

REPORT OF THE DIRECTORS



The Board is pleased to present its 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 31 of this annual report.
2. The state of affairs of the Group and the Company as at 31 December 2004 are set out in the balance sheets on page 32 of this annual report.
3. The changes in equity of the Group are set out in the consolidated statement of changes in equity on page 33 of this annual report.
4. The cash flows of the Group are set out in the consolidated cash flow statement on page 34 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 five financial years ended 31 December 2004, which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Turnover	<u>512,820</u>	<u>465,345</u>	<u>376,341</u>	<u>585,443</u>	<u>524,511</u>
(Loss) Profit before taxation	<u>(64,429)</u>	(75,205)	(114,322)	106,578	(58,568)
Taxation	<u>3,096</u>	(6,312)	(4,553)	(17,335)	(10,837)
(Loss) Profit before minority interests	<u>(61,333)</u>	(81,517)	(118,875)	89,243	(69,405)
Minority interests	<u>(105)</u>	(235)	5,170	(24,825)	(8,744)
(Loss) Profit attributable to shareholders	<u>(61,438)</u>	<u>(81,752)</u>	<u>(113,705)</u>	<u>64,418</u>	<u>(78,149)</u>
Total assets	<u>1,010,504</u>	1,113,523	1,121,938	1,287,135	1,163,643
Total liabilities and minority interests	<u>(459,290)</u>	(500,936)	(438,427)	(489,919)	(430,845)
Net assets	<u>551,214</u>	<u>612,587</u>	<u>683,511</u>	<u>797,216</u>	<u>732,798</u>

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 production of cables.

The Group's turnover and contribution to results from operations for the Year are analyzed by segment of its principal activities and geographical market as set out in note 4 to the financial statements on pages 38 to 40 of this annual report.

REPORT OF THE DIRECTORS

MAJOR SUPPLIERS AND CUSTOMERS

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

	Percentage (%)	
	2004	2003
Purchases		
Single largest supplier	34	25
Five largest suppliers combined	<u>69</u>	<u>60</u>
Sales		
Single largest customer	21	15
Five largest customers combined	<u>47</u>	<u>41</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 respective associates or any shareholders holding 5% or more of the Company's share capital owned any direct or indirect interests in the share capital of any of the five largest suppliers or customers of the Group for the Year.

FINAL DIVIDEND

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2004 are set out in note 14 to the financial statements on pages 44 to 45 of this annual report.

RESERVES

Details of the changes in the reserves of the Group during the Year are set out in note 24 to the financial statements on pages 50 to 51 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 of the Group during the Year are set out in notes 12 and 13 respectively to the financial statements on pages 43 and 44 of this annual report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the financial statements on page 50 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 2004 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 ("AGM") in 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 as working capital.

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

In view of the Company's existing tense situation of liquidity and in order to release the pressure of capital and to ensure the normal operation of production, the Board had passed the resolution of the use of proceeds HK\$36,396,000 (RMB38,600,000) to finance the Company's liquidity, which will be put forward for approval at the 2004 AGM.

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 2004.

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 such amount. During the Year, the Company continued to claim repayment against China Leasing.

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 high-tech enterprise. The Company is still enjoying such preference as at the date hereof and accordingly is not entitled to any income tax rebate.

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 2004 are as follows:

Classification	Number of shareholders
State-owned legal person shares	1
Overseas listed foreign invested shares — H Shares	115
Total number of Shareholders	<u>116</u>

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the largest Shareholder 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 157,610,998 H shares, representing 39.40% of the total issued share capital. At the end of the Year, HKSCC held 157,586,998 H shares, representing 39.39% of the total issued share capital of the Company.

As at 31 December 2004, saved as stated in this section, 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 (the "SFO"). Saved as stated in this section, at any time during the Year, the Board 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.



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As indicated by HKSCC, as at 31 December 2004, the following Central Clearing and Settlement System ("CCASS") participants held 5% or more of the total issued H Shares:

CCASS participant	Number of H Shares held at the end of the Year	Percentage of H Shares	Percentage of total issued share capital
The Hongkong & Shanghai Banking Corporation Ltd.	23,534,000	14.71	5.88
Bank of China (Hong Kong) Limited	17,142,000	10.71	4.29
Citibank	8,304,367	5.19	2.08
Guotai Junan Securities (Hong Kong) Ltd.	8,021,044	5.01	2.01

Save as disclosed above, as at 31 December 2004, the Company was not aware of any shareholding interests which are required to be disclosed pursuant to the SFO. The Board was not aware of any person holding, directly or indirectly, 5% or more of the interests in the total issued H Shares.

DIRECTORS, SUPERVISORS, COMPANY SECRETARIES 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 50, Chairman of the Company, received postgraduate education, is a senior engineer and is currently a Director of the Company, vice president and the chief legal adviser of China PUTIAN and vice-chairman of CPCL. Mr. Xu joined in 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. 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 re-elected as executive Director of the fourth Board on 25 September 2003.

Mr. Kuo Aiching, aged 49, received tertiary education, is a senior engineer and is currently the Deputy Managing Director and the General Manager of the Company. Mr. Kuo joined in 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, standing deputy managing director and general manager of the Company. He has extensive experience in design and production of telecommunication cables and corporate management. Mr. Kuo was re-elected as executive Director of the fourth Board on 25 September 2003.

Mr. Wang Zhongfu, aged 39, received postgraduate education, is a senior engineer. He is currently a Director of the Company, the assistant to the president of China PUTIAN and director and general manager of International Operation Division of CPCL. Mr. Wang joined in 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, director and general manager of Shanghai Posts & Telecommunications Equipment Co., Ltd. and Executive Director of the second and third Board. He has extensive experience in the management of listed companies and joint venture enterprises and international trading. Mr. Wang was re-elected as executive Director of the fourth Board on 25 September 2003.

Mr. Bao Yuhong, aged 33, received university education, is an economist. He is currently a Director of the Company and deputy director of the system reform office of China PUTIAN. Mr. Bao joined in the Company in September 2000. He served previously in the operating finance division of China PUTIAN as the deputy general manager, deputy general manager of operating finance division and was Executive Director of the third Board and has certain experience in corporate management, company's system reform and operation of holding company. Mr. Bao was re-elected as executive Director of the fourth Board on 25 September 2003.

Mr. Zhang Zhongqi, aged 47, received tertiary education, is a senior accountant. He is currently a Director of the Company and deputy general manager of the finance division of China PUTIAN. Mr. Zhang joined in the Company in September 2000 and served previously in the operating finance division of China PUTIAN as deputy general manager. He had been sent to Beijing Ericsson Mobile Communication Co., Ltd. as manager of the finance division and was Executive Director of the third Board 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 re-elected as executive Director of the fourth Board on 25 September 2003.

Mr. Fan Xianda, aged 52, received tertiary education, is an engineer. He is currently a Director and Deputy General Manager of the Company. Mr. Fan joined in 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 as executive Director of the fourth Board on 25 September 2003.

Ms. Chen Po Sum, aged 73, is currently an Independent Non-executive Director. She was an independent non-executive Director of the first and second Board 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 Yugang 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 re-elected as independent non-executive Director of the fourth Board on 25 September 2003.

Mr. Sun Jiayuan, aged 61, received postgraduate education. He is currently an independent non-executive Director 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 head of the Planning Committee and deputy mayor of Chengdu city. Mr. Sun took up the posts of Non-Executive Director of the third Board and member of the audit committee of the Company on 22 September 2000. Ms. Sun was re-elected as independent non-executive Director of the fourth Board on 25 September 2003.

Mr. Wu Zhengde, aged 60, is currently an independent non-executive Director, a member of the Standing Committee of the Chinese's People's Political Consultative Conference, deputy chairman of the Central Committee of Democratic Alliance, 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 as a fellow of the US New York Academy of Science in 1993. Mr. Wu was elected as independent non-executive Director of the fourth Board on 25 September 2003.

The Company confirmed that annual confirmation letter issued for each individual Independent Non-executive Directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") has been received.

Each of the Directors appointed on 25 September 2003 has entered into a service contract with the Company, with a term of three years commencing from 1 October 2003 up to 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 47, received postgraduate education and is a senior economist. He is currently the Chairman of the supervisory committee of the Company ("Supervisory Committee") and the assistant to the Chairman of CPCL. He is also the general manager of multi-business department and human resources department. Mr. Zhang joined the Company in October 1997 and was a Director of the second Board 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 as the Supervisor again for the fourth Supervisory Committee on 25 September 2003.

Mr. Xiong Ting, aged 42, 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 CCF in 1982 and was secretary of the League Committee, factory manager of the branch factory and director of company office of CCF. He has extensive experience in corporate management. Mr. Xiong was a staff Supervisor of the fourth Supervisory Committee elected on 17 June 2004.

Ms. Hong Xiurong, aged 52, received university education with a degree and is a senior engineer. She is currently a Supervisor and vice-chairman of the labour union of the Company. Ms. Hong joined CCF in 1970. She has been the Director of Technology Department of CCF. She has extensive experience in the design, production and technological management of communication cables. Ms. Hong is democratically elected by the staff of the Company as the Supervisor of the fourth Supervisory Committee.

Each of the existing Supervisors has entered into a service contract with the Company. The term of office of Supervisor Zhang Xiaocheng is three years commencing from 1 October 2003 until 30 September 2006. The terms of office of Supervisor Xiong Ting and Supervisor Hong Xiurong are from 18 June 2004 until 30 September 2006. Terms of office of all Supervisors are renewable upon maturity by re-election or re-appointment.

3. COMPANY SECRETARIES

Mr. Stephen Mok, aged 40, is the Secretary of the Company and a partner of Simmons & Simmons in Hong Kong. He was appointed as secretary to the second and third Board.

REPORT OF THE DIRECTORS

4. SENIOR MANAGEMENT

Mr. Dai Kang, aged 38, is the senior engineer and Deputy General Manager of the Company. He joined the Company in 1987.

Mr. Wang Dehong, aged 54, is the senior economist and Deputy General Manager of the Company. He joined the Company in 1977.

Mr. An Minmin, aged 58, is the senior accountant, Financial Officer and Chief Accountant of the Company. He joined the Company in 1968.

NUMBER OF STAFF

As at 31 December 2004, the Group had 1,785 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 any time during the Year and at the end of the Year.

INTERESTS OF DIRECTORS AND SUPERVISORS IN SECURITIES

As at 31 December 2004, none of the Directors, Supervisors and senior management of the Company or their respective associates (as defined in the SFO) had any interests and short positions 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 7 and 8 of Section XV of the SFO taken to have under the SFO, or which were required, pursuant to Section XV of the SFO, interests and short positions to be entered in the register referred to under Section 352 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 (For such purposes, the relevant regulations in the SFO were interpreted as applicable to the above stated).

SHAREHOLDING OF DIRECTORS AND SUPERVISORS

At any time during the Year, none of the Directors or Supervisors held any shares of the Company. None of the Directors or Supervisors had any interests in the share capital or debt securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors and Supervisors, their spouses and children under 18 years old was granted the rights to purchase the shares or debt securities of the Company or any of its associated corporations and there was no exercise of such rights by any of the said persons.

PURCHASE AND SALE OF SECURITIES BY DIRECTORS

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 41 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. The details of remuneration of the five individuals are set out in note 8 to the financial statements on page 41 of this annual report.

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.
2. The Company had no new programme for raising funds from its employees to construct staff quarters during the Year.

BASIC MEDICAL INSURANCE SCHEME FOR EMPLOYEES

The Company has participated in the basic medical insurance scheme for employees in Chengdu since October 2002 and has made a total payment amounted to RMB1,113,000 in the Year (2003: RMB739,000). The reasons for the increase in expenses for basic medical insurance for employees as compared with last year were that the Sichuan Administration Bureau of Social Insurance had revised a new salary standard for insurance payment. The Company calculated the basic medical insurance under the new standard, thus resulting in the increase in payment for basic medical insurance of employees. The Board 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

As at 31 December 2004, 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 22 to the financial statements on page 49 of this annual report.

PLEDGE OF ASSETS

Owing to the need of sufficient liquidity to carry out production operations, the Group pledged the bank deposits of RMB52,516,000(2003: RMB24,876,000), partial land use rights RMB2,869,000(2003: RMB3,087,000) and a portion of buildings valued at RMB11,715,000(2003: RMB12,595,000) to bank as the guarantee for the security of banking facilities of RMB68,982,000(2003: RMB38,100,000). The Board considered that the pledge of assets is for securing banking facilities and will have no impact on the financial situation of the Company.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

During the Year, the Group entered into the following transactions with continuing related parties in accordance with the requirements of the Listing Rules:

- (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 RMB816,000 for the Year (2003: RMB3,477,000).
- (c) Guarantee granted by the Company to its non-wholly owned subsidiaries
The Company provided guarantees of RMB60,000,000 and RMB11,600,000 to SEI and Chengdu MCIL Radio Communication Cable Co., Ltd. respectively in 2004 as approved at the 2003 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 retirement benefits scheme of the Company is set out in notes 6 and 25 to the financial statements on pages 41 and 52 of this annual report respectively.



SIGNIFICANT EVENTS

1. CHANGE OF CONTROLLING SHAREHOLDER

On 24 January 2005, the Company was notified by China PUTIAN, the controlling shareholder of the Company, that as part of its internal restructuring, China PUTIAN has entered into the Share Transfer Agreement on 21 January with CPCL, a wholly-owned subsidiary of China PUTIAN. Under the Share Transfer Agreement, China PUTIAN will transfer all of its shareholding in the Company, amounting to 60% of the issued share capital of the Company, to CPCL at no consideration. Accordingly, the Share Transfer will result in a change in the immediate controlling shareholder of the Company from China PUTIAN to CPCL.

As CPCL is wholly-owned by China PUTIAN, there is no change in the ultimate beneficial ownership of the 60% shareholding interest in the Company as a result of the Share Transfer. The Company will continue to be engaged in the manufacture and sale of various types of telecommunications cables (including different types of copper cable and optical cable), optical fibre, cable joining sleeves, as well as equipment, manufacturing parts and materials for the production of cables.

The Share Transfer will come into effect on 25 March 2005 immediately upon approvals are granted by the State-owned Asset Supervision and Administration Commission ("SASAC") of State Council.

The Securities and Futures Commission of Hong Kong confirmed to the Company on 5 January 2005 that an obligation on CPCL to make a general offer for the shares in the Company under Rule 26.1 of the Code on Takeovers and Mergers as a result of the Share Transfer is waived pursuant to Note 6(a) to such rule.

CPCL is a telecommunications equipments supplier in mobile communications industry in China with a registered capital of RMB1.9 billion. CPCL is principally engaged in the development, production and sale of mobile telecommunications infrastructures, information terminals, industry informationization applications, etc.

The Board stated that the Share Transfer will not constitute any adverse impact on the overall financial conditions and operation of the Company.

The Company has made relevant disclosure on Chinese and English newspapers in Hong Kong on 25 January 2005.

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 Company's headquarters is located has been included in the unified planning of the Chengdu Government. On 30 December 2003, the Office of the Leading Group for Restructuring of the Industrial Zone in the Eastern Suburbs of the Chengdu Government (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. As a result, production and office areas of headquarters of the Company is required to be relocated to the western district of Chengdu Hi-Tech Enterprise Development Zone.

On 25 June 2004, the Company formally signed a cooperation agreement with the Management Committee of Chengdu Hi-Tech Enterprise Development Zone ("Hi-Tech Zone Management Committee") in respect of the Company's establishment of a China PUTIAN Chengdu industrial base in the zone. The Hi-Tech Zone Management Committee undertook to provide the Company with a piece of land with an area of 339,800 sq. m. (approximately 509.7mu) in the western district of the zone for the specialized project construction of the said base. Such relocation will enable the Company to continue to benefit from the preferential policies of the Hi-Tech zone as well as the benefits under the relocation preferential policy. Moreover, the exchange of land will bring a better operating revenue to the Company.

In April and December 2004, the Board resolved that the Company was approved on the overall relocation and the original factory area to be for sale.

According to the overall requirements of the Leading Group and the terms stated in the co-operation agreement of Hi-Tech Zone Management Committee, the Company has actively participated in all items of the construction base. The relocation and land disposal is in progress and the plane design of the units and relocation case are confirmed. At the same time, application for disposal of land has put forward to the Land Transaction Center of State Land Resources Bureau.

As the relocation needs a long time to proceed, the Company will adopt some measures to minimize the influence on the production operation during the relocation.

3. SETTING-UP OF CPTL

On 25 May 2004, the Board approved the setting up of CPTL jointly with JHL Ltd. with a registered capital of RMB2,800,000. The Company and JHL Ltd. own 96.2% and 3.8% of the shareholding of the Joint Venture Company respectively. The business of CPTL is the production of OLED products.

OLED is the flat display technology recognized internationally as offering the greatest potential in the light of its wide-ranging applications from measurement devices, meters, home appliance display screens, to mobile terminal displays for mobile phones, PDAs, digital cameras and portable computers. OLED displays have a range of performance advantages including exceptional slimness, full integration, self-lighting, fast response time, high adaptability to temperature, superior brightness, wide viewing angles, soft display functions and low manufacturing costs. The wide-ranging application prospects of OLED have made it a new focus in the research and development of display devices. Many domestic and foreign research institutions and enterprises were attracted by its prospects. The industry generally considers that OLED will most likely become a new frontier display technology after LCD displays.

After thorough studies of the technological aspects and market potential of OLED, the Company decided to invest in OLED projects in line with the country's high-tech development strategy of expediting industrialization for and carrying out mass production of the new OLED. In addition, China PUTIAN, the Company's controlling shareholder, has expressed its intention to treat OLED as one of the focusing research projects. China State Development and Reform Commission has granted approval on the research and development project to OLED. The project has been listed as a substantial property project and undertaken to be supported by the Chengdu Government. Therefore, we have to grasp this opportunity to embrace this project into the property planning of the industrial base of China PUTIAN. Through the self-developed new technology and products of OLED, it will become a new source of profit growth for the Company.

Given the above condition, the Company is of the opinion that it is the time to engage in OLED projects. The establishment of CPTL is aimed at facilitating preliminary preparations in relation to external contact and commencement of technological design. To carry out research experiment and have technological reserve with the support suitable technological talents introduced earlier before by actively seeking domestic and foreign partner with powerful technological and capital support, there will be continuous optimization in the aspect of technology, management and capital of the investment model of the project. At the time when conditions are ripe, a company will be established in the form of joint venture and resources will be injected for scaleful production.

4. BY-ELECTION OF SUPERVISORS

As stipulated in the Articles of Association, the Supervisory Committee shall comprise three Supervisors who are entitled to re-election. Two-thirds of the Supervisors are shareholders' representatives and the remaining one-third is employees' representative.

In August 2003, China PUTIAN, the Company's controlling shareholder, nominated Mr. Zhang Xiaocheng and Mr. An Minmin as candidates for the two-thirds of Supervisors of the fourth Supervisory Committee. Since Mr. An Minmin had been appointed by the Board as financial officer of the Company, he was not qualified to take up the position of Supervisor concurrently as stipulated in the Articles of Association. Consequently, China PUTIAN nominated Mr. Xiong Ting as replacement candidate for the fourth Supervisory Committee and he was elected as a Supervisor at the 2003 AGM.

Ms. Hong Xiurong is elected as another employee representative of Supervisor in the employee representative meeting in June 2004.

The existing members of the fourth Supervisory Committee consist of Mr. Zhang Xiaocheng, Mr. Xiong Ting and Ms. Hong Xiurong (employee representative).

5. AMENDMENT TO ARTICLE 87 OF THE ARTICLES OF ASSOCIATION

As required by the China Securities Regulatory Commission's "Directive Advice on the Establishment of Independent Director System by Listed Companies" and Rule 3.10 (1) and (2) of the Listing Rules that at least three of the Directors who constitute a listed company's Board shall be independent Directors, the fourth Board has now consisted of three independent non-executive Directors instead of two in the past.

In the light of the change in the number of independent non-executive Directors of the fourth Board, Article 87 of the Articles of Association has been amended accordingly from "Article 87: The Company shall establish a Board which comprises 9 to 13 Directors, including 1 Chairman, 1 to 2 Vice-Chairman, and 2 non-executive Directors. There are 9 existing Directors." to "The Company shall establish a Board which comprises 9 to 13 Directors, including 1 Chairman, 1 to 2 Vice-Chairman and 3 independent non-executive Directors. There are 9 existing Directors."

The amended Articles of Association, which were approved at the 2003 AGM, were approved by the relevant authority on 16 August 2004 and became effective accordingly.

6. THE FINAL ADJUDICATION RELATED TO ANTI-DUMPING INVESTIGATION OF IMPORTED OPTICAL FIBRES

The Ministry of Commerce of the PRC ("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. Initial adjudication announced on 16 June 2004 confirmed that the investigated products had constituted dumping and resulted in actual damage to domestic industry. There was causal relationship between the said dumping and actual damage constituted. According to Article 25 of "Regulation of Anti-dumping of the People's Republic of China", the Ministry of Commerce came to the final adjudication on 1 January 2005.

The outcomes of the final adjudication are mainly as follows: after investigation, the Ministry of Commerce confirmed the adjudication that the investigated products had constituted dumping and resulted in actual damage to domestic industry. There was causal relationship between the said dumping and actual damage constituted. According to the requirement of relevant ("Regulation of Anti-dumping"), the Customs Duty and Tariff Regulation Commission of State Council decided that anti-dumping tax would be levied on imported non-chromatic dispersion displacement optical fibres originating from the US, Japan and South Korea starting from 1 January 2005. The implementation period will be five years with effect from 1 January 2005.

The Board cautiously considers that the winning in the final adjudication of anti-dumping of optical fibres will enhance a fair competitive market environment for domestic optical fibres manufacturers and favor the recovery of domestic optical fibres and cables industry. The industry can then develop steadily and healthily. However, the success in the case of anti-dumping has not improved the adverse market environment in the PRC. Keen competition still exists in the domestic optical fibre market. The impact of the final adjudication of anti-dumping on SEI, the associated subsidiary of the Company, is limited.

The final adjudication on the scale of dumping for American CCS is 1.51%. According to the requirement of Article 27 of the "Regulation of Anti-dumping", anti-dumping tax can be waived for that small scale of dumping. Given that the products used by CCS are manufactured by American CCS, the final adjudication of anti-dumping constitutes no adverse impact on CCS.

7. RESIGNATION OF DELOITTE TOUCHE TOHMATSU ("DELOITTE")

On 15 December 2004, the Company was informed by Deloitte due to commercial reasons, Deloitte resigned as auditor of the Company. In the notice of resignation of Deloitte, it has confirmed that it is not aware of any fact or circumstances that ought to be brought to the notice of the Shareholders. The Board also confirms that there are no circumstances in respect of the resignation of Deloitte which they consider should be brought to the attention of the shareholders of the Company.

The remaining auditor in office for the past three years, Ho and Ho & Company, will continue to act as the auditor of the Company.

8. DELAY IN APPOINTMENT OF THE QUALIFIED ACCOUNTANT

The Company has not been able to appoint a qualified accountant with appropriate professional qualifications as required by Rule 3.24 of the Listing Rules by 30 September 2004.

Given the importance of the role and function of a qualified accountant to oversee the Company's compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting-related issues, the Company requires additional time to identify suitable candidates for the position. The Board is still in the process of verifying and collecting background information of the potential candidates, and will use its best endeavours to effect the appointment as soon as possible.

9. TRANSFER OF 1% OF EQUITY INTERESTS IN CCS

With the sluggish global optical fibre and cables market, American CCS Company has agreed to inject new hardware and equipment business ("New Business") into CCS with a view to reduce CCS's current and future losses. The injection of New Business into CCS is on the condition that American CCS Company is to become the controlling shareholder of CCS, that is the transfer of 1% of the Company's equity interest in CCS to American CCS Company.

In view of the condition given by American CCS Company, the Board, after considering the advantages and disadvantages of such transfer, agreed to transfer 1% equity interest in CCS in December 2004 to American CCS Company. On 16 January 2005, the parties entered into an equity interest transfer agreement, pursuant to which the Company agreed to transfer 1% equity interest in CCS to American CCS Company at a consideration of RMB1,548,000.

The equity interest transfer was approved by the relevant PRC authorities.

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Board, Supervisory Committee and senior management of the Company are committed to implementing effective corporate governance policies to ensure that all decisions are made honestly and in accordance with the principles of transparency, fairness and integrity where effective and necessary checks and balances are provided. The Company will continue to improve its corporate governance structure, and to strengthen corporate monitoring and management to meet the expectation of its shareholders and the public. The Company has been complying with the Articles of Association for proper internal operations to provide timely, accurate, complete and trustworthy corporate information to all market participants and the regulatory authorities.

CORPORATE GOVERNANCE STRUCTURE

In strict compliance with the Company Law of the PRC (the "Company Law"), the Listing Rules and other relevant laws and regulations of CSRC, the Company has been proactively improving its corporate governance structure since its incorporation to establish a modern enterprise system for proper corporate operations and compliance with requirements of the regulatory authorities.

Early in 2001 the Company had completed the formulation and drafting of relevant documents of Corporate Governance which was circulated and comprehensively implemented in the Company. The set of relevant documents of Corporate Governance comprises Articles of Association, Rules of Procedures for General Meeting, Rules of Procedures for the Board, Rules of Procedures for Supervisory Committee, and Term of Reference of Audit Committee under the Board. To further improve corporate governance, the Company formulated Rules of Duties of Senior Management during the Year as a supplement to relevant documents of Corporate Governance.

The Company's corporate governance structure is illustrated as follows:



The Board

Being the fourth Board since its establishment, the current Board comprises 9 Directors, of which 3 are independent non-executive Directors. The members of the Board, with term of office from 1 October 2003 to 30 September 2006, have different industry backgrounds and extensive experience in science and technology, securities and finance, wire and cable industry, corporate management, accounting, etc. The independent non-executive Directors appointed by the Company are in compliance with Rule 3.10 (1) and (2) of the Listing Rules. The biographies of Directors are set out in page 12 to page 13 of this annual report.

The positions of 3 independent non-executive Directors, one-third of the total Directors, are assumed by persons who are independent of the Directors, Supervisors, chief officers and substantial shareholders (as defined in the Listing Rules) or such individuals or corporate bodies without any connection thereto ("the independent third party"). The three independent non-executive Directors including Ms. Chen Po Sum, Mr. Sun Jiayuan and Mr. Wu Zhengde that are in compliance with the independence requirement under the Listing Rules, of which, Ms. Chen Po Sum, an experienced qualified accountant, is familiar with financial affairs. The independent non-executive Directors are familiar with the rights and obligations of directors and independent non-executive directors of listed Companies. During the Year, the independent non-executive Directors performed their duties including attending the Board's meetings and the general meetings in prudent, proactive and circumspective manner. Based on the overall interests of the Company, they capitalized on their respective professional experience and expertise to provide advices on improvement of corporate governance and proposed significant decisions as well as cogent and objective suggestions and recommendations on the relevant proposals, thus promoting the reasonability of decision-making of the Board and the procedures thereof, and protecting the interests of the Company and its shareholders. The three independent non-executive Directors all served in the Audit Committee under the Board.

The major duty of the Board is to exercise the management and decision-making right under the general meeting's authorities in aspects including corporate development strategies, management architecture, investment and financing, financial control and human resources.

Directors are elected or changed by general meetings. Shareholders, the Board or Supervisory Committee are entitled to nominating a Director candidate by written notice. The Directors have a term of office of three years and are eligible to offer themselves for reappointment upon expiry of their term.

The position of Chairman and General Manager of the Company are assumed by different persons with definite division of duties. The Chairman presides over the Board and examines the execution of the Board's resolutions, while the General Manager, with the assistance and support of the Board and other senior management members of the Company, is responsible for management on operation and coordination of the Group's business, together with execution of the strategies and daily decisions determined by the Board.

REPORT OF THE DIRECTORS

During the Year, two Directors of the Company served as the specific management members, representing 22% of the total directors, which contribute to the strict review and control on the management procedures of the Company by the Board.

Each Director has fulfilled their duties in a conscientious, diligent and honest manner. During the Year, the Board convened two sessions and four meetings by way of correspondence to discuss the Company's operating results, overall strategies, investment schemes as well as operating and financial performance. The Board made efficient discussions with fast and prudent decisions at the meetings. Independent Non-executive Directors did not show any objection to the decision-making of the Company. The average attendance at the meetings was 93% (including the attendance of the appointed Directors), details of which are set out in the relevant forms herein.

Through its company secretary, all Directors can obtain the information and latest trend in relation to the laws and regulations, supervision and other continual liabilities that directors of listed companies shall observe so as to ensure that each Director is aware of his obligation, thus securing implementation of the Board's procedures and proper compliance with the applicable laws and regulations.

In accordance with the requirements on performing duties, execution of authorities and business, Directors and the Audit Committee under the Board are entitled to appointing independent experts to provide services, the reasonable expenses on which are borne to the Company.

The Code for Securities Transactions by Directors

After the specific enquiries to Directors, the Company confirmed that all Directors have fully complied with Appendix 10 of Model Code for Securities Transactions by Directors of Listed Companies to the Listing Rules during the Year.

Audit Committee under the Board

In line with the practices of the best corporate governance, the Company established an Audit Committee in August 1999. The term of reference of the committee is determined in accordance with the recommendation in "A Guide for Effective Audit Committees" published by Hong Kong Institute of Certified Public Accountants. Its major duties include: reporting to the Board and review of quality and procedures of interim and annual financial reports of the Group; consideration of connected transactions and monitoring of financial reporting procedures, review of the completeness and effectiveness of the Company's internal control system; consideration of the appointment of independent auditors and the relevant coordination, and review of its working efficiency and quality; examination on the written reports issued by internal auditors, and review of the senior management's feedback on the reports.

The existing members of the Audit Committee comprise Ms. Chen Po Sum (Chairman of the committee), Mr. Sun Jiayuan and Mr. Wu Zhengde. The three members being independent non-executive Directors are in compliance with the requirements of the relevant rules. The members of the Audit Committee serve a term of office of three years.

During the Year, the Audit Committee convened two meetings chaired by Ms. Chen Po Sum both with attendance of 100%, details of which are set out in the relevant forms herein. At the meetings, the Audit Committee considered the reports from the senior management and auditors, reviewed the completeness and accuracy of the financial statements and the fairness of connected transactions, and reviewed issues such as internal control and financial reporting procedures. All issues passed at the meetings were recorded and filed in accordance with relevant rules. The Chairman had submitted the report relating to the significant events discussed to the Board after each meeting.

During the Year, the Audit Committee accomplished the following works:

1. the consideration of the annual and interim results announcement and financial reports, together with the management advices provided by the auditors and the responses of the Company's senior management;
2. the review of the accounting policies adopted by the Group and the matters concerning accounting practice;
3. ensuring that the connected transactions of the Company are in compliance with the fair, impartial and open principles with sufficient protection of the minority interests;
4. assisting the Board to make independent evaluation on the efficiency of Group's financial reporting procedures and internal control system;
5. monitoring the internal audit of the Company; and
6. providing suggestions on significant events of the Company and reminding senior management of the relevant risks.

Attendance at the Board's meetings and the Audit Committee's meetings

	The Board's Meetings				Audit Committee's Meetings			
	Number of meetings in the year	Number of times attend in person	Number of times present by proxy	Absent	Number of meetings in the year	Number of times attend in person	Number of times present by proxy	Absent
Director								
Xu Mingwen	6	6			-			
Kuo Aiching	6	6			-			
Wang Zhongfu	6	6			-			
Bao Yuhong	6	6			-			
Zhang Zhongqi	6	6			-			
Fan Xianda	6	6			-			
Independent non- executive Director								
Chen Po Sum	6	3	3		2	2		
Sun Jiayuan	6	5	1		2	2		
Wu Zhengde	6	6			2	2		

MONITORING MECHANISM

Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duty under the laws to protect the legal interests of Shareholders, the Company and its staff. Also, it reviews the financial position of the Company pursuant to the Articles of Association, monitors the decisions made by the Board and senior management for operation and management of the Company as to whether they are in accordance with relevant requirements of laws and regulations. In September 2003, an extraordinary general meeting was held to elect the fourth Supervisory Committee, which comprised 3 members (including a Supervisor from the staff) with a term of office up to 30 September 2006. Mr. Zhang Xiaocheng is the Chairman of the Supervisory Committee. The number of members and the composition of the Supervisory Committee are in accordance with laws and regulations. Biographies of Supervisors are set out in pages 13 of this annual report.

During the Year, the fourth Supervisory Committee held two meetings both with 100% attendance.

All Supervisors have attended all the Board's meetings, and performed their monitoring obligations on behalf of Shareholders as to whether the financial activities of the Company and the performance of duties of Directors and senior management are in compliance with laws and regulations, as well as the decision-making procedures of the Board. The Supervisors have performed their legal duties on an impartial manner.

Internal Controls and Internal Review

The Board is responsible for establishment and maintenance of the Company's internal control system for reviewing relevant financial, operating and supervisory control procedures to protect shareholders' interests and the Group's assets. The management is authorised by the Board to promote such internal control system, effectiveness of which is reviewed by the Audit Committee.

Aiming at more effective review on the effectiveness of the internal control system, the Company set up an internal audit department in October 2003 to inspect, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its associates on a regular basis and when necessary, based on different potential risks and the importance of internal control systems for different businesses and workflows, so as to ensure the transparency of information disclosure, the operating efficiency and the effectiveness of the corporate monitoring mechanism. The independent and objective evaluation and recommendation are provided in form of audit report. The internal auditors are entitled to access to all information of the Company and making enquiries to relevant persons in performing their duties. The manager of the audit department directly reports the relevant outcomes and its opinions to the Audit Committee for consideration. Based on it, the Audit Committee puts forward its recommendation to the management of the Company and regularly reports to the Board.

Attaching much importance to the internal control, the Company has set up relevant internal management systems and procedures for corporate governance, operations, construction, finance and administration and personnel. In December 2004, the Board approved the Internal Control System which summaries and clarifies on a full scale the objectives, contents, methods and obligations of the internal control system. This will facilitate the Company's continuing inspection and assessment on implementation of the existing systems and the effect of internal controls.

REPORT OF THE DIRECTORS

Chief Accountant

The Chief Accountant is in charge of the Company's financial operation and reports to the General Manager.

The Chief Accountant is responsible for preparation of financial statements in accordance with GAAP of the PRC and Hong Kong and compliance with disclosure requirements stipulated by the CSRC and the Stock Exchange.

The Chief Accountant is also responsible for arrangements and preparation of the Company's annual budget scheme and the budget implementation proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the Chief Accountant shall work with and give recommendation to the Board in establishing relevant internal control systems.

RELATIONS WITH SHAREHOLDERS, INVESTORS AND OTHER CONCERNED PARTIES

The Company is committed to ensuring all shareholders, especially the minority shareholders, with equality in fully exercising their rights.

General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the laws to make decisions on significant events of the Company. The annual general meeting or extraordinary general meeting serves as a direct communication channel between the Board and the Shareholders. All Directors understand that the general meeting provides a major venue for direct communications between the Directors, Supervisors and other senior management members and Shareholders, where they shall report to Shareholders with regard to the Group's operations to secure effective communications with Shareholders. Accordingly, the Company has attached much importance to the general meeting. In addition to a 45-day prior notice before the holding of the meeting, the Company requires that all Directors and senior management members shall at their best attend the general meetings. Also, all Shareholders are encouraged to attend the general meetings, at which they can make enquiries about the Company's operation status or financial information or other speeches.

In 2004, the Company convened an annual general meeting. The shareholding held by Shareholders who attended the annual general meeting represented 99.37%, or 397,462,998 shares, of all issued shares of the Company.

Controlling Shareholder

During the Year, China PUTIAN is the controlling shareholder of the Company (shareholding: 60%).

As the controlling shareholder of the Company, China PUTIAN has never overridden the general meeting to directly or indirectly intervene the Company's decision-making and operations. The Company has always kept independent from its controlling shareholder in terms of staff, asset, finance, organisation and business.

In January 2005, China PUTIAN transferred its interests representing 60% of the issued share capital of the Company to China PUTIAN Company Limited, one of its wholly-owned subsidiaries, at nil consideration. The transfer will make China PUTIAN Company Limited become the Company's controlling shareholder instead of China PUTIAN. (For details, please refer to the paragraph headed "Changes in the Company's Controlling Shareholder" as set out in Significant Events in this annual report.

Information Disclosure and Investor Relation Management

The Company has strictly complied with the requirements on information disclosure under the Listing Rules, and has disclosed to the shareholders and related parties all discloseable information to the best knowledge of the Company on a timely and fair basis.

The company secretary is responsible for information disclosure of the Company and reception of visits of its shareholders and investors. In 2003, for further enhancement in investor relations management, the Company formulated Information Disclosure Management System and Information Management System to ensure the information disclosure on an open, fair and impartial basis and improve the Company's transparency.

In 2004, the Company's management maintained close contact and communications with investors by meeting its visiting investors. The Company provides its announcements, interim and annual reports with detailed financial information and results to Shareholders through the Investor Relations section on its website (www.cdc.com.cn).

Other Concerned Parties

Also, the Company is committed to providing satisfied services to customers and growth opportunities to employees. The Company takes efforts in improving its profitability under the principle of honesty and faithfulness with a high sense of responsibility toward its shareholders, investors, employees, customers, suppliers and the society. At the same time, the Company oversees and develops its businesses under local rules and environmental regulations to improve its corporate governance, and actively participates in social services and environmental protection.

Assessment and Motivation for Senior Management

The senior management included the General Manager, Deputy General Manager, Chief Accountant and secretary of the Company.

The annual results of senior management are based on the expected targets and audited financial statements of the Company. It is assessed in accordance with sale revenues and net profits as an index incorporated with the KPI critical result index.

The salary policy for senior management which linked with results and working performances will be assessed by the Board. The total annual salary of the senior management is comprised of two portions, that is the basic annual salary and the performance bonus. The salary of the Directors and Supervisors are set in accordance with the relevant policies or regulations in PRC and the practical situation of the Company and decided by the general meeting of the Company. During this year, director salary is paid to three Independent Non-executive Directors whereas the other Directors and Supervisors (including the existing Directors and Supervisors of the Company) are not paid with director salary and supervisor salary by the Company. The existing Directors and Supervisors are paid with managing salary in accordance with their concrete managing responsibilities in the Company.

MATERIAL LITIGATION

The Company received a writ (No. 129 of (2004) Cheng Min Chu Zi) from the Chengdu Intermediate People's Court ("Chengdu Intermediate People's Court") on 8 January 2004 stating that the Chengdu office of Huarong Assets Management Company ("Huarong Assets") had disputes over loan contracts with and claims against the Chengdu Cables Factory of the Ministry of Posts and Telecommunications (the predecessor of the Company) and the Chengdu Petrochemical Plant ("Petrochemical Plant"). Huarong Assets requested the Court to bring in a verdict ordering the defendants to pay damages of RMB3,351,000 (including principal and interest accrued) to Huarong Assets.

On 20 May 2000, Huarong Assets 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 Chengdu Cable Materials Plant ("Material Plant", an associate company co-invested and formed by the Company). The Agreement stipulated that Huarong Assets acquired ICBC's creditor right over Chemical Factory and that Material Plant 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 license of the guarantor Material Plant was revoked by authorities for the administration of industry and commerce on 16 November 2001. Material Plant has not been liquidated yet.

Following the ruling (No. 129 of (2004) Cheng Min Chu Zi) of the Chengdu Intermediate People's Court on 18 June 2004, it was held that the Company and Petrochemical Plant should liquidate the assets of Material Plant within 30 days as of the effective date of the ruling, and that the assets of Material Plant to be liquidated should be limited to its joint liability for the guarantee in respect of Chemical Factory's loan from Huarong Assets in an amount of RMB1,900,000 and the interest accrued.

To the knowledge of the Board, save as disclosed above, none of the other members of the Company or the Group were involved in any material litigation or arbitration during the Period.

CODE OF BEST PRACTICE

To the best knowledge of the Board, the Company had complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the Year.

PROPOSED AMENDMENT OF THE ARTICLES OF ASSOCIATION

The Stock Exchange has announced that certain amendment of Listing Rules of the main board (according to certain transitional arrangement) has come into effect on 31 March 2004. Besides, there are changes in controlling shareholders of the Company and newly added operations in the Company. To comply with the abovementioned new requirements and changes, and update the Articles of Association of the Company to match with the current practices of Hong Kong, the Board will propose special resolutions at the 2004 AGM to approve the amendment of the Articles of Association.

AUDITORS

The financial statements of the Group prepared in accordance with generally accepted accounting principles in Hong Kong have been audited by Ho and Ho & Company, the auditor of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Ho and Ho & Company as auditor of the Company.



By order of the Board
Xu Mingwen
 Chairman

19 April 2005