1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

(a) THE COMPANY AND THE REORGANISATION

The Company was incorporated in the Cayman Islands on 20 May 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation ("the Reorganisation") of the Company and its subsidiaries (the "Group") which was completed on 26 November 2005 to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group.

The shares of the Company were listed on the Stock Exchange on 19 December 2005.

(b) BASIS OF PRESENTATION

Pursuant to the Reorganisation, shareholdings in 3 subsidiaries, namely Changsha Weihua Property Development Company Limited, Hunan Classic Investment Company Limited and Changsha Weizhong Chemical Machinery Company Limited (formerly known as Changsha Economic and Technology Development Zone Weizhong Machinery Manufacturing Company Limited (the "disposed Subsidiaries"), which were not primarily engaged in the development, manufacture and sale of power meters and related data collection terminals, were disposed of by the Group in 2004. The results of the disposed Subsidiaries have been included in the consolidated financial statements of the Group up to the respective dates of disposal.

Save for the above, the Group is regarded as a continuing entity resulting from the Reorganisation since all of the entities which took part in the Reorganisation were owned by the same sole ultimate shareholder, Mr. Ji Wei, before and immediately after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the ultimate shareholders that existed prior to the Reorganisation. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), under which the Company was the holding company of the Group for both years presented, rather than from 26 November 2005. The results of the Group for the years ended 31 December 2004 and 2005 include results of the Company and its subsidiaries with effect from and since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 December 2004 is a combination of the balance sheets of the Company and its subsidiaries at 31 December 2004. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and state of affairs of the Group as a whole.

As the Company's balance sheet as at 31 December 2004 only comprises one subscriber's share of par value of HK$0.01 which was issued nil-paid to Mr. Ji Wei upon the incorporation of the Company on 20 May 2004, no comparative figures are presented in respect of the Company's balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. These new and revised HKFRSs have been early adopted at the beginning of the year ended 31 December 2002.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments in unit trusts are stated at their fair value with any resultant gain or loss recognised in profit or loss.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimate with a significant risk of material adjustment in the next year are discussed in note 35.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) SUBSIDIARIES

Subsidiaries are those entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)).

(d) PROPERTY, PLANT AND EQUIPMENT

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use, the cost of borrowed funds used during the year of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

(ii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) PROPERTY, PLANT AND EQUIPMENT (Continued)

(iii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20 to 44 years
Plant and machinery	5 to 10 years
Other property, plant and equipment	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) CONSTRUCTION IN PROGRESS

Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated in the balance sheet at cost less impairment losses (see note 2(i)). Cost comprises all direct and indirect costs related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to the property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(f) LAND USE RIGHTS

Leases of land under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Lease prepayments for land use rights are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Amortisation is charged to profit or loss on a straight-line basis over the terms of the respective leases.

(g) INTANGIBLE ASSETS

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) INTANGIBLE ASSETS (Continued)

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets is charged to the consolidated income statement on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— capitalised development costs	Not more than 5 years
— patents, copyrights and trademarks	3 to 10 years

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(h) LEASED ASSETS

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) IMPAIRMENT OF ASSETS

(i) Impairment of trade and other receivables

Trade and other receivables that are stated in the balance sheet at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for the receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

— For receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit and loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— lease prepayments;

— intangible assets; and

— investments in subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) IMPAIRMENT OF ASSETS (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) INVENTORIES

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(i)), except where the receivables are interest-free advances made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(i)).

(l) CONVERTIBLE BONDS

Convertible Bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the Convertible Bonds is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the Convertible Bonds reserve until either the Convertible Bonds are converted or redeemed.

If the Convertible Bonds are converted, the Convertible Bonds reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the Convertible Bonds are redeemed, the Convertible Bonds reserve is released directly to retained profits.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) BANK LOANS

Bank loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank loans are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(n) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) EMPLOYEE BENEFITS

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) INCOME TAX (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in consolidated income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of software development services

Revenue is recognised when services are rendered. Revenue excludes value added tax and is after deduction of any trade discounts.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(t) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) BORROWING COSTS

Borrowing costs are expensed in income statement in the period in which they are incurred.

(v) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

On initial classification as held for sale and until disposal, the non-current assets, or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(x) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3 TURNOVER

The principal activities of the Group are development, manufacture and sale of power meters and related data collection terminals, and provision of software development services.

Turnover represents the sales value of goods supplied to customers and income arising from provision of software development services, excludes value added tax and is after the deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2005 RMB'000	2004 RMB'000
Sales of three-phase electronic power meters	**315,021**	281,046
Sales of single-phase electronic power meters	**35,489**	30,209
Sales of data collection terminals	**84,817**	9,239
Revenue from provision of software development services	**10,321**	610
	445,648	321,104

4 OTHER REVENUE AND NET INCOME

	2005 RMB'000	2004 RMB'000
Other revenue		
Interest income	**912**	609
Government grants	**1,618**	—
Others	**175**	—
	2,705	609
Other net income		
Gain on sale of investments in unit trusts	**—**	36
Loss on disposal of property, plant and equipment	**(2)**	(12)
Others	**23**	(19)
	21	5

Government grants represent value added tax ("VAT") refund received by the Group during the year. Pursuant to the relevant approval document issued by the authorities in the People's Republic of China ("PRC"), a subsidiary of the Group operated in the PRC is entitled to a refund of VAT on the sales of self-developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sales of self-developed software.

5 PROFIT BEFORE TAXATION

PROFIT BEFORE TAXATION IS ARRIVED AT AFTER CHARGING:

	2005 RMB'000	2004 RMB'000
(a) *Finance costs*		
Interest on bank advances wholly repayable within five years	8,773	9,331
Discount on the Convertible Bonds amortised before conversion	2,434	—
Other borrowing costs	1,010	525
	12,217	9,856
(b) *Staff costs #*		
Salaries, wages and other benefits	36,141	17,659
Contributions to defined contribution retirement plans (note 26)	1,443	1,372
	37,584	19,031
(c) *Other items*		
Amortisation of lease prepayments	250	172
Amortisation of intangible assets	12,067	4,657
Depreciation #	7,856	4,661
Impairment losses for bad and doubtful debts	—	4,018
Auditors' remuneration (audit services)	1,394	300
Operating lease charges #		
— hire of plant and machinery	—	590
— hire of other assets (including property rentals)	1,106	1,013
Cost of inventories #	198,986	153,724

\# Cost of inventories includes RMB9,969,000 (2004: RMB5,565,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately in note 5(b) and (c) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	2005 RMB'000	2004 RMB'000
Current tax - Provision for PRC income tax		
Provision for the year	8,049	6,293
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	313	(198)
	8,362	6,095

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax during the year (2004: Nil).

Pursuant to the income tax rules and regulations of the PRC, Changsha Weisheng was granted certain tax relief, under which it was exempted from PRC income tax for the first two profit making years and was entitled to a 50% income tax reduction for the next three years and hence subject to PRC income tax at 7.5% for the period from 1 January 2002 to 31 December 2004. Changsha Weisheng is subject to PRC income tax at 10% from 1 January 2005 onwards, which is the tax rate applicable to certain selected high technology enterprises in Changsha, the PRC.

Pursuant to the income tax rules and regulations of the PRC, Weisheng Information was granted certain tax relief, under which it is exempted from PRC income tax for the first two profit making years, i.e. the period from 1 January 2005 to 31 December 2006. Weisheng Information is entitled to a 50% income tax reduction for the next three years and hence will be subject to PRC income tax at 7.5% for the period from 1 January 2007 to 31 December 2009.

Pursuant to the income tax rules and regulations of the PRC, Wasion Industrial is liable to PRC income tax at a rate of 33%. Wasion Industrial was not subject to PRC income tax during the years ended 31 December 2004 and 2005 as it has sustained tax losses since its establishment.

As a Macau offshore company established under the Macau Offshore law, Gam Sheng was exempted from Macau income tax during the years ended 31 December 2004 and 2005.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the year (2004: Nil).

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	2005 RMB'000	2004 RMB'000
Profit before tax	124,334	88,047
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	35,114	12,443
Tax effect of non-deductible expenses	3,113	271
Tax effect of non-taxable income	(608)	—
Tax effect of qualifying research and development expenses *	—	(235)
Effect of tax concessions	(29,257)	(6,384)
Actual tax expense	8,362	6,095

* Pursuant to the relevant income tax rules and regulations applicable to certain selected foreign investment enterprises in the PRC, an expense deduction of RMB3,137,000 was granted to a subsidiary for the year ended 31 December 2004 which was determined based on 50% of certain qualifying research and development costs.

7 PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS

	2005 RMB'000	2004 RMB'000
Loss for disposed Subsidiaries	—	(42)
Gain on disposal of disposed Subsidiaries	—	508
Profit for the year from discontinued operations	—	466

Pursuant to the relevant directors' resolutions, the disposed Subsidiaries, namely Changsha Weihua Property Development Company Limited, Hunan Classic Investment Company Limited and Changsha Weizhong Chemical Machinery Company Limited (formerly known as Changsha Economic and Technology Development Zone Weizhong Machinery Manufacturing Company Limited) which were not primarily engaged in the development, manufacture and sale of power meters and related data collection devices, were acquired by Changsha Weisheng exclusively with a view to resale within one year. In the circumstances, they are included in the consolidated income statement as discontinued operations (see note 2(v)).

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2005 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Ji Wei	—	417	—	—	417
Wang Xue Xin	—	273	400	5	678
Cao Zhao Hui	—	145	104	5	254
Zheng Xiao Ping	—	140	96	5	241
Liao Xue Dong	—	116	72	5	193
Zeng Xin	—	192	150	2	344
Independent non-executive directors					
Hui Wing Kuen	97	—	—	—	97
Wu Jin Ming	35	—	—	—	35
Pang Yuan	17	—	—	—	17
	149	1,283	822	22	2,276

8 DIRECTORS' REMUNERATION (Continued)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2004 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Ji Wei	—	—	—	—	—
Wang Xue Xin	—	96	600	3	699
Cao Zhao Hui	—	66	70	3	139
Zheng Xiao Ping	—	72	70	3	145
Liao Xue Dong	—	62	40	3	105
Zeng Xin	—	80	50	1	131
Independent non-executive directors					
Hui Wing Kuen	—	—	—	—	—
Wu Jin Ming	—	—	—	—	—
Pang Yuan	—	—	—	—	—
	—	376	830	13	1,219

There were no amounts paid during the year (2004: Nil) to the directors in connection with the compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2004: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2004: two) individuals are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	747	151
Discretionary bonuses	—	130
Retirement scheme contributions	11	9
	758	290

The emoluments of the two (2004: two) individuals with the highest emoluments are within the band of RMB Nil to RMB1,000,000.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB39,820,000 which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

(a) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2005 RMB'000	2004 RMB'000
Final dividend proposed by a subsidiary to the then equity holders after the balance sheet date	—	35,000
Final dividend proposed after the balance sheet date of HK$0.053 (equivalent to RMB0.05512) per ordinary share	38,818	—
	38,818	35,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE YEAR

	2005 RMB'000	2004 RMB'000
Final dividend declared by a subsidiary in respect of the previous financial year, approved and paid during the year	35,000	—

(Expressed in Renminbi unless otherwise indicated)

12 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity shareholders of the Company of RMB115,972,000 (2004: RMB82,435,000) and the weighted average of 487,986,908 (2004: 480,000,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2005 No. of shares
Ordinary shares issued at 1 January (note 28(a)(i))	1
Issuance of shares upon the Reorganisation (note 28(a)(iii))	999,999
Capitalisation issue (note 28(a)(iv))	479,000,000
Effect of issuance of shares for placing and public offering (note 28(a)(v))	6,410,959
Effect of conversion of Convertible Bonds (note 28(a)(vi))	1,575,949
Weighted average number of shares at 31 December	487,986,908

The weighted average number of shares in issue during the year ended 31 December 2004 represents the 480,000,000 shares in issue before the listing of the Company's shares on the Stock Exchange, as if such shares had been outstanding during the above entire year.

There were no dilutive potential ordinary shares in issue as at 31 December 2005 (2004: Nil).

13 SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segment. Business segment information is chosen as the primary reporting format based on the Group's internal financial reporting.

Business segment

The Group comprises the following business segments:

Electronic power meters	:	the development, manufacture and sale of single-phase and three-phase electronic power meters.
Data collection terminals and related services	:	the development, manufacture and sale of data collection terminals and provision of software development services.

13 SEGMENTAL REPORTING (Continued)

Business segment (Continued)

	2005			
	Electronic power meters RMB'000	Data collection terminals and related services RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Continuing operations				
Revenue from external customers	350,510	95,138	—	445,648
Inter-segment revenue	1,453	1,272	(2,725)	—
Total revenue	351,963	96,410	(2,725)	445,648
Segment result	115,307	24,117		139,424
Unallocated expenses				(2,873)
Profit from operations				136,551
Finance costs				(12,217)
Income tax expense				(8,362)
Profit for the year from continuing operations				115,972
Depreciation and amortisation for the year from continuing operations	12,312	7,861		20,173
Segment assets	456,884	135,856	(47,845)	544,895
Unallocated assets				199,300
Total assets				744,195
Segment liabilities	(228,932)	(78,444)	47,845	(259,531)
Unallocated liabilities				(13,078)
Total liabilities				(272,609)
Capital expenditure incurred during the year from continuing operations	22,009	6,070		28,079
Unallocated capital expenditure				570
Total capital expenditure				28,649

13 SEGMENTAL REPORTING (Continued)

Business segment (Continued)

	2004			
	Electronic power meters RMB'000	Data collection terminals and related services RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Continuing operations				
Revenue from external customers	311,455	9,649	—	321,104
Inter-segment revenue	325	1,886	(2,211)	—
Total revenue	311,780	11,535	(2,211)	321,104
Segment result	99,642	(149)	—	99,493
Unallocated expenses				(1,590)
Profit from operations				97,903
Finance costs				(9,856)
Income tax expense				(6,095)
Profit for the year from continuing operations				81,952
Discontinued operations				
Profit for the year from discontinued operations				466
Profit for the year				82,418
Depreciation and amortisation for the year from continuing operations	7,914	1,577		9,491
Segment assets	422,651	65,438	(51,843)	436,246
Unallocated assets				811
Total assets				437,057
Segment liabilities	258,710	56,879	(51,843)	263,746
Unallocated liabilities				4,198
Total liabilities				267,944
Capital expenditure incurred during the year from continuing operations	73,711	54,532		128,243

Geographical segment

As the Group mainly operates in the PRC, no geographical segment information is presented.

14 PROPERTY, PLANT AND EQUIPMENT

(a) THE GROUP

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:						
At 1 January 2004	—	902	1,260	11,817	3,537	17,516
Transfer from construction in progress (note 15)	—	—	—	5,013	—	5,013
Additions	50,864	462	1,706	3,873	1,849	58,754
Disposals	—	—	(13)	—	—	(13)
At 31 December 2004	50,864	1,364	2,953	20,703	5,386	81,270
At 1 January 2005	50,864	1,364	2,953	20,703	5,386	81,270
Exchange adjustments	—	(12)	—	—	—	(12)
Transfer from construction in progress (note 15)	130	—	—	4,555	—	4,685
Additions	7,919	3,388	1,448	4,381	665	17,801
Disposals	—	—	(204)	(3)	—	(207)
At 31 December 2005	58,913	4,740	4,197	29,636	6,051	103,537
Accumulated depreciation:						
At 1 January 2004	—	290	407	2,314	268	3,279
Charge for the year	775	203	532	2,683	468	4,661
Written back on disposal	—	—	(1)	—	—	(1)
At 31 December 2004	775	493	938	4,997	736	7,939
At 1 January 2005	775	493	938	4,997	736	7,939
Exchange adjustments	—	(3)	—	—	—	(3)
Charge for the year	1,358	582	932	4,365	619	7,856
Written back on disposal	—	—	(98)	(3)	—	(101)
At 31 December 2005	2,133	1,072	1,772	9,359	1,355	15,691
Net book value:						
At 31 December 2005	56,780	3,668	2,425	20,277	4,696	87,846
At 31 December 2004	50,089	871	2,015	15,706	4,650	73,331

All the Group's buildings are located in the PRC.

The buildings are pledged to a bank for certain bank loans granted to the Group as disclosed in note 25.

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) THE COMPANY

	Leasehold improvement RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:			
Additions during the year and at 31 December 2005	226	344	570
Accumulated depreciation:			
Charge for the year and at 31 December 2005	—	(1)	(1)
Net book value:			
At 31 December 2005	226	343	569

15 CONSTRUCTION IN PROGRESS

THE GROUP

	2005 RMB'000	2004 RMB'000
Cost:		
At 1 January	2,831	830
Additions	2,947	7,014
Transfer to property, plant and equipment (note 14(a))	(4,685)	(5,013)
At 31 December	1,093	2,831

16 LEASE PREPAYMENTS

THE GROUP

	2005 RMB'000	2004 RMB'000
Cost:		
At 1 January	10,989	—
Additions	—	10,989
At 31 December	10,989	10,989
Accumulated amortisation:		
At 1 January	172	—
Charge for the year	250	172
At 31 December	422	172
Net book value:		
At 31 December	10,567	10,817

Lease prepayments represent payments for land use rights of a piece of land situated in the PRC on which the buildings of the Group are erected. The lease runs for an initial period of 46 years commencing on 1 January 2002. The lease does not include contingent rentals.

The lease prepayments are pledged to a bank for a bank loan granted to the Group as disclosed in note 25.

17 INTANGIBLE ASSETS

THE GROUP

	Capitalised development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Total RMB'000
Cost:			
At 1 January 2004	8,225	4,700	12,925
Additions			
— through internal development	5,488	—	5,488
— through acquisition (note 31(b)(x))	—	46,000	46,000
At 31 December 2004	13,713	50,700	64,413
At 1 January 2005	13,713	50,700	64,413
Additions through internal development	7,901	—	7,901
At 31 December 2005	21,614	50,700	72,314
Accumulated amortisation:			
At 1 January 2004	768	1,755	2,523
Charge for the year	2,537	2,121	4,658
At 31 December 2004	3,305	3,876	7,181
At 1 January 2005	3,305	3,876	7,181
Charge for the year	5,171	6,896	12,067
At 31 December 2005	8,476	10,772	19,248
Net book value:			
At 31 December 2005	13,138	39,928	53,066
At 31 December 2004	10,408	46,824	57,232

Capitalised development costs represent expenditure incurred by the Group on internal development projects for certain new functions of electronic power meters and data collection terminals in order to meet with the market development and the specific requirements of individual customers. The directors of the Company consider that the related products or processes are technically and commercially feasible and the Group has sufficient resources and the intention to complete the development activities.

The amortisation charge for the year in respect of acquired patents and trademarks is included in "other operating expenses" in the consolidated income statement.

18 INVESTMENTS IN SUBSIDIARIES

	The Company 2005 RMB'000
Unlisted shares, at cost	198,409

Details of the principal subsidiaries at 31 December 2005 are as follows. The class of shares held is ordinary.

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued/ paid-up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Oceanbase Group Limited ("Oceanbase")	British Virgin Islands	Hong Kong	1,000,000 share of US$1 each	100%	100%	—	Investment holding
Changsha Weisheng Electronics Company Limited ("Changsha Weisheng") (note (i))	The PRC	The PRC	Paid-up capital of RMB50,000,000	100%	—	100%	Development, manufacture and sale of power meters
Changsha Weisheng Information Technology Company Limited ("Weisheng Information") (note (ii))	The PRC	The PRC	Paid-up capital of RMB20,000,000	100%	—	100%	Development, manufacture and sale of power meters, data collection terminals and related services
Changsha Wasion Industrial Investment Company Limited ("Wasion Industrial") (note (iii))	The PRC	The PRC	Paid-up capital of RMB60,000,000	100%	—	100%	Investment holding
Gam Sheng Macao Commercial Offshore Limited ("Gam Sheng")	Macau	Macau	Paid-up capital of MOP1,000,000	100%	—	100%	Trading of electronic components

Notes:

(i) Changsha Weisheng is a wholly foreign owned enterprise established in the PRC.

(ii) Weisheng Information is a sino-foreign equity joint venture established in the PRC.

(iii) Wasion Industrial is a limited liability company established in the PRC.

19 INVENTORIES

(a) INVENTORIES IN THE CONSOLIDATED BALANCE SHEET COMPRISE:

	The Group	
	2005 RMB'000	2004 RMB'000
Raw materials	46,141	47,881
Work in progress	22,121	16,286
Finished goods	17,174	16,098
	85,436	80,265

(b) AN ANALYSIS OF THE AMOUNT OF INVENTORIES RECOGNISED AS AN EXPENSE IS AS FOLLOWS:

	The Group	
	2005 RMB'000	2004 RMB'000
Cost of inventories sold	198,986	153,724

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Trade debtors and bills receivable	209,558	103,251	—
Deposits, prepayments and other receivables	37,555	19,451	6,195
Amounts due from related parties	—	21,168	—
Amounts due from subsidiaries	—	—	143,639
	247,113	143,870	149,834

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Except for retention receivables from customers totalling RMB6,339,000 (2004: RMB578,000), all of the trade and other receivables (including amounts due from subsidiaries), net of impairment losses for bad and doubtful debts, are expected to be recovered within one year.

20 TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are amounts due from a related party totalling RMB8,641,000 as at 31 December 2005 (2004: RMB4,765,000).

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 3 months	129,854	71,054
Between 3 to 6 months	48,244	16,422
Between 6 to 12 months	26,200	12,900
Between 1 to 2 years	5,260	2,875
	209,558	103,251

The Group's credit policy is set out in note 29(a).

21 PLEDGED DEPOSITS

The deposits are denominated in Renminbi and are pledged to banks as security for certain loans and bills facilities granted to the Group (see notes 23 and 25).

22 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	206,434	25,984	118,234

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company
	2005	2004	2005
	'000	'000	'000
Hong Kong Dollars	HKD 1,445	HKD 101	HKD —
United States Dollars	USD 173	USD 50	USD 100

Included in the cash and bank balances of the Group as at 31 December 2005 were amounts denominated in Renminbi of approximately RMB12,528,000 (2004: RMB25,010,000). Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23 TRADE AND OTHER PAYABLES

	The Group		The Company
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
Bills payable	23,709	27,080	—
Trade creditors	52,927	27,041	—
Receipts in advance	29,294	20,412	—
Other payables	43,162	28,197	6,939
Amounts due to related parties	2,838	25,901	—
	151,930	128,631	6,939

All of the trade and other payables are expected to be settled within one year.

At 31 December 2004 and 2005, all bills payable were secured by the Group's pledged deposits (see note 21).

Included in trade and other payables are amount due to a related party totalling RMB7,700,000 as at 31 December 2005 (2004: RMB10,150,000).

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date.

	The Group		The Company
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
Due within 3 months or on demand	59,859	33,714	—
Due after 3 months but within 6 months	16,777	20,407	—
	76,636	54,121	—

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group				The Company	
		2005		2004		2005
		'000		'000		'000
Hong Kong Dollars	HKD	4,418	HKD	199	HKD	—
United States Dollars	USD	—	USD	30	USD	—

24 CONVERTIBLE BONDS

THE GROUP AND THE COMPANY

	RMB'000
Proceeds from issue of the Convertible Bonds	41,287
Transaction costs	(146)
Net proceeds	41,141
Amount classified as equity	(3,164)
Transaction costs amortised	54
Discount on the Convertible Bonds amortised	2,434
Exchange difference	(637)
Conversion into ordinary shares (note 28(a))	(39,828)
Carrying amount of liability at 31 December 2005	—

On 7 March 2005, the Company issued convertible bonds (the "Convertible Bonds") for an aggregate principal amount of US$5,000,000 (equivalent to RMB41,287,000) to an independent party (the "Holder") who is entitled to interest payable at 4.5% per annum.

The value of the liability and equity components of the Convertible Bonds was determined by an independent firm of surveyors, Grant Sherman Appraisal Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, based on the discounted cash flow method at the issuance of the Convertible Bonds.

Upon the listing of the Company on the Main Board of the Stock Exchange on 19 December 2005, the entire Convertible Bonds were mandatory converted into ordinary shares of the Company at a conversion price of HK$0.8814 in accordance with a predetermined basis of calculation (see note 28(a)(vi)).

25 BANK LOANS

At 31 December 2005, all bank loans (2004: all) were denominated in RMB. They bore interest at 5.02% to 6.34% per annum (2004: 4.17% to 6.04% per annum) and were repayable as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year or on demand	**39,740**	136,545
After 1 year but within 2 years	**75,000**	—
	114,740	136,545

25 BANK LOANS (Continued)

At 31 December 2005, the bank loans were secured as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Property, plant and equipment (note 14) and lease prepayments (note 16)	45,000	10,000
Pledged deposits (note 21)	14,740	22,600
Property, plant and equipment of certain related parties (note 31(c)(xiii))	30,000	50,000
Guarantees from certain related parties (note 31(c)(xiii))	25,000	25,000
Property, plant and equipment of a related party (note 31(c)(xiii)) and guarantee from a business associate	—	28,945
	114,740	136,545

26 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant rules and regulations in the PRC, the Group participates in a defined contribution retirement benefit scheme (the "scheme") organised by Changsha municipal government for its eligible employees whereby the Group is required to make contributions to the scheme at 20% (2004: 20%) of the deemed salary rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) CURRENT TAXATION IN THE CONSOLIDATED BALANCE SHEET REPRESENTS:

	The Group	
	2005	2004
	RMB'000	RMB'000
Provision for PRC income tax	**5,939**	2,768

(b) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and movements during the year are as follows:

	Tax depreciation in excess of accounting depreciation	Capitalisation and amortisation of intangible assets	Impairment losses for bad and doubtful debts	Provision for obsolete inventories	Unutilised tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:							
At 1 January 2004	(112)	(848)	1,362	118	—	92	612
Credited/(charged) to profit or loss	107	(556)	603	(85)	27	102	198
At 31 December 2004	(5)	(1,404)	1,965	33	27	194	810
At 1 January 2005	(5)	(1,404)	1,965	33	27	194	810
Credited/(charged) to profit or loss	48	196	(523)	(11)	171	(194)	(313)
At 31 December 2005	43	(1,208)	1,442	22	198	—	497

Under the relevant PRC tax rules and regulations, the tax losses as at 31 December 2005 expire between 2009 and 2010.

Others mainly represent temporary differences arising from different expense recognition criteria between the accounting and tax basis.

28 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

(a) SHARE CAPITAL

Authorised and issued share capital

	2005	
	No. of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each (note (ii))	100,000,000,000	1,000,000

	No. of shares	Amount RMB'000
Ordinary shares, issued and fully paid:		
At 1 January (note (i))	1	—
Issuance of shares upon the Reorganisation (note (iii))	999,999	10
Capitalisation issue (note (iv))	479,000,000	4,986
Issuance of shares for placing and public offering (note (v))	180,000,000	1,874
Conversion of Convertible Bonds (note (vi))	44,247,787	461
At 31 December	704,247,787	7,331

(i) Issuance of shares upon formation of the Company

The Company was incorporated on 20 May 2004 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On the formation of the Company, 1 nil paid ordinary share was issued to Mr. Ji Wei, its then sole shareholder.

(ii) Increase in authorised share capital

Pursuant to the resolution in writing of the sole shareholder of the Company on 26 November 2005, the authorised share capital of the Company was increased to HK$1,000,000,000 by the creation of an additional 99,962,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

28 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY (Continued)

(a) SHARE CAPITAL (Continued)

(iii) Issuance of shares upon the Reorganisation

As part of the Reorganisation and as consideration for the acquisition of the entire share capital of Oceanbase, which owns and controls all the operating subsidiaries, the Company allotted and issued, credited as fully paid, a total of 999,999 ordinary shares of HK$0.01 each to Star Treasure Investments Holdings Limited, which is wholly owned by Mr. Ji Wei, on 26 November 2005.

(iv) Capitalisation issue

On 19 December 2005, an amount of RMB4,986,000 standing to the credit of the share premium account was applied in paying up in full 479,000,000 ordinary shares of HK$0.01 each which were allotted and distributed as fully paid to the then sole shareholder.

(v) Issuance of shares for placing and public offering

On 19 December 2005, an aggregate of 180,000,000 ordinary shares of HK$0.01 each were issued and offered for subscription at a price of HK$1.13 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately HK$171,960,000 net of related expenses from the share offer.

(vi) Conversion of Convertible Bonds

On 19 December 2005, an aggregate of US$5,000,000 Convertible Bonds were mandatory converted into 44,247,787 ordinary shares of HK$0.01 each at a conversion price of HK$0.8814.

(vii) Share capital at 31 December 2004

Share capital at 31 December 2004 represented the aggregate amount of the paid up capital of Changsha Weisheng and the nominal value of the share capital of Oceanbase and the Company.

(b) SHARE PREMIUM

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts and they fall due in the ordinary course of business.

(c) MERGER RESERVE

The merger reserve represents the difference between the nominal value of shares of the subsidiary acquired over the normal value of the shares used by the Company in exchange thereafter. This reserve is distributable.

28 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY (Continued)

(d) PRC STATUTORY RESERVES

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

(i) General reserve fund

General reserve fund can be used to make good previous year's losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of their registered capital.

One of the subsidiaries in the PRC is required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to equity holders.

(ii) Enterprise expansion fund

Enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the relevant subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the equity holders.

One of the subsidiaries in the PRC is required to transfer a certain percentage of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. The percentage of appropriation is decided by the directors of the subsidiaries.

(e) EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(t).

(f) CONVERTIBLE BONDS RESERVE

Convertible Bonds reserve represents the value of the options granted to the Holder to convert the Convertible Bonds into ordinary shares of the Company (see note 24).

28 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY (Continued)

(g) DISTRIBUTABLE RESERVES OF THE COMPANY

	Note	Share premium RMB'000	Contributed surplus RMB'000	Convertible Bonds reserve RMB'000	Retained profits RMB'000	Total RMB'000
Arising from the Reorganisation	(i)	—	198,399	—	—	198,399
Issue of Convertible Bonds	24	—	—	3,164	—	3,164
Conversion of Convertible Bonds	28(a)(vi)	42,622	—	(3,164)	—	39,458
Issuance of shares for placing and public offering	28(a)(v)	209,845	—	—	—	209,845
Capitalisation issue	28(a)(iv)	(4,986)	—	—	—	(4,986)
Share issuing costs		(32,924)	—	—	_	(32,924)
Profit for the year		—	—	—	39,820	39,820
At 31 December 2005		214,557	198,399	—	39,820	452,776

Note:

(i) The excess of the consolidated net assets represented by the shares of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to the contributed surplus account in the Company's financial statements.

At 31 December 2005, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB452,776,000.

(h) DEEMED APPROPRIATIONS TO EQUITY OWNERS

Deemed appropriations to equity owners for the year ended 31 December 2004 represent the net assets of the disposed Subsidiaries which were not primarily engaged in the development, manufacture and sale of power meters and related data collection terminals and thus were disposed of in 2004 pursuant to the Reorganisation.

29 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) CREDIT RISK

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers. The credit evaluations are reperformed periodically for the existing customers. Customers are normally granted credit terms of 3 months to 6 months depending on the Group's assessment of the credit worthiness of individual customers. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records. The Group chases the customers to settle outstanding balances and monitors the settlement progress on an ongoing basis. Normally, the Group does not obtain collateral from customers. The impairment losses on bad and doubtful accounts are within management's expectation.

At the balance sheet date, the Group has a concentration of credit risk as 80% (2004: 62%) of the total trade and other receivables was due from customers which are engaged in the power industry in the PRC.

The maximum exposure to credit risk is represented by the carrying amount of trade and other receivables in the balance sheet.

(b) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) INTEREST RATE RISK

The effective interest rate of cash and cash equivalents is 1.54% per annum (2004: 0.75% per annum). Interest rates and terms of repayment of the bank loans of the Group are disclosed in note 25.

(d) FOREIGN CURRENCY RISK

(i) Forecast transactions

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(ii) Recognised assets and liabilities

In respect of trade and other receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level.

29 FINANCIAL INSTRUMENTS (Continued)

(e) FAIR VALUES

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004 due to the nature and terms of maturity of these instruments.

30 COMMITMENTS

(a) Capital commitments, outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	The Group		The Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Contracted for	—	1,785	—
Authorised but not contracted for	20,000	6,704	—
	20,000	8,489	—

(b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties were payable as follows:

	The Group		The Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Within 1 year	1,956	140	1,724
After 1 year but within 5 years	1,370	102	1,318
	3,326	242	3,042

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew the leases when all terms renegotiated. None of the leases includes contingent rentals.

(Expressed in Renminbi unless otherwise indicated)

31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered the following material related party transactions.

(a) The Group has a related party relationship with the following parties:

Name of party	Relationship with the Group
Great Gain Investment Limited ("GGIL") (金盈投資有限公司)	GGIL is 100% beneficially owned by Mr Ji Wei ("Mr Ji"), a director and shareholder of the Company.
Hunan Weisheng Electronics Company Limited ("HWECL") (湖南威勝電子有限公司)	HWECL is a 85% owned subsidiary of GGIL.
Hunan Willfar Information Technology Company Limited ("HWITCL") (湖南威勝信息技術有限公司)	HWITCL is a 63% owned subsidiary of GGIL. Certain directors of the Company, namely Mr Ji, Mr Wang Xue Xin, Ms Cao Zhao Hui and Mr Zeng Xin, are directors of HWITCL.
Southking Investments Limited ("SIL") (南帝投資有限公司)	SIL is 60% beneficially owned by Mr Ji, and 28% by Mr Liang Ka Nam ("Mr Liang"), brother of Mr Ji, and 12% by Mr Bai Tie Xi ("Mr Bai"), brother-in-law of Mr Ji.
Harvest Main International Limited ("HMIL") (豐銘國際有限公司)	HMIL is 50% beneficially owned by Mr Liang and 50% by Mr Bai.
Hunan Weike Power Meters Company Limited ("HWPMCL") (湖南威科電力儀錶有限公司)	HWPMCL is beneficially owned by Mr Liang. Certain directors of the Company, namely Mr Ji and Mr Wang Xue Xin, were directors of HWPMCL.
Hunan Weiming Technology Limited (湖南威銘科技有限公司) (Formerly known as Hunan Weisheng Intellectual Water Meter Company Limited ("HWIWMCL") (湖南威劵智能水錶有限公司))	HWIWMCL is a 100% owned subsidiary of SIL.

31 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) The Group has a related party relationship with the following parties: (Continued)

Name of party	Relationship with the Group
Changsha Weihua Property Development Company Limited ("CWPDCL") (長沙威華置業有限公司)	CWPDCL is a 80% owned subsidiary of HWITCL. Certain directors of the Company, namely Mr Ji and Ms Cao Zhao Hui, are directors of CWPDCL.
Changsha Weizhong Chemical Machinery Company Limited (長沙威重化工機械有限公司) (Formerly known as Changsha Economic and Technology Development Zone Weizhong Machinery Manufacturing Company Limited ("CWMMCL") (長沙經濟技術開發區威重機械製造有限公司))	CWMMCL is 28% owned by HWITCL and 5% owned by CWPDCL.

(b) RECURRING TRANSACTIONS

	Note	2005 RMB'000	2004 RMB'000
Purchases	(i)	33,701	24,940
Sales	(ii)	439	130
Rental of office properties	(iii)	155	—

Notes:

(i) The Group made purchases from HWPMCL. Pursuant to the relevant purchase agreements between the Group and HWPMCL, the purchase prices were determined based on 95% (2004: 95%) of the selling price of the respective purchases of the Group.

(ii) The Group sold finished goods to HWPMCL. The selling prices were determined based on the average selling price of such goods charged by the Group to independent customers.

(iii) On 18 March 2005 and 1 July 2005, the Group entered into a lease agreement with a close relative of a director of the Company under which the Group was granted the right to use an office premises and a staff quarters for a term of one year and 6 months respectively. The rentals were determined by negotiation between the Group and the landlord based on the then prevailing market rate.

31 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) NON-RECURRING TRANSACTIONS

	Note	2005 RMB'000	2004 RMB'000
Bulk sales	(i)	**2,207**	4,382
Bulk purchases	(ii)	**13**	2,399
Sales of finished goods	(iii)	**346**	607
Sales of raw materials	(iv)	**13**	72
Purchases of raw materials	(v)	**—**	64,901
Software licensing fee	(vi)	**—**	2,051
Rental of machineries	(vii)	**—**	590
Rental of office and factory premises	(viii)	**—**	725
Purchase of a property and lease prepayments	(ix)	**—**	59,400
Purchase of patents and trademarks	(x)	**—**	46,000
Purchase of property, plant and equipment and inventories	(xi)	**—**	3,878
Purchase of staff quarters	(xii)	**7,151**	5,554

Notes:

(i) The Group entered into bulk sale agreements with HWPMCL under which the Group sold raw materials and finished goods to HWPMCL. Selling prices of raw materials and finished goods sold were determined by negotiation between the Group and HWPMCL based on the valuation from an independent valuer.

(ii) The Group entered into respective bulk purchase agreements with HWECL, HWITCL and HWPMCL under which the Group purchased raw materials or finished goods from the respective parties. Purchase prices of such commodities were determined by negotiation between the Group and the respective parties based on the valuations from an independent valuer.

(iii) The Group sold finished goods to HWITCL and HWIWMCL. Selling prices of finished goods were determined based on the average selling price of such goods charged by the Group to independent customers.

(iv) The Group sold raw materials to HWITCL. Selling prices of raw materials were based on the costs incurred by the Group in acquiring the items.

(v) The Group purchased raw materials from HMIL. Purchase prices of raw materials from HMIL were determined by negotiation between both parties and with reference to the costs and operating expenses incurred by the respective related parties in acquiring the items.

(vi) The Group entered into software licensing agreements with HWITCL under which the Group was allowed to use certain software owned by HWITCL. The annual fee payable by the Group was determined by negotiation between both parties and with reference to the valuation from an independent valuer.

(vii) The Group entered into a lease agreement with HWECL effective from 1 January 2002 under which the Group was granted the rights to use certain machineries for a term of three years. The rental rate was determined by negotiation between the Group and HWECL based on the valuation from an independent valuer. The lease agreement expired on 31 December 2004.

31 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) NON-RECURRING TRANSACTIONS (Continued)

(viii) The Group entered into a lease agreement with HWITCL effective from 1 January 2002 under which the Group was granted the rights to use certain office and factory premises for a term of six years. The rental rate was determined by negotiation between the Group and HWITCL based on the valuation from an independent valuer. The lease agreement was terminated on 22 April 2004 and the office and factory premises were subsequently acquired by the Group (see note (ix)).

(ix) On 22 April 2004, HWITCL injected the leasehold land and buildings, which were previously leased to the Group (see note (viii)), as capital contribution to set up a newly established limited liability company, namely Wasion Industrial. The injected value of the leasehold land and buildings is based on the valuation from an independent valuer.

On 26 April 2004, the Group acquired the entire equity interest of Wasion Industrial for RMB60,000,000 in aggregate:

	RMB'000
Net assets acquired:	
Building	48,411
Lease prepayments	10,989
Cash at bank	600
Total purchase price, settled through off-setting with amount due from HWITCL	60,000
Cash inflow in respect of the Company acquired	600

(x) On 26 October 2004, HWITCL transferred certain copyrights and trademarks of "WI.LFAR" to the Group at an amount of RMB46,000,000, which was determined by negotiation between both parties and based on the valuation from an independent valuer.

(xi) On 28 June 2004, the Group purchased certain property, plant and equipment and inventories from HWITCL at an amount of RMB3,878,000, which were determined by negotiation between both parties based on the valuation from independent valuers.

(xii) On 16 May 2003, the Group entered into a sales and purchases agreement with CWPDCL to purchase 30 units of staff quarters from CWPDCL at an amount of RMB6,753,000, which were determined by negotiation between both parties and based on the valuation from an independent valuer. On 8 September 2005, the Group further agreed to pay an additional amount of RMB398,000 for certain leasehold improvements on these staff quarters. Amounts of RMB5,554,000 and RMB7,151,000 were paid up to 31 December 2004 and 2005 respectively. The property ownership of the 30 units of staff quarters was transferred to the Group on 13 June 2005.

(xiii) Certain bank loans of the Group totalling RMB78,945,000 as at 31 December 2004 were secured by certain property, plant and equipment of HWECL, HWITCL, HWPMCL, CWPDCL and CWMMCL. Such pledges of assets as security were released in 2005.

Certain bank loans of the Group totalling RMB75,000,000 and RMB55,000,000 as at 31 December 2004 and 2005 respectively were pledged by certain property, plant and equipment of CWPDCL and guaranteed by HWITCL. Such pledge of assets and guarantee were released on 18 January 2006 and 26 January 2006 respectively.

31 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) The directors of the Company are of the opinion that the related party transactions as disclosed in notes (b) and (c) above, excluding note (c)(xiii), were entered into:

— in the ordinary and usual course of its business;

— on normal commercial terms;

— on terms that are fair and reasonable so far as the shareholders are concerned and in the interest of the Group as a whole;

— in accordance with terms of the agreement governing each of such transactions; and

— in respect of the recurring transactions as disclosed in notes (b)(i) and (ii) above, they have not exceeded the respective cap disclosed in the Company's prospectus dated 6 December 2005.

(e) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2005 RMB'000	2004 RMB'000
Short-term employee benefits	3,001	1,487
Post employment benefits	33	22
	3,034	1,509

Total remuneration is included in "staff costs" (see note 5(b)).

(Expressed in Renminbi unless otherwise indicated)

32 MAJOR NON-CASH TRANSACTIONS

(i) On 26 April 2004, the Group acquired a property and lease prepayments totalling RMB59,400,000 from HWITCL through an acquisition of the entire equity interest in Wasion Industrial. The consideration was settled by offsetting against an equivalent amount due from HWITCL (see note 31(c)(ix)).

(ii) On 28 June 2004, the Group acquired certain property, plant and equipment and inventories from HWITCL at an amount of RMB3,878,000. The amount was settled by offsetting against an equivalent amount due from HWITCL (see note 31(c)(xi)).

(iii) On 20 October 2004, the Group entered into a trilateral loan assignment agreement with HWITCL and HWPMCL under which the amount due from HWPMCL of RMB36,000,000 was assigned at an equivalent amount to HWITCL.

(iv) On 26 October 2004, the Group acquired copyrights and trademarks of RMB46,000,000 from HWITCL. The consideration was settled by offsetting against an equivalent amount due from HWITCL (see note 31(c)(x)).

33 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

On 23 February 2006, the board resolved to issue 36,800,000 share options to certain employees of the Group pursuant to the Company's share option scheme which was adopted on 26 November 2005 whereby the directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up option to subscribe for shares of the Company at an exercise price which is set at the higher of (i) the closing price of the Company's share trading on the Stock Exchange at the date of grant of the option and (ii) the average of the closing prices of the Company's share of the five proceeding business days immediately before the date of grant of the option. The options vest after two years from the date of grant and are then exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the Company. Details of the share option scheme are as follows:

	Number of instruments	Exercise Price	Vesting conditions	Contractual life of options
Options granted to directors:				
— on 23 February 2006	11,600,000	HK$2.225	Two years from the date of grant	Ten years
Options granted to employees:				
— on 23 February 2006	25,200,000	HK$2.225	Two years from the date of grant	Ten years

34 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2005, the directors consider the parent and ultimate controlling party of the Group to be Star Treasure Investments Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

35 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 29 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) IMPAIRMENT LOSS FOR TRADE AND OTHER RECEIVABLES

As explained in note 2(i), the Group makes impairment loss for trade and other receivables based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customers, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(ii) IMPAIRMENT LOSS FOR INTANGIBLE ASSETS

As explained in note 2(i), impairment loss for intangible assets is determined based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual products, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(iii) PROVISION FOR INVENTORIES

As explained in notes 2(j), the Group's inventories are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs of completion in case for work in progress, and the costs to be incurred in selling the inventories. Uncertainty exists in these estimations.

(iv) WARRANTY PROVISIONS

The Group may incur warranty costs during the ordinary course of its business. After taking into account the Group's claim experience in the past few years and the unique nature of its products, the directors of the Company are of the opinion that no provision for the warranties is required at the balance sheet date and warranty costs are expensed in profit or loss in the period in which they are incurred. As the Group is continually upgrading its product designs and launching new models, it is possible that the past claim experience may not be indicative of future claims that it will receive in respect of past sales. Any increase in warranty costs would affect profit or loss in future years.

(Expressed in Renminbi unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
HK(IFRIC) 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies	1 March 2006
Amendments to HKAS 19	Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement:	
	— Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	— The fair value option	1 January 2006
	— Financial guarantee contracts	1 January 2006

(Expressed in Renminbi unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005 (Continued)

		Effective for accounting periods beginning on or after
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of these standards is unlikely to have a significant impact on the Group's results of operations and financial position.