

## INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. MOVEMENTS IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

On 18 April 2006, the Board of Directors considered and approved the appointment of Mr. Shi Li as the Deputy General Manager of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. DISCUSSION AND ANALYSIS ON THE COMPANY'S OPERATING PERFORMANCE 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 upgrade concept, pressing ahead stringent specialised management to upgrade the quality, advancing technologies to increase productivity and income, improving relationships controlled for image building" to further perfect management fundamentals and control cost and expenses strictly. In addition, through actively adjusting product mix and marketing strategies and working closely with related authorities, the Company overcame effectively the impacts from the adverse factors such as, increasing prices of raw materials and lack of capital, and maintained a sound progress in production and operation. During the reporting period, the Company recorded an income from sales of RMB263.06 million, and net profit of RMB9.66 million, representing an increase of 7% and 10.7% respectively compared with the corresponding period of last year.

### 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 RMB263,064,785.18 and cost of principal operations of RMB204,868,291.59. Gross profit margin and net profit were 22.12% and RMB9,663,612.79.

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

Principal operations by business and product segment

Unit: RMB

By Business or Product	Income from principal operations	Costs of principal operations	Gross profit margin (%)	Increase / (decrease) in income from principal operations as compared with last year (%)	Increase / (decrease) in costs of principal operations as compared with last year (%)	Increase / (decrease) in gross profit margin as compared with last year (percentage point)
<b>1. By Business</b>						
Electric transmission and transformation	236,879,132.69	186,345,596.45	21.33	10.52	10.62	-0.08
Inventory and Logistics	11,135,232.06	6,460,228.39	41.98	-30.87	-38.26	6.95
Accommodation and catering	15,050,420.43	12,062,466.75	19.85	-1.72	1.67	-2.67
Of which: connected transactions	0	0	—	—	—	—
<b>2. By Product</b>						
High Voltage Switch, circuit breaker	101,876,369.13	91,006,338.40	10.67	21.06	22.09	-0.76
Power capacitor	66,963,514.01	43,363,094.41	35.24	-25.60	-31.00	5.07
Closed busbar	53,786,461.57	40,153,658.07	25.35	72.15	68.06	1.82
Others	14,252,787.98	11,822,505.57	17.05	59.63	64.74	-2.57
Of which: connected transactions	0	0	—	—	—	—

Principal operations by geographical segment

Unit: RMB'0,000

Region	Income from Principal operations	Increase / (decrease) in income from principal operations as compared with last year (%)
Domestic	25,827	6.97
Overseas	479	11.14

- (2) During the Reporting Period, there was no material change in profit composition, principal business and its structure and profitability when compared with the previous reporting period.
- (3) 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 RMB50.91 million in the Reporting Period with legal capital shares of 12,626 shares and 20.8% of its shares was held by the Company.

- (4) Problems and difficulties in operation and measures taken

During the reporting period, the major difficulties faced by the Company included: 1) insufficient working capital, which imposed a constraint on production and operation of the Company to some extent; and 2) the prices of raw materials running at high level, which worsen the insufficiency of working capital and eroded the profitability of the Company. Major measures taken were as follows:

- (1) Efforts were made on collection of accounts receivable. All subsidiaries formulated effective management methods to define respective responsibilities, and hastened collection of accounts receivable and old debts.
- (2) Capitalising on the improved corporate image upon its successful share reform and removal of "Special Treatment" on its shares, the Company obtained bank loans through liaisons and communications with banks. This has alleviated, to some extent, the pressure arising from the shortage of working capital.
- (3) To address the unfavourable prices of raw materials, a cost constituent which were ranging high without a sign of fall, all subsidiaries strengthened the management on utilization of raw materials in order to relieve the cost pressure. Accordingly, production cost was reduced through ensuring the first-time pass rate of products. Meanwhile, the Company maximized the utilization of raw materials by taking full use of scrap disposals in an effort to reduce the production cost for a higher profitability.

### 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

None of non-fundraising investment project was used during the reporting period or used during the previous reporting period and subsisted in the reporting period.

### 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 RMB31.77 million.

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 RMB74.21 million, representing 5.93% of the total assets. These bank loans bear fixed interests. The Company's asset to liability ratio was 9.20% (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 RMB11.52 million used as security.

Please refer to Note 43 to the Financial Statements for details of the Company's contingent liabilities.

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

Generally, the power grid construction during the period of the “11th Five-Year Plan” will maintain a rapid growth rate. However, this year, the start-up year of the “11th Five-Year Plan”, has seen relatively softer demand, while currently some electrical products of short production cycle tend to suffer from insufficient demands due to the overheated construction over past years. To address the problem, the Company has adjusted its strategies including enhancement of market promotion and allocation of resources in a scientific manner. The Company will spare no efforts to accomplish the plans for the year in the second half of 2006.

## 6. EXPLANATION BY THE COMPANY’S MANAGEMENT ON THE CHANGES OF QUALIFIED OPINIONS AND RELATED MATTERS CONTAINED IN THE AUDITORS’ REPORT OF 2005 AND THE PROCESSING THEREOF

A qualified opinion with an emphasised matter contained in the 2005 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 Shenyang High-voltage Switchgears Co. Ltd. and Jinzhou Power Capacitors Limited in 2004 and 2005, the issues related to the qualified opinion addressed in the 2005 audited report has been removed. Thus, no material impacts will be incurred as to net assets of the Company for the end of the reporting period 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 of the Company was legally valid without breach of mandatory provisions of the PRC laws, thus the claims of the Bank shall not be supported by the court. The outcome of the ruling would not cause material impact on the Company’s overall operating results. Please refer to “4. Material Litigation and arbitration” under Section 6 “Significant Event” for the progress of the case.

## SIGNIFICANT EVENTS

### 1. PERSONNEL MOVEMENT

On 18 April 2006, the Board of Directors considered and approved the appointment of Mr. Shi Li as the Deputy General Manager of the Company.

### 2. CORPORATE GOVERNANCE STRUCTURE

During the reporting period, the Company has continued to improve its corporate governance structure while establishing a modern business system and regulating its operation in accordance with the relevant laws and regulations for listed companies. The Company has set up an internal supervisory mechanism and optimized its running, and the Board of Directors has formed a strategic development committee, an audit committee, an investment committee, a remuneration committee and a nomination committee. The independent directors system has become perfect and optimized gradually. In addition, the Company has amended the Articles of Association in accordance with “regarding regulations of enhancing protection to equity interests of shareholders of public shares” and the newly revised regulations of “listing rules of securities of Shenzhen Stock Exchange” of the China Securities Regulatory Commission so as to warrant the consistency of the Article of Association with related regulations, thus achieving an improvement in its corporate governance structure.

### 3. PROFIT APPROPRIATION PLAN AND ITS IMPLEMENTATION

During the reporting period, the Company recorded net profit of RMB9,663,612.79 all of which was used to cover loss incurred in the previous year. Therefore, no profit appropriation was made nor any reserves were transferred to increase the share capital of the Company during the reporting period.