Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

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.

Details of the Reorganisation are set out in the prospectus dated 6 December 2005 issued by the Company (the "Prospectus").

(b) Basis of presentation

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 year ended 31 December 2005 include results of the Company and its subsidiaries with effect from 1 January 2005 and since their respective dates of incorporation, whichever is a shorter period. 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.

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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's and the Company's accounting policies applied in these financial statements for the years presented.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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 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 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group does not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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(h)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

(i) Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(h)). 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, 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.

(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 situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 5 years from the date of completion, and the unexpired terms of the leases.

— Furniture, fixtures and office equipment	5 years
— Plant and machinery	5 to 10 years
— Motor vehicles	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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

(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 consolidated income statement 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(h)). 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) 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 and borrowing costs, where applicable (see note 2(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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 finite) and impairment losses (see note 2(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over the assets' estimated useful lives. 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 are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to consolidated income statement 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 consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated in the balance sheet at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, 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), 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 consolidated income statement. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(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;

— interests in leasehold land held for own use under operating leases;

— intangible assets; 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).

— Recognition of impairment losses

An impairment loss is recognised in consolidated income statement 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

— 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 consolidated income statement in the year in which the reversals are recognised.

(i) 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.

(j) 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(h)), 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(h)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible bonds is measured 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 consolidated income statement 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 amount 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.

(l) 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 the amount initially recognised and redemption value being recognised in consolidated income statement over the period of the borrowings, together with any interest and fees payable using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for the financial guarantee liabilities measured in accordance with note 2(q)(i), 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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) 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.

(iii) 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 the grant date using the binomial 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 the consolidated 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 the 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).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 consolidated income statement 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Company issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. In the case of the guarantee issued by the Company in respect of a loan to its wholly owned subsidiary, the asset identified is a form of capital contribution and subject to the accounting policy applied to investments in subsidiaries (see note 2(c)).

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and (ii) the amount of that claim on the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other 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)

(r) 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.

(s) 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 consolidated 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies (Continued)

The consolidated financial statements are presented in Renminbi while the functional currency of the Company is Hong Kong Dollars. The directors of the Company consider that it is more appropriate to present the consolidated financial statements in Renminbi as the Group's principal activities are in the PRC and most of the Group's books and records are maintained in Renminbi. The results of the Company and 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.

(t) Borrowing costs

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

(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;

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties (Continued)

(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. 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:

	2006 RMB'000	2005 RMB'000
Sales of three-phase electronic power meters	**360,488**	315,021
Sales of single-phase electronic power meters	**73,537**	35,489
Sales of data collection terminals	**155,030**	84,817
Revenue from provision of software development services	**7,855**	10,321
	596,910	445,648

4 OTHER REVENUE AND NET INCOME

	2006 RMB'000	2005 RMB'000
Other revenue		
Interest income	**4,878**	912
Value added tax ("VAT") refund	**3,519**	1,618
Others	**237**	175
	8,634	2,705
Other net income		
Net exchange gain	**908**	—
Others	**1,155**	21
	2,063	21

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 and is recognised as other revenue when the refund is approved by the relevant authorities.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006 RMB'000	2005 RMB'000
(a) Finance costs		
Interest on bank advances wholly repayable within five years	**9,167**	8,773
Discount on the convertible bonds amortised before conversion	**—**	2,434
Other borrowing costs	**333**	1,010
	9,500	12,217
(b) Staff costs		
Salaries, wages and other benefits	**42,708**	36,141
Contributions to defined contribution retirement plans (note 24)	**2,163**	1,443
Equity-settled share-based payment expenses	**11,731**	—
	56,602	37,584
(c) Other items		
Amortisation of lease prepayments	**250**	250
Amortisation of intangible assets	**10,550**	12,067
Depreciation	**10,124**	7,856
Impairment losses for bad and doubtful debts	**1,629**	—
Auditors' remuneration (audit services)	**1,445**	1,394
Operating lease charges		
— hire of other assets (including property rentals)	**3,847**	1,106

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax — Provision for PRC income tax		
Provision for the year	**5,995**	8,049
Over-provision in prior years	**(462)**	—
	5,533	8,049
Deferred tax		
Origination and reversal of temporary differences (note 26(b))	**1,168**	313
	6,701	8,362

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 (2005: Nil).

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).

As a Macau offshore company established under the Macau Offshore law, the subsidiary in Macau was exempted from Macau income tax during the years ended 31 December 2005 and 2006.

Pursuant to the income tax rules and regulations of the PRC, a subsidiary in the PRC 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.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) Taxation in the consolidated income statement represents: (Continued)

Pursuant to the income tax rules and regulations of the PRC, a subsidiary in the PRC was granted five-year tax holiday, under which it is exempted from PRC income tax for the first two profit making years and entitled to a 50% income tax reduction for the next three years. Therefore, the subsidiary is exempted from PRC income tax for the period from 1 January 2005 to 31 December 2006 and 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, a subsidiary in the PRC is liable to PRC income tax at a rate of 33%. The subsidiary was not subject to PRC income tax during the years ended 31 December 2005 and 2006 as it has sustained tax losses since its establishment.

A subsidiary in the PRC was granted with tax credits totalling RMB1,003,000 for the purchase of domestically produced plant and machinery and the research and development activities during the year ended 31 December 2006 (2005: RMB314,000).

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**158,437**	124,334
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**40,881**	35,114
Tax effect of non-deductible expenses	**5,844**	3,113
Tax effect of non-taxable income	**(2,288)**	(608)
Over-provision in prior years	**(462)**	—
Unused tax losses not recognised	**706**	—
Effect of tax credit	**(1,003)**	(314)
Effect of tax concessions	**(36,977)**	(28,943)
Actual tax expense	**6,701**	8,362

7 DIRECTORS' REMUNERATION

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000	2006 Total RMB'000
Executive directors							
Ji Wei	—	1,207	—	12	1,219	—	1,219
Wang Xue Xin	—	657	208	17	882	1,090	1,972
Cao Zhao Hui	—	306	59	15	380	727	1,107
Zheng Xiao Ping	—	281	50	15	346	727	1,073
Liao Xue Dong	—	266	46	15	327	581	908
Zeng Xin	—	325	80	15	420	727	1,147
Independent non-executive directors							
Hui Wing Kuen	281	—	—	—	281	218	499
Wu Jin Ming	100	—	—	—	100	73	173
Pang Yuan	100	—	—	—	100	73	173
	481	3,042	443	89	4,055	4,216	8,271

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

7 DIRECTORS' REMUNERATION (Continued)

Share-based payments 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(o)(iii).

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 25.

There were no amounts paid during the year (2005: 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 (2005: Nil).

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individual (2005: two individuals) are as follows:

	2006	2005
	RMB'000	RMB'000
Salaries and other emoluments	**980**	747
Discretionary bonuses	**—**	—
Share-based payments	**727**	—
Retirement scheme contributions	**12**	11
	1,719	758

The emoluments of the remaining individual (2005: two individuals) with the highest emoluments are within the band of RMB1,500,001 to RMB2,000,000 (2005: RMB Nil to RMB1,000,000).

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB11,920,000 (2005: profit of RMB39,820,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 RMB'000	2005 RMB'000
Final dividend proposed after the balance sheet date of HK$0.070 (equivalent to RMB0.070) (2005:HK$0.053 (equivalent to RMB0.055)) per ordinary share	**49,297**	38,818

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

	2006 RMB'000	2005 RMB'000
Final dividend declared by a subsidiary in respect of the previous financial year, approved and paid during the year	**—**	35,000
Final dividend declared by the Company in respect of previous financial year, approved and paid during the year	**38,818**	—
	38,818	35,000

(Expressed in Renminbi unless otherwise indicated)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity shareholders of the Company of RMB151,736,000 and the weighted average of 704,247,787 ordinary shares in issue during the year.

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 and the weighted average of 487,986,908 ordinary 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 27(c)(i))	1
Issuance of shares upon the Reorganisation (note 27(c)(ii))	999,999
Capitalisation issue (note 27(c)(iii))	479,000,000
Effect of issuance of shares for placing and public offering (note 27(c)(iv))	6,410,959
Effect of conversion of convertible bonds (note 27(c)(v))	1,575,949
Weighted average number of shares at 31 December	487,986,908

(Expressed in Renminbi unless otherwise indicated)

11 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB151,736,000 and the weighted average of 708,471,606 ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2006 **No. of shares**
Weighted average number of ordinary shares at 31 December	704,247,787
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	4,223,819
Weighted average number of ordinary shares (diluted) at 31 December	708,471,606

There were no dilutive potential ordinary shares in issue as at 31 December 2005.

12 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.

12 SEGMENTAL REPORTING (Continued)

Business segment (Continued)

	2006			
	Electronic power meters RMB'000	**Data collection terminals and related services** RMB'000	**Inter-segment elimination** RMB'000	**Consolidated** RMB'000
Revenue from external customers	434,025	162,885	—	596,910
Inter-segment revenue	1,522	4,286	(5,808)	—
Total revenue	435,547	167,171	(5,808)	596,910
Segment result	127,085	50,153		177,238
Unallocated operating income and expenses				(9,301)
Profit from operations				167,937
Finance costs				(9,500)
Income tax expense				(6,701)
Profit for the year				151,736
Depreciation and amortisation	11,808	9,005		20,813
Unallocated depreciation				111
Total depreciation and amortisation				20,924
Significant non-cash items (other than depreciation and amortisation)	10,265	2,553		12,818
Unallocated expenses				542
				13,360

12 SEGMENTAL REPORTING (Continued)

Business segment (Continued)

	2006			
	Electronic power meters RMB'000	Data collection terminals and related services RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Segment assets	537,487	181,945	(23,164)	696,268
Unallocated assets				233,345
Total assets				929,613
Segment liabilities	(122,803)	(73,657)	23,164	(173,296)
Unallocated liabilities				(170,441)
Total liabilities				(343,737)
Capital expenditure incurred	56,327	10,939		67,266
Unallocated capital expenditure				1,073
Total capital expenditure				68,339

12 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
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	114,843	24,088		138,931
Unallocated operating income and expenses				(2,380)
Profit from operations				136,551
Finance costs				(12,217)
Income tax expense				(8,362)
Profit for the year				115,972
Depreciation and amortisation	12,312	7,861		20,173
Segment assets	404,837	121,365	(47,845)	478,357
Unallocated assets				265,838
Total assets				744,195

12 SEGMENTAL REPORTING (Continued)

Business segment (Continued)

	2005			
	Electronic power meters	**Data collection terminals and related services**	**Inter-segment elimination**	**Consolidated**
	RMB'000	RMB'000	RMB'000	RMB'000
Segment liabilities	(114,192)	(78,444)	47,845	(144,791)
Unallocated liabilities				(127,818)
Total liabilities				(272,609)
Capital expenditure incurred	22,009	6,070		28,079
Unallocated capital expenditure				570
Total capital expenditure				28,649

Geographical segment

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

13 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 2005	50,864	1,364	2,953	20,703	5,386	81,270
Exchange adjustments	—	(12)	—	—	—	(12)
Transfer from construction in progress (note 14)	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
At 1 January 2006	58,913	4,740	4,197	29,636	6,051	103,537
Exchange adjustments	—	(24)	(13)	—	(18)	(55)
Transfer from construction in progress (note 14)	—	—	—	712	—	712
Additions	147	170	2,255	9,143	6,855	18,570
Disposals	—	—	—	(196)	—	(196)
At 31 December 2006	59,060	4,886	6,439	39,295	12,888	122,568
Accumulated depreciation:						
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
At 1 January 2006	2,133	1,072	1,772	9,359	1,355	15,691
Exchange adjustments	—	(5)	—	—	(1)	(6)
Charge for the year	1,783	822	1,029	5,579	911	10,124
Written back on disposal	—	—	—	(48)	—	(48)
At 31 December 2006	3,916	1,889	2,801	14,890	2,265	25,761
Net book value:						
At 31 December 2006	55,144	2,997	3,638	24,405	10,623	96,807
At 31 December 2005	56,780	3,668	2,425	20,277	4,696	87,846

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 23.

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
Additions during the year and at 31 December 2005	226	344	—	570
At 1 January 2006	226	344	—	570
Exchange adjustment	(8)	(13)	(18)	(39)
Additions	21	40	1,012	1,073
At 31 December 2006	239	371	994	1,604
Accumulated depreciation:				
Charge for the year and at 31 December 2005	—	1	—	1
At 1 January 2006	—	1	—	1
Exchange adjustment	—	(2)	(1)	(3)
Charge for the year	24	53	34	111
At 31 December 2006	24	52	33	109
Net book value:				
At 31 December 2006	215	319	961	1,495
At 31 December 2005	226	343	—	569

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

14 CONSTRUCTION IN PROGRESS

The Group

	2006	2005
	RMB'000	RMB'000
Cost:		
At 1 January	**1,093**	2,831
Additions	**4,272**	2,947
Transfer to property, plant and equipment (note 13(a))	**(712)**	(4,685)
At 31 December	**4,653**	1,093

15 INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group

	2006	2005
	RMB'000	RMB'000
Cost:		
At 1 January	**10,989**	10,989
Additions	**27,973**	—
At 31 December	**38,962**	10,989
Accumulated amortisation:		
At 1 January	**422**	172
Charge for the year	**250**	250
At 31 December	**672**	422
Net book value:		
At 31 December	**38,290**	10,567

Interests in leasehold land held for own use under operating leases represent payments for land use rights on land situated in the PRC. The leases run for an initial period of 46 to 50 years and expire through 2056.

Certain interests in leasehold land held for own use under operating leases are pledged to a bank for a bank loan granted to the Group as disclosed in note 23.

16 INTANGIBLE ASSETS

The Group

	Capitalised development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Total RMB'000
Cost:			
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
At 1 January 2006	21,614	50,700	72,314
Additions through internal development	17,524	—	17,524
At 31 December 2006	39,138	50,700	89,838
Accumulated amortisation:			
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
At 1 January 2006	8,476	10,772	19,248
Charge for the year	3,655	6,895	10,550
At 31 December 2006	12,131	17,667	29,798
Net book value:			
At 31 December 2006	27,007	33,033	60,040
At 31 December 2005	13,138	39,928	53,066

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 product or process is 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.

17 INVESTMENTS IN SUBSIDIARIES

	The company 2006 RMB'000	The company 2005 RMB'000
Unlisted shares, at cost	**203,168**	198,409

Details of the principal subsidiaries at 31 December 2006 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

17 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued/ paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Gam Sheng Macao Commercial Offshore Limited	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 was a sino-foreign equity joint venture established in the PRC with 75% and 25% of equity interest held by Changsha Weisheng and Oceanbase respectively. On 16 March 2006, Oceanbase acquired the 75% equity interest from Changsha Weisheng. Weisheng information became a wholly foreign owned enterprise since then.

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

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group 2006 RMB'000	2005 RMB'000
Raw materials	**54,217**	46,141
Work in progress	**28,987**	22,121
Finished goods	**23,390**	17,174
	106,594	85,436

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	The Group 2006 RMB'000	2005 RMB'000
Cost of inventories sold	**302,156**	198,986

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivable	**295,362**	209,558	**—**	—
Deposits, prepayments and other receivables	**98,196**	37,555	**743**	6,195
Amounts due from subsidiaries	**—**	—	**173,477**	143,639
	393,558	247,113	**174,220**	149,834

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

Except for retention receivables from customers totalling RMB6,178,000 (2005: RMB6,339,000), 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.

Included in trade and other receivables are amounts due from a related party totalling RMB57,485,000 as at 31 December 2006 (2005: RMB8,641,000).

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	
	2006	2005
	RMB'000	RMB'000
Within 3 months	**234,253**	129,854
Between 4 to 6 months	**24,100**	48,244
Between 7 to 12 months	**15,063**	26,200
Between 1 to 2 years	**21,469**	5,260
Over 2 years	**477**	—
	295,362	209,558

The Group's credit policy is set out in note 28(a).

20 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 22 and 23).

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**158,182**	206,434	**29,311**	118,234

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

	The Group				The Company			
		2006		2005		**2006**		2005
		'000		'000		**'000**		'000
Hong Kong Dollars	**HKD**	**372**	HKD	1,445	**HKD**	**—**	HKD	—
United States Dollars	**USD**	**456**	USD	173	**USD**	**102**	USD	100

Included in the cash and cash equivalents of the Group as at 31 December 2006 were amounts denominated in Renminbi of approximately RMB125,373,000 (2005: RMB12,528,000). 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.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills payable	**46,902**	23,709	**—**	—
Trade creditors	**79,002**	52,927	**—**	—
Receipts in advance	**24,397**	29,294	**—**	—
Accrued charges and other payables	**24,300**	43,162	**1,306**	6,939
Financial guarantee issued	**—**	—	**477**	—
Amounts due to related parties	**—**	2,838	**—**	—
	174,601	151,930	**1,783**	6,939

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

At 31 December 2005 and 2006, all bills payable were secured by the Group's pledged deposits (see note 20).

Included in trade and other payables are amounts due to a related party totalling RMB10,600,000 as at 31 December 2006 (2005: RMB7,700,000).

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	
	2006	2005
	RMB'000	RMB'000
Due within 3 months or on demand	**77,399**	59,859
Due after 3 months but within 6 months	**48,505**	16,777
	125,904	76,636

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:

22 TRADE AND OTHER PAYABLES (Continued)

	The Group				The Company			
		2006		2005		**2006**		2005
		'000		'000		**'000**		'000
Hong Kong Dollars	**HKD**	**6,323**	HKD	4,418	**HKD**	**—**	HKD	—
United States Dollars	**USD**	**239**	USD	—	**USD**	**—**	USD	—

23 BANK LOANS

At 31 December 2006, all bank loans (2005: all) were denominated in Renminbi. They bore interest at 5.02% to 6.73% per annum (2005: 5.02% to 6.34% per annum) and were repayable as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 1 year or on demand	**163,700**	39,740
After 1 year but within 2 years	**—**	75,000
	163,700	114,740

At 31 December 2006, the bank loans were secured as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Interests in leasehold land held for own use under operating leases and buildings (notes 13 and 15)	**45,000**	45,000
Pledged deposits (note 20)	**43,700**	14,740
Property, plant and equipment of certain related parties	**—**	30,000
Guarantees from certain related parties	**—**	25,000
Secured	**88,700**	114,740
Unsecured	**75,000**	—
	163,700	114,740

24 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 the Changsha municipal government for its eligible employees whereby the Group is required to make contributions to the scheme at 20% (2005: 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.

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 26 November 2006 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants, including directors of any Company in the Group, to take up options to subscribe for ordinary shares in the Company.

The exercise price of options granted, as specified in the rules governing the Share Option Scheme, is to be not less than the highest of the official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of the options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options and the nominal value of an ordinary share of the company. For acceptance of options granted by the Company, an eligible participant is required to duly sign the duplicate offer document constituting acceptance of the options and remit HK$1 to the company within 30 days from the date of receiving the offer of the options. As at 31 December 2006, 127 participants had accepted the offer of options granted by the Company.

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(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	Vesting conditions	Contractual life of options
Options granted to directors:			
On 23 February 2006	11,600,000	Two years from the date of grant	10 years from the date of grant
Options granted to employees:			
On 23 February 2006	25,200,000	Two years from the date of grant	10 years from the date of grant
Total share options	36,800,000		

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

	Weighted average exercise price	Number of options '000
Granted during the year and outstanding at 31 December 2006	HK$2.225	36,800
Exercisable at the end of the year		—

(Expressed in Renminbi unless otherwise indicated)

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(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 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 model.

Fair value of share options and assumptions

Grantees	Directors, senior management staff	Other management staff
Fair value per share option at measurement date	HK$0.835	HK$0.697
Share price	HK$2.225	HK$2.225
Exercise price	HK$2.225	HK$2.225
Expected volatility (expressed as weighted average volatility used in the modelling under binomial model)	45% per annum	45% per annum
Option life (expressed as weighted average life used in the modelling under binomial model)	7.74 years	5.80 years
Expected dividends	4.5% per annum	4.5% per annum
Risk-free interest rate (based on Exchange Fund Notes)	4.15% per annum	4.12% per annum
Rate of leaving service	Nil	5% per annum

The expected volatility is based on the historic volatility of the Company with reference to the historic volatility of certain comparators (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2006	2005
	RMB'000	RMB'000
Provision for PRC income tax	**4,765**	5,939

(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	Unutilised tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:						
At 1 January 2005	(5)	(1,404)	1,965	27	227	810
Credited/(charged) to profit or loss	48	196	(523)	171	(205)	(313)
At 31 December 2005	43	(1,208)	1,442	198	22	497
At 1 January 2006	43	(1,208)	1,442	198	22	497
Credited/(charged) to profit or loss	102	(1,200)	128	(198)	—	(1,168)
At 31 December 2006	145	(2,408)	1,570	—	22	(671)

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

	2006 **RMB'000**	2005 RMB'000
Net deferred tax asset recognised on the balance sheet	**—**	497
Net deferred tax liability recognised on the balance sheet	**(671)**	—
	(671)	497

(c) Deferred tax not recognised:

In accordance with the accounting policy set out in note 2(p), the Group has not recognised tax assets in respect of cumulative tax losses of RMB2,144,000 (2005: RMB Nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant jurisdiction and entity. Under the relevant PRC tax rules and regulations, the tax losses expire between 2009 and 2010.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES

(a) The Group

	Note	Share capital RMB'000 (note 27(c))	Share premium RMB'000 (note 27(d)(i))	Merger reserve RMB'000 (note 27(d)(ii))	PRC statutory reserves RMB'000 (note 27(d)(iii))	Capital reserve RMB'000 (note 27(d)(iv))	Exchange reserve RMB'000 (note 27(d)(v))	Convertible bonds reserve RMB'000 (note 27(d)(vi))	Retained profits RMB'000	Total RMB'000
		Attributable to equity shareholders of the Company								
At 1 January 2005		50,000	—	—	37,123	—	(3)	—	81,993	169,113
Dividends approved in respect of the previous year	10	—	—	—	—	—	—	—	(35,000)	(35,000)
Arising from the Reorganisation	27(c)(ii)	(49,990)	—	49,990	—	—	—	—	—	—
Issuance of shares for placing and public offer	27(c)(iv)	1,874	209,845	—	—	—	—	—	—	211,719
Share issuing costs		—	(32,924)	—	—	—	—	—	—	(32,924)
Issue of convertible bonds		—	—	—	—	—	—	3,164	—	3,164
Conversion of convertible bonds	27(c)(v)	461	42,622	—	—	—	—	(3,164)	—	39,919
Capitalisation issue	27(c)(iii)	4,986	(4,986)	—	—	—	—	—	—	—
Profit for the year		—	—	—	—	—	—	—	115,972	115,972
Transfer to/(from) reserve		—	—	—	10,354	—	—	—	(10,354)	—
Exchange differences on translation of financial statements of companies outside the PRC		—	—	—	—	—	(377)	—	—	(377)
At 31 December 2005		7,331	214,557	49,990	47,477	—	(380)	—	152,611	471,586
At 1 January 2006		7,331	214,557	49,990	47,477	—	(380)	—	152,611	471,586
Dividends approved in respect of the previous year	10	—	—	—	—	—	—	—	(38,818)	(38,818)
Profit for the year		—	—	—	—	—	—	—	151,736	151,736
Equity-settled share-based transactions		—	—	—	—	11,731	—	—	—	11,731
Exchange differences on translation of financial statements of companies outside the PRC		—	—	—	—	—	(10,359)	—	—	(10,359)
At 31 December 2006		7,331	214,557	49,990	47,477	11,731	(10,739)	—	265,529	585,876

27 CAPITAL AND RESERVES (Continued)

(b) The Company

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserves RMB'000	Exchange reserve RMB'000	Convertible bonds reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	—	—	—	—	—	—	—	—
Arising from reorganisation	10	—	198,399	—	—	—	—	198,409
Issuance of shares for placing and public offer	1,874	209,845	—	—	—	—	—	211,719
Share issuing costs	—	(32,924)	—	—	—	—	—	(32,924)
Issue of convertible bonds	—	—	—	—	—	3,164	—	3,164
Conversion of convertible bonds	461	42,622	—	—	—	(3,164)	—	39,919
Capitalisation issue	4,986	(4,986)	—	—	—	—	—	—
Profit for the year	—	—	—	—	—	—	39,820	39,820
At 31 December 2005	7,331	214,557	198,399	—	—	—	39,820	460,107
At 1 January 2006	7,331	214,557	198,399	—	—	—	39,820	460,107
Dividends approved in respect of the previous year	—	—	—	—	—	—	(38,818)	(38,818)
Loss for the year	—	—	—	—	—	—	(11,920)	(11,920)
Equity-settled share-based transactions	—	—	—	11,731	—	—	—	11,731
Exchange differences on translation of financial statements of the Company	—	—	—	—	(14,689)	—	—	(14,689)
At 31 December 2006	7,331	214,557	198,399	11,731	(14,689)	—	(10,918)	406,411

27 CAPITAL AND RESERVES (Continued)

(c) Share capital

	2006		2005	
	No. of shares	Amount HK$'000	No. of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each (note (ii))	**100,000,000,000**	**1,000,000**	100,000,000,000	1,000,000

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

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.

(i) 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.

27 CAPITAL AND RESERVES (Continued)

(c) Share capital (Continued)

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) Share capital at 1 January 2005

Share capital at 1 January 2005 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.

27 CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves

(i) 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.

(ii) 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.

(iii) 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.

— *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.

Certain subsidiaries in the PRC are 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.

— *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.

27 CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) PRC statutory reserves (Continued)

— *Enterprise expansion fund* (Continued)

Certain subsidiaries in the PRC are 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.

(iv) Capital reserve

Capital reserve represents the fair value of the unexercised share options granted to the eligible participants in accordance with the accounting policy set out in note 2(o)(iii).

(v) Exchange reserve

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

(vi) 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.

(e) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB399,080,000 (2005: RMB452,776,000). After the balance sheet date the directors proposed a final dividend of HK$0.070 (equivalent to RMB0.070) per ordinary share (2005: HK$0.053 (equivalent to RMB0.05512) per share), amounting to RMB49,297,000 (2005: RMB38,818,000). This dividend has not been recognised as a liability at the balance sheet date.

28 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 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 94% (2005: 80%) 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 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.

28 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2006						2005					
	Effective interest rate %	Total RMB'000	One year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Effective interest rate %	Total RMB'000	One year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity												
Pledged deposits	1.98	71,489	71,489	—	—	—	0.72	52,143	52,143	—	—	—
Cash and cash equivalents	0.78	132,858	132,858	—	—	—	2.24	90,337	90,337	—	—	—
Bank loans	6.72	(49,700)	(49,700)	—	—	—	—	—	—	—	—	—
		154,647	154,647	—	—	—		142,480	142,480	—	—	—
Maturity dates for assets/(liabilities) which do not reprice before maturity												
Cash and cash equivalents	2.65	23,517	23,517	—	—	—	2.65	114,581	114,581	—	—	—
Bank loans	5.96	(114,000)	(114,000)	—	—	—	5.93	(114,740)	(39,740)	(75,000)	—	—
		(90,483)	(90,483)	—	—	—		(159)	74,841	(75,000)	—	—

The Company

	2006						2005					
	Effective interest rate %	Total RMB'000	One year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Effective interest rate %	Total RMB'000	One year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets which reprice before maturity												
Cash and cash equivalents	2.60	4,489	4,489	—	—	—	2.50	3,481	3,481	—	—	—
Maturity dates for assets which do not reprice before maturity												
Cash and cash equivalents	2.65	23,517	23,517	—	—	—	2.65	114,581	114,581	—	—	—

28 FINANCIAL INSTRUMENTS (Continued)

(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.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005 due to the nature and terms of maturity of these instruments.

29 COMMITMENTS

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted for	**2,160**	—	**—**	—
Authorised but not contracted for	**122,802**	20,000	**—**	—
	124,962	20,000	**—**	—

29 COMMITMENTS (Continued)

(b) At 31 December 2006, 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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,888**	1,956	**1,276**	1,724
After 1 year but within 5 years	**—**	1,370	**—**	1,318
	1,888	3,326	**1,276**	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.

30 CONTINGENT ASSETS AND LIABILITIES

As at the balance sheet date, the Company issued a guarantee to a bank in respect of a banking facilities granted to a wholly owned subsidiary which expires on 29 September 2007. The directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee amounted to RMB25,000,000 (2005: Nil).

Deferred income in respect of the single guarantee issued is disclosed in note 22.

31 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Recurring transactions

	Note	2006 RMB'000	2005 RMB'000
Purchases	(i)	**70,103**	33,701
Sales	(ii)	**211**	439
Rental of properties	(iii)	**256**	155

Notes:

(i) The Group made purchases from Hunan Weike Power Meters Company Limited ("HWPMCL"). HWPMCL is beneficially owned by Mr Liang Ka Nam ("Mr Liang"), brother of Mr Ji Wei, who is a director and shareholder of the Company.

Pursuant to the relevant purchase agreements between the Group and HWPMCL, the purchase prices were determined based on 95% (2005: 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) The Group entered into a lease agreement with Mr Liang under which the Group was granted the right to use an office premises for a term of one year. The rentals were determined by negotiation between the Group and the landlord based on the then prevailing market rate.

The directors of the Company are of the opinion that the above related party transactions 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;

31 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions (Continued)

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

— within the revised annual cap disclosed in the circular dated 24 October 2006, which was duly approved by shareholders in an extraordinary general meeting of the Company held on 9 November 2006.

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2006	2005
	RMB'000	RMB'000
Short-term employee benefits	**5,475**	3,001
Post employment benefits	**112**	33
Equity compensation benefits	**5,080**	—
	10,667	3,034

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

32 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. Tax rate unified at 25%. A subsidiary in the PRC has been granted the status of a high-tech enterprise by state tax authority in Changsha city in 2005. Currently, the applicable income tax rate of the subsidiary is 10%, a preferential tax rate granted to high-tech enterprises for a period of three years immediately after the five-year tax holiday. According to the new tax law, certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can qualify as a high-tech enterprise under the new tax law) have yet to be made public. Consequently, the Group is not able to assess whether it will qualify as a high-tech enterprise under the new tax and therefore is not able to make an estimate of the expected financial effect of the new tax law on the Group's deferred tax assets and liabilities.

As a result of the new tax law, it is expected that a subsidiary in the PRC will be allowed to continue to receive the benefits of the five-year tax holiday during the five-year grandfathering period until 31 December 2009.

The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

33 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2006, 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.

34 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment for property, plant and equipment

If circumstances indicate that the net book value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. Given the uncertainties involved in estimating the future cash flow, the actual recoverable amount may be higher of lower than that estimated at the balance sheet date.

(ii) Impairment loss for trade and other receivables

As explained in note 2(h)(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.

(iii) Impairment loss for intangible assets

As explained in note 2(h)(ii), 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.

34 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) Provision for inventories

As explained in note 2(i), 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.

(v) 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)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

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 2006 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC) 11	HKFRS 2 — Group and treasury share transactions	1 March 2007
HK(IFRIC) 12	Service concession arrangements	1 January 2008
HKFRS 8	Operating segments	1 January 2009
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Revised guidance on implementing HKFRS 4	Insurance contracts	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 them is unlikely to have a significant impact on the Group's results of operations and financial position.