

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 35 of this annual report.
2. The financial position of the Group as at 31 December 2005 are set out in the consolidated balance sheets on page 36 of this annual report.
3. The changes in equity of the Group are set out in the consolidated statement of changes in equity on pages 37 and 38 of this annual report.
4. The cash flows of the Group are set out in the consolidated cash flow statement on page 39 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 2005 which have been prepared in accordance with Accounting Principles Generally Accepted in Hong Kong ("HKGAAP").

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> <i>*(restated)</i>	2003 <i>RMB'000</i> <i>*(restated)</i>	2002 <i>RMB'000</i> <i>*(restated)</i>	2001 <i>RMB'000</i> <i>*(restated)</i>
Turnover	<u>485,570</u>	<u>512,820</u>	<u>465,345</u>	<u>376,341</u>	<u>585,443</u>
Profit (Loss) before taxation	20,239	(64,655)	(75,304)	(114,422)	96,751
Taxation	<u>(5,073)</u>	<u>3,222</u>	<u>(6,213)</u>	<u>(4,453)</u>	<u>(7,508)</u>
Net Profit (Loss) for the year	<u>15,166</u>	<u>(61,333)</u>	<u>(81,517)</u>	<u>(118,875)</u>	<u>89,243</u>
Attributable to:					
Profit (Loss) attributable to equity holders of the Company	28,255	(61,438)	(81,752)	(113,705)	64,418
Minority interests	<u>(13,089)</u>	<u>105</u>	<u>235</u>	<u>(5,170)</u>	<u>24,825</u>
	<u>15,166</u>	<u>(61,333)</u>	<u>(81,517)</u>	<u>(118,875)</u>	<u>89,243</u>
Total assets	935,685	1,019,244	1,113,523	1,121,938	1,287,135
Total liabilities	(271,808)	(355,392)	(386,023)	(321,501)	(378,634)
Minority interests	<u>(82,938)</u>	<u>(112,638)</u>	<u>(114,913)</u>	<u>(116,926)</u>	<u>(111,285)</u>
Net assets	<u>580,939</u>	<u>551,214</u>	<u>612,587</u>	<u>683,511</u>	<u>797,216</u>

* Prior periods have been adjusted to reflect the change in accounting policy as described in note 2 to the consolidated financial statements prepared under HKGAAP.

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, etc.

The Group's turnover and contribution to results from operations for the Year are analyzed in segments according to the Group's principal activities and geographical markets as set out in note 6 to the consolidated financial statements on pages 51 to 54 of this annual report.

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 (%)	
	2005	2004
Purchases		
Single largest supplier	24	34
Five largest suppliers combined	<u>44</u>	<u>69</u>
Sales		
Single largest customer	19	21
Five largest customers combined	<u>44</u>	<u>47</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 payment of final dividend for the Year.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2005 are set out in note 37 to the consolidated financial statements on page 68 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 16 and 18 respectively to the consolidated financial statements on pages 59 and 60 of this annual report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements on page 65 of this annual report.

The Company did not issue any bonus shares, place any shares or issue any new shares during the Year and there was no change in the share capital of the Company during the Year and from 31 December 2005 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 2005, 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 meetings of the Company ("AGM") in 1998 and 2001 respectively, the Company had used an aggregate amount of HK\$373,429,000, of which HK\$84,360,000 was used in investment projects and HK\$289,069,000 was used for repaying Uand as working capital.

The balance of the unutilized proceeds amounted to HK\$50,571,000 which is deposited with banks in the PRC in HK dollars, US dollars and Renminbi.

In view of the Group's strained cash flow, in order to alleviate the pressure on capital and to ensure normal operation the Board had passed a resolution to apply proceeds of HK\$36,396,000 (RMB38,600,000) for working capital, for which resolution had obtained approval at the 2004 AGM of the Company.

OVERDUE TIME DEPOSITS

As at 31 December 2005 the Group does not have any deposit or trust deposit with non-bank financial institutions nor time deposits that cannot be recovered on maturity.

Although the Company decided at the 2000 AGM to write off the principal of the deposit of RMB30,000,000 in China Leasing Company Limited ("China Leasing") as bad debt, the Company has not given up on recovering this 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 is not entitled to any income tax rebate.

The Company has not received any notice from the relevant tax authority in respect of any 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	110
Total number of Shareholders	<u>111</u>

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the largest Shareholder was CPCL, 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 157,586,998 H shares, representing 39.39% of the total issued share capital. At the end of the Year, HKSCC held 157,198,998 H shares, representing 39.30% of the total issued share capital of the Company.

As at 31 December 2005, saved as stated in this section, there are 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.

As indicated by HKSCC, as at 31 December 2005, 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.	22,436,000	14.02	5.61
Bank of China (Hong Kong) Limited	19,700,000	12.31	4.93

Save as disclosed above, as at 31 December 2005, 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 51, received postgraduate education and is a senior engineer. Mr. Xu is currently the Chairman of the Company, Vice President and the Chief Legal Adviser of China PUTIAN and Senior Vice President of CPCL. Mr. Xu joined the Company in September 2000. Mr. Xu was previously the Chief Engineer of Guangzhou P & T Communications Equipment Factory and took up several positions including Deputy Chief Engineer and Deputy General Manager of China National Posts and Telecommunications Industry Corporation and Executive Director and Chairman of the third Board. He previously took 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 an Executive Director of the fourth Board on 25 September 2003.

Mr. Kuo Aiching, aged 50, received tertiary education and is a senior engineer. He is currently the Deputy Managing Director and the General Manager of the Company. Mr. Kuo joined the Company in April 1999. He was previously the assistant to Factory Manager and Standing Deputy Factory Manager, Factory Manager of Houma Cable Plant of the Posts and Telecommunications Ministry and Executive Director of the second and third Boards, 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 an Executive Director of the fourth Board on 25 September 2003.

Mr. Wang Zhongfu, aged 40, received postgraduate education and is a senior engineer. He is currently a Director of the Company, the Vice President of China PUTIAN and General Manager of International Operation Division of CPCL. Mr. Wang joined the Company in October 1997 and was previously Deputy General Manager of the investment management division, General Manager of the international co-operation division and Acting General Manager of the international trading division of China PUTIAN, Director and General Manager of Shanghai Posts & Telecommunications Equipment Co., Ltd. and Executive Director of the second and third Boards. He has extensive experience in the management of listed companies and joint venture enterprises and international trading. Mr. Wang was re-elected as an Executive Director of the fourth Board on 25 September 2003.

Mr. Bao Yuhong, aged 34, received university education and is an economist. He is currently a Director of the Company and Deputy General Manager of Enterprise Development Department of CPCL. Mr. Bao joined the Company in September 2000. He was previously the Deputy General Manager of the operating finance division and the Deputy General Manager of financial operation division of China PUTIAN and was Executive Director of the third Board and has certain experience in corporate management, corporate reform and operation of holding company. Mr. Bao was re-elected as an Executive Director of the fourth Board on 25 September 2003.

Mr. Zhang Zhongqi, aged 48, received tertiary education and 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 the Company in September 2000 and served previously in the operating finance division of China PUTIAN as Deputy General Manager. He had been seconded to Beijing Ericsson Mobile Communication Co., Ltd. as manager of the finance division and was Executive Director of the third Board of the Company. He has extensive experience in finance management of state-owned enterprises and financial control and operations in joint ventures. Mr. Zhang was re-elected as an Executive Director of the fourth Board on 25 September 2003.

Mr. Fan Xianda, aged 53, received tertiary education and is an engineer. He is currently a Director and Deputy General Manager of the Company. Mr. Fan joined Chengdu Cables Factory ("CCF") of the Posts and Telecommunications Ministry in December 1971. He was previously the Deputy Factory Manager, Factory Manager and assistant to General Manager of the Urban Telephone Cables Factory. He has extensive experience in corporate production, operation and management. Mr. Fan was elected as an Executive Director of the fourth Board on 25 September 2003.

Ms. Chen Po Sum, aged 74, was an Independent Non-executive Director during the Year. She was an Independent Non-executive Director of the first and second Boards since 30 September 1994. She was previously a member (financial service sector) of the first and second Legislative Council Election Committees 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. On 26 July 2005, Ms. Chen tendered her resignation. The resignation took effect on 16 February 2006.

Mr. Sun Jiayuan, aged 62, 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 of 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 61, 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.

REPORT OF THE DIRECTORS

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 48, received postgraduate education and is a senior economist. He is currently the Chairman of the Supervisory Committee of the Company ("Supervisory Committee") and the Vice Chairman of CPCL. He is also the General Manager of multi-business department and human resources department of the Company. Mr. Zhang joined the Company in October 1997 and was a Director of the second Board and a Supervisor and Chairman of the third Supervisory Committee. He was the General Manager of corporate management department, Deputy Supervisor of the office, the General Manager of capital operation department and the assistant to the president of China PUTIAN. He has extensive experience in corporate governance. Mr. Zhang was elected as a Supervisor again of the fourth Supervisory Committee on 25 September 2003.

Mr. Xiong Ting, aged 43, received tertiary 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, Supervisor of company office of CCF, assistant to General Manager and Manager of supplier company. He has extensive experience in corporate management. Mr. Xiong was elected as a Supervisor of the fourth Supervisory Committee on 17 June 2004.

Ms. Hong Xiurong, aged 53, received tertiary education in specialization 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 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 Mr. Zhang is three years commencing from 1 October 2003 until 30 September 2006. The terms of office for both Mr. Xiong and Ms. Hong are a little more than two years commencing from 18 June 2004 until 30 September 2006. Terms of office of all Supervisors are renewable upon expiration by re-election or reappointment.

3. COMPANY SECRETARIES

Mr. Stephen Mok, aged 41, is one of the joint secretaries of the Company and a partner of Simmons & Simmons in Hong Kong. He was appointed as Company secretary to the second and third Boards.

Mr. Qin Yaomu, aged 40, is the other joint secretaries of the Company. He is a senior engineer and has extensive experience in the production, operation and management of enterprises.

4. SENIOR MANAGEMENT

Mr. Dai Kang, aged 39, is a senior engineer and Deputy General Manager of the Company. He joined the Company in 1987.

Mr. Wang Dehong, aged 55, is a senior economist and Deputy General Manager of the Company. He joined the Company in 1977.

Mr. An Minmin, aged 59, is a senior accountant, who is responsible for financial affairs of the Company and is the Chief Accountant of the Company. He joined the Company in 1968.

RESIGNATION AND PROPOSED APPOINTMENT OF DIRECTORS

Ms. Chen Po Sum tendered her resignation as Independent Non-executive Director of the Company on 26 July 2005 due to personal reasons. Her resignation took effect from the date when a new Independent Non-executive Director was elected. Ms. Chen had confirmed to the Board that she had no disagreement with the Board and that there were no matters that need to be brought to the attention of the Shareholders or the Stock Exchange of Hong Kong Limited ("SEHK"). Ms. Chen also confirmed to the Board that she did not, and would not, make any claim against the Company for loss of office (whether contractual, statutory or otherwise), unfair dismissal or redundancy.

The Board of Directors proposed Mr. Choy Sze Chung to succeed Ms. Chen's office, and Mr. Choy was elected as Independent Non-executive Director for a term until 30 September 2006 at the extraordinary general meeting held on 16 February 2006 ("EGM").

Mr. Choy, aged 46, is currently the Vice Chairman of the Institute of Securities Dealers Limited. Mr. Choy has extensive experience in the securities industry, business management as well as property investment. Mr. Choy has been invited as speaker for various investment seminars. Mr. Choy obtained his Master Degree in Business Administration from University of Wales, Newport. Mr. Choy is also a committee member of Society of Register Financial Planners Limited, an associate of Institute of Financial Accountant U.K., the Honorary Treasurer of Rotary Club Kowloon West, a committee member of Shantou Overseas Friendship Association and a member of Hong Kong Securities Institute. He does not currently hold any position with the Company or any of its subsidiaries.

NUMBER OF STAFF

As at 31 December 2005, the Group had 1,705 staff members.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN SECURITIES

As at 31 December 2005, 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 Divisions 7 and 8 of Part XV of the SFO taken to have under the SFO, or which were required, pursuant to Part 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 no time during the Year did any of the Directors or Supervisors hold 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 AND SUPERVISORS

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

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details about remuneration of Directors and Supervisors are set out in note 11 to the consolidated financial statements on page 56 of this annual report.

FIVE HIGHEST PAID PERSONNEL

The five highest paid individuals in the Group during the Year include one Director. The details of remuneration of the five highest paid individuals are set out in note 12 to the consolidated financial statements on page 57 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 program 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 RMB1,545,000 in the Year (2004: RMB1,113,000). The reason for the increase in expenses for basic medical insurance for employees as compared with the Previous Year was that the Sichuan Administration Bureau of Social Insurance had revised a new salary standard for insurance payment in July 2004. The Company calculated the basic medical insurance using the new standard, thus resulting in slight increase in payment for basic medical insurance of employees over that of the Previous Year. 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 2005, 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 are set out in note 29 to the consolidated financial statements on page 65 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 RMB54,917,000 (2004: RMB52,516,000), partial land use rights valued at RMB2,651,000 (2004: RMB2,869,000) and a portion of buildings valued at RMB10,836,000 (2004: RMB11,715,000) to banks as guarantees for banking facilities of RMB76,379,000 (2004: RMB68,982,000). 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 (as defined in the Listing Rules)

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

A certain sum of the Group's borrowings is 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 RMB2,316,000 for the Year (2004: RMB816,000).

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

The Company provided guarantees of RMB60,000,000 and RMB18,000,000 to SEI and Chengdu MCIL Cable Radio Communications Cable Co., Ltd. ("Chengdu MCIL") respectively in 2005 as approved at the 2004 AGM.

All Directors, including 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 favorable than those available to third parties.

RETIREMENT SCHEME ARRANGEMENTS

Information on the retirement benefits scheme of the Group is set out in note 31 to the consolidated financial statements on page 66 of this annual report.

SIGNIFICANT EVENTS

1. CHANGE OF CONTROLLING SHAREHOLDER

On 24 January 2005, the Company was notified by China PUTIAN that as part of the internal restructuring, China PUTIAN had entered into a share transfer agreement ("Share Transfer Agreement") on 21 January 2005 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 ("Share Transfer"). Accordingly, the Share Transfer will result in a change in the immediate controlling shareholder of the Company from China PUTIAN to CPCL.

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.

The Share Transfer has been approved by the State-owned Asset Supervision and Administration Commission of State Council of the PRC and the Ministry of Commerce of the PRC ("Ministry of Commerce").

The Board considered that the Share Transfer would not constitute any adverse impact on the overall financial conditions and operation of the Company and had made the relevant disclosure on Chinese and English newspapers in Hong Kong on 25 January 2005.

2. RELOCATION OF THE COMPANY

In accordance with urban development planning of the Chengdu Municipal Government, the land where the Group's headquarters are located was 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 ("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, the production and office areas of the Group's headquarters were required to be relocated to the Western District of Hi-Tech Enterprise Development Zone (the "Western District of Hi-Tech Zone").

On 25 June 2004, the Company signed a cooperation agreement with the Management Committee of Hi-Tech Zone ("Management Committee") in respect of the Company's establishment of a China PUTIAN Chengdu industrial base in the Western District of Hi-Tech Zone. The Management Committee undertook to provide the Company with a piece of land with an area of 339,800 sq. m. (approximately 509.7 mu) in the Western District of Hi-Tech Zone for construction of the China PUTIAN Chengdu industrial base. The Company continues to benefit from the preferential policies of the Hi-Tech zone as well as the relocation preferential policy.

In April and December 2004, the Board resolved to approve the Company's overall relocation and disposal of the land of the existing Company's headquarters by way of an auction in public trading.

The overall plan of the Industrial Base was promulgated, under which the activities for the Industrial Base including land survey, tender invitation for works entities, design work of utilities installation and works plans began to emerge.

Since the relocation of the Group's headquarters is a lengthy process, the Company will take appropriate measures to minimize the relocation's interference on the manufacturing and operating activities of the Company.

3. THE TRANSFER OF THE LAND OF EXISTING PLANTS

In December 2004, the Board passed a resolution to approve the Company's disposal of the land where the Company's headquarters are located by way of a public auction.

As approved by Chengdu State Land Resources Bureau, the land the Group's headquarters are located shall be used as town residential land. In a public auction held in Chengdu, China, on 19 July 2005, Harmony-Tian Cheng Real Estate Development Co. Ltd ("Harmony"), an independent third party, won the bid on the land of 163,181 sq.m. (approximately 244.77 mu) where the Company's headquarters were situated with an offer of approximately RMB793,060,600 (approximately HK\$762,558,000) calculated on the basis of RMB3,240,000 (approximately HK\$3,115,000) per mu.

Pursuant to the Listing Rules, disposal of the land also constitutes a discloseable major transaction of the Company, and therefore is subject to approval at the EGM to be convened on 16 February 2006 under Rule 14.07 of the Listing Rules. Details of the transaction were published on Chinese and English newspapers in Hong Kong on 2 August 2005 and 28 November 2005 and the Notice of EGM and a circular of the shareholders were issued to the shareholders on 23 December 2005. Disposal of the land was approved in the EGM on 16 February 2006, the results of EGM has been published on Chinese and English newspapers in Hong Kong on 20 February 2006.

4. AMENDMENT TO THE ARTICLES OF ASSOCIATION

The Stock Exchange has published certain amendments to the Listing Rules (subject to certain arrangements during transitional periods) with effect from 31 March 2004. There was also a change in the controlling shareholder of the Company and there were the were businesses in the Company. Under these circumstances the Articles of Association of the Company ("Articles of Associations") have been amended by the Board to reflect the above-mentioned new provisions and change in accordance with the prevailing practice in Hong Kong.

The amended Articles of Association were passed at the 2004 AGM and were approved by the State-owned Assets Supervision and Administration Commission of the State Council.

On 7 November 2005, the Company's amendment to the Articles of Association in respect of, among others, the expansion of business scope of the Company which is in line with the Company's development strategy obtained approval from the Ministry of Commerce subject to final confirmation after the Company has amended Article 10 of the Articles of Association in accordance with the Ministry of Commerce's stipulation. The business scope of the Company, namely, "research and technological development, manufacturing, sales and services of wires and cables, optical fibres and optical cables, specialized materials used by cables, irradiation processing, cable accessories, specialized facilities and equipments and the devices and facilities of various information industry products, investment and import and export business related to the aforesaid operations etc. The scope of ancillary operations of the Company including: transfer of technological know-how; Technical consultancy, provision of technological services, commercial trading and highway freight service" as stated in Article 10 of Articles of Association shall be amended to, as required by the Ministry of Commerce, "research and technological development, manufacturing, sales and services of wires and cables, optical fibres and optical cables, specialized materials used by cables, irradiation processing, cable accessories, specialized facilities and equipments and the devices and facilities of various information industry products (excluding products restricted and prohibited by the State), import and export, wholesaling and retailing and commission agency (excluding auction) of commodities in line with the aforesaid products, wholesaling and retailing and commission agency (excluding auction) of domestically procured commodities (excluding specialized commodities), technical consultancy and provision of technological services".

The above-mentioned amendment to the Articles of Association was approved by a special resolution at the EGM.

5. TRANSFER OF 1% OF EQUITY INTERESTS IN CCS

In light of the continuing downturn of the global optical fibre and cable market, Corning International Corporation attempted to reduce CCS's current and future loss through injection of a new hardware and equipment business ("New Business") into CCS on the condition that the Company transferred its 1% equity interest in CCS to Corning International Corporation thereby making Corning International Corporation the controlling shareholder of CCS.

After giving full consideration to Corning International Corporation's offer and evaluating the merits and risks of such transfer, the Company agreed to transfer 1% equity interest in CCS to Corning International Corporation in December 2004. On 16 January 2005, the parties entered into an equity interest transfer agreement, under which the Company agreed to transfer its 1% equity interests in CCS to Corning International Corporation for a consideration of RMB1,548,000.

The equity interest transfer was approved by the Ministry of Commerce and the relevant handling procedures were completed in March 2006.

6. ACQUISITION OF EQUITY INTERESTS OF CHENGDU MCIL

In December 2004, Mitsubishi Cable Industries, Ltd. ("MCIL") notified the Company that it had decided to sell its entire equity interests in Chengdu MCIL after reviewing its internal financial situation and development strategy in the PRC.

On 12 May 2005, the Company and Shuangliu (a 66.67% owned subsidiary of the Company), entered into a sale and purchase agreement (the "Sale and Purchase Agreement") under which the Company and Shuangliu agreed to acquire 20% and 10% of the equity interests of Chengdu MCIL respectively from MCIL at considerations of RMB5,733,334 (approximately HK\$5,408,806) and RMB2,866,666 (approximately HK\$2,704,402) respectively. Upon completion of the Sale and Purchase Agreement, the Company and Shuangliu will own 90% and 10% of the equity interests of Chengdu MCIL respectively.

The aggregate consideration of the aforementioned transaction represents a discount of 50% off of the value of 30% of Chengdu MCIL's audited net assets. The Sale and Purchase Agreement became effective from 31 March 2005. The Directors, including Independent Non-executive Directors, believe that the terms of the Sale and Purchase Agreement are fair and reasonable and are in the best interest of the Company and its Shareholders.

As at the date of the Sale and Purchase Agreement, MCIL owned 30% of the equity interests of Chengdu MCIL and therefore MCIL was a connected person of the Company under the Listing Rules. Accordingly, the Sale and Purchase Agreement constituted a connected transaction for the Company under the Listing Rules. As each of the percentage ratios was less than 25% and the aggregate consideration under the Sale and Purchase Agreement, being RMB8,600,000 (approximately HK\$8,113,208), was less than HK\$10,000,000, the Sale and Purchase Agreement was only subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules. Relevant details will be included in the next annual report and accounts of the Company in accordance with Rule 14A.45 of the Listing Rules.

Pursuant to the Listing Rules, the Sale and Purchase Agreement also constituted a discloseable transaction of the Company, and therefore was published in various Chinese and English newspapers in Hong Kong on 13 May 2005 under Rules 14.34 to 14.39 of the Listing Rules. A circular was issued to the Shareholders on 23 May 2005.

The transfer of equity interests was approved by the relevant PRC authorities and the relevant procedures are in progress.

7. CHANGE OF AUDITORS

Ho and Ho & Company

Ho and Ho & Company have tendered its resignation as Hong Kong auditors of the Company ("Hong Kong Auditors") with effect from 18 November 2005. In its letter of resignation, Ho and Ho & Company confirmed that there were no matters in respect of its resignation which it considered necessary to be brought to the attention of the creditors of the Company or the Shareholders or the Stock Exchange and there was no divergence in views between Ho and Ho & Company and the Company. The Board confirms that the resignation of Ho and Ho & Company was solely a result of its recent merger with ShineWing Certified Public Accountants ("ShineWing") in China and the establishment of ShineWing (HK) CPA Limited ("ShineWing (HK)").

The Board had appointed ShineWing (HK) to fill the casual vacancy of Hong Kong Auditors resulting from the resignation of Ho & Ho and Company as the Hong Kong Auditors for a term until the conclusion of the EGM. The EGM on 16 February 2006 approved appointment of ShineWing (HK) as the Company's new Hong Kong Auditors which shall hold office until the next AGM of the Company.

Sichuan Huaxin (Group) CPA Firm ("Sichuan Huaxin")

The Company was notified by China PUTIAN, the controlling shareholder of the Company, on 18 November 2005 that, under the latest requirements as stated in Guo Zi Fa Ping Jia [2004] Document No. 173 in respect of appointment of auditors, the Company is required to remove Sichuan Huaxin as the domestic auditors of the Company and employ another auditors to assume such a position.

The Company had respectively approved the removal of Sichuan Huaxin and the appointment of ShineWing as the Company's domestic auditors at the EGM on 16 February 2006.

8. QUALIFIED ACCOUNTANT

According to Rule 3.24 of the Listing Rules, the Company must ensure that, at all times, it employs a full time employee who is responsible for overseeing the Company and its subsidiaries in connection with their financial reporting procedures and internal controls and compliance with requirements under the Listing Rules with regard to financial reporting and other accounting issues. This individual must be a member of the senior management of the Company, a qualified accountant and a fellow or associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants (“HKICPA”)) or a similar body of accountants recognized by the HKICPA for the purpose of granting exemptions from the examination requirement for membership of the HKICPA (the “HKICPA Qualifications”).

Currently, Mr. An Minmin (“Mr. An”), Chief Accountant of the Company, is responsible for overseeing the Company and its subsidiaries in connection with their financial reporting procedures, internal controls and compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting issues. Mr. An meets all the requirements of qualified accountant of the Company as set out in Rule 3.24 of the Listing Rules, except that he does not possess the HKICPA qualifications. In view of this, the Company has engaged Mr. Hung, Anckes Yau Keung (洪有強先生) (“Mr. Hung”), a fellow of HKICPA and a practising certified public accountant in Hong Kong, to assist Mr. An in overseeing the Company’s financial reporting procedures and internal controls as set out in Rule 3.24 of the Listing Rules. Mr. Hung meets all the qualification requirements of Rule 3.24 of the Listing Rules.

SEHK had granted a waiver from the strict compliance with Rule 3.24 of the Listing Rules in favor of the Company. The waiver granted by SEHK will cease on (i) 13 November 2008, or (ii) Mr. Hung is no longer able to assist Mr. An (whichever is earlier). In any of the situations mentioned above, the Company is required to immediately inform SEHK and take remedial steps to comply with Rule 3.24 of the Listing Rules.

MATERIAL LITIGATION

To the knowledge of the Board, none of the other members of the Company or the Group was involved in any material litigation or arbitration during the Year.

EXTRAORDINARY GENERAL MEETING

No EGM of the Company was held during the Year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Board considered that the Company had complied with the Code Provisions of the Code on Corporate Governance Practice set out in Appendix 14 of the Listing Rules during the Year. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time during the Year in compliance with the Code Provisions of the Code on Corporate Governance Practice set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

After specific enquiries with the Directors, the Board is pleased to confirm that all Directors had fully complied with the Model Code for Securities Transactions by the Directors of Listed Companies in Appendix 10 of the Listing Rules during the Year.

AUDIT COMMITTEE OF THE BOARD

Being responsible for conducting reviews of internal control and financial reports, the Audit Committee had reviewed the Company’s audited business report for the year 2005.

The Audit Committee considered that the audited annual report for the year 2005 had complied with the requirement of applicable accounting standard and law and appropriate disclosure was made.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

In February 2006, the Board confirmed receipt from each of the Independent Non-executive Directors a confirmation letter in regard to his independence pursuant to Rule 13.3 of the Listing Rules. The Board considers the existing Independent Non-executive Directors to be independent persons and are in compliance with the relevant provisions as set out in Rule 13.3 of the Listing Rules.

AUDITORS

The financial statements of the Group prepared in accordance with Generally Accepted Accounting Principles in Hong Kong have been audited by ShineWing (HK), the Company's Hong Kong auditor.

A resolution will be submitted to the 2005 AGM to re-appoint ShineWing (HK) as the Company's Hong Kong auditor.



By order of the Board
Xu Mingwen
Chairman

18 April 2006