

IV. Business Review and Prospects

1. COMPANY'S BUSINESS REVIEW FOR THE PERIOD

The Company is principally engaged in the design, development, production and sales of digital control machine tools, digital scanning machine tools, precision measuring equipment and precision transducers. The main products include horizontal boring machines, jig boring machines, floor type boring machine, copy milling machines, machining centers, precision measuring equipment and precision transducers.

As at 30th June, 2001, the Company produced a total of 95 sets machine tools and 680 sets parts. Revenue from principal operations amounted to approximately RMB38,241,000, representing an increase of 22.18% over that of last period. Net profit was approximately RMB2,204,000, and there is a loss of approximately RMB2,973,000 in the same period last year.

2. INVESTING ACTIVITIES

(1) The use of listing proceeds

The Company has not issued any new shares since its public offer of new shares in 1993.

There is no difference and change in the use of listing proceeds of the Company during the reporting period when comparing with the disclosure in the 2000 Annual Report.

There was also no material investing activities during the period.

The balance of the unused listing proceeds, amounted to approximately HK\$39,053,000 is deposited with the Bank of China. The Company has not yet decided the plan for the use of the unutilized listing proceeds.

(2) Investment activities

In 1994, the Company made an initial investment of approximately RMB2,000,000 to establish the Cheng Jiang Machine Tool Accessories Plant ("Cheng Jiang"), representing a 40% interest in Cheng Jiang's capital. The factory premises were completed in 1995. Due to the changes of market conditions, the joint venture partners decided to change the principal business of Cheng Jiang from production of spare parts for machine tools to copper products and renamed the joint venture to Cheng Jiang Copper Products Plant. The Company did not participate in Cheng Jiang's financial and operating decision and Cheng Jiang has ceased production. There is no economic benefit raised up to now.

(3) Financial Status of the Company

Item	30th June, 2001	31st December, 2000	Change	(unit: RMB'000)	
				Change (%)	
Total assets	694,803	666,040	28,763	4.32	
Accounts receivable	23,872	18,146	5,726	31.56	

Inventories	189,932	172,684	17,248	9.99
Fixed assets	204,832	208,957	(4,125)	(1.97)
Long term liabilities	43,800	43,800	-	-
Total shareholders' equity	508,146	505,942	2,204	0.44

	For the six months ended 30th June,			
	2001	2000	Change	Change (%)
Principal operating profit	12,096	9,046	3,050	33.72
Profit (loss) for the period	2,204	(2,973)	5,177	174.13

Reasons for the change:

- (1) Increase in total assets due to increase in cash raised from borrowings;
- (2) Increase in accounts receivable due to increase in sales;
- (3) Increase in inventories due to increase in goods-in transit;
- (4) Decrease in fixed assets due to the disposal of fixed assets and depreciation charged;
- (5) Increase in total shareholders' equity due to profit for the period;
- (6) Increase in principal operating profit due to increase in sales for the period;
- (7) Increase in profit for the period due to increase in investment income and subsidy income.

3. BUSINESS PLAN FOR THE SECOND HALF OF THE YEAR

After the assignment of the equity interest of the Company, Xian Jiaotong University Industrial (Group) Incorporation hold 71,052,146 State-owned legal person shares, representing 29% of the total number of shares of the Company and become a substantial shareholder of the Company.

Xian Jiaotong University Industrial (Group) Incorporation has committed that it will inject high-tech projects and the relevant assets including "Total controllable turbine" energy-saving rotor technology, smart colour computerized embroidery machine and laser fast mould manufacturing technology to the Company.

The Company is now negotiating with Xian Jiaotong University Industrial (Group) Incorporation and Yunnan Provincial People's Government about the acquisition of certain items from Xian Jiaotong University Industrial (Group) Incorporation and disposal of certain inventories to Yunnan Provincial People's Government. The assets reorganization are the major plan for the second half of the year.

In addition, the orders received has increased as compared to the same period last year. The Company will closely monitor the production schedule and the quality to ensure delivery of goods on time so as to increase the revenue of sales of machine tools in the second half of the year.