Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Principal activities and reorganisation

The Company was incorporated in the Cayman Islands on 15 June 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 in preparation for the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and became the holding company of the Group as a result of the Reorganisation completed on 14 April 2006, which involved the transfer to the Company by Daba International Investments Limited ("Daba") and Kenwell Enterprise Corp. ("Kenwell") 10,000 shares, in aggregate, being the entire issued share capital in Skyban International Holdings Limited ("Skyban"), the intermediate holding company of the Group which acquired 100% interest in Fujian Create State on 28 August 2003, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid 59,000,000 new shares of the Company as to 40,120,000 shares to Daba and 18,880,000 shares to Kenwell and (ii) credit and as fully paid at par the 680,000 and 320,000 nil paid shares then held by Daba and Kenwell respectively.

The shares of the Company were listed on the Stock Exchange on 11 May 2006.

The Group is principally engaged in the design, manufacture and sales of telecommunication equipment and related products and sales of telecommunication credit cards through smart cards vending machines.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Basis of presentation

The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the reorganisation are regarded as a continuing group ("the Group"). Accordingly, the consolidated financial statements of the Group for the years ended 31 December 2005 and 2006 have been prepared using the merger basis of 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 14 April 2006. The results of the Group for the years ended 31 December 2005 and 2006 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 2005 is a combination of balance sheets of the Company's subsidiaries at 31 December 2005. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements presented on this basis present fairly the results of operations and state of affairs of the Group as a whole.

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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 29).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

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 2003.

A summary of the significant accounting policies adopted by the Group is set out below.

(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 as otherwise set out in the accounting policies below.

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 estimates with a significant risk of material adjustment in the next year are discussed in note 28.

(c) Subsidiaries

Subsidiaries are 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. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, on a straight-line basis over their estimated useful lives. The principal annual rates are as follows:

Buildings situated on leasehold land	Over the shorter of the term of the lease or 20 years
Leasehold improvement	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	20%
Smart card vending machine	20%

The residual value and the useful life of an asset are reviewed at each financial year-end.

Gain or loss arising from the derecognition of an item of property, plant and equipment is included in income statement when the item is derecognised and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

(e) Operating lease charges

Where the Group has the use of assets held 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 income statement in the accounting period in which they are incurred.

(f) Prepaid lease payments

Prepaid lease payments are up-front payments to acquire long-term interests in lessee-occupied properties under an operating lease. The payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(g) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Inventories *(Continued)*

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.

(h) 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(s)), except where the receivables are interest-free loans 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.

(i) Trade and other payables

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

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identified and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, starting from the time when the product is put into commercial production.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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.

(n) 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 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) Interest income

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

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in income statement over the useful life of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Borrowing costs

Borrowing costs are expensed in income statement loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(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 retirement 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) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) 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) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in income statement over the remaining vesting period, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are expensed on straight-line basis over the vesting period unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

(r) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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.

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.

(s) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated 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 trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of 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), where the effect of discounting is material.

  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 or 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;
– prepaid interests in leasehold land classified as being held under an operating lease; and
– investments in subsidiaries.

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).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– 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 income statement in the year in which the reversals are recognised.

(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 income statement.

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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) 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. For example, segment assets may include inventories, trade receivables and property, plant and equipment. 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 AND OTHER REVENUE

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discount and sale tax.

Turnover and other revenue consisted of:

	2006	2005
	RMB'000	*RMB'000*
Turnover		
Sales of telecommunication products	**670,143**	557,883
Sales of telecommunication crediting cards	**328**	–
	670,471	557,883
Other revenue		
Exchange gain	**1,060**	–
Government grants	**–**	50
Interest income	**4,289**	934
	5,349	984
Total revenue	**675,820**	558,867

4. FINANCE COSTS

	2006	2005
	RMB'000	*RMB'000*
Interests on bank loan	**171**	236
Bank charges	**33**	15
	204	251

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2006 RMB'000	2005 RMB'000
Amortisation of lease premium on land	**43**	43
Auditors' remuneration *(Note 1)*	**811**	70
Cost of inventories *(Note 2)*	**394,229**	326,043
Depreciation *(Note 2)*	**2,696**	2,826
Less: Amount included in research and development costs	**(407)**	(448)
	2,289	2,378
Staff costs (including directors' remuneration)		
Wages and salaries	**40,314**	35,560
Retirement scheme	**877**	748
Equity-settled share-based payment expenses	**223**	–
	41,414	36,308
Less: Amount included in research and development costs	**(2,264)**	(1,460)
	39,150	34,848
Interest expenses on bank loans wholly repayable within 5 years	**171**	236
Research and development costs *(Note 3)*	**5,191**	4,338
Operating lease payment in respect of premises	**728**	786

Notes:

1. Auditors' remuneration of RMB70,000 recognised in 2005 represented audit fee charged by the PRC auditors for the year ended 31 December 2004 which was paid during the year ended 31 December 2005. Auditors' remuneration for the year ended 31 December 2005 of RMB97,000 charged by the PRC auditors was paid during the year ended 31 December 2006.

2. Cost of inventories includes RMB7,281,000 (2005: RMB6,654,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

3. Included in research and development costs were depreciation of RMB407,000 (2005: RMB448,000) and staff costs of RMB2,264,000 (2005: RMB1,460,000).

6. INCOME TAX

	2006 RMB'000	2005 RMB'000
Current tax – PRC enterprise income tax		
Provision for the year	**33,745**	27,781

6. INCOME TAX *(Continued)*

(i) Fujian Create State, which was formerly a sino-foreign equity joint venture, was subject to PRC enterprise income tax at a rate of 15% (2005: 15%) applicable to the company on the assessable profits for the year and is exempted from the PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses being the year ended 31 December 2000, followed by a 50% reduction for the next three years.

Commencing from 2002, profit generated from Fujian Create State was subject to an income tax rate of 7.5% being half of the corporate income tax rate applicable, such tax exemption expired as at 31 December 2004.

With effect from 13 November 2003, Fujian Create State was changed from a sino-foreign equity joint venture to a wholly foreign owned enterprise, and the tax concession remains unchanged.

(ii) Fuzhou Wozhong Capacity System Co., Ltd., a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the year. No provision for PRC enterprise income tax has been made as the company had no assessable profits for the year . (2005: Nil).

(iii) Skyban Telecommunication (Fujian) Ltd., a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 15% applicable to the company on the assessable profits for the year and is exempted from the PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. No provision for PRC enterprise income tax has been made as the company had no assessable profits for the year. (2005: Nil).

(iv) 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. (2005: Nil)

(v) The Group had no significant unprovided deferred tax assets or liabilities. (2005: Nil)

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006 ***RMB'000***	2005 *RMB'000*
Profit before taxation	**218,127**	174,750
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**32,567**	26,155
Tax effect of non-deductible expenses	**16,174**	–
Tax effect of non-deductible income	**(16,800)**	–
Temporary differences	**64**	1,226
Tax effect of unrecognised tax losses	**1,740**	400
Actual tax expense	**33,745**	27,781

7. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2006 **HK$'000**	2005 *HK$'000*
Interim dividend declared and paid during the year of HK 1 cent per share (2005: Nil)	**10,375**	–
	RMB'000	*RMB'000*
Equivalent to	**10,790**	–
Skyban *(Note)*	**95,341**	64,571
Total	**106,131**	64,571
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK 4.33 cents per share (2005: Nil)	**44,924**	–

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

Note: *During the year ended 31 December 2006 and 2005, Skyban had paid dividends to their then shareholders prior to the Group Reorganisation.*

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent of approximately RMB184,382,000 (2005: RMB146,969,000) and the weighted average number of 943,630,000 shares (2005: 780,000,000 shares) in issued during the year.

Weighted average number of ordinary shares

	2006 ***'000***	2005 *'000*
Issued ordinary shares at 1 January	**780,000**	780,000
Issue of shares *(Note 22(c)(v))*	**163,630**	–
Weighted average number of ordinary shares at 31 December	**943,630**	780,000

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2006 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price for shares for that year.

Diluted earnings per share for the year ended 31 December 2005 are not presented as there were no dilutive potential ordinary shares.

9. STAFF RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan managed by independent trustees. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan, which is a defined contribution retirement plan operated by the local government in the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiary are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

The contributions paid for the year were approximately RMB921,000 (2005: RMB748,000).

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The directors of the Company were members of the senior management of the Group during the year ended 31 December 2006 and 2005. Assuming these existing directors had already been appointed directors at the beginning of the earliest period presented, directors remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 31 December 2006					
Name of director	**Directors' fees**	**Bonuses**	**Salaries, allowances and benefit in kind**	**Contributions to retirement scheme**	**Share-based payment *(note)***	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Executive directors						
Mr. Yu Longrui	–	**5**	**1,429**	**19**	–	**1,453**
Mr. Zheng Feng	–	**4**	**133**	**1**	**40**	**178**
Mr. Chan Wai Chuen	–	**1,664**	**925**	**24**	**61**	**2,674**
Ms. Yang Yahua	–	**2**	**89**	**1**	–	**92**
Mr. Yeung Shing	–	**3**	**195**	**19**	–	**217**
Independent non-executive directors						
Mr. Yu Lun	–	–	**42**	–	–	**42**
Mr. Zheng Qingchang	–	–	**42**	–	–	**42**
Mr. Yun Lok Ming	–	–	**67**	–	–	**67**
	–	**1,678**	**2,922**	**64**	**101**	**4,765**

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

Name of director	Directors' fees	Bonuses	Salaries, allowances and benefit in kind	Contributions to retirement scheme	Share-based payment	Total
	For the year ended 31 December 2005					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Yu Longrui	–	5	86	1	–	92
Mr. Zheng Feng	–	4	61	1	–	66
Mr. Chan Wai Chuen	–	48	811	25	–	884
Ms. Yang Yahua	–	3	42	1	–	46
Mr. Yeung Shing	–	4	56	1	–	61
Independent non-executive directors						
Mr. Yu Lun	–	–	–	–	–	–
Mr. Zheng Qingchang	–	–	–	–	–	–
Mr. Yun Lok Ming	–	–	–	–	–	–
	–	64	1,056	29	–	1,149

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q).

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emolument, all (2005: two) are directors whose emoluments are disclosed in note 10. During the year ended 31 December 2005, the aggregate of the emoluments in respects of the other three individuals are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**–**	127
Bonuses	**–**	8
Contributions to retirement scheme	**–**	1
	–	136

During the year ended 31 December, 2006, no emolument was paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Company or as compensation of loss of office (2005: Nil).

The emoluments of all the five highest paid individuals (including directors and other employees) for the year ended 31 December, 2006 are directors of the Company, the details of which is disclosed in note 10 (2005: the emoluments of the two individuals with the highest emoluments are below RMB1,060,000 (equivalent of HK$1,000,000)).

12. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB6,148,000 (2005: Nil) which has been dealt with in the financial statements of the Company.

13. PREPAID LEASE PAYMENTS

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Net book value at 1 January	**1,781**	1,824
Amortisation	**(43)**	(43)
Net book value at 31 December	**1,738**	1,781

All the prepaid lease payments are held under medium-term leases and situated in the PRC.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Smart card vending machine	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost								
As at 1/1/2005	18,583	528	10,326	4,641	2,872	–	–	36,950
Exchange adjustments	–	(10)	–	(4)	–	–	–	(14)
As at 31/12/2005 and 1/1/2006	18,583	518	10,326	4,637	2,872	–	–	36,936
Exchange adjustments	–	(20)	–	(10)	–	–	–	(30)
Additions	–	–	5,171	567	537	394	49,104	55,773
As at 31/12/2006	18,583	498	15,497	5,194	3,409	394	49,104	92,679
Accumulated depreciation								
As at 1/1/2005	4,564	106	5,687	2,640	2,254	–	–	15,251
Exchange adjustments	–	(2)	–	(1)	–	–	–	(3)
Charge for the year	836	104	975	683	228	–	–	2,826
As at 31/12/2005	5,400	208	6,662	3,322	2,482	–	–	18,074
Exchange adjustments	–	(8)	–	(4)	–	–	–	(12)
Change for the year	836	100	1,013	620	127	–	–	2,696
As at 31/12/2006	6,236	300	7,675	3,938	2,609	–	–	20,758
Net book value								
As at 31/12/2006	12,347	198	7,822	1,256	800	394	49,104	71,921
As at 31/12/2005	13,183	310	3,664	1,315	390	–	–	18,862

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares at cost	**246,683**	–
Due from subsidiaries	**290,652**	–
	537,335	–

Amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

Details of subsidiaries as at 31 December 2006 are as follows:

Name	**Country of incorporation and operation**	**Class of share held**	**Issued/ registered and paid-up capital**	**Proportion of nominal value of issued/registered capital held by the Company Directly**	**Indirectly**	**Principal activities**
Skyban International Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$10,000	100%	–	Investment holding
Fujian Create State Industry Co., Ltd. ("Fujian Create State")*	PRC/PRC	Ordinary	RMB30,000,000	–	100%	Design, manufacture and sales of telecommunication equipment and related products
International Intelligent System Limited	British Virgin Islands/ Hong Kong	Ordinary	US$10,000	100%	–	Investment holding
Fuzhou Wozhong Capacity System Co., Ltd.	PRC/PRC	Ordinary	RMB10,000,000	–	100%	Sales of telecommunication crediting cards
Skyban Telecommunication (Fujian) Ltd.	PRC/PRC	Ordinary	RMB73,000,000	–	100%	Property holding

* *Fujian Create State was incorporated in the PRC on 5 April 1997 as a sino-foreign equity joint venture with a registered capital of RMB30,000,000. Effective from 13 November 2003, Fujian Create State was changed from a sino-foreign equity joint venture to a wholly foreign owned enterprise. Fujian Create State has an operating period of 50 years from 5 April 1997 to 4 April 2047.*

16. INVENTORIES

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Raw material	**5,145**	4,879
Work in progress	**794**	489
Finished goods	**13,571**	11,876
Merchandise	**204**	–
Total	**19,714**	17,244

17. TRADE RECEIVABLES

The Group normally grants credit terms of 90 days to its customers.

The ageing analysis of trade receivables is as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
0 to 30 days	**70,137**	56,046
31 to 60 days	**72,376**	61,707
61 to 90 days	**72,196**	39,004
91 to 180 days	**4,549**	2,342
	219,258	159,099

The Group's credit policy is set out in note 27(b).

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**402,445**	156,456	**358**	–

19. TRADE PAYABLES

The ageing analysis of accounts payables is as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
0 to 30 days	**11,554**	9,296
31 to 60 days	**458**	594
61 to 90 days	**87**	–
Over 365 days	**32**	32
	12,131	9,922

20. BANK LOAN

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Repayable within one year	**–**	6,000

The loan was secured by guarantees put up by a related company, Fujian Deban Group, 77.6% equity interest in Fujian Deban Group is beneficially owned by Mr. Yu Longrui, a director of the Company. Fujian Deban Group is the guarantor for all the above bank loans advanced by Agricultural Bank of China during the two years ended 31 December 2006.

21. AMOUNT DUE TO A RELATED COMPANY

The amount represents the advance from Data International Investments Limited, the then ultimate holding company of the Group prior to listing of the shares of the Company on the Stock Exchange on 11 May 2006, for the purpose of providing additional working capital to the Group and is unsecured, interest free and repayable on demand. The amount was fully paid during the year.

22. CAPITAL AND RESERVES

(a) The Group

	Share capital	Share premium	Merger reserve	Other reserve	General reserve	Exchange reserve	Contri-buted surplus	Special reserve	Share option reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2005	83	–	(57,000)	87,000	47,435	–	–	–	–	152,350	229,868
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	146,969	146,969
Transfer to general reserve	–	–	–	–	23,614	–	–	–	–	(23,614)	–
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	(499)	–	–	–	–	(499)
Dividend paid	–	–	–	–	–	–	–	–	–	(64,571)	(64,571)
As at 31 December 2005 and 1 January 2006	83	–	(57,000)	87,000	71,049	(499)	–	–	–	211,134	311,767
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	6,240	–	–	–	–	–	249,912	–	–	–	256,152
Effect of the reorganisation	(83)	–	–	(87,000)	–	1,642	(249,912)	79,201	–	–	(256,152)
Issue of shares	26,780	310,648	–	–	–	–	–	–	–	–	337,428
Share issuance expenses	–	(20,277)	–	–	–	–	–	–	–	–	(20,277)
Capitalisation of share premium	74,880	(74,880)	–	–	–	–	–	–	–	–	–
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	184,382	184,382
Transfer to reserve	–	–	–	–	28,684	–	–	–	–	(28,684)	–
Exchange difference on translation of financial statements of foreign subsidiaries	–	–	–	–	–	(6,386)	–	–	–	–	(6,386)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	525	–	525
Dividend paid	–	–	–	–	–	–	–	–	–	(106,131)	(106,131)
As at 31 December 2006	107,900	215,491	(57,000)	–	99,733	(5,243)	–	79,201	525	260,701	701,308

22. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital *RMB'000*	Share premium *RMB'000*	Exchange reserve *RMB'000*	Contributed surplus *RMB'000*	Accumulated losses *RMB'000*	Share option reserve *RMB'000*	Total *RMB'000*
As at 1 January 2005, 31 December 2005 and 1 January 2006	–	–	–	–	–	–	–
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	6,240	–	–	249,912	–	–	256,152
Issue of shares	26,780	310,648	–	–	–	–	337,428
Share issuance expenses	–	(20,277)	–	–	–	–	(20,277)
Capitalisation of share premium	74,880	(74,880)	–	–	–	–	–
Loss attributable to shareholders	–	–	–	–	(6,148)	–	(6,148)
Exchange differences arising from combination	–	–	(21,515)	–	–	–	(21,515)
Recognition of equity-settled share-based payment	–	–	–	–	–	525	525
Dividends paid	–	–	–	–	(10,790)	–	(10,790)
At 31 December 2006	107,900	215,491	(21,515)	249,912	(16,938)	525	535,375

(c) Share capital

(i) Authorised and issued share capital

Ordinary shares of HK$0.10 each	Number of shares *'000*	Amount *HK$'000*
Authorised		
Upon incorporation of the Company *(Note 22(c)(ii))*	2,000	200
Increase in authorised share capital *(Note 22(c)(iii))*	3,998,000	399,800
As at 31 December 2006	4,000,000	400,000
Issued and fully paid		
Issue of shares upon incorporation *(Note 22(c)(ii))*	1,000	100
Issue of shares from the Reorganisation *(Note 22(c)(iv))*	59,000	5,900
Issue of shares through a placing and public offer *(Note 22(c)(v))*	257,500	25,750
Capitalisation of share premium *(Note 22(c)(vi))*	720,000	72,000
As at 31 December 2006	1,037,500	103,750
		RMB'000
Equivalent to		107,900

As at 31 December 2005, the share capital shown on the consolidated balance sheet represented the share capital of Skyban, the then holding company of the Group prior to the Reorganisation (See Note 1 to the financial statements).

22. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(ii) Upon incorporation on 15 June 2004, the Company had authorised share capital of HK$200,000, divided into 2,000,000 shares of HK$0.10 each. On the same date and on 26 July 2004, one subscriber's share and 999,999 shares were allotted and issued as nil paid shares respectively, which were subsequently credited as fully paid at par as noted in (iv) below.

(iii) Pursuant to the written resolutions passed on 14 April 2006, the Company's authorised share capital was increased from HK$200,000 to HK$400,000,000 of a par value of HK$0.10 each by the creation of 3,998,000,000 additional shares each ranking pari passu with the then existing shares in all respects.

(iv) In preparation of the Company's listing of its shares on the Main Board of the Stock Exchange, the Company allotted and issued 59,000,000 shares, together with the 1,000,000 shares allotted and issued on 15 June 2004 and 26 July 2004 as noted in (ii) above, of HK$0.10 each, credited as fully paid at par, in exchange for the acquisition by the Company of the entire share capital of Skyban, the then holding company of the Group, on 14 April 2006.

(v) In connection with the Company's initial public offering, a total of 257,500,000 shares of HK$0.10 each were issued at a price of HK$1.26 per share for a total cash consideration, before expenses, of approximately HK$324,450,000. Dealings in these shares on the Stock Exchange commenced on 11 May 2006.

(vi) Pursuant to the written resolutions passed on 14 April 2006, share premium of approximately HK$72,000,000 was capitalised for the issuance of 720,000,000 shares of HK$0.10 each on a pro-rata basis to the Company's shareholders on 14 April 2006.

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (revised) 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.

(ii) Merger reserve

Merger reserve represents the excess of purchase consideration in respect of the acquisition of Fujian Create State over the amount of the paid-up capital of Fujian Create State.

(iii) Other reserve

Other reserve represents contributions from the shareholders of Skyban in respect of the acquisition of Fujian Create State on 29 August 2003. The amount was capitalised as share capital of Skyban on 11 May 2006.

22. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iv) General reserve

General reserve comprises statutory surplus fund and enterprise expansion fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

(v) 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 policies set out in note 2(t).

(vi) Contributed surplus

The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to listing of the Company's shares on 11 May 2006.

(vii) Special reserve

The special reserve of the Group represents the differences between the nominal value and premium of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of reorganisation.

(viii) Share option reserve

The share option reserve of the Company and the Group arises on the grant of share options to directors of the Company, suppliers of goods or services to the Group and consultant of the Group. The reserve is dealt with in accordance with the accounting policies set out in note 2(q).

(e) Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2006, the Company's reserves available for distribution to shareholders amounted to approximately RMB448,465,000 (2005: Nil), computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB215,491,000 (2005: Nil), and contributed surplus of RMB249,912,000 (2005: Nil), less accumulated losses of RMB16,938,000 (2005: Nil), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 14 April 2006 whereby the directors of the Company were authorised, at their discretion, to invite the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders, to take up option at HK$1.00 consideration to subscribe for share of the Company. The options vest after half, one and a half and two and a half year respectively from the date of grant and are then exercisable within a period of two and a half years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Exercisable period
Option granted to directors:		
– On 14 November 2006	2,116,000	1 July 2007 to 31 December 2009
– On 14 November 2006	2,092,000	1 July 2008 to 31 December 2010
– On 14 November 2006	2,092,000	1 July 2009 to 31 December 2011
	6,300,000	
Option granted to employees:		
– On 14 November 2006	2,560,000	1 July 2007 to 31 December 2009
– On 14 November 2006	2,520,000	1 July 2008 to 31 December 2010
– On 14 November 2006	2,520,000	1 July 2009 to 31 December 2011
	7,600,000	
Option granted to suppliers:		
– On 14 November 2006	3,160,000	1 July 2007 to 31 December 2009
– On 14 November 2006	3,120,000	1 July 2008 to 31 December 2010
– On 14 November 2006	3,120,000	1 July 2009 to 31 December 2011
	9,400,000	
Option granted to consultant:		
– On 14 November 2006	3,300,000	1 July 2007 to 31 December 2009
– On 14 November 2006	3,300,000	1 July 2008 to 31 December 2010
– On 14 November 2006	3,400,000	1 July 2009 to 31 December 2011
	10,000,000	
	33,300,000	

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price	**2006** Number of options '000	2005 Weighted average exercise price	2005 Number of options '000
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**HK$1.26**	**33,300**	–	–
Outstanding at the end of the year	**HK$1.26**	**33,300**	–	–
Exercisable at the end of the year	–	–	–	–

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

(i) Fair value of share options exercisable from 1 July 2007 to 31 December 2009 and assumptions

	2006	2005
Fair value at measurement date	**HK$0.13**	N/A
Share price	**HK$0.80**	N/A
Exercise price	**HK$1.26**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**53.23%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**3.13 years**	N/A
Expected dividends	**5.07%**	N/A
Risk-free interest rate (based on Exchange Fund Notes)	**3.72%**	N/A

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions: *(Continued)*

(ii) Fair value of share options exercisable from 1 July 2008 to 31 December 2010 and assumptions

	2006	2005
Fair value at measurement date	**HK$0.16**	N/A
Share price	**HK$0.80**	N/A
Exercise price	**HK$1.26**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**53.23%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**4.13 years**	N/A
Expected dividends	**5.07%**	N/A
Risk-free interest rate (based on Exchange Fund Notes)	**3.75%**	N/A

(iii) Fair value of share options exercisable from 1 July 2009 to 31 December 2011 and assumptions

	2006	2005
Fair value at measurement date	**HK$0.19**	N/A
Share price	**HK$0.80**	N/A
Exercise price	**HK$1.26**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**53.23%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**5.13 years**	N/A
Expected dividends	**5.07%**	N/A
Risk-free interest rate (based on Exchange Fund Notes)	**3.78%**	N/A

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options grants.

24. SEGMENT REPORTING

More than 95% of the operating profits and assets are attributable to the Group's operations, manufacturing and sales of telecommunication products in the PRC. The Group derived its revenue mainly from three categories of products, namely communication terminal equipment, intelligent electronic products and communication transmission connection products. As the nature of these products, their production processes and the methods used to distribute these products are similar, they are combined and reported as a single business segment. Accordingly, no analysis by geographical and business segment is presented herein.

25. RELATED PARTY TRANSACTION

Key management personnel remuneration

Key management personnel are directors of the Company. Remuneration for key management personnel is disclosed in note 10.

26. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Contracted for		
– prepaid lease payments	**2,627**	–
– the acquisition of property, plant and equipment	**32,524**	–
	35,151	–

(b) Lease commitment

The Group as lessee

As at 31 December 2006 and 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Within one year	**724**	380
After one year but within five years	**799**	–
	1,523	380

Significant leasing arrangements in respect of land held under operating leases are described in note 13.

Apart from these leases, the Group is the lease in respect of a number of properties held under operating leases. None of the leases includes contingent rentals.

27. 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) Fair values

The carrying amounts of the cash and bank deposits, trade and other receivables and payables, and short-term bank loans and balances with related parties approximate their fair values because of the short maturity of these instruments.

(b) Credit risk

The Group is exposed to credit risk that any single counter parties or group of counter parties having similar characteristics will be unable to pay amounts in full when due. Credit risks associated with these transactions are closely monitored by management of the Group. The Group's customers in the PRC are established telecommunication services providers which the Group believes have reliable credit standing. Taking into account the creditworthiness of the Group's customers, the credit risk measures and the historical levels of the bad debts, the Directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The carrying amount of cash and bank deposits, trade and other receivables, deposits and prepayments, and balances with related parties represented the Group's maximum exposure to credit risk in relation to financial assets.

(c) Interest rate risk

The interest rates and terms of repayments of short-term bank loans are disclosed in Note 20. The Group does not have substantial interest-bearing assets.

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

(d) Liquidity risk

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 bank to meet its liquidity requirements in the short and longer term.

(e) Foreign exchange risk

The Group did not have material foreign exchange risk because the presentation currency and the functional currency of the operations to which they relates are primarily Renminbi (RMB). It did not have material transactions in foreign currency, nor did it enter into any foreign exchange forward contracts.

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that can significantly affect the amounts recognised in the financial statements are disclosed below.

Key sources of estimation uncertainty

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimates by the balance sheet date.

(ii) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

29. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

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 them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

29. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006 *(Continued)*

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will not have material impact on the results and financial position of the Group:

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – Int-7	Applying the restatement approach under HKAS 29 *"Financial Reporting in Hyperinflationary Economies"*[2]
HK(IFRIC) – Int-8	Scope of HKFRS 2[3]
HK(IFRIC) – Int-9	Reassessment of embedded derivatives[4]
HK(IFRIC) – Int-10	Interim financial reporting and impairment[5]
HK(IFRIC) – Int-11	HKFRS 2 – Group and treasury share transactions[6]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.
5 Effective for annual periods beginning on or after 1 November 2006.
6 Effective for annual periods beginning on or after 1 March 2007.