

Notes to the Financial Statements

For the year ended 31 December 2003

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 14.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and interpretations approved by the HKSA:

INCOME TAXES

In the current year, the Group has adopted SSAP 12 (Revised) Income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of this standard had had no 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.

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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit schemes are charged as expenses as they fall due.

4. BUSINESS SEGMENT

For management purposes, the Group is currently organised into three main operating segments, manufacture and sale 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 2003 and 2002 is presented below:

	For the year ended 31 December 2003					
	Manufacture and sale of copper cable and related products RMB'000	Manufacture and sale of optical fibre products RMB'000	Manufacture and sale of cable joining sleeves and related products RMB'000	Other operations RMB'000	Elimination* RMB'000	Consolidated RMB'000
SEGMENT TURNOVER						
External turnover	319,095	55,562	90,688	—	—	465,345
Inter-segment turnover	58,703	—	252	—	(58,955)	—
Total turnover	<u>377,798</u>	<u>55,562</u>	<u>90,940</u>	<u>—</u>	<u>(58,955)</u>	<u>465,345</u>
SEGMENT RESULT	<u>(56,424)</u>	<u>(5,995)</u>	<u>28,966</u>	<u>—</u>	<u>—</u>	<u>(33,453)</u>
Allowance for amounts due from a former minority shareholder						(23,770)
Unallocated other operating income						<u>10,536</u>
Loss from operations						(46,687)
Finance costs	(10,254)	(568)	—	—		(10,822)
Share of results of associates	(1,819)	(15,820)	—	(57)		<u>(17,696)</u>
Loss before taxation						(75,205)
Taxation						<u>(6,312)</u>
Loss before minority interests						<u><u>(81,517)</u></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.

4. BUSINESS SEGMENT *(Continued)*

	At 31 December 2003				Consolidated RMB'000
	Manufacture and sale of copper cable and related products RMB'000	Manufacture and sale of optical fibre products RMB'000	Manufacture and sale of cable joining sleeves and related products RMB'000	Other operations RMB'000	
ASSETS					
Segment assets	682,366	121,910	136,312	—	940,588
Interests in associates	12,105	153,398	—	7,432	172,935
Consolidated total assets	<u>694,471</u>	<u>275,308</u>	<u>136,312</u>	<u>7,432</u>	<u>1,113,523</u>
LIABILITIES					
Segment liabilities	134,078	19,715	21,832	—	175,625
Unallocated corporate liabilities					<u>210,398</u>
					<u>386,023</u>

	For the year ended 31 December 2003				Consolidated RMB'000
	Manufacture and sale of copper cable and related products RMB'000	Manufacture and sale of optical fibre products RMB'000	Manufacture and sale of cable joining sleeves and related products RMB'000	Other operations RMB'000	
Capital additions	23,201	6,239	3,737		33,177
Depreciation and amortisation	24,142	6,643	3,632		34,417
Loss (gain) on disposal of property, plant and equipment	(29)	—	248		<u>219</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

4. BUSINESS SEGMENT (Continued)

	For the year ended 31 December 2002					Consolidated RMB'000
	Manufacture and sale of copper cable and related products RMB'000	Manufacture and sale of optical fibre products RMB'000	Manufacture and sale 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						<u>14,183</u>
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)		<u>(48,819)</u>
Loss before taxation						(114,322)
Taxation						<u>(4,553)</u>
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				Consolidated RMB'000
	Manufacture and sale of copper cable and related products RMB'000	Manufacture and sale of optical fibre products RMB'000	Manufacture and sale of cable joining sleeves and related products RMB'000	Other operations 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	100,576	12,045	16,593	4,765	133,979
Unallocated corporate liabilities					<u>187,522</u>
					<u>321,501</u>

4. BUSINESS SEGMENT *(Continued)*

	For the year ended 31 December 2002				Consolidated RMB'000
	Manufacture and sale of copper cable and related products RMB'000	Manufacture and sale of optical fibre products RMB'000	Manufacture and sale 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
(Gain) loss on disposal of property, plant and equipment	(464)	135	4	—	(325)

For the years ended 31 December 2003 and 2002, 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	
	2003 RMB'000	2002 RMB'000
Included in other operating income are the following:		
Bank interest income	2,420	3,757
Technology transfer fee	414	1,149
Management fee from an associate in respect of providing market information	2,484	828

6. LOSS FROM OPERATIONS

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	1,363	1,390
Depreciation and amortisation	34,417	40,256
Exchange loss	4,267	2,464
Loss (gain) on disposal of property, plant and equipment	219	(325)
Research and development costs	924	743
Staff costs (including retirement benefits costs and directors' remuneration (note 7))	47,750	25,911
Unrealised loss on unlisted equity securities	—	35

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

7. EMOLUMENTS OF THE DIRECTORS

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Directors' fees	23	—
Other emoluments		
— Salaries and allowances	127	164
— Performance related incentive payments	3	5
— Retirement benefits costs	12	10
	<u>165</u>	<u>179</u>

The amounts disclosed above included directors' fees of RMB22,500 (2002: nil) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

No director waived any emoluments for the years ended 31 December 2003 and 2002.

8. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

During each of the two years ended 31 December 2003, the five highest paid individuals did not include any directors.

The aggregate remuneration of each of the five highest paid individuals 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 RMB1,635,000 (2002: RMB1,665,000).

9. FINANCE COSTS

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	10,254	11,887
Bank borrowings not wholly repayable within five years	568	638
	<u>10,822</u>	<u>12,525</u>

10. TAXATION

	THE GROUP	
	2003 RMB'000	2002 RMB'000
The taxation charge comprises:		
PRC income tax		
— Provided for the year	7,437	4,146
— (Over)underprovision in prior years	(1,224)	307
Taxation attributable to the Company and subsidiaries	6,213	4,453
Share of taxation of associates		
— PRC income tax	99	100
	<u>6,312</u>	<u>4,553</u>

10. TAXATION (Continued)

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 Company had been recognised as a technologically advanced enterprise by relevant authorities since 1994. Pursuant to the Income Tax Laws concerning technologically advanced enterprise in Chengdu, the State Tax Authority in Chengdu approved the Company to entitle the reduced state enterprise income tax rate of 15%.

PRC income tax is calculated at 15% (2002: 15%) of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the loss per income statement as follows:

	THE GROUP			
	2003	2002		
	RMB'000	%	RMB'000	%
Loss before taxation	(75,205)		(114,322)	
Tax credit at applicable tax rate of 15% (2002: 15%)	(11,281)	(15.00)	(17,148)	(15.00)
Tax effect of share of results of associates	2,753	3.66	7,423	6.49
Tax effect of income not taxable for tax purpose	(2,757)	(3.67)	(1,397)	(1.22)
Tax effect of expenses not deductible for tax purpose	3,713	4.95	600	0.52
Utilisation of tax losses previously not recognised	(260)	(0.35)	(1,066)	(0.93)
Tax effect of tax losses not recognised	9,891	13.15	13,533	11.84
(Over)underprovision in prior years	(1,224)	(1.63)	307	0.27
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	5,477	7.28	2,301	2.01
Tax charge and effective tax rate for the year	6,312	8.39	4,553	3.98

The applicable tax rate represented the rate of taxation prevailing in the territories in which the major companies of the Group operate.

At the balance sheet date, the Group has estimated unused tax losses and other deductible temporary differences of RMB237,714,000 (2002: RMB172,563,000) and RMB102,440,000 (2002: RMB146,853,000) respectively. No deferred tax asset has been recognised in the financial statements due to the unpredictability of future profit streams.

The estimated unused tax losses the Group will expire at various dates up to and including 2008.

11. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of RMB81,752,000 (2002: RMB113,705,000) and on 400,000,000 (2002: 400,000,000) shares in issue during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Medium-term land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP					
COST					
At 1 January 2003	89,582	150,965	417,763	11,973	670,283
Additions	—	268	4,107	1,607	5,982
Transfer from construction in progress	—	976	37,392	—	38,368
Disposals	(145)	(1,348)	(9,100)	(346)	(10,939)
At 31 December 2003	<u>89,437</u>	<u>150,861</u>	<u>450,162</u>	<u>13,234</u>	<u>703,694</u>
DEPRECIATION AND AMORTISATION/ IMPAIRMENT					
At 1 January 2003	16,830	41,754	309,108	7,106	374,798
Provided for the year	2,794	12,218	16,390	3,015	34,417
Eliminated on disposals	(24)	(523)	(8,837)	(344)	(9,728)
At 31 December 2003	<u>19,600</u>	<u>53,449</u>	<u>316,661</u>	<u>9,777</u>	<u>399,487</u>
NET BOOK VALUES					
At 31 December 2003	<u>69,837</u>	<u>97,412</u>	<u>133,501</u>	<u>3,457</u>	<u>304,207</u>
At 31 December 2002	<u>72,752</u>	<u>109,211</u>	<u>108,655</u>	<u>4,867</u>	<u>295,485</u>
THE COMPANY					
COST					
At 1 January 2003	82,163	87,801	219,379	4,684	394,027
Additions	—	269	746	1,066	2,081
Transfer from construction in progress	—	976	29,188	—	30,164
Disposals	(145)	(1,237)	(722)	—	(2,104)
At 31 December 2003	<u>82,018</u>	<u>87,809</u>	<u>248,591</u>	<u>5,750</u>	<u>424,168</u>
DEPRECIATION AND AMORTISATION/ IMPAIRMENT					
At 1 January 2003	13,664	23,261	190,764	3,448	231,137
Provided for the year	1,629	3,341	12,902	646	18,518
Eliminated on disposals	(24)	(412)	(716)	—	(1,152)
At 31 December 2003	<u>15,269</u>	<u>26,190</u>	<u>202,950</u>	<u>4,094</u>	<u>248,503</u>
NET BOOK VALUES					
At 31 December 2003	<u>66,749</u>	<u>61,619</u>	<u>45,641</u>	<u>1,656</u>	<u>175,665</u>
At 31 December 2002	<u>68,499</u>	<u>64,540</u>	<u>28,615</u>	<u>1,236</u>	<u>162,890</u>

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

13. CONSTRUCTION IN PROGRESS

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
COST				
At beginning of the year	50,187	48,094	32,392	45,328
Additions	27,195	35,770	13,482	12,605
Transfer to property, plant and equipment	(38,368)	(14,443)	(30,164)	(6,307)
Disposals	—	(19,234)	—	(19,234)
At end of the year	<u>39,014</u>	<u>50,187</u>	<u>15,710</u>	<u>32,392</u>

Notes:

- a. *Included in the construction in progress is expenditure on the development of staff quarters amounting to RMB13,305,000 (2002: RMB3,719,000).*

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 21(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 RMB26,712,000 (2002: RMB15,123,000).

- b. *Included in construction in progress of the Group and the Company at 31 December 2002 was interest capitalised of RMB3,859,000.*

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 RMB'000	2002 RMB'000
Unlisted investments in the PRC, at cost less impairment losses recognised	<u>275,816</u>	<u>275,816</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's principal subsidiaries as at 31 December 2003, 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製品分廠 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
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 net 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.

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted investments in the PRC, at cost less impairment losses recognised	—	—	171,438	171,438
Share of net assets	172,935	179,902	—	—
	172,935	179,902	171,438	171,438

Details of the Group's principal associates as at 31 December 2003, 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 (Cooperative joint venture)	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. (Limited company)	50	Manufacture and sale of electronic and electrical products
成都康寧光纜有限公司 Chengdu CCS Optical Fibre Cable Co., Ltd. ("CCS") (Sino-foreign equity joint venture)	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. (Limited company)	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. (Limited company)	49	Design, processing and manufacture of plugs for electrical connectors, plugs for visual frequency signal apparatus and meter and plugs with wires for calculators

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

15. INTERESTS IN ASSOCIATES (Continued)

Operating results for the years ended 31 December 2003 and 2002:

	2003 RMB'000	2002 RMB'000
Turnover	<u>219,470</u>	<u>213,424</u>
Net loss for the year	<u>(31,640)</u>	<u>(77,614)</u>
Loss attributable to the Group	<u>(15,820)</u>	<u>(38,807)</u>

Financial positions as at 31 December 2003 and 2002:

	2003 RMB'000	2002 RMB'000
Total non-current assets	194,213	217,233
Total current assets	376,526	390,856
Total liabilities	<u>(263,943)</u>	<u>(291,311)</u>
Shareholders' funds	<u>306,796</u>	<u>316,778</u>
Shareholders' funds attributable to the Group	<u>153,398</u>	<u>158,389</u>

16. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2003 RMB'000	2002 RMB'000
Unlisted long-term equity securities, at fair value	<u>2,728</u>	<u>2,728</u>

17. LONG-TERM RECEIVABLE

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
The amounts represent:				
Amounts due from a former minority shareholder of Dongguan CDC (Note)	23,770	23,770	16,374	16,374
Less: Allowance	(23,770)	—	(16,374)	—
	—	23,770	—	16,374

Note: The amounts represent receivable due from a former minority shareholder of Dongguan CDC, a subsidiary of the Company, which is interest-free and unsecured. As at 31 December 2002, the repayment of the amounts was guaranteed by China PUTIAN Corporation ("China PUTIAN"), the ultimate holding company of the Company. On 31 December 2003, the guarantee was withdrawn by China Putian. In the opinion of directors, the amounts due from the minority shareholder of Dongguan CDC are irrecoverable and accordingly, an allowance of HK\$23,770,000 was recognised in the consolidated income statement.

18. INVENTORIES

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	31,227	31,835	12,692	15,138
Work in progress	20,496	27,532	11,642	10,468
Finished goods	109,294	73,012	81,161	43,199
Spare parts and consumables	2,957	1,897	2,957	1,897
	163,974	134,276	108,452	70,702

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	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	553	8,594	501	1,540
Work in progress	1,924	1,136	826	1,136
Finished goods	26,287	47,203	22,488	35,385
Spare parts and consumables	1,587	1,411	1,587	1,411
	30,351	58,344	25,402	39,472

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

19. TRADE RECEIVABLES

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

	THE GROUP	
	2003 RMB'000	2002 RMB'000
An aged analysis of trade receivables is as follows:		
Within 90 days	123,265	92,774
91 - 180 days	31,584	42,921
181 - 365 days	26,320	41,022
Over 365 days	27,746	26,106
	<u>208,915</u>	<u>202,823</u>

20. OTHER RECEIVABLES, DEPOSITS 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	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 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.

21. BANK DEPOSITS, BALANCES AND CASH

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Bank deposits:				
Pledged deposits(note a)	24,876	13,876	11,000	—
Unpledged deposits				
— Designated deposits (note b)	13,211	12,702	13,211	12,702
— Others	82,304	111,220	77,304	107,082
	120,391	137,798	101,515	119,784
Bank balances and cash	90,534	85,815	28,180	36,719
	210,925	223,613	129,695	156,503

Notes:

- a. *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.*
- b. *The amounts represent contributions received from employees in respect of the staff quarters development plans of the Group (note 13(a)) which have been deposited with the banks under the name of the Group.*

22. TRADE PAYABLES

	THE GROUP	
	2003 RMB'000	2002 RMB'000
An aged analysis of trade payables is as follows:		
Within 90 days	56,261	28,034
91 - 180 days	2,716	2,216
181 - 365 days	375	1,708
Over 365 days	508	548
	59,860	32,506

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

23. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Bank borrowings				
Secured	38,100	33,100	—	—
Unsecured	162,783	151,103	134,783	132,603
	200,883	184,203	134,783	132,603
The maturity of bank borrowings is as follows:				
On demand or within one year	184,229	169,230	118,129	117,630
More than one year but not exceeding two years	1,359	1,130	1,359	1,130
More than two years but not exceeding five years	4,077	3,389	4,077	3,389
More than five years	11,218	10,454	11,218	10,454
	200,883	184,203	134,783	132,603
Less: Amount due within one year and shown under current liabilities	(184,229)	(169,230)	(118,129)	(117,630)
Amount due after one year	16,654	14,973	16,654	14,973

24. SHARE CAPITAL

	2003 & 2002	
	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
	400,000,000	400,000

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.

25. RESERVES

	Share premium RMB'000	Capital reserve RMB'000 <i>(note a below)</i>	Other reserve RMB'000 <i>(note b below)</i>	Statutory surplus reserve fund RMB'000 <i>(note c below)</i>	Statutory public welfare fund RMB'000 <i>(note d below)</i>	Goodwill RMB'000	Accumulated losses RMB'000	Total RMB'000
THE GROUP								
At 1 January 2002	303,272	287,391	—	20,488	19,014	(12,473)	(220,476)	397,216
Net loss for the year	—	—	—	—	—	—	(113,705)	(113,705)
Transfer	—	—	—	98	97	—	(195)	—
At 31 December 2002	303,272	287,391	—	20,586	19,111	(12,473)	(334,376)	283,511
Share of other reserve of an associate	—	—	10,828	—	—	—	—	10,828
Net loss for the year	—	—	—	—	—	—	(81,752)	(81,752)
Transfer	—	—	—	11,122	—	—	(11,122)	—
At 31 December 2003	<u>303,272</u>	<u>287,391</u>	<u>10,828</u>	<u>31,708</u>	<u>19,111</u>	<u>(12,473)</u>	<u>(427,250)</u>	<u>212,587</u>
Attributable to:								
At 31 December 2003								
— the Company and subsidiaries	303,272	287,391	—	30,672	19,111	(11,592)	(439,272)	189,582
— associates	—	—	10,828	1,036	—	(881)	12,022	23,005
	<u>303,272</u>	<u>287,391</u>	<u>10,828</u>	<u>31,708</u>	<u>19,111</u>	<u>(12,473)</u>	<u>(427,250)</u>	<u>212,587</u>
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>—</u>	<u>20,586</u>	<u>19,111</u>	<u>(12,473)</u>	<u>(334,376)</u>	<u>283,511</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

25. RESERVES (Continued)

	Share premium RMB'000	Capital reserve RMB'000 (note a below)	Statutory surplus reserve fund RMB'000 (note c below)	Statutory public welfare fund RMB'000 (note d below)	Accumulated losses RMB'000	Total RMB'000
THE COMPANY						
At 1 January 2002	303,272	287,391	4,647	4,647	(336,836)	263,121
Net profit for the year	—	—	—	—	46,007	46,007
At 31 December 2002	303,272	287,391	4,647	4,647	(290,829)	309,128
Net loss for the year	—	—	—	—	(60,660)	(60,660)
At 31 December 2003	303,272	287,391	4,647	4,647	(351,489)	248,468

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 and 2003.

Notes:

a. *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.

b. *Other reserve*

The amount represents share of other reserve of an associate arising from waiver of amount due to a shareholder of such associate.

c. *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.

d. *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.

26. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2002, the Group acquired a further 31.13% 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 33.14% to 64.27%. This acquisition has been accounted for by the acquisition method of accounting and is analysed as follows:

	<i>RMB'000</i>
<hr/>	
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)
	<hr/>
	4,625
	<hr/>
SATISFIED BY	
Interests in associates	2,351
Cash	2,274
	<hr/>
	4,625
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration	(2,274)
Bank balances and cash acquired	590
	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<hr/>
	(1,684)
	<hr/>

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 ended 31 December 2002.

27. RETIREMENT SCHEME ARRANGEMENTS

The Group participates in a retirement scheme operated by the Sichuan Administration Bureau of Social Insurance ("SABSI"). The Group's only obligation is to make an annual contribution to SABSI, which is the supervisory body and is responsible for the retirement scheme and all other relevant business. The total cost charged to the consolidated income statement of RMB7,800,000 (2002 : RMB8,500,000) represents contributions payable to SABSI 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 2003, the total contribution made by the Group was RMB565,000 (2002: RMB631,000). Upon retirement, employees will receive a lump sum payment based on the contributions made by the individual employee and the Group plus interest.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

28. CAPITAL COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Contracted but not provided for:				
Development of staff quarters	—	5,294	—	5,294
Acquisition of machinery and equipment	3,676	5,653	—	497
	3,676	10,947	—	5,791
Authorised but not contracted for:				
Acquisition of machinery and equipment	89,505	62,287	2,691	4,343
	93,181	73,234	2,691	10,134

29. 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	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	—	—	35,500	66,000
Associates (note a below)	—	130,000	—	130,000
Other company (note b below)	—	10,000	—	10,000
	—	140,000	35,500	206,000

Notes:

- a. At 31 December 2002, the facilities were not utilised by these associates.
- b. At 31 December 2002, this company also provided a cross-guarantee for banking facilities amounting to RMB10,000,000 granted to the Company.

30. 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 RMB38,100,000 (2002: RMB33,100,000):

	2003 RMB'000	2002 RMB'000
Bank deposits	24,876	13,876
Land use rights	3,087	2,135
Buildings	12,595	13,475
	<u>40,558</u>	<u>29,486</u>

31. 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		Amount due to related companies	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
China Putian and its subsidiaries	3,477	3,387	—	—	6,641	5,112	—	121	6,641	5,112	—	38
Associates	10,413	3,370	18,072	8,234	1,430	2,133	20,964	7,696	1,262	1,547	19,422	7,585

Other than the above, the Group also received from associates technology transfer fee and management fee in respect of providing market information amounting to RMB414,000 (2002: RMB1,149,000) and RMB2,484,000 (2002: RMB828,000), 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 is also providing guarantees for banking facilities amounting to RMB150,000,000 (2002: RMB150,000,000) granted to the Group and charged the Group of RMB375,000 (2002: Nil) during the year.

Details of the Group's guarantees granted to associates are set out in note 29 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 a former minority shareholder of the Group are set out in the balance sheets of the Group and the Company.