MANAGEMENT'S 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.

For the Year, the turnover of the Group amounted to RMB512,820,000, an increase by 10.2% as compared to RMB465,345,000 for the year ended 31 December 2003.

During the Year, the turnover of copper cables was RMB399,783,000, an increase by 25.3% as compared with the same period last year, of which plastic urban telephone cables accounted for RMB218,297,000, a decrease by 4.2% as compared with the same period last year; program-controlled cables accounted for RMB51,451,000, an increase by 42.1% as compared with the same period last year; television cables accounted for RMB9,737,000, a decrease by 11.4% as compared with the same period last year; and cable-joining sleeves operation accounted for RMB61,979,000, a decrease by 31.7% as compared with 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 RMB218,406,000 and a loss of RMB30,365,000; Chengdu SEI Optical Fibre Co., Ltd. ("SEI"), a company in which the Company owns 60% equity interest, recorded a turnover of RMB51,058,000 and a loss of RMB9,365,000; and Dongguan CDC Cable Factory, a company in which the Company owns 75% equity interest recorded a turnover of RMB15,388,000 and a loss of RMB7,894,000. During the Year, Shuangliu Heat Shrinkable Products Sub-Plant, a company in which the Company owns 66.7% equity interest, recorded a turnover of RMB62,236,000 and a profit of RMB15,588,000.

(2) LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to Shareholders for the Year amounted to RMB61,438,000. The net loss attributable to Shareholders for the year ended 31 December 2003 amounted to RMB81,752,000. Loss attributable to Shareholders decreased by 24.8% as compared with the same period last year.

(3) ANALYSIS OF THE RESULTS

With the current steady momentum of the domestic telecommunication industry during the Year as compared with the leaping one in the past, telecommunication operators achieved a turnaround to refined operation from extensive operation, and the telecommunication market continually maintained its growing pace. However, the market of the wire and cable industry is still in downturn due to various adverse factors such as intense market and price competition in the industry, rising prices of raw materials, low price of dominant products and shortfall of power supply. As a result, the Company failed to change the status of loss despite the substantial increase in its sales over the same period last year.

Main reasons for the decline in loss attributable to Shareholders:

1. the continuous shortfall in global supply of metallic copper, raw material for production, has led to a substantial increase in copper price which sustained at a high level for a long period. The average purchasing costs for copper rod, the raw material of copper cables, increased by 56% over the same period last year, resulting in a significant increase in production cost. During the Year, production cost recorded an increase of approximately RMB70,000,000 merely due to the increased copper price, which in turn affected the Company's operating profits;

2. in view of the rise in prices of copper cables raw materials, the Company increased the selling prices of certain products. However, the increase in selling prices cannot fully offset the increase in production cost due to the rise in the price of raw materials;

3. due to the substantial oversupply of domestic production capacity of optical fibres and cables as a result of the slow-down in the investment of domestic telecommunication operators, the selling prices of optical fibres and cables remained low during the Year, while the anti-dumping survey on imported fibres failed to stimulate the fibre market environment in the PRC. Such factors directly affected the business operations and the operating profits of SEI and CCS, which specialise in production of optical fibres and cables, respectively, hence leading to an increase in the Company's share in losses; and

4. the State's strengthened macro-control and the tightening of bank credit toughened up the liquidity of production thus resulting in significant impact on production and operation.

(4) REVIEW OF PRINCIPAL BUSINESSES

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

1. under the strategic planning of the relocation of production and business facilities of the Company's headquarter, the Group has worked out the first drafts of the technical layout and the three-year product plan for the base. At the same time, the Company took initiatives to advance the land replacement, preliminary preparations of which have been basically completed and the construction is about to commence;

2. for the purpose of its relocation, the Company carried out reforms on its internal operating mechanism to further deepen the reforms in light of document No. 859 promulgated by the State Economic and Trade Commission of the PRC. In addition, the Company plans to separate and reform business functions of its transportation company, an important step to separate ancillary business from core business, thus paving a new way for the Company's later internal restructuring;

3. as for marketing, the Company spared no effort in strengthening both the internal sales management, the sales team and collection of trade receivables. As a result, noticeable increase was recorded in sales volume and the rate of collection of trade receivables. Sales revenue and collection of trade receivables increased by 31.6% and 25.5% respectively for the Year as compared with the same period last year, whereas for principal operations of the Company balance of trade receivables decreased by 7.9% as compared with the same period last year. Up to RMB370,000,000 of trade receivables was collected, hitting the highest in recent years, which has also substantially alleviated the pressure from the increased price of raw materials on the Company's capital liquidity;

4. during the Year, the Company speeded up its development of new products and identification of new industries. Principal new products developed include digital transmission and electronic wires, cables for high performance electrical equipment and cables for program-controlled exchanger, focusing on the development of new products of program-controlled cables, digital cables, XL irradiated cables, TPE/EVA insulated cables and the latest Beijing-standard cables. The Company conducted ongoing research and demonstration on the project of organic light emitting display ("OLED"), which has been listed among the key industrialization projects of Chengdu. The technical and equipment planning, have been completed for the project of China PUTIAN industrial base in Chengdu. Meanwhile, the Company has drafted the "11th Five-year" plan and systematically analyzed the existing status, development trend and alignment of the Company's industry structure, laying a solid foundation for the Company's adjustment to industry structure;

5. emphasizing on the implementation, analysis and estimation of overall budget, the Company strengthened the supervision, control and management of the budget execution and estimation of its subsidiaries. An alarming control system for cost budget management was started up, allowing real-time assessment and control of execution of cost budget. Also, the Company attached importance to adjustment of financing sources and reasonable arrangement for use of capital, which ensured smooth production and operation. With a view to improve their calibre, the Company put efforts in professional skills training for financial personnel; and

6. the Company continued to supervise and give guidance to its joint ventures and associates. The liquidation of assets of the former Sichuan Provincial Telecommunications Cable Plant Co., Ltd. was finalized. The Company formulated a solution for accelerators of Shuangliu Heat Shrinkable Products Sub-Plant and then established Branch of Radiation Technology Company at the end of the Year. With an active view to projects other than fibres and cables products, the Company investigated and studied the OLED project and thereby established Chengdu PUTIAN Display Technology Ltd. ("CPTL"). Currently, the Company embarked on identification of cooperative partners for the project.

(5) FINANCIAL ANALYSIS

ANALYSIS HIGHLIGHTS

As at 31 December 2004, the Group's total assets were RMB1,010,504,000, representing a decrease of 9.3% over the previous year's RMB1,113,523,000, of which current assets amounted to RMB525,886,000, accounting for 52% of the total assets and representing a decrease of 11.6% over the previous year's RMB594,639,000. The decrease was mainly due to the strengthening of collection of trade receivables which lowered the amount of trade receivables on one hand, and the significant increase in the expenditure of procurement cost which decreased bank deposits on the other hand. Fixed assets amounted to RMB298,926,000, accounting for 29.6% of the total assets, representing a decrease of 1.7% over the previous year's RMB304,207,000. The decrease was mainly due to the charge of depreciation during the Year.

As at 31 December 2004, the Group's liabilities totalled RMB346,652,000; the liability-to-asset ratio was 34.3%; short-term bank loan was RMB154,955,000, representing a decrease of 15.9% over the previous year's RMB184,229,000. During the Year, the Group did not arrange for other capital raising activities.

As at 31 December 2004, the Group's bank deposits and cash totalled RMB173,058,000, representing a decrease of 18% over the previous year's RMB210,925,000.

During the Year, the Group's distribution costs, administrative and other operation costs, and finance expenses amounted to RMB48,746,000, RMB76,654,000 and RMB11,055,000, respectively, representing an increase of 10.6%, an increase of 8.8% and an increase of 2.2% over the previous year's figures of RMB44,061,000, RMB70,436,000 and RMB10,822,000, respectively. The increase in various costs was mainly due to the noticeable increase in sales revenue.

As at 31 December 2004, the Group's trade receivables and inventories amounted to RMB183,895,000 and RMB164,812,000, respectively, representing a decrease of 12% and an increase of 0.5% over the previous year's figures of RMB208,915,000 and RMB163,974,000, respectively.

ANALYSIS OF CAPITAL LIQUIDITY

As at 31 December 2004, the Group's current assets amounted to RMB525,886,000 (2003: RMB594,639,000), current liabilities were RMB330,071,000 (2003: RMB369,369,000), annual receivables turnover period was 131 days and annual inventories turnover period was 129 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 is satisfactory.

ANALYSIS OF FINANCIAL RESOURCES

As at 31 December 2004, the Group's short-term bank loan was RMB154,955,000. This short-term 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 RMB173,058,000.

NON-CURRENT LIABILITIES OR LOAN

As at 31 December 2004, the outstanding amount of the Group's long-term loan incurred as a result of the purchase of a French accelerator was approximately RMB18,054,000 (equivalent to EUR1,603,000), of which banking credit facility amounted to approximately RMB5,890,000 (equivalent to EUR523,000) at the interest rate of 7.35% per annum, and French government secured bank loan amounted to approximately RMB12,164,000 (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 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 (the "Proceeds") and corporate profit. The use of Proceeds strictly complied with legal requirements. In order to ensure proper utilization 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 RMB13,942,000 during the Year (2003: RMB13,467,000).

During the Year, the Group spent RMB5,042,000 (2003: RMB5,982,000) and RMB7,363,000 (2003: RMB27,195,000), respectively, on the purchase of property, plant and equipment and on construction in progress.

As at 31 December 2004, the Group's liabilities and minority interests amounted to RMB459,290,000 (2003: RMB500,936,000). The Group made interest payments of RMB11,055,000 (2003: RMB10,822,000) during the Year.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any contingent liabilities (2003: Nil).

(6) BUSINESS OUTLOOK

Based on the Board's prudent analysis of the operating environment in 2005, an extremely difficult year for the wire and cable industry, the Company and its substantial associates will be faced with great challenges including increasing prices of raw and ancillary materials and declining prices of products. Given the changing market and its actual situation, the Company proposes to implement the following measures:

1. with the construction of China PUTIAN industrial base in Chengdu as its overall strategic objective, the Company will aim at further development, adjust its operating structure, complete the overall planning and start the construction of new plants. Meanwhile, to follow up land replacement of existing plants in proper procedures and fast paces, the Company expects to complete disposal of land of existing plants. Accordingly, the Company will set up a group to coordinate and instruct construction, relocation and land replacement of the industrial base;

2. focusing on its relocation, the Company will restructure its organizational bodies, adhere to strict requirement on quality and refine management ideology as a way to boost innovative management and enhance management efficiency, efficacy and effectiveness of the Company in accordance with the principle of "simplification and high efficiency". Meanwhile, it will put efforts in promotion of KPI critical result index to incorporate performance assessment, corporate operation budget and supervision on significant events, where management and assessment can be simultaneously conducted in line with preparation, execution and estimation of the Group's annual budget and workflows of preliminary final accounting, so as to enhance corporate management;

3. the Company will focus on "specialized sales" to deploy its marketing work with the aid of information. The Company will adopt a grading system of customer credit and reallocate its sales arrangement, thus increasing the influence on its customers. Based on in-depth development of the market of existing products, the Company will also take efforts to develop the market for its new products. With establishment of market analysis system and sufficient information of operations of major competitors, the Company will in time follow up the trends of market development and demand. Furthermore, with well-prepared market analysis reports and established customer development and management system, the Company will pay regular visits to customers to strengthen communications. In addition, the Company will continue to implement a "last-eliminated" system for salesmen to strengthen the pressure on them;

4. in terms of technology development, the Company will put more efforts in innovative research and development, proactively follow up the international trends of technology development, strengthen the research of trend of new technology and emerging business of future cable products, develop international advanced technologies and distinctive products as well as speeding up the development of marketable products. To adjust the existing product mix, the Company will put emphasis on scale production of 6 categories of cables. Aiming at preliminary supplying capabilities of cables for motor vehicle, the Company will also introduce new optical fibre of G652D and new service for optical fibre cable hardware;

5. as for the building up of a sound financial system, the Company will strengthen its financial and cost management, increase the effectiveness of capital utilization, endeavor to lower the cost of production, consolidate cash flow management and fund raising projects, reinforce the collection of account receivable so as to ensure the fulfillment of the need for business operation; highlight cost on working procedures, further optimize technological economy indication, place efforts on lowering cost control on working procedure; deepen the overall budget management; tighten supervision in order to realize revenue increment and expenditure curtailment. By implementing the budget execution reporting system, the Company will make regular summaries of budget execution, thus ensuring the effective implementation of the overall budget; and

6. the Company will further reinforce the injection and management of investment capital with centralized and unified allocation of financial resources so as to facilitate the orderly shareholding structure of its joint ventures and associates. The Company will enhance monitoring on joint ventures and associates and focus on the examination on officers sent thereto. To provide necessary instructions for good operation of joint ventures and associates, the Company will strictly control their loss and speed up the disposal of long-term investment with poor performance. The Company will also fully exert its strengths of the platform as a listed company and take advantage of existing resources to seek the investment projects with potential market and new growth base.

The Board is optimistic about the future development of the Company. Leveraging opportunities to ride on the up-to-date market situation for rapid development, we are poised to further optimize the Company's structure and management, aiming at improving operations of the Company and more benefits for the Shareholders.

Kuo Aiching
Deputy Managing Director,
General Manager

19 April 2005