

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1. GENERAL

The Company was incorporated in The People's Republic of China (the "PRC") with limited liability. Its ultimate holding company is CHINA PUTIAN CORPORATION ("China Putian"), a state-owned enterprise established in the PRC.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of various types of telecommunications cables (including different types of copper cables and optical fibre cables), optical fibres, cable joining sleeves, as well as equipment, manufacturing parts and materials for the production of cables.

The Company also acts as an investment holding company.

The principal activities of the Company's subsidiaries are set out in note 15.

Pursuant to a special resolution passed by the shareholders of the Company at the annual general meeting held on 20 June 2002, the English name of the Company was changed from Chengdu PTIC Telecommunications Cable Company Limited to Chengdu PUTIAN Telecommunications Cable Company Limited.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has led to a number of changes in the accounting policies of the Group, which are set out in note 3. The SSAPs that have an impact on the financial statements are as follows:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

Statement of changes in equity

In accordance with revised SSAP 1, the format of presentation of the statement of changes in equity has been changed. This change has had no effect on the results for the current or prior accounting periods.

Cash flow statements

Under revised SSAP 15, cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest received, interest paid and dividends paid to minority shareholders, which were previously presented under a separate heading, returns on investments and servicing of finance, are classified as investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee benefits

The SSAP 34 "Employee benefits" introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress represents buildings and machinery under construction or installation and is stated at cost, less any identified impairment losses. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment when they are ready for use.

Land use rights are stated in the balance sheet date at cost less amortisation and accumulated impairment losses. The value of land use rights is amortised on a straight line basis over the period of the land use rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter.

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into use.

Depreciation and amortisation are provided to write off the cost of other items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates:

Buildings	2.7% - 6.5%
Plant, machinery and equipment	7.5% - 20%
Motor vehicles	10.8% - 20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All investments other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For non-trading securities, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed to the customers.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Technology transfer fees and management fees are recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payments have been established.

Turnover

Turnover represents the invoiced value of goods sold by the Group to outside customers, less trade discounts, returns and sales taxes, during the year.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

The Company and its subsidiaries in the PRC maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the rates quoted by The People's Bank of China prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are re-translated into RMB at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

Foreign currency translation differences relating to borrowed funds, to the extent that they are adjustments to the interest costs of funds used to finance the construction of qualifying assets, are capitalised during the period of construction. Exchange differences arising other than those capitalised in line with the Group's accounting policy are included in the income statement.

Retirement benefit costs

Payments to state-managed retirement fund schemes are charged as expenses as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

4. BUSINESS SEGMENT

For management purposes, the Group is currently organised into three main operating segments, manufacture and sales of copper cable and related products, optical fibre products and cable joining sleeves and related products.

These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses for the years ended 31 December 2002 and 2001 is presented below:

	For the year ended 31 December 2002					Consolidated RMB'000
	Manufacture and sales of copper cable and related products RMB'000	Manufacture and sales of optical fibre products RMB'000	Manufacture and sales of cable joining sleeves and related products RMB'000	Other operations RMB'000	Elimination* RMB'000	
SEGMENT TURNOVER						
External turnover	214,054	81,894	60,437	19,956	—	376,341
Inter-segment turnover	13,112	—	73	—	(13,185)	—
Total turnover	<u>227,166</u>	<u>81,894</u>	<u>60,510</u>	<u>19,956</u>	<u>(13,185)</u>	<u>376,341</u>
SEGMENT RESULT	<u>(51,757)</u>	<u>(19,905)</u>	<u>11,641</u>	<u>(4,948)</u>	<u>—</u>	<u>(64,969)</u>
Unallocated corporate expenses						(2,192)
Unallocated other operating income						14,183
Loss from operations						(52,978)
Finance costs	(10,870)	(336)	—	(1,319)	—	(12,525)
Share of results of associates	(3,616)	(38,807)	—	(6,396)	—	(48,819)
Loss before taxation						(114,322)
Taxation						(4,553)
Loss before minority interests						<u>(118,875)</u>

* The inter-segment transactions were carried at estimated fair market price or, where no market price was available, at cost plus a percentage profit mark-up.

	At 31 December 2002				
	Manufacture and sales of copper cable and related products RMB'000	Manufacture and sales of optical fibre products RMB'000	Manufacture and sales of cable joining sleeves and related products RMB'000	Other operations RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	628,464	121,307	112,345	79,920	942,036
Interests in associates	13,984	158,389	—	7,529	179,902
Consolidated total assets	<u>642,448</u>	<u>279,696</u>	<u>112,345</u>	<u>87,449</u>	<u>1,121,938</u>
LIABILITIES					
Segment liabilities	<u>256,137</u>	<u>22,045</u>	<u>18,554</u>	<u>24,765</u>	<u>321,501</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

4. BUSINESS SEGMENT (CONTINUED)

	For the year ended 31 December 2002				Consolidated RMB'000
	Manufacture and sales of copper cable and related products RMB'000	Manufacture and sales of optical fibre products RMB'000	Manufacture and sales of cable joining sleeves and related products RMB'000	Other operations RMB'000	
Capital additions	13,014	22,313	2,958	177	38,462
Depreciation and amortisation	28,393	4,915	3,651	3,297	40,256

	For the year ended 31 December 2001					Consolidated RMB'000
	Manufacture and sales of copper cable and related products RMB'000	Manufacture and sales of optical fibre products RMB'000	Manufacture and sales of cable joining sleeves and related products RMB'000	Other operations RMB'000	Elimination* RMB'000	
SEGMENT TURNOVER						
External turnover	314,976	178,944	66,446	25,077	—	585,443
Inter-segment turnover	4,796	2,002	1,126	344	(8,268)	—
Total turnover	<u>319,772</u>	<u>180,946</u>	<u>67,572</u>	<u>25,421</u>	<u>(8,268)</u>	<u>585,443</u>
SEGMENT RESULT	<u>(105,945)</u>	<u>62,327</u>	<u>20,835</u>	<u>1,446</u>	<u>—</u>	<u>(21,337)</u>
Unallocated corporate expenses						(3,009)
Unallocated other operating income						19,459
Loss from operations						(4,887)
Finance costs	(11,430)	(364)	—	(1,060)	—	(12,854)
Investment income						3,622
Share of results of associates	1,961	124,772	—	(6,036)	—	120,697
Profit before taxation						106,578
Taxation						(17,335)
Profit before minority interests						<u>89,243</u>

* The inter-segment transactions were carried at estimated fair market price or, where no market price was available, at cost plus a percentage profit mark-up.

	At 31 December 2001				Consolidated RMB'000
	Manufacture and sales of copper cable and related products RMB'000	Manufacture and sales of optical fibre products RMB'000	Manufacture and sales of cable joining sleeves and related products RMB'000	Other operations RMB'000	
ASSETS					
Segment assets	714,525	123,949	112,686	88,755	1,039,915
Interests in associates	20,051	213,750	—	13,419	247,220
Consolidated total assets	<u>734,576</u>	<u>337,699</u>	<u>112,686</u>	<u>102,174</u>	<u>1,287,135</u>
LIABILITIES					
Segment liabilities	<u>299,257</u>	<u>27,013</u>	<u>24,169</u>	<u>28,195</u>	<u>378,634</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

4. BUSINESS SEGMENT (CONTINUED)

	For the year ended 31 December 2001				Consolidated RMB'000
	Manufacture and sales of copper cable and related products RMB'000	Manufacture and sales of optical fibre products RMB'000	Manufacture and sales of cable joining sleeves and related products RMB'000	Other operations RMB'000	
Capital additions	18,563	5,958	425	9	24,955
Depreciation and amortisation	33,724	4,314	4,775	3,281	46,094
Impairment losses recognised in income statement	<u>37,313</u>	<u>6,545</u>	<u>—</u>	<u>—</u>	<u>43,858</u>

For the years ended 31 December 2002 and 2001, all activities of the Group were based in the PRC and all of the Group's turnover and results from operations were derived from the PRC.

5. OTHER OPERATING INCOME

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Included in other operating income are the following:		
Bank interest income	3,757	3,465
Technology transfer fee	1,149	1,083
Management fee	<u>828</u>	<u>1,242</u>

6. LOSS FROM OPERATIONS

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	1,390	1,350
Depreciation and amortisation	40,256	46,094
Exchange loss	2,464	—
Loss on disposals of property, plant and equipment	—	712
Loss on disposals of construction in progress	—	4,965
Staff costs (including retirement benefits costs and directors' remuneration (note 7))	25,911	52,376
Unrealised loss on unlisted equity securities	35	5,035
and after crediting:		
Gain on disposals of property, plant and equipment	325	—
Exchange gain	<u>—</u>	<u>2,654</u>
Less: Amount capitalised in respect of construction in progress	<u>—</u>	<u>(1,936)</u>
	<u>—</u>	<u>718</u>

7. EMOLUMENTS OF THE DIRECTORS

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Directors' fees	—	—
Other emoluments		
— Salaries and allowances	164	95
— Performance related incentive payments	5	7
— Retirement benefits costs	10	6
	<u>179</u>	<u>108</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

7. EMOLUMENTS OF THE DIRECTORS (CONTINUED)

During the years ended 31 December 2002 and 2001, no payment has been made to the non-executive directors of the Company.

The aggregate remuneration of each of the executive directors of the Company during the years ended 31 December 2002 and 2001 was within the emoluments band ranging from nil to HK\$1,000,000.

No director waived any emoluments for the years ended 31 December 2002 and 2001.

8. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUAL

During each of the two years ended 31 December 2002, the five highest paid individuals did not include any directors.

The aggregate remuneration of each of the five highest paid individual was salaries and allowances which fall within the emoluments band ranging from nil to HK\$1,000,000.

The amount paid to these individuals for the current year was RMB1,665,000 (2001: RMB1,013,000).

9. FINANCE COSTS

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	11,887	12,854
Bank borrowings not wholly repayable within five years	638	724
Total borrowing costs	12,525	13,578
Less: Amount capitalised in respect of construction in progress	—	(724)
	12,525	12,854

10. INVESTMENT INCOME

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Included in investment income are the following:		
Interest on listed PRC government bonds	—	1,655
Realised gain on listed PRC government bonds	—	1,122
	—	2,777

11. TAXATION

	THE GROUP	
	2002 RMB'000	2001 RMB'000
The taxation charge comprises:		
PRC income tax		
Provided for the year	4,146	7,455
Underprovision in prior years	307	53
Taxation attributable to the Company and subsidiaries	4,453	7,508
Share of taxation of associates		
PRC income tax	100	9,827
	4,553	17,335

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profits applicable to each individual company within the Group in the PRC.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

The Group did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

12. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net loss for the year of RMB113,705,000 (2001: net profit of RMB64,418,000) and on 400,000,000 (2001: 400,000,000) shares in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Medium-term land use rights RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
THE GROUP					
COST					
At 1 January 2002	94,640	142,202	408,106	11,378	656,326
Acquisition of a subsidiary	1,154	8,190	2,377	70	11,791
Additions	—	—	2,529	163	2,692
Transfer from construction in progress	—	573	13,136	734	14,443
Disposals	(6,212)	—	(8,385)	(372)	(14,969)
At 31 December 2002	89,582	150,965	417,763	11,973	670,283
DEPRECIATION AND AMORTISATION/ IMPAIRMENT					
At 1 January 2002	15,494	36,764	284,240	6,629	343,127
Provided for the year	2,186	4,990	32,195	885	40,256
Eliminated on disposals	(850)	—	(7,327)	(408)	(8,585)
At 31 December 2002	16,830	41,754	309,108	7,106	374,798
NET BOOK VALUES					
At 31 December 2002	72,752	109,211	108,655	4,867	295,485
At 31 December 2001	79,146	105,438	123,866	4,749	313,199

	Medium-term land use rights RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
THE COMPANY					
COST					
At 1 January 2002	88,375	87,228	231,270	4,724	411,597
Additions	—	—	228	156	384
Transfer from construction in progress	—	573	5,734	—	6,307
Transfer to a subsidiary	—	—	(9,834)	—	(9,834)
Disposals	(6,212)	—	(8,019)	(196)	(14,427)
At 31 December 2002	82,163	87,801	219,379	4,684	394,027
DEPRECIATION AND AMORTISATION/ IMPAIRMENT					
At 1 January 2002	12,766	19,700	182,371	3,200	218,037
Provided for the year	1,748	3,561	15,535	437	21,281
Transfer to a subsidiary	—	—	(318)	—	(318)
Eliminated on disposals	(850)	—	(6,824)	(189)	(7,863)
At 31 December 2002	13,664	23,261	190,764	3,448	231,137
NET BOOK VALUES					
At 31 December 2002	68,499	64,540	28,615	1,236	162,890
At 31 December 2001	75,609	67,528	48,899	1,524	193,560

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All the land and buildings of the Group and the Company are situated in the PRC.

For the year ended 31 December 2001, the directors of the Company conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, impairment losses of RMB43,858,000 had been recognised in respect of plant, machinery and equipment.

14. CONSTRUCTION IN PROGRESS

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
COST				
At beginning of the year	48,094	45,674	45,328	40,889
Additions	35,770	20,348	12,605	17,279
Transfer to property, plant and equipment	(14,443)	(12,963)	(6,307)	(12,539)
Disposals	(19,234)	(4,965)	(19,234)	(301)
At end of the year	<u>50,187</u>	<u>48,094</u>	<u>32,392</u>	<u>45,328</u>

Notes:

- a. Included in the construction in progress is expenditure on the development of staff quarters amounting to RMB3,719,000 (2001: RMB17,797,000).

The Group has introduced certain staff quarters development plans. Employees participating in the plans are required to make an initial contribution which is deposited into designated bank accounts to meet the development expenditures of the staff quarters (note 22(b)). Upon completion, the Group will transfer the ownership rights of the staff quarters to the employees and all the development expenditure incurred will be recovered from them.

At the balance sheet date, the total amount of contributions received from the employees amounted to RMB15,123,000 (2001: RMB24,977,000).

- b. Included in construction in progress of the Group and the Company at the balance sheet date is interest capitalised of RMB3,859,000 (2001: RMB3,859,000).

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 RMB'000	2001 RMB'000
Unlisted investments in the PRC, at cost less impairment losses recognised	<u>275,816</u>	<u>270,961</u>

Details of the Company's principal subsidiaries as at 31 December 2002, all of which were established and operated in the PRC, are as follows:

Name of subsidiary	Issued and fully paid-up registered share capital	Percentage of registered share capital directly held by the Company %	Principal activities
郵電部成都電纜廠雙流熱縮制品分廠 Chengdu Cable Plant of the Ministry of Posts and Telecommunications Shuangliu Heat Shrinkable Products Sub-Plant (Cooperative joint venture)	RMB22,520,000	66.7	Manufacture and sale of cable joining sleeves
東莞CDC電纜廠 Dongguan CDC Cable Factory ("Dongguan CDC") (Sino-foreign equity joint venture)	RMB75,702,000	75	Manufacture and sale of wires, cables and accessories
成都中住光纖有限公司 Chengdu SEI Optical Fiber Co., Ltd. (Limited company)	US\$10,250,000	60	Manufacture and sale of optical fibre

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the Company's principal subsidiaries as at 31 December 2002, all of which were established and operated in the PRC, are as follows: (continued)

Name of subsidiary	Issued and fully paid-up registered share capital	Percentage of registered share capital directly held by the Company %	Principal activities
成都中菱無線通信電纜有限公司 Chengdu MCIL Radio Communications Cable Co., Ltd. (Limited company)	US\$7,500,000	70	Manufacture and sale of cables, parts and components for wireless telecommunications system networks
成都高新電纜有限責任公司 Chengdu Gaoxin Cable Co., Ltd. ("Gaoxin") (Limited company)	RMB8,116,116	64.3	Manufacture and sale of cables and wires, special cables and other telecommunications products

The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted investments in the PRC, at cost less impairment losses recognised	—	—	171,438	117,306
Share of net assets	179,902	247,220	—	—
	<u>179,902</u>	<u>247,220</u>	<u>171,438</u>	<u>117,306</u>

Details of the Group's principal associates as at 31 December 2002, all of which were established and operated in the PRC, are as follows:

Name of associate	Percentage of registered share capital directly held by the Company %	Principal activities
郵電部成都電纜廠盤具分廠 Chengdu Cable Plant of the Ministry of Posts and Telecommunications Panjiu Sub-Plant	50	Manufacture and sale of coiling reels for storing and transporting cables
成都皮克電源有限公司 Chengdu Peak Power Sources Co., Ltd.	50	Manufacture and sale of electronic and electrical products
成都中康光纖有限公司 Chengdu CCS Optical Fibre Cable Co., Ltd. ("CCS")	50	Manufacture and sale of optical fibre cables
重慶夏查德多層電路板有限公司 Chongqing Shahzad Multi-layer PCB Co., Ltd.	46.7	Manufacture and sale of multiplayer printed circuit board
成都八達接插件有限公司 Chengdu Bada Connector Co., Ltd.	49	Design, processing and manufacture of plugs for electrical connectors, plugs for visual frequency signal apparatus and meter and plugs with wires for calculators
四川天信CDC電纜有限公司 Sichuan Provincial Telecommunications Cable Plant Co., Ltd.	30	Manufacture of telecommunications cables and other professional telecommunications products

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

16. INTERESTS IN ASSOCIATES (CONTINUED)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The following financial information in respect of CCS, a principal associate of the Group, is extracted from its audited financial statements, which are prepared under the PRC accounting standards, and adjusted to HKGAAP.

Operating results for the years ended 31 December 2002 and 2001:

	2002 RMB'000	2001 RMB'000
Turnover	<u>213,424</u>	<u>1,261,472</u>
Depreciation and amortisation	<u>23,161</u>	<u>22,019</u>
(Loss) profit from ordinary activities before taxation	<u>(77,614)</u>	249,543
Taxation	<u>—</u>	<u>(18,999)</u>
(Loss) profit from ordinary activities after taxation	<u>(77,614)</u>	<u>230,544</u>
(Loss) profit attributable to the Group	<u>(38,807)</u>	<u>115,272</u>

Financial positions as at 31 December 2002 and 2001:

	2002 RMB'000	2001 RMB'000
Total non-current assets	<u>217,233</u>	192,793
Total current assets	<u>390,856</u>	683,400
Total liabilities	<u>(291,311)</u>	<u>(448,693)</u>
Shareholders' funds	<u>316,778</u>	<u>427,500</u>
Shareholders' funds attributable to the Group	<u>158,389</u>	<u>213,750</u>

17. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2002 RMB'000	2001 RMB'000
Unlisted long-term equity securities, at fair value	<u>2,728</u>	<u>2,763</u>

18. LONG-TERM RECEIVABLES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
The amounts represent:				
Amounts due from minority shareholders of Dongguan CDC (note below)	<u>23,770</u>	<u>23,770</u>	<u>16,374</u>	<u>16,374</u>

Note: The amounts represent receivables due from minority shareholders of Dongguan CDC, a subsidiary of the Company, which are interest-free and unsecured.

The repayment of the amounts is guaranteed by China Putian, the ultimate holding company of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

19. INVENTORIES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Raw materials	31,835	48,713	15,138	22,595
Work in progress	27,532	25,754	10,468	14,719
Finished goods	73,012	89,437	43,199	52,359
Spare parts and consumables	1,897	5,072	1,897	2,285
	<u>134,276</u>	<u>168,976</u>	<u>70,702</u>	<u>91,958</u>

Included in the inventories of the Group and the Company at the balance sheet date which are stated at net realisable value are as follows:

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Raw materials	8,594	14,901	1,540	9,533
Work in progress	1,136	132	1,136	132
Finished goods	47,203	61,910	35,385	52,359
Spare parts and consumables	1,411	804	1,411	804
	<u>58,344</u>	<u>77,747</u>	<u>39,472</u>	<u>62,828</u>

20. TRADE RECEIVABLES

The Group and the Company grant an average credit period of 120 days to trade customers.

	THE GROUP	
	2002 RMB'000	2001 RMB'000
An aged analysis of trade receivables is as follows:		
Within 90 days	92,774	107,993
91 – 180 days	42,921	38,598
181 – 365 days	41,022	35,999
Over 365 days	26,106	19,373
	<u>202,823</u>	<u>201,963</u>

21. OTHER RECEIVABLES, DEPOSIT AND PREPAYMENTS

Included in the other receivables, deposits and prepayment is a time deposit placed with China Leasing Company Limited ("China Leasing"), details of which are as follows:

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Deposit placed with China Leasing	30,000	30,000	30,000	30,000
Less: Allowance	(30,000)	(30,000)	(30,000)	(30,000)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The board of directors consider that the recoverability of the deposit is uncertain and accordingly, an allowance for the irrecoverable amount was recognised in the financial statements for the year ended 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

22. BANK DEPOSITS, BALANCES AND CASH

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank deposits:				
Pledged deposits (note a)	13,876	14,788	—	—
Unpledged deposits				
— Designated deposits (note b)	12,702	13,657	12,702	13,657
— Others	111,220	103,856	107,082	101,787
	137,798	132,301	119,784	115,444
Bank balances and cash	85,815	120,368	36,719	42,351
	<u>223,613</u>	<u>252,669</u>	<u>156,503</u>	<u>157,795</u>

Notes:

- The amounts represent deposits pledged to banks to secure short-term bank borrowings and undrawn banking facilities granted to the Group, and are therefore classified as current assets.
- The amounts represent contributions received from employees in respect of the staff quarters development plans of the Group (note 14(a)) which have been deposited with the banks under the name of the Group.

23. TRADE PAYABLES

	THE GROUP	
	2002 RMB'000	2001 RMB'000
An aged analysis of trade payables is as follows:		
Within 90 days	28,034	38,896
91 – 180 days	2,216	2,258
181 – 365 days	1,708	534
Over 365 days	548	2,031
	<u>32,506</u>	<u>43,719</u>

24. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank borrowings				
Secured	33,100	52,000	—	—
Unsecured	151,103	163,560	132,603	155,060
	<u>184,203</u>	<u>215,560</u>	<u>132,603</u>	<u>155,060</u>
The maturity of bank borrowings is as follows:				
On demand or within one year	169,230	201,861	117,630	141,361
More than one year but not exceeding two years	1,130	961	1,130	961
More than two years but not exceeding five years	3,389	2,883	3,389	2,883
More than five years	10,454	9,855	10,454	9,855
	184,203	215,560	132,603	155,060
Less: Amount due within one year and shown under current liabilities	(169,230)	(201,861)	(117,630)	(141,361)
Amount due after one year	<u>14,973</u>	<u>13,699</u>	<u>14,973</u>	<u>13,699</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

25. SHARE CAPITAL

	2002 and 2001	
	No. of shares	Amount RMB'000
Registered, issued and fully paid-up capital of RMB1 each:		
Stated-owned legal person shares	240,000,000	240,000
Overseas listed foreign invested shares	160,000,000	160,000
	<u>400,000,000</u>	<u>400,000</u>

Pursuant to Article 19 of the Company's Articles of Association, except for the currency in which dividends are paid, all the stated-owned legal person shares and overseas listed foreign invested shares issued by the Company rank pari passu with each other in all respects.

There were no changes in share capital of the Company in both years.

26. RESERVES

	Share premium RMB'000	Capital reserve RMB'000 (note 1 below)	Statutory surplus reserve fund RMB'000 (note 2 below)	Statutory public welfare fund RMB'000 (note 3 below)	Goodwill RMB'000	Accumulated losses RMB'000	Total RMB'000
THE GROUP							
At 1 January 2001	303,272	287,391	12,387	15,487	(12,473)	(273,266)	332,798
Transfer	—	—	8,101	3,527	—	(11,628)	—
Net profit for the year	—	—	—	—	—	64,418	64,418
At 31 December 2001	303,272	287,391	20,488	19,014	(12,473)	(220,476)	397,216
Transfer	—	—	98	97	—	(195)	—
Net loss for the year	—	—	—	—	—	(113,705)	(113,705)
At 31 December 2002	<u>303,272</u>	<u>287,391</u>	<u>20,586</u>	<u>19,111</u>	<u>(12,473)</u>	<u>(334,376)</u>	<u>283,511</u>
Attributable to:							
At 31 December 2002							
— the Company and subsidiaries	303,272	287,391	19,550	19,111	(11,592)	(364,193)	253,539
— associates	—	—	1,036	—	(881)	29,817	29,972
	<u>303,272</u>	<u>287,391</u>	<u>20,586</u>	<u>19,111</u>	<u>(12,473)</u>	<u>(334,376)</u>	<u>283,511</u>
At 31 December 2001							
— the Company and subsidiaries	303,272	287,391	19,014	19,014	(11,592)	(314,988)	302,111
— associates	—	—	1,474	—	(881)	94,512	95,105
	<u>303,272</u>	<u>287,391</u>	<u>20,488</u>	<u>19,014</u>	<u>(12,473)</u>	<u>(220,476)</u>	<u>397,216</u>
THE COMPANY							
At 1 January 2001	303,272	287,391	4,647	4,647	(234,630)	365,327	365,327
Net loss for the year	—	—	—	—	(102,206)	(102,206)	(102,206)
At 31 December 2001	303,272	287,391	4,647	4,647	(336,836)	263,121	263,121
Net profit for the year	—	—	—	—	46,007	46,007	46,007
At 31 December 2002	<u>303,272</u>	<u>287,391</u>	<u>4,647</u>	<u>4,647</u>	<u>(290,829)</u>	<u>309,128</u>	<u>309,128</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

26. RESERVES (CONTINUED)

In accordance with the Company's Articles of Association, for the purpose of the distribution of profits of the Company, profits available for distribution in relation to a financial year shall be the lesser of the amount calculated according to the PRC accounting standard and the amount calculated according to the HKGAAP. In addition, the profit after taxation is required to be distributed in the following order:

- (i) to offset accumulated losses brought forward;
- (ii) to allocate 10% of the profit after taxation calculated in accordance with PRC accounting standards to the statutory surplus reserve fund;
- (iii) to allocate 10% of the profit after taxation calculated in accordance with PRC accounting standards to the statutory public welfare fund;
- (iv) to provide discretionary surplus reserve; and
- (v) to pay dividends.

The Company has no reserves available for distribution as at 31 December 2002 (2001: Nil).

Notes:

1. Capital reserve

The amount represents the reserve arising on acquisition of the entire business and undertakings pursuant to the reorganisation in 1994. Capital reserve can only be used to increase share capital.

2. Statutory surplus reserve fund

In accordance with the relevant laws and financial regulations, the Company and its subsidiaries are required to transfer 10% of the profit after taxation prepared in accordance with the PRC regulations to the statutory surplus reserve fund every year until the balance reaches 50% of the paid up share capital. Such reserve can be used to reduce any losses incurred and to increase the share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

3. Statutory public welfare fund

In accordance with the relevant laws and regulations, the Company and its subsidiaries are required to transfer between 5% to 10% of their profits after taxation prepared in accordance with the PRC regulations to the statutory public welfare fund every year. The use of this fund is restricted to capital expenditure on staff collective welfare facilities and such facilities are owned by the Company and subsidiaries. The statutory public welfare fund is not available for distribution to shareholders (except in liquidation). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve account.

27. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired a further 31.2% of the registered share capital of Gaoxin from a shareholder of Gaoxin at a consideration of RMB2,274,000. Accordingly, the Group's interest in Gaoxin was increased from 33.1% to 64.3%. This acquisition has been accounted for by the acquisition method of accounting and is analysed as follows:

	<i>RMB'000</i>
NET ASSETS ACQUIRED:	
Property, plant and equipment	11,791
Inventories	2,987
Trade and other receivables	1,582
Bank balances and cash	590
Trade and other payables	(8,191)
Bank borrowings	(1,600)
Minority interests	(2,534)
	<u>4,625</u>
SATISFIED BY:	
Interests in associates	2,351
Cash	2,274
	<u>4,625</u>
Net cash outflow arising on acquisition:	
Cash consideration	(2,274)
Bank balances and cash acquired	590
	<u>(1,684)</u>

The subsidiary acquired did not have any significant impact on the revenue, result, net cash flows from operating, investing and financing activities during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

28. RETIREMENT SCHEME ARRANGEMENTS

The Group participates in a retirement scheme operated by the Ministry of Posts and Telecommunications ("MPT"). The Group's only obligation is to make an annual contribution to MPT, which is the supervisory body and is responsible for the retirement scheme and all other relevant business. Currently, the retirement benefits fund is managed by the Sichuan Administration Bureau of Social Insurance. The total cost charged to the consolidated income statement of RMB8,500,000 (2001 : RMB7,804,000) represents contributions payable to MPT by the Group in respect of the current year.

The Group also maintains its own defined contribution scheme to which the Group and each employee contribute an amount in the range of RMB5 to RMB40 per employee per month depending on the relevant employee's period of service. The funds received are maintained separately. During the year ended 31 December 2002, the total contribution made by the Group was RMB631,000 (2001: RMB635,000). Upon retirement, employees will receive a lump sum payment based on the contributions made by the individual employee and the Group plus interest.

29. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments:

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Contracted but not provided for:				
Development of staff quarters	5,294	380	5,294	380
Acquisition of machinery and equipment	5,653	8,616	497	2,204
	<u>10,947</u>	<u>8,996</u>	<u>5,791</u>	<u>2,584</u>
Authorised but not contracted for:				
Acquisition of machinery and equipment	62,287	12,347	4,343	12,347
Capital contribution to associates	—	46,305	—	46,305
	<u>62,287</u>	<u>58,652</u>	<u>4,343</u>	<u>58,652</u>
	<u>73,234</u>	<u>67,648</u>	<u>10,134</u>	<u>61,236</u>

30. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities not provided for in the financial statements in respect of:

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	—	—	66,000	6,000
Associates (note a below)	130,000	130,000	130,000	130,000
Other company (note b below)	10,000	20,000	10,000	20,000
	<u>140,000</u>	<u>150,000</u>	<u>206,000</u>	<u>156,000</u>

Notes:

- At the balance sheet date, the facilities were not utilised by these associates.
- This company also provides cross-guarantee for banking facilities amounting to RMB10,000,000 (2001: RMB20,000,000) granted to the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2002

31. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged the following assets to banks as security for general banking facilities granted to the Group amounting to RMB33,100,000 (2001: RMB52,000,000):

	2002 RMB'000	2001 RMB'000
Bank deposits	13,876	14,788
Land use rights	2,135	2,573
Buildings	13,475	11,540
	<u>29,486</u>	<u>28,901</u>

32. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group and the Company entered into the following transactions and balances with related parties:

	THE GROUP						THE COMPANY					
	Trade sales		Trade purchases		Amounts due from related companies		Amounts due to related companies		Amounts due from related companies		Amounts due to related companies	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
China Putian and its subsidiaries	<u>3,387</u>	<u>6,017</u>	<u>—</u>	<u>—</u>	<u>5,112</u>	<u>6,533</u>	<u>121</u>	<u>—</u>	<u>5,112</u>	<u>6,533</u>	<u>38</u>	<u>—</u>
Associates	<u>3,370</u>	<u>8,863</u>	<u>8,234</u>	<u>8,474</u>	<u>2,133</u>	<u>5,449</u>	<u>7,696</u>	<u>4,226</u>	<u>1,547</u>	<u>4,598</u>	<u>7,585</u>	<u>2,936</u>

Other than the above, the Group also received from associates technology transfer fee and management fee amounting to RMB1,149,000 (2001: RMB1,083,000) and RMB828,000 (2001: RMB1,242,000), respectively.

In the opinion of the directors, the above transactions were carried out at estimated fair market price or, where no market price was available, at cost plus a percentage profit mark-up.

At the balance sheet date, China Putian and its related companies are also providing guarantees for banking facilities amounting to RMB150,000,000 (2001: RMB150,000,000) granted to the Group at no charge.

Details of the Group's guarantees granted to associates are set out in note 30(a) above.

Balances with subsidiaries, associates and related companies are unsecured, interest-free and have no fixed terms of repayment. Details of the balances with the subsidiaries, associates, related companies and minority shareholders of Group are set out in the balance sheets of the Group and the Company.