use of market mechanism and reasonable allocation of resources. The Company will also strive to acquire new projects, conduct research for new products and to seek new development opportunities. As to supplementary institutions, corresponding reforms will be formulated in response to the principle of Document No. 859. They will be separated from the core business in order to distinguish the Company's core business and enhance its competitiveness in the market. After sufficient market research and cost analysis, the Company will remove or close the products and projects that incur loss as in its core business.

3. REFINE MANAGEMENT POLICIES

Refined management will be conducted coupled with pragmatic management foundation for continual enhancement of the management standard. The Company will establish and implement a policy of procurement and tender system for raw materials, alter the current procurement policy for raw materials and lower the cost. Logistic management will be stepped up with adjustments made to the Company's existing logistic management system in order to explore new methods of cost savings. An incentive system will be introduced to the clearing of the Company's unfavorable assets and procurement of raw materials.

4. PROMOTING SALES

Effort will be made to develop market potentials and to expand sales capacity, as well as consolidating its existing marketing network with greater involvement in new markets while actively developing markets overseas. New clientele will be vigorously explored and partnership will be developed. The Company will be customer-oriented by responding quickly to clients' requests. It will obtain market feed back from various channels, and adjust its product development and marketing timely according to market news. The Company will refine its customer credit grading system and establish a comprehensive customer data base in order to systemize the classification and management of customers. The Company will improve the management of delivery of products and receivables.

5. PROMOTION OF TECHNOLOGY

The Company is committed to proceeding with steps that enhance the structure of its business portfolio. The Company will manufacture special electrical installation cable in bulk and expedite the formation of joint ventures. The Company will also promote the high performance electronic cables and RF cables that are produced after Chengdu MCIL and the electronic cable plants have undergone technology renovation. In addition, after conducting thorough studies, the Company will mobilize its financial resources to acquire new equipment so that the Company's production facility could develop under the principles of professionalism and diversification, and will keep abreast with the technological development of "fibre to the home" in order to consolidate the Group's resources. The Company will broader the vision on non-cable projects in order to obtain more political support and new sources of funding as well as fortifying business partnerships.

6. IMPROVE FINANCIAL MANAGEMENT

The Company will emphasize the timeliness and binding nature of its budget forecast so that the budget forecast will reflect the true and fair view of the Company's operation. The Company will also create procedures and processes for a centralized and integrated financial management and establish preliminarily the same at its joint ventures.

In addition, the Company will monitor the calculation of cost of production and adopt effective cost control measures. The Company will instill good cash flow management to ensure that the Company's capital needs will be met adequately. The Company will also reduce inventory in order to achieve higher utilization of capital and to alleviate internal pressure on capital.

7. EMPHASIZE INVESTMENT MANAGEMENT

The Company will supervise and review the relevant polices applicable to the joint ventures, stipulate proper budgeting targets, strengthen the supervision of the management of the joint venture, and implement effective incentive policies. The Company will regularly carry out strategically focused internal audit of the joint venture in order to protect the Group's legal interests. The Company will also shut down and re-structure those companies with unclear asset titles and unsound operations. Finally the Company will actively look for far-reaching cooperative opportunities across multiple regions and promote the smooth remaining of the existing cooperations.

Kuo Aiching
Deputy Managing Director • General Manager

18 April 2006