

Nanjing Postel Telecommunications Co., Ltd.

1999 Annual Report

Important Note:

The Board of Directors of the Company hereby confirms that there are no factitious record, misleading statements or material omission in the information carried in this report, and collectively and individually accepts full responsibility for the truthfulness, accuracy and completeness of the whole contents.

The report is prepared both in Chinese and in English. In case of any inconsistency between the two versions, the Chinese version should prevail.

I. Company Profile

- | | |
|--|--|
| 1. Company's Chinese Name: | 南京普天通信股份有限公司 |
| Company's English Name: | Nanjing Postel Telecommunications Co., Ltd. |
| 2. Legal Representative: | Mr. Lu Junhai |
| 3. Secretary of the Board: | Mr. Xiao Zhaokai |
| Authorized Representative: | Mr. Gu Xiaorong |
| Contact Address: | No. 1 Postel Road, Qinhuai District Nanjing |
| Telephone: | 86-25-2309954 |
| Facsimile: | 86-25-2309954 |
| Email Address: | Ntelecom@public1.ptt.js.cn |
| 4. Registration Address: | Bldg. 1, West to Ericsson Building, Jiangning Economics and Technology Development Zone, Nanjing, Jiangsu Province PRC |
| Office Address: | No. 1 Postel Road, Qinhuai District Nanjing |
| Postal Code: | 210012 |
| Company's Web Site: | www.postel.com.cn |
| Email Address: | investor@postel.com.cn |
| 5. Appointed Newspaper for Company Information Disclosure: | Securities Times & Hong Kong Commercial Daily |
| Appointed Web Site for Annual Report Publication: | www.cninfo.com.cn |
| Annual Report Prepared At: | Securities Office of the Company |
| 6. Listing and Trading Place of the Company Stock: | Shenzhen Stock Exchange |
| Stock Code: | 2468 |

II. Financial & Operating Highlights

1. Financial data for 1999 (Rmb' 000)

Profit before Taxation	5,560
Net Profit	534

Gross profit	97,277
Profit for Other Businesses	8,632
Operating Profit	13,154
Investment Income	5,646
Subsidy Receipt	2,262
Net Cash Generated from Operating Activities	-41,355
Increase of Cash and Cash Equivalent	44,064

Reconciliation of profit for the year and net assets between the PRC reporting and IAS reporting (Rmb' 000 Yuan)

	Net Profit for the year ended 31 December 1999 Rmb' 000	Net assets at 31 December 1999 Rmb' 000
Per PRC reporting	791	484,192
Adjustments for IAS reporting:		
Income tax refund	1,174	-
Amortisation of deferred assets	(1,431)	-
Revaluation	-	(28,618)
Other	-	11,005
	<hr/>	<hr/>
Per reporting under International Accounting Standards	534	466,579
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Note: From this year on, the bad debt reserves will be calculated by account age analyzing method, the balance method will no longer adopted.

2. Main financial data for the recent 3 years (Rmb' 000 yuan except per share amounts):

Financial Indicators	1999	1998	1997
Turnover	392,029	483,633	497,910
Net Profit	534	25,658	45,920
Total Assets	879,840	745,053	780,362
Shareholder's Equity(excluding minor shareholder's equity)	466,579	466,045	440,387
Earnings Per Share	0.002	0.119	0.214
Net Assets Per Share	2.17	2.17	2.05
Net Cash Per Share Generated from Operating Activities	-0.12	-0.05	-0.04
Return On Net Assets(%)	0.16	5.51	10.43

Note 1: Earnings Per Share and Net Assets Per Share is equal to the monthly diluted amount because the Capital Stock kept unchanged during the period,

Note 2: The calculating method of the above financial data is as follows:

Earnings Per Share = Net Profit / Total number of the ordinary shares at year-end

Net Assets Per Share = Shareholder's Equity at year-end / Total number of the ordinary shares at year-end

Net Cash Per Share Generated from Operating Activities = Net Cash Generated from Operating Activities / Total number of the ordinary shares at year-end

Return on Net Assets = Net Profit / Shareholder's Equity at year-end × 100%

Note 3: The share capital of the Company kept unchanged from the end of the reporting

period to the day when this report is published.

3. Changes on Shareholders' Equity during the reporting period (Rmb' 000)

Item	Share capital	Capital accumulation fund	Statutory and discretionary accumulation fund	Statutory welfare fund	Other reserves	Retained earnings	Shareholder's equity in total
At year-beginning	215,000	177,442	30,450	18,922		24,231	466,045
Increase		1,174	957	503		716	534
Decrease			182		115	2,749	
At year-end	215,000	178,616	50,650,788	19,425	115	22,198	466,579

Increase of capital accumulation fund was resulted from income tax refund in 1999.

Increase of statutory and discretionary accumulation fund was resulted from proposed appropriations in 1999, and decrease was resulted from disposal of a subsidiary in 1999.

Increase of statutory welfare fund was resulted from proposed appropriations in 1999.

Increase of retained earnings was resulted from net profit for 1999 and disposal of a subsidiary in 1999, decrease from income tax refund in 1999, and proposed appropriation of statutory and discretionary accumulation fund, statutory welfare fund and other reserves in 1999.

III. Share Capital Variation & Shareholders Introduction

1. Share Capital Variation

(1) Change of the share structure

From the beginning of the reporting period to the day when this report is published, the Company's share capital kept unchanged. The total share was 215,000,000, including 115,000,000 state-owned legal person shares and 110,000,000 domestically-listed foreign shares.

(2) Stock issuing and listing

As approved by State Securities Regulatory Commission by its approval No.ZWF(1997)22, the Company issued 100 million domestically listed foreign shares, HKD 2.43 for each, to foreign investors on 25 April 1997. The circulating 100 million shares were listed at Shenzhen Stock Exchange on 22nd, May 1997.

2. Shareholders introduction

(1) At 31st Dec 1999, the Company had 4368 shareholders, including 1 state-owned legal person shareholder and 4367 B- shareholders.

(2) Top ten shareholders at the year-end

Order	Shareholder	Shares held	Ratio(%)
1	China PTIC Information Industry Corporation	115,000,000	53.49
2	黄真	2,082,300	0.97
3	彭德政	2,024,600	0.94
4	BONY A/C AMG CH CHINA INVESTMENTS LIMITED	1,700,001	0.79
5	明敏国际有限公司	1,222,360	0.57
6	方科	1,161,000	0.54
7	GONG JUNQIN	1,005,900	0.47

8	EASTSUN INVESTMENT FUND S.A.	1,000,000	0.46
9	孙容金	857,500	0.40
10	陈炎希	700,460	0.33

Note: Only one shareholder, China PTIC Information Industry Corporation (the former China National Posts & Telecommunications Industry Corporation) owns over 5 percent of the Company's shares. The number of the shares held by PTIC kept unchanged during the year and the shares were neither mortgaged nor frozen.

There are no related parties between the top ten shareholders.

(3) Introduction of shareholders owning over 10 percent of the Company's shares:

China National Posts and Telecommunications Industry Corporation (PTIC), with legal person representative Zhang Qingzhong, is engaged in the following business including: to organize its subsidiaries to produce communications equipment, postal specialized equipment, communication line appliances and components, communications equipment specialized electronic appliances etc.

(4) The Control Company kept unchanged during the reporting period.

IV. Shareholders General Meeting

1. Shareholders General Meeting held during the year:

During the year the Company held the 1998 Shareholders General Meeting. The notice for the meeting was published on Securities Times and Hong Kong Commercial Daily on 10 April 1999.

On 10 April 1999, the 1998 Shareholders General Meeting was held in the boardroom of the Company. The present shareholders (including one state-owned legal person shareholder and 2 B-shareholder proxies, respectively representing 115,000,000 and 1,358,000 shares) altogether represented 116,358,000 shares, 54.12% of the Company's share capital, which applies to the relevant rules of the Company Law. The meeting examined and passed the following resolutions, including:

- (1) 1998 Annual Report
- (2) 1998 Work Report of the Board of Directors
- (3) 1998 Work Report of the Board of Supervisors
- (4) 1998 Work Report of General Manager
- (5) 1998 Financial Report and Profit Distribution Proposal:

The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on 13 May 1999.

2. Members of the directors and supervisors kept unchanged in the year.

V. Report of the Board of Directors

1. Operating position of the Company

The Company is a telecommunications equipment manufacturer, which was granted by Electronics Information Center of China Information Industry Ministry 82nd of the "Top 100 Electronic Enterprises of China" in 1999.

The main business of the company includes the manufacture, sales and after sales services of data communications products, wiring communications products, radio communications products, distribution frame products and multi-media computers.

In 1999, under the leadership of the Board of Directors, the company staff achieved considerable results against the market pressure. These are the main jobs done during the year: (1) to convert the operating system and create a favorable atmosphere for the development of the Company, (2) to strengthen technology development and speed up the pace of technology introduction, (3) to actively explore potential market and adjust the Company's sales network, (4) to conduct personnel and distribution system reform at a faster pace and strengthen internal management.

The Company reported turnover of 392,029,000 yuan for the year, 18.94 percent down from last year, and profit before taxation of 5,560,000 yuan, also a comparatively substantial decrease over the same period last year.

The operating position and results of the Company's main subsidiaries are as follows:
Nanjing Nanfang Telecommunications Company:

The main product of Nanfang Telecom, DPN-100 switched packet system's market shrank in 1999. At the same time the CDPD market did not increase and the company's other data products have not expanded to large scales. These factors resulted a substantial decrease on Nanfang Telecom's financial indicators compared with last year, as sales income reported 73,649,800 yuan and total profit 343,400 yuan.

Nanjing Hongyan Electric Appliance Company:

In 1999, despite of the intensive competition in electric appliance market and impact of price reduction and marketing expense growth, Nanjing Hongyan reported sales income of 52,591,600 yuan and profit of 3,845,300 yuan, respectively 9.7 percent and 9.6 percent up from last year.

2. Financial position of the Company (Rmb' 000)

Indicator	1999	Increase/decrease over last year	Reason
Total assets	879,840	18.09%	Bankloan increased
Long-term liabilities	3,270	0.46%	
Shareholder's equity	466,579	0.11%	Profit increased
Gross profit	97,277	-17.22%	Sales income decreased, gross margin ratio declined
Net profit	534	-97.92%	Sales income decreased

3. Investment of the Company

(1) Use of the Proceeds

In April 1999, the Company raised a total of 0.24 billion yuan from initial B-share offering. Pursuant to the promise of the Prospectus, the proceeds were applied to the following projects (Rmb' 000):

Promised projects	Planned investment amount	Implemented investment amount

Packet switched equipment production line technical renovation	10,000	10,000
ATM technical development	40,000	27,470
Multimedia communications terminal	20,000	20,000
Import of wireless packet technology	30,000	23,820
Technical renovation of distribution frame	16,000	16,000
Fixed wireless access system	42,000	24,760

Among these projects, the DPN-100 packet switched equipment production line technical renovation, the multimedia communications terminal project and the technical renovation of distribution frame has been completed in 1998 and 1999. In 1999, profit of 6,076,100 yuan was gained on the distribution frame project with its 8 million lines' production capability and optical distribution frame pushed into market. Sales income of 20,530,000 yuan was gained on the multi-media computer project though it has not contributed to any profit so far. The ATM sample has passed the Company's internal appraisal and is in the process of production and systematization. And expectedly the production line technical renovation will be conducted in 2000 and thereafter. The SCDMA fixed wireless access project is in the process of technology research.

The remaining idle fund was invested in governmental bond on which a total of 5,811,800 yuan was yielded in the year.

(2) Important projects invested with other fund

In December 1999, the Company invested 9,800,000 yuan to establish Xishan Postel Information Network Ltd. joint with Xishan Radio & Television Bureau. The new company in which the Company holds 49 percent of the stake is mainly engaged in public data communications, internal voice communications, video communications and Internet access.

As approved by the Board of the Directors in November 1999, the Company would invest 2,800,000 yuan to establish Nanjing Postel Louyu Intelligence Industry Co. Ltd, jointly with managers and core members of the former Louyu Technology Company by share option.

4. Influence of China's entry into WTO to the Company

The Company will face new opportunities and challenges if China joins WTO: (1) Two of the Company's main products, distribution series products and data communications products had been growing along with the foreign competitors as the telecommunications equipment market of China was opened to foreign manufactures long ago. Therefore, whether China enters into WTO will not have material impact on the prices of these products. Oppositely, by applying the genetic tariff preference policy, the Company can export the distribution equipment to foreign countries, and thus enhance the competitive power of the products. (2) A notable result of china's entry into China will be the opening of telecommunications operation industry, which brings a good opportunity for the Company to go into the telecommunications industry. (3) Nevertheless, the marketing competition will be more intensive because more foreign enterprises will come into China after China joins WTO.

5. Business development plan for the new year

- (1) To strengthen the sales network establishment, and enhance the Company's flexibility to market.
- (2) To speed up the adjustment of products structure and find out new economic growth industries as soon as possible. The Company will continue to take the data products as our main industry and mainly develop Internet products including the ether switch equipment, router and IP gateway. At the same time, we will strengthen the development of distribution products so as to keep its leadership in China, and try to develop electric products, representatively Hongyan electric appliances, into large-scale, high-grade and intelligent products. Moreover, we will look for new economic growth industry by trying to enter into wireless mobile service field.
- (3) To speed up the conversion of operating system and deepen the internal reform.
- (4) To strengthen management and appraisal.

6. Routine work of the Board of Directors

- (1) Meetings and resolutions of the Board of Directors during the reporting period

On 7 April 1999, the Company held the sixth meeting of the first Board of Directors, on which the following resolutions were considered and approved, including 1998 Business Report of General Manager, 1998 Annual Report and Highlights of 1998 Annual Report, 1998 Financial Report and Profit Distribution Plan, and resolution on holding the 1998 Shareholders General Meeting.

On 15 August 1999, the Company held the seventh meeting of the first Board of Directors, on which the following resolutions were considered and approved, including General Manager's report on review of the Company's operating position in the first half year of 1999, 1999 interim financial report and profit distribution plan, and the resolution on canceling the Intelligence Card project.

On 6 September 1999, the Board of Directors held a meeting to consider and approve the resolution on establishing Xishan Postel Information Network Co. Ltd. with Xishan Radio & Television Bureau.

On 30 November 1999, the Board of Directors held a meeting to consider and approve the resolution on establishing Nanjing Postel Intelligence Industry Co. Ltd.

7. Management and Employees of the Company

- (1) Directors, supervisors and senior management

Name	Sex	Age	Position	Expiration of Office	Whether or not receive salary from the Company
Lu Junhai	Male	57	President	May 2000	No
Li Weide	Male	52	Vice President and General Manager	May 2000	Yes
Li Zongxin	Male	59	Director	May 2000	No
Zhou Zhenkai	Male	57	Director	May 2000	No
Wang Jiaqiang	Male	49	Director	May 2000	No
Jiang Haishan	Male	43	Director and Vice	May 2000	Yes

			General Manager			
Xu Aimin	Male	44	Director and Vice	May 2000		Yes
			General Manager			
Cao Bin	Male	43	Director and Vice	May 2000		Yes
			General Manager			
Shi Xinhua	Male	49	Director	May 2000		Yes
Li Xuegen	Male	52	Chairman of the	May 2000		Yes
			Board of Supervisors			
Liu Xiangpin	Male	61	Supervisor	May 2000		No
Sun Qiang	Male	42	Supervisor	May 2000		Yes
Xiao Zhaokai	Male	35	Secretary to the	May 2000		Yes
			Board of Directors			
Qian Ruicheng	Male	52	Vice General	May 2000		Yes
			Accountant			

Directors, supervisors and senior management of the Company did not hold the Company's shares either at the beginning or end of the year.

The Directors, Supervisors and senior management kept unchanged during the reporting period.

Among the above people, one people earned less than 20,000 yuan a year, five people earned 20,000 to 40,000 yuan a year, and three people earned 40,000 to 50,000 yuan a year.

(2) Employees of the Company

At the end of 1999, the Company had 1,785 employees.

A breakdown by job duties of the employees is as follows:

Research and development	280	Production	652
Sales	361	Services	221
Administration	210	Other	61

8. The Company reported net profit of 534,000 yuan for the fiscal year 1999. For the development of the Company, the Board of Directors resolved that no dividends be declared this year, and that no capital accumulation fund be transferred to share capital.

9 . As approved by the Board of Directors, the Company chose Hong Kong Ta Kun Pao to replace Hong Kong Commercial Daily as the newspaper for publishing company information from 1 January 2000 on, and amendment will be made to the relevant parts of the Articles of Association.

VI. Report of the Board of Supervisors

1. Meetings of the Board of Supervisors during the reporting period

The fourth meeting of the first Board of Supervisors was held on 7 April 1999. The subject of the meeting was to consider the 1999 Work Report of the Board of Supervisors

and other reports that the Board of Directors would submit to Shareholder's General Meeting. Besides, the supervisors put forward their advice on the Company's operation, especially financial control in 1999.

2. Independent opinion presented by the Board of Supervisors

(1) How the Company abided by the laws in operation

The Company has been strengthening the idea of "lawfully operating" so far and trying to make decisions according to legal procedures in operation. The directors and senior management were honest and diligent, and no acts were observed in their duties violating the laws and the Articles of Associations of the Company, or contrary to the interest of the Company.

The Company has developed its internal control system gradually. Pursuant to the requirement of Finance Ministry of China and China Securities Supervisory Commission, the Company has established an internal control system particularly on provision for assets devaluation and disposal of losses, which will be submitted to the next meeting of the Board of Directors.

(2) The Company faithfully applied the proceeds raising from share issue to projects according to the promise in the Prospectus. No acts of abusing or misappropriating the proceeds were observed.

(3) The Company's related transactions, which were executed under the rule of fair trade, did not harm the interest of the Company and shareholders. And no inside trades were observed.

VII. Significant Events

1. The Company was not engaged in any lawsuit or arbitration of material importance during the reporting period.

2. During the reporting period the Company, or any of the directors and senior management were not, for any reason, penalized by the regulatory authorities.

3. The control shareholder of the Company remained unchanged during the reporting period. Members of the directors, supervisors, general manager and secretary to the Board of Directors kept unchanged during the period too.

4. The Company did not execute any other matters relating purchasing assets, selling assets, or merging during the reporting period.

5. Material related transactions: see Notes to the Financial Statements

6. The Company's personnel, assets and financial systems are totally independent from the control company, China PTIC Information Industry Corporation as the two companies reside in different places.

7. During the reporting period the Company did not trust, contract or lease assets to other companies or from other companies.

8. Both of the domestic and foreign public accountants appointed by the Company kept unchanged during the reporting period.

9. The CKZ [1999] No. 35 Document by the Ministry of Finance does not have any notable influence on the previous years' business results of the Company, since the Company had adopted the bad debt provision method in the previous years.

10. The company did not sign any guarantee or mortgage contracts during the reporting period.

11. The Company did not change the name or trading symbol during the reporting period.

VIII. Financial Report

1. Auditor's report

The Company's 1999 Financial Statements were audited and issued an unqualified opinion on by Price Waterhouse Da Hua and PricewaterhouseCoopers China Limited.

2. Financial statements(see attached forms)

3. Notes to the financial statements (attached below)

IX. Other Relevant Information

1. Place and date of re-registration:

The Company re-registered at China Industrial and Commercial Administration Bureau on 28 May 1999 after acknowledged by State Foreign Trade and Economic Cooperation Department as a listed foreign-funded joint venture.

2. Legal person operating license registration code: QGSZZ No. 000225

3. Taxation registration code: 320121134878054

4. Custodian of the Company's non-circulating shares: Shenzhen Securities Registration Company

5. Names and office address of appointed accountants:

Domestic accountant: Price Waterhouse Da Hua

Address: 12th Floor Shui On Plaza 333, Huaihai Zhong Road, Shanghai

Foreign accountant: PricewaterhouseCooper China Limited

Address: 12th Floor Shui On Plaza 333, Huaihai Zhong Road, Shanghai

X. Documents for Inspection

- 1. Original text of accounting statements signed and sealed by legal person representative, vice general accountant and accountable officer.**
- 2. Original text of Auditor's Report signed and sealed by Certified Public Accountant with public accountant's seals on.**
- 3. Original texts of all the files and announcements published on the newspapers appointed by China Securities Regulatory Commission during the reporting period.**

**Nanjing Postel Telecommunications Co., Ltd.
25 April 2000**

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 Rmb' 000	1998 Rmb' 000
Sales	3	392,029	483,633
Cost of sales	3	(294,752)	(366,116)
Gross profit		<u>97,277</u>	<u>117,517</u>
Other operating income		8,632	957
Selling expenses		(38,090)	(35,762)
Administrative expenses		(54,665)	(45,788)
Operating profit	4	<u>13,154</u>	<u>36,924</u>
Finance costs, net	6	(7,594)	(4,996)
Share of profit of associates		-	30
Profit before tax		<u>5,560</u>	<u>31,958</u>
Taxation	7	(4,043)	(4,588)
Profit after taxation		<u>1,517</u>	<u>27,370</u>
Minority interest		(983)	(1,712)
Net profit		<u><u>534</u></u>	<u><u>25,658</u></u>
Earnings per share	8	<u><u>Rmb0.002</u></u>	<u><u>Rmb0.119</u></u>

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 1999

	Note	1999 Rmb'000	1998 Rmb'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	145,823	136,122
Construction in progress		1,673	4,982
Land use rights	10	36,791	36,743
Other investments		13,015	6,472
Deferred assets	11	20,345	4,075
		217,647	188,394
Current assets			
Cash and bank balances		208,450	164,386
Accounts receivable, net	12	236,872	214,832
Amount due from holding company		1,000	12,002
Prepayments, deposits and other receivables	13	60,205	35,756
Inventories	14	155,666	129,683
		662,193	556,659
Total assets		879,840	745,053
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	215,000	215,000
Reserves	16	251,579	251,045
		466,579	466,045
Minority interest		12,931	11,121
Liabilities			
Accounts payable and customer deposits		89,672	69,086
Other payables and accruals		24,067	30,292
Taxes payable		1,371	1,354
Short term loans	17	281,950	163,900
		397,060	264,632
Current liabilities		397,060	264,632
Non-current liabilities		3,270	3,255
Total liabilities		400,330	267,887
Total equity and liabilities		879,840	745,053

	Capital accumulation fund Rmb'000	Statutory and discretionary accumulation fund Rmb'000	Statutory Welfare fund Rmb'000	Other reserves Rmb'000	Retained earnings Rmb'000	Total reserves Rmb'000	Share capital Rmb'000	Total equity and reserves Rmb'000
At 1 January 1998	177,442	26,364	16,633	-	4,948	225,387	215,000	440,387
Net profit for 1998	-	-	-	-	25,658	25,658	-	25,658
Appropriations in 1998	-	4,086	2,289	-	(6,375)	-	-	-
At 31 December 1998	177,442	30,450	18,922	-	24,231	251,045	215,000	466,045
Disposal of a subsidiary in 1999	-	(182)	-	-	182	-	-	-
Net profit for 1999	-	-	-	-	534	534	-	534
Income tax refund in 1999	1,174	-	-	-	(1,174)	-	-	-
Proposed appropriations in 1999	-	957	503	115	(1,575)	-	-	-
At 31 December 1999	178,616	31,225	19,425	115	22,198	251,579	215,000	466,579

Further details are included in notes 15 and 16.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 Rmb' 000	1998 Rmb' 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	5,560	31,958
Adjustments for:		
Depreciation	18,660	15,836
Interest expense	14,416	18,599
Interest income from bank	(1,147)	(5,091)
Interest income from government bonds	(5,646)	(8,565)
Loss on disposals of property, plant and equipment	819	1,631
Amortisation of land use rights and deferred assets	4,696	1,643
Operating profit before working capital changes	<u>37,358</u>	<u>56,011</u>
Increase in inventories	(25,983)	(11,718)
Increase in accounts receivable, prepayments, deposits and other receivables	(49,828)	(16,707)
Increase/(decrease) in accounts payable, customer deposits, other payables and accruals	14,393	(38,913)
Cash used in operations	<u>(24,060)</u>	<u>(11,327)</u>
Net interest paid	(13,269)	(13,508)
Taxes paid	(4,026)	(7,933)
Net cash used in operating activities	<u>(41,355)</u>	<u>(32,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of government bonds	18	618
Purchase of property, plant and equipment, land use rights and deferred assets and payments on construction projects	(32,196)	(21,005)
Proceeds from disposal of fixed assets	444	-
Additional investments in subsidiaries and associates	(6,453)	(866)
Interest income from government bonds	5,646	8,565
Net cash used in investing activities	<u>(32,541)</u>	<u>(12,688)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short term bank loans	118,050	9,120
Dividends paid to the Company's shareholders	-	(25,800)
Dividend paid to minority interest	(90)	(891)
Net cash generated from/(used in) financing activities	<u>117,960</u>	<u>(17,571)</u>
Increase/(Decrease) in cash and cash equivalent during the year	44,064	(63,027)
Cash and cash equivalent at the beginning of the year	<u>164,386</u>	<u>227,413</u>
Cash and cash equivalent at the end of the year	<u><u>208,450</u></u>	<u><u>164,386</u></u>

1 CORPORATE INFORMATION

The principal activities of Nanjing Postel Telecommunications Co., Ltd. ("the Company") are the manufacture and marketing of telecommunication equipment, electric appliances and other related accessories in the People's Republic of China (the "PRC"). Particulars of the Company's principal subsidiaries and joint ventures are shown in note 19. All the operating assets and substantially all the sales of the Company and its subsidiaries ("the Group") are based in the PRC.

China PTIC Information Industry Corporation, which holds the Company's 115,000,000 legal person shares, or 54.39 percent of the Company's total share capital, is regarded as the Company's holding company.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared based on the management accounts of the Company, its subsidiaries and joint ventures. Those management accounts are prepared in accordance with the PRC accounting regulations, which differ in certain respects from International Accounting Standards ("IAS"). These financial statements have incorporated adjustments made to the management accounts in order to conform with IAS.

(b) Consolidation

Subsidiaries, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interest.

(c) Joint ventures

The Group's interest in a jointly controlled entity is accounted for by proportionate consolidation. Under this method, the Group includes its share of the joint venture's individual income and expenses, assets and liabilities in the relevant components of the consolidated financial statements. Further details about the joint ventures are shown in Note 19.

(d) Other long term investments

Other long term investments are stated at cost less provision for permanent diminution in value, if any, and the corresponding investment income is accounted for to the extent of investment income received or receivable.

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation. Depreciation is provided to write off the cost or valuation of property, plant and equipment, after taking into account their estimated residual values, over their estimated useful lives on a straight line basis. The applicable useful lives of property, plant and equipment are as follows:

Buildings	15-35 years
Plant and machinery	10-15 years
Furniture, fixtures and office equipment	6-8 years
Motor vehicles	4-11 years

- (f) **Construction in progress**
Construction in progress represents capital assets under construction or being installed and is stated at cost. Cost comprises cost of equipment, construction costs and other direct costs including interest expenses arising from borrowings to finance projects during the construction period. On completion of construction, the cost is transferred to property, plant and equipment.
- (g) **Land use rights**
Land use rights are stated at cost less amortization. Amortization is provided to write off the cost of land use rights over the land use period of 50 years on a straight line basis.
- (h) **Deferred assets**
Deferred assets mainly include pre-operating expenses and deferred employee housing benefits. Pre-operating expenses incurred by the Company and subsidiaries prior to their commencement of full operations are regarded as expenditure necessary to place the company and subsidiaries in a suitable condition to carry out normal operations. Such expenditure is capitalised and amortised on a straight line basis over a period of 5 years from the dates of commencement of full operations of the Company or its subsidiaries. Employee housing benefits carried in the Group's books represent the loss on disposal of employee quarters constructed or purchased after 18 May 1997 and sold to employees at preferential prices calculated based on prevailing local regulations. The loss on disposal is amortised on a straight line basis over 10 years.
- (i) **Accounts receivable**
Accounts receivable are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.
- (j) **Inventories**
Inventories are stated at the lower of cost or net realisable value. Cost, calculated on a weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.
- (k) **Revenue recognition**
Sales are recognized upon delivery of products or performance of service, net of sales taxes and discounts, and after eliminating sales within the Group.
Other revenues are recognised on the following basis:
- Interest income - on an accrual basis unless collectibility is in doubt.
 - Dividend income - when the right to receive dividend is established.
- (l) **Foreign currencies**
Transactions in foreign currencies are translated into Renminbi at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising in these cases are recognised in the income statement.
- (m) **Cash and cash equivalents**
For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.
- (n) **Comparatives**
Certain comparative figures have been adjusted to conform with changes in presentation in current year.

3 SALES AND COST OF SALES

Sales and cost of sales include the following:

	Sales of manufactured telecommunication and electrical products Rmb' 000	Sales of purchased telecommunication and electrical products Rmb' 000	Sub-contracting service Rmb' 000	Others Rmb' 000	Total Rmb' 000
<u>1999</u>					
Sales	286,204	57,972	6,644	41,209	392,029
Cost of sales	(209,889)	(48,463)	(1,476)	(34,924)	(294,752)
Gross profit	76,315	9,509	5,168	6,285	97,277
<u>1998</u>					
Sales	288,939	152,275	20,159	22,260	483,633
Cost of sales	(197,693)	(144,655)	(4,808)	(18,960)	(366,116)
Gross profit	91,246	7,620	15,351	3,300	117,517

4 OPERATING PROFIT

The following items have been included in arriving at operating profit

	1999 Rmb' 000	1998 Rmb' 000
Net income from sales of raw materials	857	649
Income from exemption of land transferring fee	4,541	-
Subsidy income	2,262	1,117

The following items have been charged in arriving at operating profit:

	1999 Rmb' 000	1998 Rmb' 000
Depreciation on property, plant and equipment	18,660	15,836
Levies from local government	377	1,290
Staff costs (note 5)	45,949	45,612
Donation	729	841
Included in Administrative expenses:		
Provision for doubtful debts	2,197	(9,823)
Provision for obsolete inventories	431	1,089
Amortisation of land use rights	751	740
Amortisation of deferred employee housing benefits	1,431	-

5 STAFF COSTS

	1999 Rmb' 000	1998 Rmb' 000
Wages and salaries	33,544	34,861
Pension costs	10,040	8,700
Directors' remuneration	375	551
Other	1,990	1,500
	45,949	45,612
Average monthly number of persons employed by the Group during the year	1,653	1,563

The Company participates in a defined contribution retirement scheme. Under the scheme, retirement benefits of existing and retired employees are guaranteed by the holding company and the Company has no further obligations beyond the annual contributions. The Company's contributions are recognised in the income statement in the year to which they relate.

6 FINANCE COSTS, NET

	1999 Rmb' 000	1998 Rmb' 000
Interest expense on bank loans	14,416	18,599
Interest income from		
- banks	(1,147)	(5,091)
- government bonds	(5,646)	(8,565)
Finance costs, net	<u>7,623</u>	<u>4,943</u>
Others	(29)	53
Finance costs, net	<u><u>7,594</u></u>	<u><u>4,996</u></u>

7 TAXATION

The Company and its subsidiaries and joint ventures are subject to the following income tax rates in 1999 and 1998:

		1999	1998
The Company	(a)	15%	15%
Nanjing Nanfang Telecommunications Company	(b)	15%	15%
Nanjing Bada Telecommunications Factory		33%	33%
Nanjing Hongyan Electric Appliance Company		33%	33%
Nanjing Changle Telecommunications Equipment Factory		33%	33%
Shanghai Huaning Telecommunications Development Ltd.	(c)	15%	7.5%
Nanjing Golden Huali Electronics Ltd.	(d)	-	-
Nanjing Yuhua Electroplating Factory		-	-
Nanjing Postel Shiye Company Limited		33%	-
Nanjing Postel Computer Company Limited		33%	33%
Nanjing Mennekes Electric Appliance Ltd.	(d)	12%	-

- (a) In accordance with the approval document NGSHF [1997] No.248 issued by Nanjing State Tax Bureau on 31 December 1997, the Company, being qualified as a high technology enterprise established in Nanjing High and New Technology Industrial Development Zone, is subject to income tax at 15 percent from 1 January 1997.
- (b) In accordance with approval documents issued by the state and local tax bureau, Nanjing Nanfang Telecommunications Company, a subsidiary operating in the Nanjing High and New Technology Industrial Development Zone, is subject to income tax at 15 percent (1998: 15 percent) on the assessable profit computed in accordance with the PRC regulations.
- (c) Shanghai Huaning Telecommunications Development Ltd. ("Huaning") is an enterprise established in the Shanghai Pudong Area. In accordance with the relevant regulations, Huaning is subject to income tax at 15 percent. However, it is exempt from income tax for the first profit-making year and a 50 percent reduction for the two years thereafter. Huaning started its first profit-making year in 1996 and was subject to income tax at 7.5 percent in 1997 and 1998. In 1999 Huaning is subject to income tax at 15 percent.
- (d) Nanjing Golden Huali Electronics Ltd. and Nanjing Mennekes Electric Appliance Ltd., being Sino-foreign joint ventures, were entitled to 100% exemptions from income tax for the first two years starting from the first profit-making year and a 50% reduction for the

three years thereafter. Nanjing Golden Huali Electronics Ltd. has not yet fully offset its accumulated losses from prior years, and therefore is not subject to income tax in 1999. Nanjing Mennekes Electric Appliance Ltd. started its first profit-making year in 1997 and was exempt from income tax for 1997 and 1998. In 1999 Nanjing Mennekes Electric Appliance Ltd. is subject to income tax at 12 percent.

The reconciliation between tax expense and the product of accounting profit in the accompanying consolidated financial statements multiplied by the effective tax rate is as follows:

	1999 Rmb' 000	1998 Rmb' 000
Profit before taxation	5,560	31,958
Tax calculated at the effective tax rate of 15%	834	4,794
Tax effect of income and expense items which are not assessable or deductible for income tax purposes	257	(4,011)
Effect of different tax rates for certain subsidiaries	2,952	3,805
Taxation charge	4,043	4,588

The group does not have any significant unprovided deferred taxation.

8 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 1999 is based on the profit for the year of Rmb 534,000 (1998: Rmb25,658,000) and the 215,000,000 shares (1998: 215,000,000 shares) in issue during the year.

9 PROPERTY, PLANT AND EQUIPMENT

Buildings Rmb' 000	Plant and machinery Rmb' 000	Furniture, fixtures and office equipment Rmb' 000	Motor vehicles Rmb' 000	Total Rmb' 000	
Cost					
At 1 January 1998	74,298	70,015	30,473	6,670	181,456
Additions for the year	16,706	4,124	2,584	1,620	25,034
Disposals for the year	-	(624)	(868)	(481)	(1,973)
At 31 December 1998	91,004	73,515	32,189	7,809	204,517
Additions for 1999	10,951	10,622	6,762	1,289	29,624
Disposals for 1999	-	(228)	(2,103)	(50)	(2,381)
At 31 December 1999	101,955	83,909	36,848	9,048	231,760
Accumulated depreciation					
At 1 January 1998	16,310	25,031	9,097	2,463	52,901
Charge for 1998	2,885	8,018	3,906	1,027	15,836
Disposals for 1998	-	(204)	(22)	(116)	(342)
At 31 December 1998	19,195	32,845	12,981	3,374	68,395
Charge for 1999	4,095	8,753	4,056	1,756	18,660
Disposals for 1999	-	(192)	(905)	(21)	(1,118)
At 31 December 1999	23,290	41,406	16,132	5,109	85,937
Net book value					

At 31 December 1998	<u>71,809</u>	<u>40,670</u>	<u>19,208</u>	<u>4,435</u>	<u>136,122</u>
At 31 December 1999	<u>78,665</u>	<u>42,503</u>	<u>20,716</u>	<u>3,939</u>	<u>145,823</u>

All the above property, plant and equipment are owned by the Group.

10 LAND USE RIGHTS

Rmb' 000

Cost

At 1 January 1998	32,882
Additions for 1998	5,077
At 31 December 1998	<u>37,959</u>
Additions for 1999	799
At 31 December 1999	<u>38,758</u>

Accumulated amortisation

At 1 January 1998	(476)
Amortisation for 1998	(740)
At 31 December 1998	<u>(1,216)</u>
Amortisation for 1999	(751)
At 31 December 1999	<u>(1,967)</u>

Net book value

At 31 December 1998	<u>36,743</u>
At 31 December 1999	<u>36,791</u>

11 DEFERRED ASSETS

	Deferred employee housing benefits Rmb' 000	Pre-operating expenses Rmb' 000	Others Rmb' 000	Total Rmb' 000
Cost				
At 1 January 1998	-	278	3,740	4,018
Additions for 1998	-	341	1,489	1,830
At 31 December 1998	<u>-</u>	<u>619</u>	<u>5,229</u>	<u>5,848</u>
Additions for 1999	14,314	1,336	4,565	20,215
At 31 December 1999	<u>14,314</u>	<u>1,955</u>	<u>9,794</u>	<u>26,063</u>

Accumulated amortisation

At 1 January 1998	-	(41)	(644)	(685)
Amortisation for 1998	-	(81)	(1,007)	(1,088)
At 31 December 1998	-	(122)	(1,651)	(1,773)
Amortisation for 1999	(1,431)	(253)	(2,261)	(3,945)
At 31 December 1999	(1,431)	(375)	(3,912)	(5,718)
Net book value				
At 31 December 1998	-	497	3,578	4,075
At 31 December 1999	12,883	1,580	5,882	20,345

12 ACCOUNTS RECEIVABLE, NET

	1999	1998
	Rmb' 000	Rmb' 000
Amounts due from related parties	28,486	56,441
Amounts due from third parties	217,806	165,614
	246,292	222,055
Less: Provision for doubtful debts	(9,420)	(7,223)
Accounts receivable, net	236,872	214,832

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	1999	1998
	Rmb' 000	Rmb' 000
Advances to suppliers	29,640	18,766
Deposits and other receivables	30,565	16,990
	60,205	35,756

14 INVENTORIES

	1999	1998
	Rmb' 000	Rmb' 000
Raw materials	40,563	46,374
Work in progress	30,836	23,090
Finished goods	84,698	60,219
	156,097	129,683
Less: provision for inventories	(431)	-
	155,666	129,683

15 SHARE CAPITAL

	1999	1998
	Rmb' 000	Rmb' 000
Registered, issued and fully paid shares of Rmb 1 each:		

Legal person shares, not listed	115,000	115,000
Domestically-listed foreign shares (B shares)	100,000	100,000
	<u>215,000</u>	<u>215,000</u>

16 RESERVES

(a) Capital accumulation fund

Generally, transactions of the following nature are recorded in the Capital accumulation fund:

- i) Share premium arising on the issue of shares at prices in excess of their par value;
- ii) Donations received;
- iii) Surplus arising from the revaluation of assets; and
- iv) Any other items required by the PRC regulations to be so treated.

Amounts in the Capital accumulation fund can be utilised to offset prior years' losses or for issue of bonus shares.

(b) Statutory accumulation fund and Statutory welfare fund

Statutory reserves include both the Statutory accumulation fund and the Statutory welfare fund. In 1999, Rmb957,000 and Rmb503,000 had been appropriated to Statutory accumulation fund and Statutory welfare fund respectively.

The PRC Company Law requires a company to appropriate 10 percent of its profit for the year computed in accordance with the PRC accounting regulations (after offsetting any prior years' losses) to the Statutory accumulation fund. When the balance of such fund reaches 50 percent of the Company's registered share capital, any further appropriation is optional. The Statutory accumulation fund can be utilised to offset prior years' losses or for issue of bonus shares. However, the fund shall be maintained at a minimum of 25 percent of registered share capital after any such issue.

The PRC Company Law also requires a company to appropriate between 5% to 10% of its profit for the year computed in accordance with the PRC accounting regulations to the Statutory welfare fund. The fund shall be utilised for the collective benefit of the workforce, including the provision of staff quarters or housing. No other distribution shall be made from the fund other than upon liquidation of the company.

(c) Discretionary accumulation fund and dividends

The Board of Directors recommends that:

- No appropriation to Discretionary accumulation fund be made in 1999; and
- No dividend be proposed.

The above recommendations are subject to approval by the shareholders in the Company's Annual General Meeting to be held in year 2000.

17 SHORT TERM LOANS

Short term loans are all unsecured bank loans. Interest is charged on outstanding balances at rates ranging from 5.85% to 6.44% per annum (1998: from 6.50 percent to 9.50 percent per annum).

18 CAPITAL COMMITMENTS

Capital expenditure in respect of property, plant and equipment contracted for at 31 December 1999 but not recognised in the financial statements was Rmb2,587,000 (1998: Rmb57,846,000).

19 PRINCIPAL RELATED PARTIES

The Company's related parties, which are all established in the PRC, are as follows:

<u>Name of company</u>	<u>Company's equity interest</u>	<u>Principal activities</u>
Subsidiaries:		
Nanjing Nanfang Telecommunications Company	100%	Manufacture and sales of data communication equipment
Nanjing Bada Telecommunications Factory	60%	Manufacture and sales of telecommunication equipment
Nanjing Hongyan Electric Appliance Company	74%	Manufacture and sales of electrical products
Nanjing Changle Telecommunications Equipment Factory	100%	Manufacture and sales of telecommunication equipment
Shanghai Huaning Telecommunications Development Ltd.	95%	Export agency business
Nanjing Golden Huali Electronics Ltd.	60%	Manufacture and sales of lights, electronic products and accessories
Nanjing Yuhua Electroplating Factory	60%	Metal surface processing and manufacture and sales of consternation hardware
Nanjing Postel Shiye Company Limited	100%	Hotel and catering and sales of telecommunication equipment
Nanjing Postel Computer Company Limited	99.5%	Design, manufacture and sales of computer products
Joint ventures:		
Nanjing Mennekes Electric Appliance Ltd.	50%	Manufacture and sales of electric switches
Nanjing Postel Jintong Distribution Frames Equipment Sales Company Ltd.	50%	Sales of telecommunication equipment
20 RELATED PARTY TRANSACTIONS		
	1999	1998
	Rmb' 000	Rmb' 000
Sales to Nanjing Postel Jintong Distribution Frames Equipment Sales Company Limited	2,551	132,478
	<u> </u>	<u> </u>