

The Board of Directors present their report and the audited financial statements of the Group for the Year.

ACCOUNTS

1. The results of the Group are set out in the consolidated income statement on page 24 of this Annual Report.
2. The state of affairs of the Group and the Company as at 31 December 2003 are set out in the balance sheets on page 25 to 26 of this Annual Report.
3. The changes in equity of the Group is set out in the consolidated statement of changes in equity on page 27 of this Annual Report.
4. The cash flows of the Group are set out in the consolidated cash flow statement on page 28 to 29 of this Annual Report.

FINANCIAL SUMMARY

The following is a summary of the results and of the assets and liabilities of the Group for the past five financial years ended 31 December 2003 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i> (As restated)
Turnover	465,345	376,341	585,443	524,511	336,851
(Loss) Profit before taxation	(75,205)	(114,322)	106,578	(58,568)	(87,080)
Taxation	(6,312)	(4,553)	(17,335)	(10,837)	(14,534)
(Loss) Profit before minority interests	(81,517)	(118,875)	89,243	(69,405)	(101,614)
Minority interests	(235)	5,170	(24,825)	(8,744)	548
(Loss) Profit attributable to shareholders	(81,752)	(113,705)	64,418	(78,149)	(101,066)
Total assets	1,113,523	1,121,938	1,287,135	1,163,643	1,225,180
Total liabilities and minority interests	(500,936)	(438,427)	(489,919)	(430,845)	(411,556)
Net assets	612,587	683,511	797,216	732,798	813,624

PRINCIPAL ACTIVITIES

The principal activities of the Group are 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 analysis of the Group's turnover and contribution to results from operations for the Year are analysed by its principal activities and geographical market as set out in note 4 to the financial statements on pages 34 to 37 of this Annual Report.

Report of the Directors (Continued)

MAJOR SUPPLIERS AND CUSTOMERS

The analysis of the Group's single largest supplier and the top five largest suppliers, and the Group's single largest customer and the top five largest customers for the Year are as follows:

	Percentage (%)	
	2003	2002
Purchases		
Single largest supplier	25	20
Five largest suppliers combined	<u>60</u>	<u>39</u>
Sales		
Single largest customer	15	9
Five largest customers combined	<u>41</u>	<u>29</u>

As far as the directors of the Company (the "Directors") are aware of, none of the Directors or supervisors of the Company (the "Supervisors") or their associates or any shareholders holding of 5% or more of the Company's share capital owned any direct or indirect interests in the share capital of the five largest suppliers or customers of the Group for the Year.

FINAL DIVIDEND

The Board of Directors does not recommend payment of final dividend for the Year.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2003 are set out in note 14 to the financial statements on pages 41 to 42 of this Annual Report.

RESERVES

Details of the changes in the reserves during the Year are set out in note 25 to the financial statements on pages 49 to 50 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT, AND CONSTRUCTION IN PROGRESS

Details of the changes in the property, plant, equipment and construction in progress during the Year are set out in notes 12 and 13 respectively to the financial statements on pages 40 and 41 of this Annual Report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 24 to the financial statements on page 48 of this Annual Report.

The Company did not make any bonus issue, share placings or issuing of shares during the Year, and there was no change in the share capital of the Company during the Year and from 31 December 2003 up to the date of this Annual Report.

USE OF PROCEEDS

The Company raised approximately HK\$424,000,000 through the issue of 160,000,000 H shares in December 1994. From the date of listing to 31 December 2003, as stated in the section headed "Use of Proceeds and Working Capital" in the Company's prospectus and "Plan for Change in the Use of Proceeds" passed at the annual general meeting of the Company (the "AGM") in the 1998 and 2001, respectively, the Company had used an aggregate amount of HK\$331,000,000, of which HK\$84,360,000 was used in investment projects, and HK\$246,640,000 was used for debt repayment and working capital.

The balance of the unutilised proceeds amounted to HK\$93,000,000, which is deposited with banks in the PRC in HK dollars, US dollars and RMB.

OVERDUE TIME DEPOSITS

The Group has no other deposit or trust deposit with non-bank financial institutions nor time deposits that cannot be recovered on maturity as at 31 December 2003.

Although the principal of a deposit of RMB30,000,000 in China Leasing Company Limited ("China Leasing") has been provided for as bad debt which was approved at the 2000 AGM, we have not given up the effort to recover the amount. During the Year, China Leasing has undergone material restructuring. The Company will further negotiate with China Leasing for the repayment of the amount. However, such amount has not been recovered during the Year.

UNIFIED INCOME TAX AND CANCELLATION OF LOCAL GOVERNMENT'S TAX REBATE

The Company is a high-tech enterprise registered in the Hi-Tech Development Zone in Chengdu, Sichuan Province, the PRC. According to the approval of the State Tax Bureau, the Company enjoys and pays income tax at a preferential rate of 15% for hi-tech enterprise. Accordingly, the Company is not entitled to any income tax rebate. The Company is still enjoying such concession as at the date hereof.

The Company has not received any notice from the relevant tax authority in respect of change in the Company's 15% income tax rate as at the date hereof.

NUMBER OF SHAREHOLDERS

Details of the number of Shareholders as recorded in the register of members of the Company as at 31 December 2003 are as follows:

Classification	Number of shareholders
State-owned legal person shares	1
Overseas listed foreign invested shares ("H Shares")	121
Total number of Shareholders	122

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the largest Shareholders of the Company was China PUTIAN, holding 240,000,000 issued legal person shares, representing 60% of the total issued share capital of the Company. At the beginning of the Year, HKSCC Nominees Limited ("HKSCC", holds shares of the Company on behalf of various customers) held 157,766,998 H shares, representing 39.44% of the total issued share capital. At the end of the Year, HKSCC held 157,610,998 H shares, representing 39.40% of the total issued share capital of the Company.

As at 31 December 2003, there is no interests or short positions in the shares or underlying shares of the Company recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO"). At any time during the Period, the Board of Directors was not aware of any person holding any interests or short positions in the shares or underlying shares of the Company which are required to be disclosed pursuant to the SFO.

As shown in the register of substantial Shareholders maintained under section 336 of the SFO, the Company has been notified by Shareholders holding 5% or more of the Company's issued H shares. These are interests other than those held by directors, supervisors and chief executive officers of the Company which have already been disclosed.

Report of the Directors (Continued)

As indicated by HKSCC, as at 31 December 2003, the following Central Clearing and Settlement System ("CCASS") participants held 5% or more of the Company's total issued H shares:

CCASS participant	Number of H shares held at the end of the year	Percentage of H shares
The Hongkong & Shanghai Banking Corporation Ltd.	25,458,000	15.91
Bank of China (Hong Kong) Limited	15,254,000	9.53

Save as disclosed above, as at 31 December 2003, the Company is not aware of any shareholding interests which are required to be disclosed pursuant to the SFO. The Board is not aware of any person holding, directly or indirectly, 5% or more of the interests in the Company's issued H shares.

DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

The Directors, Supervisors, company secretaries and senior management of the Company who held office during the Year and up to the date of this report are as follows:

1. DIRECTORS

Mr. Xu Mingwen, aged 49, Chairman of the Company, received postgraduate education, is a senior engineer and is currently the Director, vice president and the chief legal adviser of China Putian vice-chairman of China Putian Information Company Limited ("China Putian"). Mr. Xu joined the Company in September 2000. Mr. Xu was previously the chief engineer of Guangzhou P & T Communications Equipment Factory and took up several positions including deputy chief engineer and deputy general manager of China National Posts and Telecommunications Industry Corporation and executive Director and Chairman of the third Board of Directors of the Company. He previously studied a postgraduate course at Central Europe International Business College. He has extensive experience in corporate governance, technology development and project management. Mr. Xu was elected executive Director of the fourth Board of the Directors again on 25 September 2003.

Mr. Kuo Aiching, aged 48, received tertiary education, is a senior engineer and is currently the deputy managing director and the general manager of the Company. Mr. Kuo joined the Company in April 1999. He was previously the assistant to factory manager and standing deputy factory manager, factory manager of Houma Cable Plant of the Posts and Telecommunications Ministry and Executive Director of the second and third Board of Directors, standing deputy managing director and general manager of the Company. He has extensive experience in design, production and corporate governance of telecommunication cables. Mr. Kuo was elected executive Director of the fourth Board of Directors on 25 September 2003.

Mr. Wang Zhongfu, aged 38, received postgraduate education, is a senior engineer. He is currently the Director of the Company, the assistant to the president of China PUTIAN and director and general manager of Shanghai Posts & Telecommunications Equipment Co., Ltd. Mr. Wang joined the Company in October 1997 and was previously deputy general manager of the investment management division, general manager of the international co-operation division and acting general manager of the international trading division of China PUTIAN and executive Director of the second and third Board of Directors of the Company. He has extensive experience in the management of listed companies and joint venture enterprises and international trading. Mr. Wang was elected executive Director of the fourth Board of the Directors again on 25 September 2003.

Mr. Bao Yuhong, aged 32, received university education, is an economist. He is currently the director and the deputy general manager of the financial division of China PUTIAN. Mr. Bao joined the Company in September 2000. He worked previously in the operating finance division of China PUTIAN as the deputy general manager and was executive Director of the third Board of Directors of the Company and has certain experience in corporate governance and operation of a holding company. Mr. Bao was elected executive as the Director of the fourth Board of Directors again on 25 September 2003.

Mr. Zhang Zhongqi, aged 46, received tertiary education, is a senior accountant. He is currently the director and deputy general manager of the finance division of China PUTIAN. Mr. Zhang joined the Company in September 2000 and worked previously in the operating finance division of China PUTIAN as deputy general manager. He had been seconded to Beijing Ericsson Mobile Communication Co., Ltd. as manager of the finance division and was executive Director of the third Board of Directors of the Company. He has extensive experience in finance management of state-owned enterprises and financial control and operations in joint venture enterprises. Mr. Zhang was elected executive Director of the fourth Board of Directors again on 25 September 2003.

Mr. Fan Xianda, aged 51, received tertiary education, is an engineer. He is currently the Director of the Company and deputy general manager of the Company. Mr. Fan joined Chengdu Cables Factory (CCF) of the Posts and Telecommunications Ministry in December 1971. He was previously the deputy factory manager, factory manager and assistant to general manager of the Urban Telephone Cables Factory. He has extensive experience in corporate production operation and management. Mr. Fan was elected executive Director of the fourth Board of Directors on 25 September 2003.

Ms. Chen Po Sum, aged 72, is currently an independent non-executive Director of the Company. She was an independent non-executive Director of the first and second Board of Directors since 30th September 1994. She was previously a member (financial service sector) of the first and second Legislative Council Election Committee of the Hong Kong Special Administrative Region, non-executive Director of Chun Wo Holdings Limited, consultant of Sichuan Province Disabled Persons Federation, Permanent Honorary President of the Hong Kong Wan Chai District Association, Supervisory Committee of the Hong Kong Progressive Alliance, member of The Society for Yungang Economy Cooperation, member of Mou Tai Club Limited, honorary chairman of Inno-Tech Holdings Limited and director of the Chinese General Chamber of Commerce of Hong Kong. Ms. Chen was elected independent non-executive Director of the fourth Board of Directors again on 25 September 2003.

Mr. Sun Jiayuan, aged 60, received postgraduate education. He is currently an independent non-executive Director of the Company and the vice chairman of the Chinese People's Political Consultative Conference in Chengdu city as well as the vice chairman and secretary of the Financial Leading Group in Chengdu city. Mr. Sun also held important offices such as officer of the Planning Committee and deputy mayor of Chengdu city. Mr. Sun took up the posts of non-executive Director of the third Board of Directors and member of the audit committee of the Company on 22 September 2000. Ms. Sun was elected Independent non-executive Director of the fourth Board of Directors again on 25 September 2003.

Mr. Wu Zhengde, aged 59, is currently the independent non-executive Director of the Company, a member of the Standing Committee of the Chinese's People's Political Consultative Conference, deputy chairman of the Central Committee of 民盟, Deputy Chairman of the Sichuan Provincial People's Political Consultative Conference, Vice-chancellor of the University of Electronic Science and Technology of China, tutor of doctoral students in the discipline of "electromagnetic field and microwave technology". He is a national-grade expert with remarkable contribution and was appointed a fellow of the US New York Academy of Science in 1993. Mr. Wu was elected independent non-executive Director of the fourth Board of Directors on 25 September 2003.

Each of the executive Directors appointed on 25 September 2003 has entered into a service contract with the Company. The service period is three years commencing from 1 October 2003 until 30 September 2006.

The term of office of the above executive Directors and independent non-executive Directors is renewable upon re-election or re-appointment.

2. SUPERVISORS

Mr. Zhang Xiaocheng, aged 46, received postgraduate education and is a senior economist. He is currently the chairman of the supervisory committee of the Company and the assistant to the Chairman of Putian. Mr. Zhang joined the Company in October 1997 and was a director of the second Board of Directors and a supervisor and Chairman for the third Supervisory Committee. He was the general manager of corporate management department of China PUTIAN, deputy supervisor of the office and the general manager of capital operation department. He has extensive experience in corporate governance. Mr. Zhang was elected Supervisor again for the fourth Supervisory Committee on 25 September 2003.

Mr. Xiong Ting, aged 41, received university education and is currently the Supervisor, deputy secretary of the party committee and chairman of the labour union of the Company. Mr. Xiong joined Chengdu Cables in 1982 and was secretary of the League Committee, factory manager of the branch factory and director of company office of Chengdu Cables. He has extensive experience in corporate management. Mr. Xiong was a staff supervisor of the fourth Supervisory Committee elected by its staff in a democratic way.

Each of the Supervisors appointed on 25 September 2003 has entered into a service contract with the Company. The service period is three years commencing from 1 October 2003 until 30 September 2006 and is renewable upon re-election or re-appointment.



Report of the Directors (Continued)

3. JOINT COMPANY SECRETARIES

Mr. Stephen Mok, aged 38, is a joint secretary of the Company and a partner of Simmons & Simmons in Hong Kong. He was appointed as secretary to the second and third Board of Directors.

Mr. Qin Yaowu, aged 37, is a joint secretary of the Company. He joined CCF in 1988. He was the Director and deputy general manager of the second and third Board of Directors of the Company.

4. SENIOR MANAGEMENT

Mr. Dai Kang, aged 37, senior engineer and deputy general manager of the Company. He joined the Company in 1987.

Mr. Wang Dehong, aged 53, senior economist and deputy general manager of the Company. He joined the Company in 1977.

Mr. An Minmin, aged 57, senior accountant, financial officer and chief accountant of the Company. He joined the Company in 1968.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company elected three independent non-executive Directors at the extraordinary general meeting held on 25 September 2003, representing one third of the total members of the Board of Directors, in accordance with the requirements of the "Guiding Opinion in respect of the establishment of an independent director system in listed companies" issued by the China Securities Regulatory Commission, in line with Section 3.10 of the Rules governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). During the Year, all independent non-executive Directors of the Company fulfilled their duties and played an excellent role in decision making, development and governance of the Company. They attended meetings of the Board of Directors and general meetings of the Company in accordance with requirements and participated in considering all resolutions at the meetings. Meanwhile, they also expressed their own independent opinions on finance and connected transactions of the Company. They were free from influence of holding shareholders and other units or individuals and maintained the legal interests of shareholders. They strengthened the internal checks and balances mechanism in the Board of Directors, and play their roles in the Company's decision, development and regulation of operation.

The allowance for each independent non-executive Director amounted to RMB30,000 per annum.

NUMBER OF STAFF

As at 31 December 2003, the Group had approximately 1,850 staff members.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

There were no contracts of significance in relation to the Company's business (to which the Company or any of its subsidiaries was a party), and in which any Director or Supervisor had material interests, whether directly or indirectly, subsisting at the end of the Year and at any time during the Year.

INTERESTS OF DIRECTORS AND SUPERVISORS IN SECURITIES

As at 31 December 2003, none of the Directors and Supervisors or their respective associates had any interests in any securities of the Company or any of its associated corporations which were required to notify the Company and the Stock Exchange pursuant to section 341 of the SFO taken to have under the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

PURCHASE AND SALE OF SECURITIES BY DIRECTORS AND SUPERVISORS

At no time during the Year was the Company or any of its subsidiaries a party to any arrangement which enables the Directors and Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other legal entities.

EMOLUMENTS OF DIRECTORS

Details of emoluments of Directors are set out in note 7 to the financial statements on page 38 of this Annual Report.

FIVE HIGHEST PAID PERSONNEL

The five individuals whose remuneration were the highest in the Group during the Year do not include any Directors.

SALE OF STAFF QUARTERS

1. Deferred expenses on staff quarters prior to 1998 have been dealt with in the financial report for the year 2000 of the Group.
2. The Group had no programme for raising funds from its employees to construct staff quarters during the Year.

BASIC MEDICAL INSURANCE SCHEME FOR EMPLOYEES

The Company has participated the basic medical insurance scheme for employees in Chengdu since October 2002, and has made a total payment amounted to RMB738,835 (from November 2002 to December 2002: RMB179,603). The Board of Directors considered that the implementation of basic medical insurance scheme for employees has no material impact on the financial status of the Company.

PURCHASE, SALE AND REPURCHASE OF LISTED SECURITIES

During the Year, none of the Company's listed securities was purchased, sold, repurchased or cancelled by the Company or any of its subsidiaries.

BANK BORROWINGS

Details of bank borrowings of the Group and the Company are set out in note 23 to the financial statements on page 48 of this Annual Report.



Report of the Directors (Continued)

PRE-EMPTIVE RIGHTS

Under the articles of association of the Company (the "Articles"), there are no pre-emptive rights which require the Company to offer new shares to the existing Shareholders in proportion to their shareholdings.

CONNECTED TRANSACTIONS

During the Year, the Group entered into the following transactions with related parties:

- (a) Guarantee granted by China PUTIAN and its related companies

A certain sum of the Group's borrowings are guaranteed by China PUTIAN and its related companies.

- (b) Transactions with China PUTIAN and other entities controlled and/ or monitored by China PUTIAN

The products which the Group sold to China PUTIAN and its related companies amounted to RMB 3,477,000 for the Year (2002: RMB3,387,000).

- (c) Guarantee granted by the Company to its non-wholly owned subsidiaries

The Company provided guarantees to SEI and Chengdu MCIL Radio Communication Cable Co., Ltd. of RMB30,000,000 and RMB5,500,000, respectively, in 2003 as approved at the 2002 AGM.

All the Directors, including the independent non-executive Directors, acknowledged that transactions mentioned in (b) and (c) above have been entered into by the Group in the ordinary and usual course of business on commercial terms and conditions no less favourable than those available to third parties.

RETIREMENT SCHEME ARRANGEMENTS

Information on the Company's retirement benefits scheme is set out in notes 6 and 27 to the financial statements on pages 37 and 51 of this Annual Report respectively.

SIGNIFICANT EVENTS

1. RE-APPOINTMENT OF THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

The term for the third Board of Directors and Supervisory Committee expired on 30 September 2003. The Company convened a provisional general meeting on 25 September 2003 to elect Mr. Xu Mingwen, Mr. Kuo Aiching, Mr. Wang Zhongfu, Mr. Bao Yuhong, Mr. Zhang Zhongqi and Mr. Fan Xianda as executive directors of the fourth Board of Directors; and elect Mr. Sun Jiayuan, Ms. Chen Po Sum and Mr. Wu Zhengde as non-executive Directors of the fourth Board of Directors.

Mr. Zhang Xiaocheng was elected Supervisors of the fourth Supervisory Committee. Another member of the Supervisory Committee was elected by staff of the Company in a democratic way on 6 August 2003. The post has been taken up by Mr. Xiong Ting, employee representative.

The term of office for the fourth Board of Directors and the Supervisory Committee of the Company is three year with effect from 1 October 2003.

On the same day, the Company convened the first meeting of the fourth Board of Directors to elect Mr. Xu Mingwen as Chairman and Mr. Kuo Aiching as deputy Chairman of the Company. The Board of Directors appointed Mr. Kuo Aiching as general manager of the Company. Upon nomination by the general manager, the Board of Directors appointed Mr. Fan Xianda, Mr. Dai Kang and Mr. Wang Dehong as deputy general managers; Mr. Kuo Aiching and Mr. Qin Yaowu as authorized representatives of the Company; Mr. Chen Po Sum as chairman of the audit committee under the Board and Mr. Sun Jiayuan and Mr. Wu Zhengde as members of the audit committee under the Board of Directors ; and Mr. Qin Yaowu and Mr. Stephen Mok as secretaries to the Board.

At the first meeting of the fourth Supervisory Committee convened the same day, Mr. Zhang Xiaocheng was elected as chairman of the Supervisory Committee.

On 12 October 2003, at the second meeting of the fourth Board of Directors, the resolution put forward by Mr. Kuo Aiching to the Board of Directors that Mr. An Minmin was appointed as financial officer of the Company was approved.

2. RELOCATION OF THE COMPANY

In accordance with the urban development planning of the Chengdu Municipal Government, the area where the production and office areas of the headquarters of the Group is located has been included in the unified planning of the hi-tech zone of Chengdu. On 30 December 2003, the Office of the Leading Group for Restructuring of the Industrial Zone in the eastern suburbs of Chengdu (the "Leading Group") issued a document to confirm that the Company was included in Chengdu's eighth batch of enterprises that would undergo reform through relocation. The relocation to another location of hi-tech zone of Chengdu will not only enable the Company to continue to enjoy preferential policies of hi-tech zone, but will also entitle the Company to the relocation preferential policy.

The Company will make positive efforts to accomplish all tasks in respect of relocation in accordance with the overall requirements prescribed by the Leading Group and moved to the new development zone pursuant to government instructions. By undergoing reform through relocation, a sound condition for the Company's future business development is created.

Since the relocation of the Company will take an extended period of time, the Company will take measures to minimize the relocation's interference on the manufacturing and operating activities.

3. ANTI-DUMPING INVESTIGATION OF IMPORTED OPTICAL FIBRES

The Ministry of Commerce of the PRC (the "Ministry of Commerce") published an announcement (No. 24 of 2003) on 1 July 2003 stating a file had been opened for carrying out an anti-dumping investigation on imported non-chromatic dispersion displacement optical fibres originating from the US, Japan and South Korea (the "Anti-dumping Investigation"). If the Ministry of Commerce were to find the dumping accusation in its preliminary ruling in the affirmative, it will take provisional anti-dumping measures against the imported products under investigation from the date of the announcement of the preliminary ruling. From the date of the announcement of the preliminary ruling, the importers, when importing products under investigation originating from the US, Japan and South Korea, must provide a cash security deposit accordingly to the PRC customs authority on the basis of the extent of the antidumping determined in the preliminary ruling.

Following the preliminary ruling, the investigating authorities will conduct further investigation to reach a final ruling. Once an affirmative final ruling is made, the importer must pay an anti-dumping tax accordingly to the PRC customs authority for a period of five years when importing the subject products originating from the aforesaid countries. The cash security deposit already paid by the importer to the PRC customs authority according to the preliminary ruling should be converted to anti-dumping tax, calculated on the basis of the scope of products on which the anti-dumping tax is levied, and on the tax rate found in the final ruling.

The anti-dumping investigation will have a positive impact on SEI, the Company's associated company, while it will have no impact on CCS before the release of the outcome of preliminary ruling. If the dumping accusation is ruled to be true, the negative impact of the anti-dumping investigation on CCS still depends on the ruling outcome.

The Company will make disclosure in respect of the impact of the progress of the anti-dumping investigation on SEI and CCS.

Report of the Directors (Continued)

4. REQUISITION OF LAND

During the Year, a piece of land with an area of 0.7153 mu where the headquarters of the Group is located was requisitioned by the Management Committee of Chengdu High-Tech Enterprise Development District to satisfy the needs for construction and development in Chengdu for RMB500,000 as compensation. The Company already received RMB500,000 as compensation on 17 March 2003.

5. SICHUAN PROVINCIAL TELECOMMUNICATIONS CABLE PLANT CO., LTD.

STCP was jointly established by the Company and the Sichuan Provincial Postal and Telecommunications Company ("STC") of China Telecom Group in 1999. Its principal product was plastic telephone cable. Its total registered capital was RMB56,000,000. In March of 2001, as China Telecom Group implemented the policy for the separation of principal and sideline businesses, STC was renamed as Sichuan Telecommunications Industrial Holdings Co. Ltd. ("STIH"). STIH owned 70.04% of the shareholding of STCP and the Company owned 29.96% of the shareholding. In January 2003, STIH proposed to terminate the operation of STCP in order to comply with the listing requirements of China Telecom Group. The Company has taken into account the losses of STCP continuously over the past few years, and considered that it was difficult to continue with its operation. The Company also agreed to STIH's request. Therefore, both parties agreed to liquidate STCP.

STIH is not a connected person (as defined in the Listing Rules) of the Company.

It was agreed at the 15th meeting of the third Board of Directors that the Company would acquire STCP's remaining assets upon completion of STCP's liquidation. Negotiations with STIH and appraisal of STCP's assets by the Company have been completed. The acquisition is underway and is expected to be completed on 30 June 2004.

An announcement will be made accordingly subject to the size and progress of the acquisition.

6. CHONGQING SHAHZAD MULTI-LAYER PCB CO., LTD. ("CSM")

CSM is a joint venture company established in August 1995 with the Chongqing Communication Equipment Plant ("CCE") under the former Ministry of Post and Telecommunication, Shahzad Electronics Limited (Germany) ("SES") and the Company as promoters. CSM is principally engaged in production of printed circuit board products. Its total investment and registered capital is US\$4,900,000 and US\$3,800,000 respectively, with a term of 20 years for the joint venture agreement. CSM was held as to 40% by CCE, 35% by the Company and 25% by SES. CSM commenced operation in January 1997.

In May 2001, according to a proposal of SES, the said three parties entered into an equity transfer agreement in Chongqing, pursuant to which CCE and the Company jointly acquired 25% of shares in CSM held by SES. Accordingly, shareholder and shareholding structure of CSM was changed to 53.3% by CCE and 46.7% by the Company. Meanwhile, the board of directors of CSM approved a capital increase of RMB9,000,000 in CSM to be jointly invested by the two shareholders in accordance with its 3-year development planning, of which the Company shall contribute RMB4,203,000 pro rata to the capital increase. In June 2001, a proposal for the additional investment in CSM was considered and approved at the 7th meeting of the third Board.

Under the provisions of the Ministry of Finance of the PRC, CSM began to implement Enterprise Accounting Regulation in 2002 instead of the previous Accounting Regulation of PRC for Enterprises with Foreign Investment. In accordance with requirements of Enterprise Accounting System and its board resolution, CSM made accounting adjustments totalling RMB30,707,788, including a retrospective depreciation of unused machine and equipment and a provision for fixed asset impairment totalling RMB17,411,356, a provision for inventory diminution of RMB267,470 for products unable to sell, an amortisation of RMB4,124,252 of preliminary expenses, and an adjustment to significant accounting error of RMB8,904,710. As a result, total assets of CSM was reduced to RMB30,803,117 from the unaudited RMB61,510,905 prior to the adjustments, equity interest was reduced to RMB4,436,141 from RMB35,565,604, merely representing 14% of its registered capital.

After discussions and negotiations between the Company and the management and shareholders of CSM during the Year, the Company is of the opinion that the industry in which CSM is operating will maintain a good growth in the future. However, due to its various internal limitations such as technology, capital and management, CSM showed no indication of improving its operating results. The Company was only insignificantly involved in operation and management of CSM and was not informed of the actual situations of its industry. As such, in order to protect the interests and reduce loss of the Company to the best extent, the Company intended to transfer 46.7% of its interests in CSM to natural persons Jiang Yi (28.02%) and Xu Lihong (18.68%), at a consideration of RMB5,000,000 under the asset status of CSM.

Neither Jiang Yi nor Xu Lihong is a connected person (as defined in the Listing Rules) of the Company.

MATERIAL LITIGATION

1. The Company received a writ from the Chengdu Intermediate People's Court (the "Chengdu Court") on 23 March 2003 stating that the Chengdu office of Chengdu Huarong Assets Management Company ("Huarong Assets") claimed that the Company should assume joint liability for providing a guarantee for a bank loan in the amount of RMB1,550,000 to Sichuan Xingda Material Energy Industrial and Trading Corporation in 1994 (the "Guarantee"). Following the ruling (No. 175 of (2003) Cheng Min Chu Zi) of Chengdu Court on 18 May 2003, it was held that the Company is no longer jointly liable because of the lapse of limitation period of the Guarantee.
2. The Company filed a lawsuit against 成都電纜材料廠 (the "Material Plant"), an associated company co-invested and formed by the Company and the Chengdu Petrochemical Plant (成都石油化工廠) (the "Petrochemical Plant"), and the Petrochemical Plant at the Chengdu Intermediate Court in relation to the disputes over a loan guaranteed agreement in an amount of RMB7,186,348. The requests of the litigation are: (1) Material Plant to pay the Company an amount of RMB7,186,348 for the joint responsibility undertaken by the Company for a bank loan of Material Plant; (2) Petrochemical Plant to supplement a registered capital of RMB7,000,000 to enable Material Plant to repay external debts; (3) to rule the two defendants to bear the litigation fee.

On 27 and 28 November 1996, Material Plant borrowed a total amount of RMB5,000,000 from the Chengdu Second branch of China Construction Bank (the "Second Branch of Construction Bank") and was guaranteed by the Company. On maturity of the loan, owing to the Material Plant was not able to repay the amount which led to the Second Branch of Construction Bank filed a lawsuit against it. To execute the ruling, the Company had paid a total amount of RMB7,186,348. As the registered capital contributed by both investment parties (the Company and the Petrochemical Plant) was not sufficient, the Court ruled that the two investment parties supplement registered capital (the case has been disclosed in the 1999 annual report), and the Company supplemented registered capital of RMB3,000,000 while the Petrochemical Plan has not yet supplemented the required registered capital of RMB7,000,000.

The ruling (No. 1060 of (2003) Cheng Min Chu Zi) from the Chengdu Intermediate Court on 29 February 2004 was in favor of the Company.

3. The Company sold television cables products to 川東機電公司(「川東公司」) in the Jinjiang District, Chengdu from 1997 to 2002. As of February 2002, 川東公司 still owed an amount of RMB2,747,798 to the Company. 川東公司, being pressed by the Company repeatedly, had promised to repay RMB250,000 before 25 December 2002. However, 川東公司 still failed to repay the debts. To safeguard its proper interests not to be harmed by others, the Company took legal proceedings against 川東公司 at the Chengdu Jinjiang District People's Court ("Jinjiang Court") stating that 川東公司 defaulted the repayment of debts amounting to RMB2,747,798 to the Company. The Jinjiang Court had accepted the case for hearing on 9 February 2004.

At present, the case has yet to be ruled by the Court.

4. The Company received a writ (No. 129 of (2004) Cheng Min Chu Zi) from the Chengdu Court on 8 January 2004 stating that the Huarong Asset had disputes over loan contracts with the Chengdu Cables Factory of the Ministry of Posts and Telecommunications (the predecessor of the Company) and the Petrochemical Plant. Huarong Asset requested the court to bring in a verdict ordering the two defendants to pay damages of RMB3,351,000 (including principal and interest accrued) to the plaintiff.

On 20 May 2000, Huarong Asset entered into an agreement on the assignment of creditor right (the "Agreement") with the Sichuan Branch of the Industrial and Commercial Bank of China (ICBC), Chengdu Shengli Chemical Factory (the "Chemical Factory") and the Material Plant. The Agreement stipulated that Huarong Asset acquired ICBC's creditor right over Chemical Factory and that Materials Factory should assume joint liability for providing a guarantee in respect of the creditor right. After the Agreement came into effect, the debtor Chemical Factory failed to repay the arrears. Meanwhile, the operating licence of the guarantor Materials Plant was revoked by authorities for the administration of industry and commerce on 16 November 2001. Materials Plant has not been liquidated yet.

At present, the case has yet to be ruled by the Court.

To the knowledge of the Board of Directors, save as disclosed in this annual report, none of other members of the Company or the Group were involved in any material litigation or arbitration during the year.

Report of the Directors *(Continued)*

AUDIT COMMITTEE

The Audit Committee of the Board of Directors of the Company comprises three independent non-executive Directors. Ms. Chen Po Sum acts as the chairman of the committee.

CODE OF BEST PRACTICE

The Directors have complied with the Code of Best Practice as set out in appendix 14 to the Listing Rules during the Year.

JOINT INTERNATIONAL AUDITORS

The financial statements of the Group prepared in accordance with generally accepted accounting principles in Hong Kong have been audited by Deloitte Touche Tohmatsu and Ho and Ho & Company, the joint international auditors of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tomatsu and Ho and Ho & Company as joint international auditors of the Company.



By Order of the Board of Directors
Xu Mingwen
Chairman

15 April 2004