

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 36 of this annual report.
2. The financial position of the Group as at 31 December 2006 are set out in the consolidated balance sheets on page 37 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 39 and 40 of this annual report.
4. The cash flows of the Group are set out in the consolidated cash flow statement on page 41 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 2006 which have been prepared in accordance with Accounting Principles Generally Accepted in Hong Kong ("HKGAAP").

	2006 RMB'000	2005 RMB'000	2004 RMB'000 *(restated)	2003 RMB'000 *(restated)	2002 RMB'000 *(restated)
Turnover	550,714	485,570	512,820	465,345	376,341
Profit (Loss) before taxation	150,627	20,239	(64,555)	(75,304)	(114,422)
Taxation	(9,118)	(5,073)	3,222	(6,213)	(4,453)
Net Profit (Loss) for the year	141,509	15,166	(61,333)	(81,517)	(118,875)
Attributable to:					
Profit (Loss) attributable to equity holders of the Company	139,294	28,255	(61,438)	(81,752)	(113,705)
Minority interests	2,215	(13,089)	105	235	(5,170)
	141,509	15,166	(61,333)	(81,517)	(118,875)
Total assets	1,125,517	935,685	1,019,244	1,113,523	1,121,938
Total liabilities	(311,387)	(271,808)	(355,392)	(386,023)	(321,501)
Minority interests	(94,014)	(82,938)	(112,638)	(114,913)	(116,926)
Net assets	720,116	580,939	551,214	612,587	683,511

* Prior periods have been adjusted to reflect the change in accounting policy adopted for the year ended 31 December 2005 which prepared under the Hong Kong Financial Reporting Standards.

REPORT OF THE DIRECTORS (CONTINUED)

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 53 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 (%)	
	2006	2005
Purchases		
Single largest supplier	26	24
Five largest suppliers combined	<u>47</u>	<u>44</u>
Sales		
Single largest customer	20	19
Five largest customers combined	<u>36</u>	<u>44</u>

As far as the directors of the Company (the "Directors") are aware, 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 a final dividend for the Year.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2006 are set out in note 36 to the consolidated financial statements on pages 68 and 69 of this annual report.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the changes in the property, plant and 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 2006 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 2006, 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 debts and used 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.

OVERDUE TIME DEPOSITS

As at 31 December 2006, 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 18% for high-tech enterprises 2005: 15%). The Company is not entitled to any income tax rebate.

Foreign investment enterprises in Sichuan Province are required to pay a local income tax rate since 1 January 2006 in compliance with the Notice on Termination of Preferential Local Income Tax Enjoyed by Foreign Investment Enterprises promulgated by Sichuan Provincial Department of the State Tax Bureau (Chuan Guo Shui [2006] Circular No.40) (《四川省國家稅務局關於廢止外商投資企業地方所得稅減免優惠政策的通知》(川國稅函[2006]40號)). Therefore, the Company was no longer entitled to enjoy the local preferential tax rate of 3% since 1 January 2006. Accordingly, the preferential tax rate entitled by the Company is 18%.

REPORT OF THE DIRECTORS (CONTINUED)

NUMBER OF SHAREHOLDERS

The details of the number of Shareholders as recorded in the register of members of the Company as at 31 December 2006 are as follows:

Classification	Number of shareholders
State-owned legal person shares	1
Overseas listed foreign invested shares — H Shares	109
Total number of Shareholders	<u>110</u>

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the largest Shareholder was CPCL, holding as beneficial owner 240,000,000 issued legal person shares, representing 60% of the total issued share capital of the Company. CPCL is wholly owned by China PUTIAN, a state-owned enterprise established in the PRC. At the beginning of the Year, HKSCC Nominees Limited ("HKSCC", holding shares of the Company on behalf of various customers) held 157,198,998 H shares of the Company, representing 39.30% of the total issued share capital. At the end of the Year, HKSCC held 156,992,998 H shares of the Company, representing 39.25% of the total issued share capital of the Company.

As at 31 December 2006, save 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 2006, 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.	19,440,000	12.15%	4.86%
Bank of China (Hong Kong) Limited	17,470,000	10.92%	4.37%
Guotai Junan (Hong Kong) Limited	9,031,044	5.64%	2.26%

Save as disclosed above, as at 31 December 2006, 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.

SUFFICIENT PUBLIC FLOAT

According to public information available to the Company and to the knowledge of each director, the Company confirmed that the public held sufficient shares during the Reporting Period and as at the latest practicable date prior to the publishing of this Annual Report.

DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

1. DIRECTORS

Mr. Zhang Xiaocheng, aged 49, received postgraduate education and is a senior economist. He is currently the vice president of CPCL and the executive director and the chairman of the fifth Board of the Company. He is also the general manager of the multi business department and the human resources department of CPCL, a director of Eastern Communications Co., Ltd., a director of Shenzhen PUTIAN Lingyun Electronic Co., Ltd. and a director of Infotech Ventures Co. Ltd. He was previously the head of the economic research division of Da Lian College of Economics and Management, the office secretary of PTIC and the secretary to the general manager of PTIC, assistant to the factory manager and assistant factory manager of Xian Microwave Hardware Factory of the Posts and Telecommunications Ministry, the deputy head of office and the head of the research centre of PTIC, a general manager of the corporate management department and the capital operation department of China PUTIAN, the director of the second Board of the Company and the chairman of the third and fourth Supervisory Committee of the Company. Mr. Zhang joined the Company in October 1997 and has extensive experience in corporate investment and operation management. He was elected as the executive director of the fifth Board in August 2006.

Mr. Kuo Aiching, aged 51, received tertiary education and is a senior engineer. He is currently the executive director of the fifth Board, the deputy managing director and the general manager of the Company. He was previously the assistant to the factory manager and standing deputy factory manager, the factory manager of Houma Cable Plant of the Posts and Telecommunications Ministry and an executive director of the second, third and fourth Boards, the standing deputy managing director and general manager of the Company. Mr. Kuo joined the Company in April 1999. He has extensive experience in the production of telecommunication cables and corporate management. He was elected as the executive director of the fifth Board on 17 August 2006.

Mr. Zheng Jianhua, aged 35, received a university education and has a bachelor's degree and is a senior economist. He is currently the general manager of the multi business department of CPCL, an executive director of the fifth Board of the Company and a director of Nanjing PUTIAN Telecommunications Co., Ltd. He previously worked for the finance department and the general office of PTIC as deputy head of the office of PTIC, and has been the deputy head and head of the chairman office of China PUTIAN. Mr. Zheng joined the Company and elected as the executive director of the fifth Board of the Company in August 2006 and has extensive experience in corporate integrated management.

Mr. Li Tong, aged 36, received a university education and has a bachelor's degree and is a senior economist. He is currently the deputy general manager of the corporate development department and the manager of division 1 of corporate operation of CPCL, the executive director of the fifth Board of the Company, the director of PUTIAN Eastern Communications Co., Ltd., the director of Nanjing PUTIAN Telecommunications Co., Ltd. and the director of Wuhan PUTIAN Telecom Equipment Groups Co., Ltd. He was previously the head of corporate management and deputy general manager, the deputy head of corporate restructuring office, the deputy general manager of enterprise development department, the manager of division 1 of corporate operation of China PUTIAN. Mr. Li joined the Company and elected as the executive director of the fifth Board of the Company in August 2006 and has extensive experience in production, operations and management.

Mr. Jiang Kun, aged 38, received postgraduate education and is a senior economist. He is currently the deputy general manager of the capital operation department of CPCL, an executive director of the fifth Board of the Company, a director of Wuhan PUTIAN Telecom Equipment Groups Co., Ltd., a director of Chong Qing PUTIAN Communication Equipment Co., Ltd., and a supervisor of Great Dragon Information Co., Ltd. He was previously Deputy Head of the operational finance department, deputy general manager of the capital operation department of China PUTIAN and deputy general manager of Chong Qing PUTIAN Communication Equipment Co., Ltd. Mr. Jiang joined the Company and elected as the executive director of the fifth Board of the Company in August 2006 and has extensive experience in capital operation and investment management.

Mr. Xiong Siyun, aged 43, received postgraduate education and is a senior accountant. He is currently the deputy general manager of the finance department of CPCL, an executive director of the fifth Board of the Company, a director of Guiyang PUTIAN Wanxiang Logistics Technology Co., Ltd., the chief financial controller of China PUTIAN Institute of Technology, a supervisor of Beijing Runway Technology Co., Ltd., the chairman of the supervisory committee of Beijing PUTIAN-SmartComm Information Technology Co., Ltd. and a director of Founder Communications Inc. He was previously the deputy head of the treasury department and treasurer of the business division 1 of China Electronics Import and Export Corporation, the treasurer and officer of the audit division of International Economic Cooperation Corporate, treasury head of Shanghai Baode Trading Company Limited (上海寶達貿易有限公司), the chief financial controller of China PUTIAN Institute of Technology, the deputy secretary of the Party Committee (part-time), the secretary of Disciplinary Commission (part-time) and the chairman of Labour Union (part-time). Mr. Xiong joined the Company and elected as the executive director of the fifth Board of the Company in August 2006 and has extensive experience in corporate financial management and risk control.

Mr. Choy Sze Chung, Jojo, aged 48, is currently the vice chairman of National Resources Securities Limited and an independent non-executive director of the fifth Board. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree from Monash University. Mr. Choy is also the Vice Chairman of the Institute of Securities Dealers Limited, a Committee Member of Society of Registered Financial Planner Ltd., a Fellow Member of Institute of Financial Accountants, a Fellow Certified Financial Strategist of Hong Kong Institute of Investors, a Fellow Member of the Institute of Compliance Officer, a Member of CPPCC Shantou, a Honorary President of Shantou Overseas Friendship Association and the Honorary Secretary of Rotary Club Kowloon West. Mr. Choy joined the Company in February 2006 and was previously the independent non-executive director of the fourth Board to succeed Ms. Chen Po Sum's office. He was re-elected as the independent non-executive director of the fifth Board on 17 August 2006.

Mr. Wu Zhengde, aged 62, is a doctorate postgraduate and currently a member of the Standing Committee of the Chinese People's Political Consultative Conference, the deputy chairman of the Central Committee of Democratic Alliance, the deputy chairman of the Sichuan Provincial People's Political Consultative Conference, the vice-chancellor of the University of Electronic Science and Technology of China and tutor for doctorate 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. He joined the Company in 2003 and was the independent non-executive director of the fourth Board. He was re-elected as an independent non-executive director of the fifth Board on 17 August 2006.

Mr. Li Yuanpeng, aged 67, received university education and has a bachelor's degree. He is currently a senior consultant of the Fifth Research Institute of Telecom Science and Technology R&D Institute, a professor-grade senior engineer, a tutor for postgraduate students, a member of the distribution expert advisory group of Telecom Science and Technology Committee of the Ministry of Information Industry, a member of the council and a member of the committee of the China Institute of Communications, a member of the Communication Lines Committee (通訊線路委員會), a member of the Cable and Optical Fibre and Optical Cable Expert Committee of the China Electrical Equipment Industrial Association. Mr. Li was previously the supervisor of the Research Department of the Fifth Research Institute of Posts and Telecommunications Science Research Institute (郵電科學研究院), the deputy head of the Research Institute, the supervisor of the Academic Committee of the Research Institute, the head of the Senior Technology Position Appraisal Committee, the head of the Cable Distribution Products Quality Control and the Testing Centre of the Posts and Telecommunications Ministry, a member of the Wire and Cable Sub-commission of China Electrotechnical Commission, a member of the Standing Committee of the Optical Cable and Wire Sub-committee of China Electronic Components Association, a member of the council and a member of the committee of the China Institute of Communication and, a chief member of the Communication Lines Committee. Mr. Li has extensive experience in cable distribution and communications. Mr. Li joined the Company in 2006 and was elected an independent non-executive director of the fifth Board of the Company in August 2006.

The Company confirms that the annual confirmation letter issued in relation to the independence of each individual Independent Non-executive Director in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") has been received. The Company considered all independent non-executive directors to be independent.

Service Contracts of Directors and Supervisors

Each of the Directors appointed on 17 August 2006 has entered into a service contract with the Company, with a term of three years commencing from 17 August 2006 up to 16 August 2009. The Directors' and Supervisors' remuneration include salary, bonus, allowance and other benefits including pension.

Save as disclosed above, no Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

2. SUPERVISORS

Mr. Wang Zhiqi, aged 59, received a tertiary education and is a senior accountant. He is currently the chairman of the Fifth Supervisory Committee ("Supervisory Committee") of the Company, the general manager of the auditing department of CPCL, a supervisor of CPCL, the chairman of the Supervisory Committee of Nanjing PUTIAN Telecommunications Co., Ltd. and the director of Beijing Hongna Postal Articles Co., Ltd. (北京鴻納郵品股份有限公司). He was previously the deputy division head of the Operation and Planning Division, the deputy chief economist and division head of the Planning and Financial Division (part-time) of the Beijing Posts and Telecommunications Equipment Factory, the deputy head of Auditing and Control Office of PTIC, the deputy general manager and chief accountant of Wuhan Zhouji Telecom Power Supply Group Co., Ltd. (武漢洲際通信電源集團有限責任公司), the deputy general manager (part-time) and the assistant general manager and general manager of the auditing department of China PUTIAN. Mr. Wang has extensive experience in financial risk control and corporate finance supervision. He joined the Company in August 2006.

Mr. Xiong Ting, aged 44, received a university education and is currently a Supervisor of the Fifth Supervisory Committee, the deputy secretary of the party committee and a Chairman of the labour union of the Company. Mr. Xiong joined Chengdu Cable (the former of the Company) in 1982 and was the secretary of the League Committee, the factory manager of the branch factory, the Supervisor of the company office of Chengdu Cable and assistant to general manager and manager of the supplier company. Mr. Xiong has extensive experience in corporate management. He joined the Company in 1982 and was elected as a Supervisor of the fourth Supervisory Committee on 25 September 2003.

Ms. Hong Xiurong, aged 54, received tertiary education in specialization and is a senior engineer. She is currently a Supervisor of the fifth Supervisory Committee and Vice-Chairman of the labour union of the Company. Ms. Hong joined Chengdu Cable (the former of the company) in 1970. She has been the Director of the Technology Department of Chengdu Cable. She has extensive experience in the design, production and technological management of communication cables. She was a Supervisor of the fourth Supervisory Committee democratically elected by the staff of the Company. Ms. Hong was democratically elected by the staff of the Company as a Supervisor of the Fifth Supervisory Committee.

Each of the existing Supervisors appointed on 17 August 2006 has entered into a service contract with the Company. The term of office is three years commencing from 17 August 2006 until 16 August 2009. Terms of office of all Supervisors are renewable for re-election or reappointment upon expiration.

3. COMPANY SECRETARY

Mr. Ngai Wai Fung, aged 45, joined the Company and appointed as the new company secretary on 20 April 2007. Mr. Ngai is an associate director and head of listing services of KCS Limited, one of Asia's leading independent and integrated providers of corporate services. He has over 18 years of experience covering a diverse range of areas from acting as company secretary, executive director and chief financial officer in listed companies to providing legal, accounting, finance and corporate finance advice to a wide variety of industries including banking, telecommunications, infrastructure, property development and management, construction, shipping-related, trading and catering businesses. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries ("HKICS") and the Chairman of China Affairs Committee of HKICS. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in UK. Mr. Ngai holds a master's degree in corporate finance from The Hong Kong Polytechnic University, a master's degree in business administration from Andrews University, Michigan and a bachelor's degree of laws (with Honours) from the University of Wolverhampton.

4. SENIOR MANAGEMENT

Mr. Fan Xianda, aged 54, is an engineer and Deputy General Manager of the Company. He joined the Company in 1971. He was an executive director of the fourth Board and previously the Deputy General Manager of the Company.

Mr. Dai Kang, aged 40, is a senior engineer and Deputy General Manager of the Company. He joined the Company in 1987.

Mr. Wang Dehong, aged 56, is a senior economist and Deputy General Manager of the Company. He joined the Company in 1977.

Mr. An Minmin, aged 60, 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.

REPORT OF THE DIRECTORS (CONTINUED)

NUMBER OF STAFF

As at 31 December 2006, the Group had 1,603 staff members.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

There were no contract of significance relating to the Company's business (to which the Company, 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 2006, none of the Directors, Supervisors and Chief Executive of the Company had any interests and short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be entered in the register referred to under section 352 or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (For such purposes, the relevant provisions were interpreted as applicable to the above Supervisors).

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 were granted rights to purchase 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 the remuneration of Directors and Supervisors are set out in note 14 to the consolidated financial statements on pages 57 and 58 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 the remuneration of the five highest paid individuals are set out in note 15 to the consolidated financial statements page 58 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 approved a new program for raising funds from its employees to construct staff quarters during the year 2006. As at 31 December 2006, a total of prepaid deposits of RMB19,368,000 was received from the employees. As the raising of funds is completed, the Group will sell all its property rights in the staff quarters to its staff.

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 amounting to RMB1,436,000 in the Year (2005: RMB1,545,000). Expenses for basic medical insurance for employees as compared with the Previous Year decreased because the number of employees reduced. The Company calculated the basic medical insurance using the new standard, thus resulting in a slight decrease in the payment for the basic medical insurance of employees over that of the Previous Year. The Board considered that the implementation of the basic medical insurance scheme for employees has no material impact on the financial status of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the year, none of the Company's listed securities were purchased, sold, redeemed or cancelled by the Company or any of its subsidiaries.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group are set out in note 29 to the consolidated financial statements pages 64 and 65 of this annual report.

PLEDGE OF ASSETS

Owing to the need for sufficient liquidity to carry out production operations, the Group pledged bank deposits of RMB7,769,000 (2005: RMB54,917,000), partial land use rights valued at RMB0 (2005: RMB2,651,000) and a portion of buildings valued at RMB844,000 (2005: RMB10,836,000) and assets classified as held for sale valued at RMB23,531,000 (2005: Nil) to banks as security for banking facilities granted to the Group. The Board considered that the pledge of assets is for securing banking facilities and will have no impact on the financial situation of the Group.

PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company (the "Articles of Association") and the PRC laws, 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 CPCL.

A certain sum of the Group's borrowings is guaranteed by CPCL.

- (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 RMB2,553,000 for the Year (2005: RMB2,316,000).

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

The Company provided guarantees of RMB20,000,000 and RMB18,000,000 to SEI and Chengdu MCIL respectively.

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 favourable than those available to third parties.

REPORT OF THE DIRECTORS (CONTINUED)

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 DIRECTORS AND SUPERVISORS AFTER EXPIRY OF TENURE

Pursuant to the Articles of Association of the Company, the term of each Director of the Board is 3 years and directors are eligible for re-election and re-appointment. Directors are elected at the general meeting of the Company from those candidates who are current directors or are nominated by shareholders holding 5% or more of shares in issue of the Company.

The term of three years of the fourth Board had expired since its establishment in 2003. On 17 August 2006, the Company convened an extraordinary general meeting to elect the fifth Board of Directors. Mr. Zhang Xiaocheng, Mr. Kuo Aiching, Mr. Zheng Jianhua, Mr. Li Tong, Mr. Jiang Kun and Mr. Xiong Siyun were elected as Directors of the fifth Board. Mr. Choy Sze Chung, Jojo, Mr. Wu Zhengde and Mr. Li Yuanpeng were elected as Independent Non-executive Directors of the fifth Board. Mr. Wang Zhiqi and Mr. Xiong Ting were elected as Supervisors of the fifth Supervisory Committee. Ms. Hong Xiurong was elected as the staff representative supervisor, who represents one-third of the members of the Supervisory Committee, by employees of the Company by way of democratic election on 21 July 2006.

2. CHANGE OF COMPANY SECRETARY

Mr. Qin Yaowu, a former joint company secretary, had resigned as one of the joint company secretaries of the Company with effect from 17 August 2006. Mr. Stephen Mok, a former joint company secretary, had resigned the position of company secretary due to personal reasons. As resolved by the fourth meeting of the fifth Board on 20 April 2007, Mr. Ngai Wai Fung was appointed as the new company secretary.

3. RELOCATION OF THE COMPANY AND BASE CONSTRUCTION

The first and second stage of the construction plan for the Chengdu industrial base of China PUTIAN was approved by the head office of the Group at the end of 2005. On 18 May 2006, construction permits were obtained for the industrial base. The construction of the six buildings of lightweight steel structure, covering approximately 70,000 square metres, has commenced. Currently, the main steel structures of all factories have passed the acceptance procedures. The 201# Plant (Chengdu MCIL) has been put into operation. Ground leveling at all factories is completed except at the 103# Plant. The Company started to relocate the machinery and equipment of its main production lines during the Lunar New Year. The production zone will be in full operation in May 2007 and one quarter of the industrial base has completed ground leveling. The main structures of the research and development building and the canteen were completed prior to the Lunar New Year. The whole project is expected to be completed at the end of August 2007.

4. INCREASING INVESTMENT IN CHENGDU MCIL

The Board of Directors resolved in June 2006 to increase its investment in Chengdu MCIL.

Chengdu MCIL has achieved significant progress in product and market development as well as its production and business operations since its establishment. Particularly in the recent two years, sales revenues have increased substantially and market demand has exceeded supply. In the first half of 2005, Mitsubishi Cable Industries, Ltd. adjusted its operational strategy and disposed of its investment in Chengdu MCIL. Chengdu Cable Plant of the Ministry of Posts and Telecommunications Shuangliu Heat Shrinkable Products Plant (成都電纜雙流熱縮製品廠) became a new shareholder of Chengdu MCIL. The Company holds 90% equity interest in Chengdu MCIL after its shareholding restructuring. Hence, the Board is decided to take the opportunity arising from the relocation of the plants to the industrial base to acquire new production facilities, renovate key equipment and expand its production which will increase the capital of Chengdu MCIL by RMB20 million, of which RMB3,770,000 will be used for fixed assets and RMB16.23 million for current assets. The Company will contribute capital of RMB18 million according to its shareholding in Chengdu MCIL. The Company's investment in Chengdu MCIL will proceed very soon and the investment in its current assets will be made by stages depending on the business operations of Chengdu MCIL.

5. 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 and Ho & 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 CPCL, 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.

6. 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 Company or other members of the Group was involved in any material litigation or arbitration during the Year.

REPORT OF THE DIRECTORS (CONTINUED)

EXTRAORDINARY GENERAL MEETING

Two extraordinary general meetings of the Company were held on 16 February 2006 and 17 August 2006 respectively during the Year.

THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Board considers that the Company has complied with the 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 provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules.

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 have fully complied with the Model Code for Securities Transactions by the Directors of Listed Companies set out in Appendix 10 of the Listing Rules during the Year.

AUDIT COMMITTEE OF THE BOARD

Being responsible for conducting reviews of the internal control and financial reports, the Audit Committee has reviewed the Company's audited annual results for the year 2006.

The Audit Committee considers that the audited annual results for the year 2006 had complied with the requirements of applicable accounting standards and laws and appropriate disclosure was made.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirms that it has received 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 in February 2007. The Board considers the existing Independent Non-executive Directors to be independent persons and to be 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.

SHINEWING (HK) is a CPA firm established upon the reorganisation of ShineWing (PRC) Certified Public Accountants with the Company's original auditors, Ho and Ho & Company. The Company convened an extraordinary general meeting at 16 February 2006 for the appointment of SHINEWING (HK) as the auditors of the Company.

At the AGM for the year 2006, the Company will propose a resolution for the re-appointment of SHINEWING (HK) as the Company's Hong Kong auditor.

By order of the Board

Zhang Xiaocheng
Chairman

20 April 2007